

**Tri-County Interlocal Co-Op
School District K001**

Financial Statements
Year-End **June 30, 2015**

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Tri-County Interlocal Co-Op School District K001
Carter County, Oklahoma
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Carter County, Oklahoma
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Independent Auditor's Report

The Honorable Board of Education
Tri-County Interlocal Co-Op, School District K001
Carter County, Oklahoma

Report on the Financial Statements

We have audited the accompanying fund type and account group financial statements of Tri-County Interlocal School District, Carter County, Oklahoma, as of and for the year ended June 30, 2015, and the related notes to the financial statements, which collectively comprise the District's regulatory financial statements as listed in the table of contents.

Management's Responsibility of the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with the accounting practices prescribed by the Oklahoma State Department of Education; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatements, whether due to fraud or error.

Auditor's Responsibility

Our responsibility is to express opinions on these financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America 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 financial statements are free of material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of risks of material misstatement of the financial statements, whether due to fraud or error. In making those risks assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

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We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinions.

Basis for Adverse Opinion on U.S. Generally Accepting Accounting Principles

As discussed in Note 1, the financial statements are prepared by Tri-County Interlocal Co-Op, School District K001, Carter County, Oklahoma, on the basis of the financial reporting provisions of Oklahoma State Department of Education, which is a basis of accounting other than accounting principles generally accepted in the United States of America, to comply with the requirements of Oklahoma State Department of Education. The effects on the financial statements of the variances between the regulatory basis of accounting described in Note 1 and accounting principles generally accepted in the United States of America, although not reasonably determinable, are presumed to be material.

Adverse Opinion on U.S. Generally Accepted Accounting Principles

In our opinion, because of the significance of the matter discussed in the “Basis for Adverse Opinion on U.S. Generally Accepted Accounting Principles” paragraph, the financial statements referred to in the first paragraph do not present fairly, in accordance with accounting principles generally accepted in the United States of America, the financial position of Tri-County Interlocal Co-Op, School District K001, Carter County, Oklahoma as of June 30, 2015, the changes in its financial position for the year then ended.

Opinion on Regulatory Basis of Accounting

In our opinion the financial statements referred to in the first paragraph present fairly, in all material respects, the assets, liabilities and fund equity arising from regulatory basis transactions of each fund type and account group of Tri-County Interlocal Co-Op, School District K001, Carter County, Oklahoma, as of June 30, 2015, and the revenues collected and expenses paid and budgetary results for the year then ended on the basis of accounting described in Note 1.

Other Matters

Other Information

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise Tri-County Interlocal Co-Op, School District K001, Carter County, Oklahoma financial statements as a whole. The schedule of expenditures of federal awards is presented for purpose of additional analysis, as required by U.S. Office of Management and Budget Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*, and is not a required part of the financial statements.

The schedule of expenditures of federal awards is the responsibility of management and was derived from and relate directly to the underlying accounting and other records used to prepare the financial statements. Such information has been subjected to the auditing procedures applied in the audit of the financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements or to the financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of

America. In our opinion, the information is fairly stated in all material respects in relation to the financial statements as a whole.

The Oklahoma Department of Education requires the statement of statutory fidelity and honesty bonds and Schedule of Accountant's Professional Liability be presented to supplement the financial statements. Such information, although not considered part of the basic financial statements, is required by the Oklahoma Department of Education, who considers it an essential part of the financial reporting. We have applied certain limited procedures to this supplemental information which consisted of inquires of management about the methods of preparing the information and comparing the information for consistency with management's response to our inquires, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated March 2, 2016, on our consideration of Tri-County Interlocal Co-Op, School District K001, Carter County, Oklahoma's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contract and grant agreements 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 express an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Governmental Auditing Standards* in considering Tri-County Interlocal Co-Op, School District K001, Carter County, Oklahoma's internal control over financial reporting and compliance.

Rahhal Henderson Johnson, PLLC

Ardmore, Oklahoma
March 2, 2016

Tri-County Interlocal Co-Op, School District K001
Carter County, Oklahoma
Combined Statement of Assets, Liabilities and Fund Equity
Regulatory Basis – All Governmental Fund Types and Account Groups
June 30, 2015

