

**FINANCIAL STATEMENTS – REGULATORY BASIS  
AND REPORTS OF INDEPENDENT AUDITOR**

**CHOCTAW NATION INTERLOCAL COOPERATIVE SCHOOL DISTRICT NO. 7-K002,  
BRYAN COUNTY, OKLAHOMA**

**JUNE 30, 2011**

Audited by

**SANDERS, BLEDSOE & HEWETT  
CERTIFIED PUBLIC ACCOUNTANTS, LLP**

BROKEN ARROW, OK

INTERLOCAL COOPERATIVE SCHOOL DISTRICT NO. 7-K002, BRYAN COUNTY  
SCHOOL DISTRICT OFFICIALS  
JUNE 30, 2011

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**DISTRICT TREASURER**

Jane Rowland

INTERLOCAL COOPERATIVE SCHOOL DISTRICT NO. 7-K002, BRYAN COUNTY  
JUNE 30, 2011

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# SANDERS, BLEDSOE & HEWETT

CERTIFIED PUBLIC ACCOUNTANTS, LLP

## INDEPENDENT AUDITOR'S REPORT

The Honorable Board of Education  
Choctaw Nation Interlocal Cooperative School District No. 7-K002  
Durant, Oklahoma

We have audited the accompanying fund type financial statements – regulatory basis of Choctaw Nation Interlocal Cooperative School District No. 7-K002 (the District), Durant, Oklahoma, as listed in the table of contents as combined financial statements, as of and for the year ended June 30, 2011. These financial statements are the responsibility of the District's management. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the combined financial statements – regulatory basis are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the combined financial statements – regulatory basis. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall combined financial statement – regulatory basis presentation. We believe that our audit provides a reasonable basis for our opinion.

As discussed in Note 1, these financial statements were prepared in conformity with the accounting and financial reporting regulations prescribed or permitted by the Oklahoma State Department of Education, which is a comprehensive basis of accounting other than generally accepted accounting principles. The effect on the financial statements of the variances between these regulatory accounting practices and accounting principles generally accepted in the United States, although not reasonably determinable, are presumed to be material.

As also discussed in Note 1, the combined financial statements – regulatory basis referred to above do not include the general fixed assets account group. The amount that should be recorded in the general fixed assets account group is not known. If the general fixed assets account group had been included, the amount of the adjustments to the combined financial statements – regulatory basis is not known, but presumed to be material.

As discussed in Note 6, the district incurred a misappropriation of assets which was considered to be material to the financial statements, due to the lack of sound internal control policies and procedures. Due to the fact that the misappropriation of assets may have occurred in the prior fiscal year as well as in the following fiscal year, the effects on the financial statements are not reasonably determinable but are presumed to be material.

In our opinion, because the District's policy is to prepare its combined financial statements on the basis of accounting discussed in the third paragraph, and because of the omission of the general fixed assets account group as discussed in the fourth paragraph, the combined financial statements referred to in the first paragraph do not present fairly, the financial position of the District as of June 30, 2011, or the results of its operations for the year then ended in conformity with accounting principles generally accepted in the United States.

However, in our opinion, except for the omission of the general fixed assets account group as discussed in the fourth paragraph, and the misappropriation of assets as discussed in the fifth paragraph, the financial statements referred to above present fairly, in all material respects, the assets, liabilities, and equity arising from regulatory basis transactions of each fund type and account group of Choctaw Nation Interlocal Cooperative School District No. 7-K002, Durant, Oklahoma, as of June 30, 2011, and the revenues collected, expenditures paid/expenses, and cash flows of each fund type, where applicable, for the year then ended on the regulatory basis of accounting described in Note 1.

In accordance with *Government Auditing Standards*, we have also issued our report dated February 15, 2012, on our consideration of the District's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts, grants and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and important for assessing the results of our audit.

Our audit was performed for the purpose of forming an opinion on the financial statements of the District. The other schedules are presented for purposes of additional analysis and are not a required part of the financial statements. The other schedules have been subjected to the auditing procedures applied in the audit of the financial statements and, in our opinion, are fairly stated, in all material respects, in relation to the financial statements taken as a whole.



Sanders, Bledsoe & Hewett  
Certified Public Accountants, LLP

February 15, 2012



# SANDERS, BLEDSOE & HEWETT

CERTIFIED PUBLIC ACCOUNTANTS, LLP

**REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND  
ON COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT OF  
FINANCIAL STANDARDS PERFORMED IN ACCORDANCE WITH  
GOVERNMENT AUDITING STANDARDS**

The Honorable Board of Education  
Choctaw Nation Inter-local Cooperative School District No. 7-K002  
Durant, Oklahoma

We have audited the combined financial statements – regulatory basis of Choctaw Nation Inter-local Cooperative School District (the District) No. 7-K002, Durant, Oklahoma, as of and for the year ended June 30, 2011, which, except for the omission of the general fixed assets account group, have been prepared on a basis prescribed by the Oklahoma State Department of Education and have issued our report thereon dated February 15, 2012. We conducted our audit in accordance with auditing standards generally accepted in the United States, and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

### Internal Control Over Financial Reporting

In planning and performing our audit, we considered the District's internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the District's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the District's internal control over financial reporting.