	<u>Governmental Fund Types</u>	<u>Account Groups</u>
	<u>General</u>	<u>General Fixed Assets</u>
ASSETS		
Cash	\$ 643,122	\$ -
Capital assets	-	138,867
Total Assets	<u>\$ 643,122</u>	<u>\$ 138,867</u>
 LIABILITIES AND FUND EQUITY		
Liabilities:		
Warrants payable	\$ 146,181	\$ -
Encumbrances	48,036	-
Total Liabilities	<u>\$ 194,217</u>	<u>\$ -</u>
 Fund Equity:		
Investment in capital assets	\$ -	\$ 138,867
Undesignated	448,905	-
Total Cash Fund Balances	<u>\$ 448,905</u>	<u>\$ 138,867</u>
Total Liabilities and Fund Equity	<u>\$ 643,122</u>	<u>\$ 138,867</u>

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

Tri-County Interlocal Co-Op, School District K001
Carter County, Oklahoma
Combined Statement of Revenues Collected, Expenditures Paid and
Changes in Cash Fund Balance Regulatory Basis – All Governmental Fund Types
For the Year Ended June 30, 2015

	<u>Governmental Fund Types</u>
	<u>General</u>
Revenues collected:	
Local sources	\$ 1,071,023
State sources	141,485
Federal sources	629,941
Total Revenues Collected	<u>\$ 1,842,449</u>
Expenditures paid/encumbered:	
Instruction	\$ 574,929
Support services	1,234,888
Other outlays	293
Total Expenditures Paid/Encumbered	<u>\$ 1,810,110</u>
Excess of revenues collected over expenditures paid/encumbered	\$ 32,339
Adjustment to prior year encumbrances	5,724
Cash Fund Balances, beginning of year	<u>410,842</u>
Cash Fund Balances, end of year	<u><u>\$ 448,905</u></u>

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

Tri-County Interlocal Co-Op, School District K001
Carter County, Oklahoma

Combined Statement of Revenues Collected, Expenditures Paid and Changes in Cash Fund Balances – Budget and Actual
Regulatory Basis – Budgeted Governmental Fund Types
For the Year Ended June 30, 2015

	General Fund			
	Original Budget	Final Budget	Actual	Variance
Beginning cash fund balances: Budgetary basis	\$ 410,842	\$ 410,842	\$ 410,842	\$ -
Revenues collected:				
Local sources	\$ 1,100,140	\$ 1,100,140	\$ 1,071,023	\$ (29,117)
State sources	126,200	126,200	141,485	15,285
Federal sources	582,940	582,940	629,941	47,001
Total Revenues Collected	\$ 1,809,280	\$ 1,809,280	\$ 1,842,449	\$ 33,169
Expenditures paid/encumbered:				
Instruction	\$ 575,000	575,000	\$ 574,929	\$ 71
Support services	1,237,500	1,237,500	1,234,888	2,612
Other outlays	407,622	407,622	293	407,329
Total Expenditures paid/encumbered	\$ 2,220,122	\$ 2,220,122	\$ 1,810,110	\$ 410,012
Excess of revenues collected and beginning cash fund balances over expenditures paid/encumbered	\$ -	\$ -	\$ 443,181	\$ 443,181
Adjustment of lapsed encumbrances			5,724	
Ending cash fund balances			\$ 448,905	

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

Tri-County Interlocal Co-Op, School District K001
Carter County, Oklahoma
Notes to Financial Statements
June 30, 2015

1. *Summary of Significant Accounting Policies*

The basic financial statements of the Tri-County Interlocal School District K001, Carter County, Oklahoma (the "District") have been prepared in conformity with the regulatory basis of accounting prescribed or permitted by the Oklahoma State Department of Education, which is a comprehensive basis of accounting other than accounting principles generally accepted in the United States. The more significant of the District's accounting policies are described below.

A. *The Reporting Entity*

The District was created under Title 70 of the Oklahoma Statutes and is a separate entity for operating and financial reporting purposes. The District is comprised of Fifteen (15) school districts who have entered into an interlocal cooperative agreement for the purpose of performing services, duties, functions, activities, obligations or responsibilities as demanded 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 for 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 superintendents of member schools. The appointed executive director 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.

Tri-County Interlocal Co-Op, School District K001
Carter County, Oklahoma
Notes to Financial Statements
June 30, 2015

1. Summary of Significant Accounting Policies – (continued)

A. The Reporting Entity – (continued)

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.

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 two categories: governmental and fiduciary. Each category, in turn, is divided into separate "fund types." The District has one fund, general fund which is a governmental fund type, and one account group.

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 - The general fund is used to account for all financial transactions except those required to be accounted for in another fund. Major revenue sources include state funding under the Foundation and Incentive Aid Program and federal grants. Expenditures include all costs associated with the daily operations of the schools except for programs funded for building repairs and maintenance, school construction and debt service on bonds and other long-term debt. The general fund includes federal and state restricted monies that must be expended for specific programs.