Our consideration of internal control over financial reporting was for the limited purpose described in the preceding paragraph and was not designed identify all deficiencies in internal control over financial reporting that might be significant deficiencies or material weaknesses and therefore, there can be no assurances that all deficiencies, significant deficiencies, or material weaknesses have been identified. However, as described in the accompanying schedule of findings and responses, we identified a deficiency in internal control over financial reporting that we consider to be a material weakness and other deficiencies that we consider to be significant deficiencies.

*A deficiency in internal control* exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct misstatements on a timely basis. A *material weakness* is a deficiency, or a combination of deficiencies, in internal control such that

there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected on a timely basis. We consider the deficiency described in the accompanying schedule of findings and responses, as item 11-1, to be a material weakness.

A *significant deficiency* is a deficiency, or combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance. We consider the deficiencies described in the accompanying schedule of findings and responses, as items 11-2 and 11-3, to be significant deficiencies.

#### Compliance and Other Matters

As part of obtaining reasonable assurance about whether the District's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed an instance of noncompliance or other matter that is required to be reported under *Government Auditing Standards* and which is described in the accompanying schedule of findings and responses as item 11-4.

We noted certain other matters that we reported to management of the District in a separate letter dated February 15, 2012.

The District's response to the findings identified in our audit is described in the accompanying schedule of findings and questioned costs. We did not audit the District's response and, accordingly, we express no opinion on it.

This report is intended solely for the information and use of management and is not intended to be, and should not be, used by anyone other than these specified parties.



Sanders, Bledsoe & Hewett  
Certified Public Accountants, LLP

February 15, 2012

CHOCTAW NATION INTERLOCAL COOPERATIVE  
SCHOOL DISTRICT NO. 7-K002, BRYAN COUNTY  
DISPOSITION OF PRIOR YEAR'S REPORTABLE CONDITIONS AND MATERIAL  
INSTANCES OF NON-COMPLIANCE  
JUNE 30, 2011

There were no prior years' deficiencies which were considered to be material weaknesses.



CHOCTAW NATION INTERLOCAL COOPERATIVE  
SCHOOL DISTRICT NO. 7-K002, BRYAN COUNTY  
SCHEDULE OF FINDINGS AND RESPONSES  
JUNE 30, 2011

**Section 1** – Summary of Auditor’s Results

1. A qualified opinion was issued on the financial statements in respect to the regulatory basis of accounting prescribed.
2. The audit disclosed a significant deficiency in the internal controls over financial reporting, which was considered to be a material weakness and other significant deficiencies.
3. The audit disclosed an instance of noncompliance or other matter, which is required to be reported under Government Auditing Standards.

**Section 2** – Findings relating to the financial statements required to be reported in accordance with GAGAS:

It was brought to our attention, prior to the audit, by District personnel that there was a possibility of misappropriation of assets, which occurred in the current fiscal year.

**11-1: Internal Control Structure**

*Condition:* The results of our tests disclosed that adequate segregation of duties were not in place over the accounts payable function, which allowed for management override of some of the functions. Also, there was no procedure in place for the board to approve new vendors, and to obtain other pertinent information for each new vendor.

*Criteria:* Internal controls should be in place which would not allow the same individual to approve expenditures and also be the receiving agent for the same expenditure.

*Cause:* Inadequate design and operation of internal controls over expenditures.

*Effect:* Because of the inadequate segregation of duties, which allowed for management override, and lack of appropriate procedures over expenditures, a misappropriation of assets has occurred.

*Recommendation:* We recommend the individuals who are approved as purchasing agents should not also be approved to be the receiving agent, and that a specific policy concerning new vendors be implemented.

*Response:*

- A. Beginning immediately, individuals approved as purchasing agents shall not be approved receiving agents, Board of Education action 4/13/12.
- B. New Vendors: Beginning immediately a policy for new vendors requires new vendors to provide; Vendor Name, contact person, contact telephone numbers, mailing address, physical address.

### **11-2: Treasurer Reconciliations**

*Condition:* The results of our tests disclosed that the reconciled bank statements did not reconcile with the financial information that was produced from the districts accounting software

*Criteria:* Internal controls should be in place to provide reasonable assurance that monthly reconciliations between the bank statements and the financial statements provided by the accounting software are performed.

*Cause:* Adequate procedures were not in place which would require the reconciliation of the bank statements to the financial statements be reviewed by an independent individual.

*Effect:* By not implementing procedures concerning the review of the reconciliations, this could cause a possible material error or misappropriation to go undetected for a significant period of time.

*Recommendation:* We recommend that a reconciliation be performed between the bank statements and the financial statements produced by the accounting software each month, and that an independent individual review the reconciliation and initial when complete.

*Response:*

A monthly bank reconciliation shall be performed by the treasurer and confirmed by the Superintendent or Superintendents' designee.

### **11-3: Receiving Documentation**

*Condition:* The results of our tests disclosed that a majority the invoices which were received for payment were not being signed as received.

*Criteria:* Internal controls should be in place to provide that all invoices and/or delivery tickets be signed as received as proof of receipt, as required by Oklahoma Statutes Title 70 § 5-135 C and E.

*Cause:* Policy and procedures were not being followed to insure that all invoices were being signed as received as proof of receipt.

*Effect:* Because of the failure to obtain adequate documentation regarding the receipt of goods and/or services, the district could have paid for goods and/or services which have not been received.

*Recommendation:* We recommend the district enforce its policy and procedures over the receipting of goods and/or services to make certain that all invoices or delivery tickets be signed and dated when the merchandise or services are actually received.

*Response:*

The District shall enforce its policy and procedures over the receipting of goods and/or services. All invoices or delivery tickets will be signed and dated when merchandise or service is received.

#### **11-4: Misappropriation of Assets**

*Condition:* The results of our tests disclosed that the lack of segregation of duties, allowing of the same individual to act as both the purchasing agent and the receiving agent, and the accessibility of management override accounted for the misappropriation of assets. Based upon the documentation furnished to us, it appears that an employee submitted false invoices to the school district in order to obtain reimbursement.

This individual was approved as a purchasing agent and a receiving agent. This individual would direct the encumbrance clerk to encumber a purchase order to a specific vendor. This individual would then hand deliver invoices to be paid. The invoices submitted appear to be from non-existent vendors. Of the four vendors observed, none had a physical address listed on the invoice and only one had a phone number listed on the invoice, however, it was not to the vendor but an individual. A search of the vendors revealed that no such vendors existed.

This issue appears to have started during the 2009-10 fiscal year, and continued into the 2011-12 fiscal year.

*Criteria:* Internal controls should be in place to provide reasonable assurance that all district assets are adequately safeguarded.

*Cause:* Adequate procedures were not in place to properly segregate the duties between the purchasing and receiving responsibilities and to stop management from overriding controls.

*Effect:* Because of the lack of implementation and execution of procedures a misappropriation of assets has occurred in the approximate amount of \$175,027.00 for the 2010-11 fiscal year, detailed by vendor as follows:

<u>Purchase order number</u>	<u>Vendor</u>	<u>Amount</u>
18	RPF	\$ 67,607.00
32	Quality Ed. Services	\$ 76,535.00
73	Red Earth	\$ 23,500.00
83	A&A Mechanical	\$ 7,385.00

*Recommendation:* We recommend that the district enforce its current procedures and implement new procedures immediately to address the aforementioned conditions. We also recommend that the appropriate law enforcement officials be notified and requested to take appropriate action regarding this misappropriation of assets.

*Response:*

- A. Refer to 11-1, 11-2 and 11-3 above. All recommendations of the auditor will be implemented.
- B. Telephone conference with Agent Jeff Youngblood, Bryan County FBI Office.
- C. Contacted Bryan County District Attorney Emily Redman's office.

INTERLOCAL COOPERATIVE SCHOOL DISTRICT NO. 7-K002, BRYAN COUNTY  
 COMBINED STATEMENT OF ASSETS, LIABILITIES AND FUND EQUITY -  
 ALL FUND TYPES AND ACCOUNT GROUPS - REGULATORY BASIS  
 JUNE 30, 2011

	SPECIAL REVENUE FUND
<u>ASSETS</u>	
Cash	\$ <u>206,894</u>
<u>LIABILITIES AND FUND EQUITY</u>	
Liabilities:	
Warrants payable	\$ 157,532
Fund Equity:	
Cash fund balance	49,362
Total Liabilities and Fund Equity	\$ <u>206,894</u>

The notes to the combined financial statements are an integral part of this statement

INTERLOCAL COOPERATIVE SCHOOL DISTRICT NO. 7-K002, BRYAN COUNTY  
 COMBINED STATEMENT OF REVENUES COLLECTED, EXPENDITURES AND CHANGES IN  
 IN CASH FUND BALANCES - ALL GOVERNMENTAL FUND TYPES - REGULATORY BASIS  
 FOR THE YEAR ENDED JUNE 30, 2011