Tri-County Interlocal Co-Op, School District K001
Carter County, Oklahoma
Notes to Financial Statements
June 30, 2015

1. Summary of Significant Accounting Policies – (continued)

B. Fund Accounting – (continued)

Account Groups

Account groups are not funds and consist of a self-balancing set of accounts used only to establish accounting control over long-term debt and general fixed assets not accounted for in proprietary funds.

General Fixed Asset Account Group - This account group is used to account for property, plant and equipment of the school district.

Memorandum Only - Total Column

The total column on the basic regulatory financial statements is captioned "memorandum only" to indicate that it is presented only to facilitate financial analysis. Data in this column does not present financial position, results of operations or cash flows in conformity with generally accepted accounting principles. Neither is such data comparable to a consolidation. Interfund eliminations have not been made in the aggregation of this data.

C. Basis of Accounting and Presentation

The District prepares its financial statements in a presentation format that is prescribed by the Oklahoma State Department of Education. This format is essentially the generally accepted form of presentation used by state and local governments prior to the effective date of GASB Statement No. 34, *Basic Financial Statements-Management's Discussion and Analysis-for State and Local Governments*. This format significantly differs from that required by GASB 34.

The basic financial statements are essentially prepared on a basis of cash receipts and disbursements modified as required by the regulations of the Oklahoma State Department of Education (OSDE) as follows:

- Encumbrances represented by purchase orders, contracts, and other commitments for the expenditure of monies and are recorded as expenditures when approved.
- Investments are recorded as assets when purchased.
- Warrants payable are recorded as liabilities when issued.
- Long-term debt is recorded when incurred.
- Accrued compensated absences are recorded as an expenditure and liability when the obligation is incurred.

Tri-County Interlocal Co-Op, School District K001
Carter County, Oklahoma
Notes to Financial Statements
June 30, 2015

1. Summary of Significant Accounting Policies – (continued)

C. Basis of Accounting and Presentation – (continued)

This regulatory basis of accounting differs from accounting principles generally accepted in the United States of America, which require revenues to be recognized when they become available and measurable, or when they are earned, and expenditures or expenses to be recognized when the related liabilities are incurred for governmental fund types.

Estimates - The preparation of financial statements in conformity with the regulatory basis of accounting requires the District to make estimates and assumptions that affect certain reported amounts and disclosures. Accordingly, actual results may differ from those estimates.

Noncash Transactions - The State of Oklahoma paid approximately \$7,052 directly to the teacher retirement fund on behalf of the District's employees.

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.

Prior to September 1, the District must file with the county excise board, a budget for the current fiscal year including an itemized statement of estimate of needs and probable income from all sources including ad valorem taxes. This budget, if not protested, becomes the legal budget for the District.

Under current Oklahoma Statutes a formal budget is required for all funds except for trust and agency funds. Budgets are presented for all funds that include the originally approved budgeted appropriations for expenditures and final budgeted appropriations as adjusted for supplemental appropriations and approved transfers between budget categories.

E. Assets Liabilities and Fund Equity

For budgetary purposes, appropriations lapse at the fiscal year end. Outstanding encumbrances at fiscal year end do not lapse until liquidated. Adjustments resulting from liquidated encumbrances are reflected as adjustments to prior year encumbrances in the statements of revenues and expenditures.

Tri-County Interlocal Co-Op, School District K001
Carter County, Oklahoma
Notes to Financial Statements
June 30, 2015

1. Summary of Significant Accounting Policies – (continued)

E. Assets Liabilities and Fund Equity – (continued)

Investment Policy - The District's investment policies are governed by *Oklahoma Statutes*. Permissible investments include direct obligations of the United States government and agencies; certificates of deposit of savings and loan associations, and bank and trust companies; and savings accounts or savings certificates of savings and loan associations, banks and trust companies. Collateral is required for demand deposits and certificates of deposit for all amounts not covered by federal depository insurance.

Inventories - The value of consumable inventories at June 30, 2015 is not material to the financial statements.

Compensated Absences - Vested or accumulated vacation leave that is expected to be liquidated with expendable available financial resources is reported as an expenditure of the governmental funds that will pay it. There are no amounts of vested or accumulated vacation leave.

Fund Balance - Fund balance represents the funds not encumbered by purchase order, legal contracts, and outstanding warrants.

F. Revenue, Expenses and Expenditures

State Revenues - Revenues from state sources for current operations are primarily governed by the state aid formula under the provisions of Article XVIII, Title 70, Oklahoma Statutes. The State Board of Education administers the allocation of state aid funds to school districts based on information accumulated from the districts.