	SPECIAL REVENUE FUND
Revenues Collected:	
Local sources	\$ 3,943,223
State sources	414,666
Interest earnings	453
Non-revenue receipts	3,449
Total revenues collected	4,361,791
Expenditures:	
Instruction	2,479,134
Support services	1,916,732
Bank fees and charges	216
Total expenditures	4,396,082
Excess of revenues collected over (under) expenditures before adjustments to prior year encumbrances	(34,291)
Adjustments to prior year encumbrances	(4,009)
Excess of revenues collected over (under) expenditures	(38,300)
Cash fund balances, beginning of year	87,662
Cash fund balances, end of year	\$ 49,362

The notes to the combined financial statements are an integral part of this statement

INTERLOCAL COOPERATIVE SCHOOL DISTRICT NO. 7-K002, BRYAN COUNTY  
 COMBINED STATEMENT OF REVENUES COLLECTED, EXPENDITURES AND  
 CHANGES IN CASH FUND BALANCES - BUDGETED GOVERNMENTAL FUND TYPES - REGULATORY BASIS  
 FOR THE YEAR ENDED JUNE 30, 2011

	SPECIAL REVENUE (CO-OP) FUND			
	Original Budget	Final Budget	Actual	Variance Favorable (Unfavorable)
Revenues Collected:				
Local sources	\$ 3,700,473	3,918,473	3,943,223	24,750
State sources	389,925	389,925	414,666	24,741
Interest			453	453
Non-revenue receipts			3,449	3,449
Total revenues collected	4,090,398	4,308,398	4,361,791	53,393
Expenditures:				
Instruction			2,479,134	(2,479,134)
Support services			1,916,732	(1,916,732)
Appropriated/unassigned	4,178,060	4,396,060		4,396,060
Bank fees and charges			216	(216)
Total expenditures	4,178,060	4,396,060	4,396,082	(22)
Excess of revenues collected over (under) expenditures before adjustments to prior year encumbrances	(87,662)	(87,662)	(34,291)	53,371
Adjustments to prior year encumbrances	0	0	(4,009)	(4,009)
Excess of revenue collected over (under) expenditures	(87,662)	(87,662)	(38,300)	49,362
Cash fund balance, beginning of year	87,662	87,662	87,662	0
Cash fund balance, end of year	\$ 0	0	49,362	49,362

The notes to the combined financial statements are an integral part of this statement

INTERLOCAL COOPERATIVE SCHOOL DISTRICT NO. 7-K002, BRYAN COUNTY  
NOTES TO THE COMBINED FINANCIAL STATEMENTS – REGULATORY BASIS  
FOR THE YEAR ENDED JUNE 30, 2011

**1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

The combined financial statements – regulatory basis of the Interlocal Cooperative School District No. 7-K002 (the “District”) have been prepared in conformity with another comprehensive basis of accounting required by Oklahoma Statutes. The more significant of the District’s accounting policies are described below.

A. Reporting Entity

The District is a corporate body for public purposes created under Title 70 of the Oklahoma Statutes and accordingly is a separate entity for operating and financial reporting purposes. The District is comprised of school districts who have entered into an interlocal cooperative agreement for the purpose of performing services, duties, function, activities, obligations of responsibilities as determined by the boards of education for the benefit of the students. The District is part of the public school system of Oklahoma under the general direction and control of the State Board of Education and the participating school districts and is financially dependent on State of Oklahoma support. The general operating authority for the public school system is the Oklahoma School Code contained in Title 70, Oklahoma Statutes.

The governing body of the District is the Board of Education composed of elected members. The appointed superintendent is the executive officer of the District.

In evaluating how to define the District, for financial reporting purposes, management has considered all potential component units. The decision to include a potential component unit in the reporting entity was made by applying the criteria established by the Governmental Accounting Standards Board (GASB). The basic – but not the only – criterion for including a potential component unit within the reporting entity is the governing body’s ability to exercise oversight responsibility. The most significant manifestation of this ability is financial interdependency. Other manifestations of the ability to exercise oversight responsibility include, but are not limited to, the selection of governing authority, the designation of management, the ability to significantly influence operations and accountability for fiscal matters. A second criterion used in evaluating potential component units is the scope of public service. Application of this criterion involves considering whether the activity benefits the District and/or its citizens, or whether the activity is conducted within the geographic boundaries of the District and is generally available to its patrons. A third criterion used to evaluate potential component units for inclusion or exclusion from the reporting entity is the existence of special financing relationships, regardless of whether the District is able to exercise oversight responsibilities. Based upon the application of these criteria, there are no potential component units included in the District’s reporting entity.



INTERLOCAL COOPERATIVE SCHOOL DISTRICT NO. 7-K002, BRYAN COUNTY  
NOTES TO THE COMBINED FINANCIAL STATEMENTS – REGULATORY BASIS  
FOR THE YEAR ENDED JUNE 30, 2011

**1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – cont'd**

**B. Fund Accounting**

The District uses funds and account groups to report on its financial position and the results of its operations. Fund accounting is designed to demonstrate legal compliance and to aid financial management by segregating transactions related to certain District functions or activities.