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 or additions of 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 education program revenues be accounted for in the general fund.

Tri-County Interlocal Co-Op, School District K001
Carter County, Oklahoma
Notes to Financial Statements
June 30, 2015

2. *Cash and Investments*

Custodial Credit Risk - Custodial credit risk for deposits is the risk that in the event of a bank failure, the District's deposits may not be returned or the District will not be able to recover collateral securities in the possession of an outside party. The District's policy requires collateral for demand deposits and certificates of deposit for all amounts not covered by federal deposit insurance. As of June 30, 2015, cash deposits were fully insured or collateralized by a pledging bank's agent in the District's name. All funds were held as demand deposits at a local bank.

3. *Employee Retirement System*

Teachers' Retirement System of Oklahoma

Plan Description – The System provides retirement and disability benefits, annual cost of living adjustments, and death benefits to plan members and beneficiaries. The ability to establish and amend benefit provisions is the responsibility of the state legislature. The System issues a publicly available financial report that includes financial statements and required supplementary information for the employees of the District. The System issues a publically available financial report that can be obtained at <http://www.ok.gov/trs/>.

Benefits Provided – The System provides defined retirement benefits based on members' final compensation, age, and term of service. In addition, the retirement program provides for benefits upon disability and to survivors upon the death of eligible members. Title 70 O.S. Sec. 17-105 defines all retirement benefits. The authority to establish and amend benefit provisions rests with the State Legislature. Benefit provisions include

- After five years of credited service, members become 100% vested in benefits earned to date.
Members who joined the System prior to July 1, 1992 are eligible to retire at maximum benefits at the earlier of age 62 or when age and years of creditable service total 80. Members joining from July 1, 1992 to October 31, 2011 are eligible for maximum benefits at the earlier of age 62 or when their age and years of creditable service total 90. Members who joined the System on or after November 1, 2011 are eligible to retire with maximum benefits at the earlier of age 65 or when their age and years of creditable service total 90 as long as their age is at least 60.

Tri-County Interlocal Co-Op, School District K001
Carter County, Oklahoma
Notes to Financial Statements
June 30, 2015

3. *Employee Retirement System (continued)*

- The maximum retirement benefit is 2% of final average compensation times the number of years of credited service. Reduced benefits are available at age 55 for members joining prior to November 1, 2011 or age 60 for members joining after October 31, 2011. Reduction factors vary depending on age and date of membership when joining the System.
- Final average compensation for members who joined the System prior to July 1, 1992 is defined as the average salary for three highest year of contributing compensation. For members joining the System after June 30, 1992 final average compensation is defined as the average of the five highest consecutive years of contributing compensation. Prior to July 1, 1995 all contributions were limited to salary caps of \$40,000 or \$25,000 depending on the member's election. Salary caps were removed starting July 1, 1995.
- Upon death, the designated beneficiary of a member who has not retired shall receive total contributions plus 100% of interest earned through the end of the fiscal year, with interest rates varying based on time of service. The surviving spouse may elect to receive the retirement benefit of the member, in lieu of the aforementioned benefits.
- Upon death of a retired member, the System will pay \$5,000 to the designated beneficiary in addition to the benefits provided by the retirement option selected by the member.
- A member is eligible for disability benefits after 10 years of credited Oklahoma service. The disability benefit is equal to 2% of final average compensation for the applicable years of credited service.
- Upon withdrawal from the system, a member's contributions are refundable with interest, based on the years of service.

Contributions – In accordance with *Oklahoma Statutes*, System members are required to contribute 7.00% of applicable compensation. For the year ended June 30, 2015, qualifying employee contributions were reduced by a retirement credit of \$7,052 provided by Enrolled House Bill 1873 and paid by the State of Oklahoma as on-behalf payments. For the year ended June 30, 2015, the District had a statutory contribution rate of 9.5% plus 8.25% as a match for salaries funded by federal programs. The contribution requirements of System members and the District are established and may be amended by the state legislature. For the year ended June 30, 2015, the District contributions to the System for were \$96,874.

Tri-County Interlocal Co-Op, School District K001
Carter County, Oklahoma
Notes to Financial Statements
June 30, 2015

3. *Employee Retirement System (continued)*

The State of Oklahoma, a non-employer contributing entity, provides funds through 5% of the State's sales, use, corporate and individual income taxes collected. The System receives 1% of the cigarette taxes collected by the State and 5% of net lottery proceeds collected by the State. The District's estimated share of these contributions based on their covered payroll for the measurement period was \$2,404.