A fund is a separate accounting entity with a self-balancing set of accounts. An account group, on the other hand, is a financial reporting device designed to provide accountability for certain assets and liabilities that are not recorded in the funds because they do not directly affect net expendable available financial resources.

Funds are classified into three categories: Governmental, proprietary and fiduciary. Each category, in turn, is divided into separate “fund types.”

**Governmental Fund Types**

Governmental funds are used to account for all or most of a government’s general activities, including the collection and disbursement of earmarked monies (special revenue funds), the acquisition or construction of general fixed assets (capital projects funds), and the servicing of general long-term debt (debt service funds).

General Fund – As of July 1, 2009, the Oklahoma State Department of Education required the Choctaw Nation Interlocal Coop to account for its transactions in a co-op fund (Fund 12, per O.C.A.S. coding).

Special Revenue Fund – The co-op fund is used to account for all financial transactions except those required to be accounted for in another fund. Major revenue sources include interest income, member payments, state grants and federal grants. Expenditures include all costs associated with the daily operations of the schools. The co-op fund includes federal and state restricted monies that must be expended for specific programs.

**C. Basis of Accounting**

Basis of accounting refers to when revenues and expenditures are recognized in the accounts and reports in the combined financial statements – regulatory basis. Basis of accounting relates to the timing of the measurements made, regardless of the measurement focus applied.

INTERLOCAL COOPERATIVE SCHOOL DISTRICT NO. 7-K002, BRYAN COUNTY  
NOTES TO THE COMBINED FINANCIAL STATEMENTS – REGULATORY BASIS  
FOR THE YEAR ENDED JUNE 30, 2011

**1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – cont'd**

C. Basis of Accounting - cont'd

All governmental funds are accounted for using the regulatory basis of accounting. Revenues are recognized when they are received rather than earned. Under the regulatory basis of accounting, expenditures are generally recognized when encumbered/reserved rather than at the time the related fund liability is incurred. These practices differ from accounting principles generally accepted in the United States. Significant differences are as follows:

The District does not maintain its accounts on the modified accrual basis of accounting under which revenues are recorded when susceptible to accrual, i.e., both measurable and available, and expenditures are recorded when the liability is incurred, if measurable.

Revenues and expenditures are reported by the budget year until all encumbrances have been paid and unexpended appropriations are closed to the current year fund balance.

The co-op fund records purchases of supplies as expenditures rather than as assets to be expensed when used.

Encumbrances are reported as liabilities. Under accounting principles generally accepted in the United States, open encumbrances for which goods or services have not been received are reported as reservations of fund balances, since the commitments will be honored through subsequent year's budget appropriations.

The District has not maintained a record of general fixed assets and, accordingly, a statement of general fixed assets, as required by accounting principles generally accepted in the United States, is not included in the combined financial statements – regulatory basis.

Vested or accumulated vacation leave that is expected to be liquidated with expendable available financial resources is not reported as an expenditure and a fund liability of the governmental fund that will pay it. In addition, the non-current portion of vested accumulated vacation is not recorded in the general long-term debt account group.

Capital leases are recorded as expenditures. Under accounting principles generally accepted in the United States, capital leases are normally capitalized as a fixed asset and recorded in the general long-term debt account group.

INTERLOCAL COOPERATIVE SCHOOL DISTRICT NO. 7-K002, BRYAN COUNTY  
NOTES TO THE COMBINED FINANCIAL STATEMENTS – REGULATORY BASIS  
FOR THE YEAR ENDED JUNE 30, 2011

**1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – cont'd**

**D. Budgets and Budgetary Accounting**

The District is required by state law to prepare an annual budget. A preliminary budget must be submitted to the Board of Education by December 31, for the fiscal year beginning the following July 1. If the preliminary budget requires an additional levy, the District must hold an election on the first Tuesday in February to approve the levy. If the preliminary budget does not require an additional levy, it becomes the legal budget. If an election is held and the taxes are approved, then the preliminary budget becomes the legal budget. If voters reject the additional taxes, the District must adopt a budget within the approved tax rate.

A budget is legally adopted by the Board of Education for all funds (with the exception of the trust and agency funds) that includes revenues and expenditures.

Encumbrances represent commitments related to unperformed contracts for goods or services. Encumbrance accounting – under which purchase orders and other commitments of resources are recorded as expenditures of the applicable fund – is utilized in all governmental funds of the District. Unencumbered appropriations lapse at the end of each fiscal year

**E. Assets, Liabilities and Fund Equity**

Cash – Cash consists of cash on hand, demand deposit accounts, and interest bearing checking accounts.

Investments – The District is allowed to invest in direct obligations of the United States government and agencies; certificates of deposit of savings and loan associations, banks and trust companies; savings accounts or savings certificates of savings and loan associations, and trust companies; and warrants, bonds or judgments of the District. All investments are recorded at cost, which approximates market value.