Pension Liability and Pension Expense

At June 30, 2015, the District's proportionate share of the net pension liability was \$1,325,646. The net pension liability was measured as of June 30, 2014, and the total pension liability used to calculate the net pension liability was determined by an actuarial valuation as of that date. The District's proportion of the net pension liability was based on a projection of the District's long-term share of the contributions to the pension plan relative to the projected contributions of all participating school districts, actuarially determined. At June 30, 2014, the District's proportion was 0.02464087%, which was the same as its proportion measured as of June 30, 2013.

For the year ended June 30 2015, the District had pension expense of \$77,624.

Actuarial assumptions – The total pension liability in the June 30, 2014 actuarial valuation was determined using the following actuarial assumptions, applied to all periods included in the measurement:

Actuarial Cost Method – Entry Age Normal

Amortization Method – Level Percentage of Payroll

Amortization Period – Amortization over an open 30-year period

Asset Valuation Method – 5-year smooth market

Inflation – 3.00%

Salary Increases – Composed of 3.00% inflation, plus 1.00% productivity increase rate, plus step-rate promotional increases for members with less than 25 years of service.

Investment Rate of Return – 8.00%

Retirement Age – Experience-based table of rates based on age, service, and gender.

Mortality – RP-2000 Combined Mortality Table, projected to 2016 using Scale AA, multiplied by 90% for males and 80% for females.

Tri-County Interlocal Co-Op, School District K001
Carter County, Oklahoma
Notes to Financial Statements
June 30, 2015

3. Employee Retirement System (continued)

The long-term expected rate of return on pension plan investments was determined using a building block method in which best estimate ranges of expected future real rates of return (expected returns, net of pension plan investment expense and inflation) are developed for each major asset class. These ranges are combined to produce the long-term expected rate of return by weighting the expected future real rates of return by the target asset allocation percentage and by adding expecting inflation.

The target asset allocation and best estimates of arithmetic expected real rates of return for each major asset class as of June 30, 2014, are summarized in the following table:

Asset Class	Target Allocation	Long-Term Expected Real Rate of Return
Fixed Income	23.50%	6.60%
Domestic Equity	57.50%	6.80%
Private Equity	5.00%	7.90%
Real Estate	7.00%	5.50%
Limited Partnerships	7.00%	7.90%
	100.00%	

Discount rate – A single discount rate of 8.00% was used to measure the total pension liability as of June 30, 2013 and 2014. This single discount rate was based solely on the expected rate of return on pension plan investments of 8.00%. Based on the stated assumptions and the projection of cash flows, the pension plan’s fiduciary net position and future contributions were projected to be available to finance all projected future benefit payments of current plan members. Therefore, the long-term expected rate of return on pension plan investments was applied to all periods of projected benefit payments to determine the total pension liability.

Sensitivity of the District’s proportionate share of the net pension liability to changes in the discount rate – The following presents the District’s proportionate share of the net pension liability calculated using the discount rate of 8.00%, as well as what the District’s proportionate share of the net pension liability would be if it were calculated using a discount rate that is 1-percentage-point lower (7.00%) or 1-percentage-point higher (9.00%) than the current rate:

Tri-County Interlocal Co-Op, School District K001
 Carter County, Oklahoma
 Notes to Financial Statements
 June 30, 2015

3. Employee Retirement System (continued)

	1% Decrease (7.00%)	Current Discount Rate (8.00%)	1% Increase (9.00%)
District's Proportionate share of the net pension liability	\$ 1,875,261	\$ 1,325,646	\$ 878,688

Pension plan fiduciary net position – Detailed information about the pension plan’s fiduciary net position is available in the separately issued TRS financial report that can be obtained at <http://www.ok.gov/trs/>.

4. Contingencies

Amounts received or receivable from grantor agencies are subject to audit and adjustment by grantor agencies. Any disallowed claims, including amounts already collected, may constitute a liability of the applicable funds. The amount, if any, of expenditures which may be disallowed by the grantor cannot be determined at this time although the District expects such amounts, if any, to be immaterial.

5. Risk Management

The District is exposed to various risks of loss related to torts, theft of, damage to and destruction of assets; error and omissions and natural disasters for which the District carries commercial insurance. There have been no significant reduction in coverage from prior year and settlements have not exceeded coverage in the past three years.

Tri-County Interlocal Co-Op, School District K001
Schedule of Expenditures of Federal Awards
For the Year Ended June 30, 2015

	<u>Federal CFDA Number</u>	<u>Grantor's Project Number</u>	<u>Balance June 30, 2014</u>	<u>Federal Grant Receipts</u>	<u>Federal Grant Expenditures</u>	<u>Balance June 30, 2015</u>
U.S. Dept. of Education						
<i>Passed Through State Department of Education:</i>						
Special Education - Flow-Through	84.027	621	\$ -	\$ 599,369	\$ 621,766	\$ (22,397)
Special Education - Preschool Grants	84.173	641	-	27,214	27,214	-
Total Special Education Cluster			<u>-</u>	<u>626,583</u>	<u>648,980</u>	<u>(22,397)</u>
 <i>Passed Through OK State Department of Rehabilitation:</i>						
Rehabilitation Services-Vocational Rehabilitation Grants To States	84.126	456	\$ (431)	\$ 3,358	\$ 3,524	\$ (597)
Total Expenditures of Federal Awards			<u>\$ (431)</u>	<u>\$ 629,941</u>	<u>\$ 652,504</u>	<u>\$ (22,994)</u>

Note to the Schedule of Expenditures of Federal Awards

The Schedule of Expenditures of Federal Awards includes the federal grant activity of Tri-County Interlocal Co-Op, School District K001. The schedule is prepared using the cash receipts and disbursement basis. Therefore, some amounts presented in the schedule may differ from amounts presented in or used in the preparation of the basic financial statements.



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

To the Board of Education
Tri-County Interlocal School District,
Carter County, Oklahoma

We have audited, in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States, the accompanying fund type and account group financial statements of Tri-County Interlocal Co-Op, School District K001, Carter County Oklahoma, as of and for the year ended June 30, 2015, which collectively comprise the Tri-County Interlocal Co-Op, School District K001, Carter County Oklahoma's regulatory financial statements and have issued our report thereon dated March 2, 2016. Our report included an adverse opinion on U.S. Generally Accepted Accounting Principles.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered Tri-County Interlocal Co-Op, School District K001 Carter County, Oklahoma's internal control over financial reporting (internal control) to determine the audit procedures that are appropriate in the circumstances for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing an opinion on effectiveness Tri-County Interlocal Co-Op, School District K001, Carter County, Oklahoma' internal control. Accordingly, we do not express an opinion on the effectiveness of Tri-County Interlocal Co-Op, School District K001, Carter County, Oklahoma's internal control.

Our consideration of internal controls was for the limited purpose described in the preceding paragraph and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies and therefore, material weaknesses or significant deficiencies may exist that were not identified. However, as described in the accompanying schedule of findings and questions costs, we identified certain deficiencies in internal control that we consider to be material weaknesses and 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,

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or detected and corrected on a timely basis. We consider the deficiency described in the accompanying schedule of findings and questioned costs to be a material weakness. 2015-002.

A *significant deficiency* is a deficiency, or a 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 questioned costs that we consider to be significant deficiencies in internal control over financial reporting. 2015-001.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether Tri-County Interlocal Co-Op, School District K001, Carter County Oklahoma'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 no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

Tri-County Interlocal Co-Op, School District K001, Carter County Oklahoma's Response to Findings

Tri-County Interlocal Co-Op, School District K001, Carter County Oklahoma's response to the findings identified in our audit is described in the accompanying schedule of findings and questioned costs. Tri-County Interlocal Co-Op, School District K001, Carter County Oklahoma's response was not subjected to the auditing procedures applied in the audit of the financial statements and, accordingly, we express no opinion on it.

Purpose of this Report

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the entity's internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the entity's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

Rahhal Henderson Johnson, PLLC

Ardmore, Oklahoma

March 2, 2016



**INDEPENDENT AUDITOR'S REPORT ON COMPLIANCE FOR EACH
MAJOR PROGRAM AND ON INTERNAL CONTROL OVER
COMPLIANCE REQUIRED BY OMB CIRCULAR A-133**

To the Board of Education
Tri-County Interlocal School District,
Carter County, Oklahoma

Report on Compliance for Each Major Federal Program

We have audited Tri-County Interlocal Co-Op, School District K001, Carter County, Oklahoma's compliance with the types of compliance requirements described in the *OMB Circular A-133 Compliance Supplement* that could have a direct and material effect on each of Tri-County Interlocal Co-Op, School District K001, Carter County, Oklahoma's major federal programs for the year ended June 30, 2015. Tri-County Interlocal Co-Op, School District K001, Carter County, Oklahoma's major federal programs are identified in the summary of auditor's results section of the accompanying schedule of findings and questioned costs.

Management's Responsibility

Management is responsible for compliance with the requirements of laws, regulations, contracts, and grants applicable to its federal programs.