Inventories – The value of consumable inventories at June 30, 2011, is not material to the combined financial statements.

Fixed Assets and Property, Plant and Equipment – The General Fixed Assets Account Group is not presented.

Warrants Payable – Warrants are issued to meet the obligations for goods and services provided to the District. The District recognizes a liability for the amount of outstanding warrants that have yet to be redeemed by the District's treasurer.

INTERLOCAL COOPERATIVE SCHOOL DISTRICT NO. 7-K002, BRYAN COUNTY  
NOTES TO THE COMBINED FINANCIAL STATEMENTS – REGULATORY BASIS  
FOR THE YEAR ENDED JUNE 30, 2011

**1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – cont'd**

E. Assets, Liabilities and Fund Equity – cont'd

Encumbrances – Encumbrances represent commitments related to purchase orders, contracts, other commitments for expenditures or resources, and goods or services received by the District for which a warrant has not been issued. An expenditure is recorded and a liability is recognized for outstanding encumbrances at year end in accordance with the regulatory basis of accounting.

Unmatured Obligations – The unmaturred obligations represent the total of all annual accruals for both principal and interest, based on the lengths of the bonds and/or judgments, less all principal and interest payments through the balance sheet date in accordance with the regulatory basis of accounting.

Cash Fund Balance – Cash fund balance represents the funds not encumbered by purchase orders, legal contracts, outstanding warrants and unmaturred obligations.

F. Revenue and Expenditures

Local Revenues District collects revenue from other Districts participating in the co-op. Other local sources of revenues include interest, fees, district contracts, tuition, and reimbursements.

Intermediate Revenues - Revenues from intermediate sources are the amounts of money from funds collected by an intermediate administrative unit, or a political subdivision between the District and the state, and distributed to Districts in amounts that differ in proportion to those which are collected within such systems. The District receives no revenues for this source.

State Revenues – Revenues from state sources for current operations are primarily state grants and flexible benefits.

After review and verification of reports and supporting documentation, the State Department of Education may adjust subsequent fiscal period allocations of money for prior year errors disclosed by review. Normally, such adjustments are treated as reductions from or additions to the revenue of the year when the adjustment is made.

The District receives revenue from the state to administer certain categorical educational programs. State Board of Education rules require that revenue earmarked for these programs be expended only for the program for which the money is provided and require that the money not expended as of the close of the fiscal year be carried forward into the following year to be expended for the same categorical programs. The State Department of Education requires that categorical educational program revenues be accounted for in the co-op fund.

INTERLOCAL COOPERATIVE SCHOOL DISTRICT NO. 7-K002, BRYAN COUNTY  
NOTES TO THE COMBINED FINANCIAL STATEMENTS – REGULATORY BASIS  
FOR THE YEAR ENDED JUNE 30, 2011

**1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – cont'd**

F. Revenue and Expenditures – cont'd

The aforementioned state revenues are apportioned to the District's co-op fund.

Federal Revenues – Federal revenues consist of revenues from the federal government in the form of operating grants or entitlements. An operating grant is a contribution to be used for a specific purpose, activity or facility. A grant may be received either directly from the federal government or indirectly as a passthrough from another government, such as the state. The District received no federal funding in the current fiscal year.

An entitlement is the amount of payment to which the District is entitled pursuant to an allocation formula contained in applicable statutes.

The District received no federal revenues during the current fiscal year.

Interest Earnings – Represent compensation for the use of financial sources over a period of time.

Non-Revenue Receipts – Non-revenue receipts represent receipts deposited into a fund that are not new revenues to the District, but the return of assets.

Instruction Expenditures – Instruction expenditures include the activities dealing directly with the interaction between teachers and students. Teaching may be provided for students in a school classroom, in another location, such as a home or hospital, and in other learning situations, such as those involving cocurricular activities. It may also be provided through some other approved medium, such as television, radio, telephone and correspondence. Included here are the activities of teacher assistants of any type (clerks, graders, teaching machines, etc.) which assist in the instructional process. The activities of tutors, translators and interpreters would be recorded here. Department chairpersons who teach for any portion of time are included here. Tuition/transfer fees paid to other LEAs would be included here.

Support Services Expenditures – Support services expenditures provide administrative, technical (such as guidance and health) and logistical support to facilitate and enhance instruction. These services exist as adjuncts for fulfilling the objectives of instruction, community services and enterprise programs, rather than as entities within themselves.

Operation of Non-Instructional Services Expenditures – Activities concerned with providing non-instructional services to students, staff or the community.

INTERLOCAL COOPERATIVE SCHOOL DISTRICT NO. 7-K002, BRYAN COUNTY  
NOTES TO THE COMBINED FINANCIAL STATEMENTS – REGULATORY BASIS  
FOR THE YEAR ENDED JUNE 30, 2011

**1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – cont'd**

F. Revenue and Expenditures – cont'd

Facilities Acquisition and Construction Services Expenditures – Consist of activities involved with the acquisition of land and buildings; remodeling buildings; the construction of buildings and additions to buildings; initial installation or extension of service systems and other built-in equipment; and improvements to sites.