Auditor's Responsibility

Our responsibility is to express an opinion on compliance for each of Tri-County Interlocal Co-Op, School District K001, Carter County, Oklahoma's major federal programs based on our audit of the types of compliance requirements referred to above. We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. Those standards and OMB Circular A-133 require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about Tri-County Interlocal Co-Op, School District K001, Carter County, Oklahoma's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances.

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We believe that our audit provides a reasonable basis for our opinion on compliance for each major federal program. However, our audit does not provide a legal determination of Tri-County Interlocal Co-Op, School District K001, Carter County, Oklahoma's compliance.

Opinion on Each Major Federal Program

In our opinion, Tri-County Interlocal Co-Op, School District K001, Carter County, Oklahoma, complied, in all material respects, with the types of compliance requirements referred to above that could have a direct and material effect on each of its major federal programs for the year ended June 30, 2015.

Report on Internal Control Over Compliance

Management of Tri-County Interlocal Co-Op, School District K001, Carter County, Oklahoma, is responsible for establishing and maintaining effective internal control over compliance with the types of compliance requirements referred to above. In planning and performing our audit of compliance, we considered Tri-County Interlocal Co-Op, School District K001, Carter County, Oklahoma's internal control over compliance with the types of requirements that could have a direct and material effect on each major federal program to determine the auditing procedures that are appropriate in the circumstances for the purpose of expressing an opinion on compliance for each major federal program and to test and report on internal control over compliance in accordance with OMB Circular A-133, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of Tri-County Interlocal Co-Op, School District K001, Carter County, Oklahoma's internal control over compliance.

A deficiency in internal control over compliance exists when the design or operation of a control over compliance does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, noncompliance with a type of compliance requirement of a federal program on a timely basis. *A material weakness in internal control over compliance* is a deficiency, or combination of deficiencies, in internal control over compliance, such that there is a reasonable possibility that material noncompliance with a type of compliance requirement of a federal program will not be prevented, or detected and corrected, on a timely basis. *A significant deficiency in internal control over compliance* is a deficiency, or a combination of deficiencies, in internal control over compliance with a type of compliance requirement of a federal program that is less severe than a material weakness in internal control over compliance, yet important enough to merit attention by those charged with governance.

Our consideration of internal control over compliance was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over compliance that might be material weaknesses or significant deficiencies. We did not identify any deficiencies in internal control over compliance that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

The purpose of this report on internal control over compliance is solely to describe the scope of our testing of internal control over compliance and the results of that testing based on the requirements of OMB Circular A-133. Accordingly, this report is not suitable for any other purpose.

Rahhal Henderson Johnson, PLLC

Ardmore, Oklahoma

March 2, 2016

Tri-County Interlocal Co-Op, School District K001
 Schedule of Findings and Questioned Costs
 For the Year Ended June 30, 2015

Section I – Summary of Auditor’s Results

Financial Statements:

Type of audit report:	Unmodified
Internal control over financial reporting:	
Material weakness(es) identified?	<u> X </u> Yes <u> </u> No
Significant Deficiency(ies) identified that are not considered to be material weaknesses?	<u> X </u> Yes <u> </u> No
Noncompliance material to financial statement	<u> </u> Yes <u> X </u> No

Federal Awards:

Internal control over major program:	
Material weakness(es) identified?	<u> </u> Yes <u> X </u> No
Significant Deficiency(ies) identified that are not considered to be material weaknesses?	<u> </u> Yes <u> X </u> No
Type of auditors' report issued on compliance for major programs:	Unmodified
Any audit findings disclosed that are required to be	<u> </u> Yes <u> X </u> No
Identification of Major Programs:	
<u>CFDA Numbers</u>	<u>Name of federal Program or Cluster</u>
84.027 & 84.173	Special Education Cluster (IDEA)
Dollar threshold used to distinguish between Type A and Type B programs:	\$ 300,000
Auditee qualified as a low-risk auditee?	<u> </u> Yes <u> X </u> No

Tri-County Interlocal Co-Op, School District K001
Schedule of Findings and Questioned Costs
For the Year Ended June 30, 2015

Section II – Financial Statement Findings

2015-001 Financial Reporting

Condition: The District does not have a financial reporting system in place to ensure that all financial information is disclosed in the appropriate accounting period and in accordance with the modified cash basis of accounting and State Department of Education guidelines.

Criteria: The responsibility for the financial statements remains with management even when the preparation of the financial statements is transferred to a service provider. An individual with sufficient awareness of disclosure requirements should be designated to oversee the preparation of the financial statements.