Other Outlays Expenditures – A number of outlays of governmental funds are not properly classified as expenditures, but still require budgetary or accounting control. These are classified as Other Outlays. These include debt service payments (principal and interest).

Other Uses Expenditures – This includes scholarships provided by private gifts and endowments; student aid and staff awards supported by outside revenue sources (i.e., foundations). Also, expenditures for self-funded employee benefit programs administered either by the District or a third party administrator.

Repayment Expenditures – Repayment expenditures represent checks/warrants issued to outside agencies for refund or restricted revenue previously received for overpayment, non-qualified expenditures and other refunds to be repaid from District funds.

**2. CASH AND INVESTMENTS**

The District's investment policies are governed by state statute. Permissible investments include direct obligations of the United States government and agencies; certificates of deposit of savings and loan associations, banks and trust companies; savings accounts or savings certificates of savings and loan associations, banks, and trust companies; and warrants, bonds or judgments of the District.

Cash – The District's bank balance of deposits and cash pools at June 30, 2011, was \$206,894. Custodial credit risk is the risk that in the event of a bank failure, the District's deposits may not be returned to it. State statutes require collateral for amounts in excess of federally insured amounts. The District's policy requires collateral equal to 110% of the deposit amount for all deposits not covered by F.D.I.C. insurance. The bank balance was completely covered by federal depository insurance and by collateral held by the District's third party agent in the District's name.

INTERLOCAL COOPERATIVE SCHOOL DISTRICT NO. 7-K002, BRYAN COUNTY  
NOTES TO THE COMBINED FINANCIAL STATEMENTS – REGULATORY BASIS  
FOR THE YEAR ENDED JUNE 30, 2011

**2. CASH AND INVESTMENTS – cont’d**

Investments – At June 30, 2011, the District did not maintain any investments.

*Interest rate risk* – Interest rate risk is the risk that changes in interest rates will adversely affect the fair market value of an investment. Due to the required liquidity for those investments, these funds have no defined maturity dates. The District does not have a formal policy that limits investment maturities as a means of managing its exposure to fair value losses from increasing interest rates.

*Credit risk – Investments* – Credit risk is the risk that the issuer or other counterparty to an investment will not fulfill its obligations. Investments held by the District in investment pools (sweep accounts) are considered unclassified as to custodial credit risk because they are not evidenced by securities that exist in physical or book entry form. These investments are held with First United Bank, and are rated AAA by Standard and Poor’s. The District does not have a formal policy limiting its exposure arising from concentration of investments.

**3. EMPLOYEE RETIREMENT SYSTEM AND PLAN**

Description of Plan

The District participates in the state-administered Oklahoma Teachers’ Retirement System, which is a cost sharing, multiple-employer defined benefit public employee retirement system (PERS), which is administered by the Board of Trustees of the Oklahoma Teachers’ Retirement System (the “System”). The System provides retirement and disability benefits, annual cost-of-living adjustments, and death benefits to plan members and beneficiaries. Title 70 Section 17 of the Oklahoma Statutes establishes benefit provisions and may be amended only through legislative action. The Oklahoma Teachers’ Retirement System issues a publicly available financial report that includes financial statements and required supplementary information for the System. That report may be obtained by writing to the Oklahoma Teachers’ Retirement System, P.O. Box 53624, Oklahoma City, OK 73152, or by calling 405-521-2387.

Basis of Accounting

The System’s financial statements are prepared using the cash basis of accounting, except for accruals of interest income. Plan member contributions are recognized in the period in which the contributions are made. Benefits and refunds are recognized when paid. The pension benefit obligation is a standardized disclosure measure of the present value of pension benefits. This pension valuation method reflects the

INTERLOCAL COOPERATIVE SCHOOL DISTRICT NO. 7-K002, BRYAN COUNTY  
NOTES TO THE COMBINED FINANCIAL STATEMENTS – REGULATORY BASIS  
FOR THE YEAR ENDED JUNE 30, 2011

**3. EMPLOYEE RETIREMENT SYSTEM AND PLAN – cont'd**

Basis of Accounting – cont'd

present value of estimated pension benefits that will be paid in future years as a result of employee services performed to date and is adjusted for the effect of projected salary increases. There are no actuarial valuations performed on individual school districts. The System has an under-funded pension benefit obligation as determined as part of the latest actuarial valuation.