Cause: The internal control structure of the District focuses primarily on daily operations. The District does not currently have a system in place to determine appropriate financial statement disclosures. The District does have a system that determines the trial balances used in financial statement preparation are final.

Effect: A process to determine that the year-end financial reporting disclosures are in accordance with accounting and regulatory requirements does not exist.

Recommendation: We recommend that the District evaluate the costs of providing for the additional assistance needed for the year-end financial reporting process to determine it is in accordance with accounting and regulatory requirements.

Views of Responsible Officials and Planned Corrective Actions: The District's current budget constraints do not allow for the addition of an outside consultant to assist in the year-end financial reporting process. Management reviews the disclosures as presented to determine that they are accurate.

2015-002 Lack of Reconciliation of Revenues

Condition: Contract billings and collections from Co-Op members are not being reconciled between the accounting system and the subsidiary ledger kept by Executive Director.

Tri-County Interlocal Co-Op, School District K001
Schedule of Findings and Questioned Costs
For the Year Ended June 30, 2015

Criteria: Internal controls should involve a reconciliation process and monitoring of the revenues and expenditures being recorded in the accounting system to the subsidiary ledger kept by the Executive Director.

Context: During testing of contract billings and collections, it was determined there was approximately a \$2,339 over payment which was not credited to members' account and underpayment of \$647 which was never collected.

Cause: Failure to reconcile accounting system to the subsidiary ledger.

Effect: Risk overstatement or understatement of revenues and misappropriation of assets.

Recommendation: We recommend the following procedures be implemented.

1. Reconciliations of revenues and expenditures need to be completed between the accounting software and the subsidiary ledger kept by the executive director to ensure all activity is properly being captured.

Views of Responsible Officials and Planned Corrective Actions: The District will take into consideration recommendation and will continue to implement procedures immediately.

Section III – Federal Award Findings and Questioned Costs

None

Tri-County Interlocal Co-Op, School District K001
Summary of Prior Year Findings
For the Year Ended June 30, 2015

Financial Statement Findings

2014-001 *Condition:* The District does not have a financial reporting system in place to ensure that all financial information is disclosed in the appropriate accounting period and in accordance with the modified cash basis of accounting and State Department of Education guidelines.

Recommendation: The auditor recommended that the District evaluate the costs of providing for the additional assistance needed for the year-end financial reporting process to determine it is in accordance with accounting and regulatory requirements.

Current Status: Condition still exists. See 2015-001

2014-002 *Condition:* Contract billings and collections from Co-Op members are not being reconciled between the accounting system and the subsidiary ledger kept by Executive Director.

Recommendation: The auditor recommended that procedures be implemented to the treasurer received a detailed listing of invoices which are billed by Executive Director and Reconciliations of revenues and expenditures needs to be completed between the accounting software and the subsidiary ledger kept by executive director.

Current Status: Condition still exists. See 2015-002

2014-003 *Condition:* Purchases occurred before the appropriate budgetary control was in place and approved.

Recommendation: The auditor recommended that the purchase requirements be reinforced with all those who have authorization to make purchases on behalf of the District.

Current Status: Condition has been resolved.

Tri-County Interlocal Co-Op, School District K001
Summary of Prior Year Findings
For the Year Ended June 30, 2015

Federal Award Findings and Questioned Costs

None

Tri-County Interlocal Co-Op, School District K001
Carter County, Oklahoma
Statement of Statutory Fidelity, and Honesty Bonds (unaudited)
For the Year Ended June 30, 2015

The District has a blanket bond with Western Surety Company, bond number 6143398, for the penal sum of \$100,0000 for Superintendent, \$50,000 Treasurer and \$1,000 for Encumbrance Clerk and Minutes Clerk for the term August 6, 2014 to August 6, 2015.

Tri-County Interlocal Co-Op, School District K001
Carter County, Oklahoma
Schedule of Accountant's Professional Liability Insurance Affidavit (unaudited)
For the Year Ended June 30, 2015

State of Oklahoma)

County of Carter)

The undersigned auditing firm of lawful age, 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 Tri-County Interlocal Co-Op, School District K001, for the audit year 2014-2015.

RAHHAL HENDERSON JOHNSON, PLLC

Mary E. Johnson

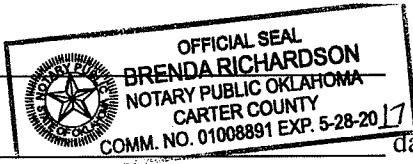
BY: _____
Authorized Agent

Subscribed and sworn to before me on this 7th day of March, 2016.

Brenda Richardson

Notary Public

Commission Number: _____



My commission expires on: _____ day of, _____, 20____.