Funding Policy

The District, the State of Oklahoma, and the participating employee make contributions. The contribution rates for the District and its employees are established by and may be amended by Oklahoma Statutes. The rates are not actuarially determined. The rates are applied to the employee's earnings plus employer-paid fringe benefits. The required contribution for the participating members is 7.0% of compensation. The District is required to contribute 10.5% of applicable compensation reduced by revenues the System received from the natural gas tax. Contributions received by the System from the State of Oklahoma are used to offset required employer contributions by the local school district. For the 2009-10 fiscal year the District contributed 9.0% (which increased to 9.50% on January 1, 2011) and the State of Oklahoma contributed the remaining amount during the year. The District is allowed by Oklahoma Teachers' Retirement System to make the required contributions on behalf of the participating members. In addition, the District is required to match the retirement paid on salaries that are funded with federal funds.

Ten year historical trend information is presented in the Teachers' Retirement System of Oklahoma Annual Report for the year ended June 30, 2011. This information is useful in assessing the pension plan's accumulation of sufficient assets to pay pension benefits as they become due. Please visit [www.ok.gov/TRS](http://www.ok.gov/TRS) for all plan information.

Annual Pension Cost

The District's total contributions for 2011, 2010 and 2009 were \$400,371, \$310,058, and \$198,35.



INTERLOCAL COOPERATIVE SCHOOL DISTRICT NO. 7-K002, BRYAN COUNTY  
NOTES TO THE COMBINED FINANCIAL STATEMENTS – REGULATORY BASIS  
FOR THE YEAR ENDED JUNE 30, 2011

**4. RISK MANAGEMENT**

The District is exposed to various risks of loss related to torts; theft of, damage to and destruction of assets; errors and omissions; injuries to employees; or acts of God. The District purchases commercial insurance to cover these risks, including general and auto liability, property damage, and public officials liability. Settled claims resulting from risks have not exceeded the commercial insurance coverage in any of the past three fiscal years.

The District is a member of the Oklahoma Public Schools Unemployment Compensation Program. In this program the District is required to contribute 1.6% of its taxable payroll for unemployment insurance. The funds for each District are kept separate and Districts can contribute more than 1.6% of their payroll if they elect to. The money contributed by each District earns interest and is fully insured. If the District has claims in excess of the amount in its account, it will be liable for the excess.

**5. LITIGATION**

Litigation

School officials are not aware of any pending or threatened litigation, claims or assessments or unasserted claims or assessments against the District.

**6. MISAPPROPRIATION OF ASSETS**

The results of our tests disclosed deficiencies in the design and operation of the internal controls over the expenditures of the district. Therefore the district incurred a misappropriation of assets which was considered to be material to the financial statements. It appears that an employee of the district was submitting false invoices to the district for payment. Through our research, we were able to determine that the vendors in question did not exist. The individual was approved as the purchasing agent and as the receiving agent and was in a position to override the necessary controls to execute the misappropriation. It is possible that the misappropriation of assets may have occurred in the prior fiscal year as well as in the following fiscal year, therefore effects on the financial statements are not reasonably determinable but are presumed to be material. We advise the district to notify the appropriate law enforcement officials.

INTERLOCAL COOPERATIVE SCHOOL DISTRICT NO. 7-K002, BRYAN COUNTY  
 STATEMENT OF STATUTORY, FIDELITY AND HONESTY BONDS  
 FOR THE YEAR ENDED JUNE 30, 2011

<u>BONDING COMPANY</u>	<u>POSITION COVERED</u>	<u>BOND NUMBER</u>	<u>COVERAGE AMOUNT</u>	<u>EFFECTIVE DATES</u>
RLI Insurance Company	Encumbrance and Minutes Clerk	LSMO200173	\$ 5,000	12/1/10 - 12/1/11
	Treasurer	LSMO193726	250,000	7/1/10 - 7/1/11
	Superintendent of school	LSMO193723	100,000	7/1/10 - 7/1/11
	Encumbrance and Minutes Clerk	LSMO193732	5,000	7/1/10 - 7/1/11

INTERLOCAL COOPERATIVE SCHOOL DISTRICT NO. 7-K002, BRYAN COUNTY  
SCHEDULE OF ACCOUNTANT'S PROFESSIONAL LIABILITY INSURANCE AFFIDAVIT  
JULY 1, 2010 TO JUNE 30, 2011

State of Oklahoma            )  
  ) ss  
County of Tulsa             )

The undersigned auditing firm of lawful ages, being first duly sworn on oath says that said firm had in full force and effect Accountant's Professional Liability Insurance in accordance with the "Oklahoma Public School Audit Law" at the time of audit contract and during the entire audit engagement with Choctaw Nation Interlocal Cooperative School District for the audit year 2010-11.

Sanders, Bledsoe & Hewett,  
Certified Public Accountants, LLP  
Auditing Firm

By \_\_\_\_\_  
Authorized Agent

Subscribed and sworn to before me  
This 15<sup>th</sup> day of February, 2012

\_\_\_\_\_  
Notary Public (or Clerk or Judge)

My Commission Expires: 5/19/2012  
Commission No. 00008621