FIVE STAR INTERLOCAL COOPERATIVE
Cushing, Oklahoma

FINANCIAL STATEMENTS
June 30, 2012

FIVE STAR INTERLOCAL COOPERATIVE
Cushing, Oklahoma

OFFICIALS
June 30, 2012

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FIVE STAR INTERLOCAL COOPERATIVE
Cushing, Oklahoma

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INDEPENDENT AUDITOR'S REPORT

July 24, 2012

The Honorable Board of Directors
Five Star Interlocal Cooperative
Cushing, Oklahoma

We have audited the accompanying combined fund type and account group financial statements—regulatory basis of the Five Star Interlocal Cooperative, Cushing, Oklahoma (CO-OP), as listed in the table of contents as combined financial statements as of and for the year ended June 30, 2012. These financial statements are the responsibility of the CO-OP'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 of America and *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 includes examining, on a test basis, evidence supporting the amounts and disclosures in the combined financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall combined financial statement 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 accounting principles generally accepted in the United States of America. The effect on the financial statements resulting from the use of this regulatory basis of accounting and presentation as compared to accounting principles generally accepted in the United States of America cannot be reasonably determined, but is considered material.

In our opinion, because the CO-OP's policy is to prepare its combined financial statements on the basis of accounting discussed in the third paragraph, the combined financial statements referred to in the first paragraph do not present fairly, in conformity with accounting principles generally accepted in the United States of America, the financial position of the governmental activities, each major fund, and the aggregate remaining fund information of the Five Star Interlocal Cooperative, Cushing, Oklahoma as of June 30, 2012, and the respective changes in financial position thereof for the year then ended.

However, in our opinion, the financial statements referred to in the first paragraph present fairly, in all material respects, the assets, liabilities and fund balance arising from regulatory basis transactions of each fund type and account group of Five Star Interlocal Cooperative, Cushing, Oklahoma, as of June 30, 2012, and the revenues collected and expenditures paid and encumbered for the year then ended on the regulatory basis of accounting described in Note 1.

Members of American Institute and Oklahoma Society of CPA's and Inpact Americas, an International Network of independent accounting firms
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Our audit was conducted for the purpose of forming opinions on the financial statements. The accompanying Schedule of Expenditures of Federal Awards is presented for purposes of additional analysis as required by U.S. Office of Management and Budget Circular A-133, *Audits of States, Local Governments, and Nonprofit Organizations*, and is not a required part of the financial statements. The other schedules listed as supplemental information in the table of contents are the responsibility of management and were derived from and relate directly to the underlying accounting and other records used to prepare the financial statements. The information has been subjected to the auditing procedures applied in the audit of the fund type and account group 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 on a regulatory basis of accounting.

In accordance with *Government Auditing Standards*, we have also issued our report dated July 24, 2012 on our consideration of the CO-OP's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts 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 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 should be considered in assessing the results of our audit.

CBEW Professional Group LLP

CBEW PROFESSIONAL GROUP, LLP
Certified Public Accountants

FIVE STAR INTERLOCAL COOPERATIVE
Cushing, Oklahoma

COMBINED STATEMENTS OF ASSETS, LIABILITIES AND FUND BALANCES
ALL FUND TYPES AND ACCOUNT GROUPS - REGULATORY BASIS
June 30, 2012

ASSETS

	Governmental Fund Types	Account Group	Totals (Memorandum Only)	
Assets:	Operating	General Fixed Assets	June 30, 2012	June, 30 2011
Cash and investments	$ 941,990	$ -	$ 941,990	$ 997,527
Property, plant and equipment	-	165,188	165,188	190,188
Total assets	$ 941,990	$ 165,188	$ 1,107,178	$ 1,187,715

LIABILITIES AND FUND BALANCES

Liabilities:				
Warrants payable	$ 508,285	$ -	$ 508,285	$ 502,741
Encumbrances	57,558	-	57,558	62,495
Total liabilities	565,843	-	565,843	565,236
Fund balances:				
Restricted for:				
CO-OP	376,147	-	376,147	432,291
Unassigned	-	165,188	165,188	190,188
Total fund balances	376,147	165,188	541,335	622,479
Total liabilities and fund balances	$ 941,990	$ 165,188	$ 1,107,178	$ 1,187,715

The accompanying notes are an integral part of these financial statements.

FIVE STAR INTERLOCAL COOPERATIVE
Cushing, Oklahoma

STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES
ALL GOVERNMENTAL FUND TYPES - REGULATORY BASIS
For the Fiscal Year Ended June 30, 2012

	Governmental Fund Types	Totals (Memorandum Only)	
	Operating	June 30, 2012	June 30, 2011
Revenues:			
Local sources	$ 940,802	$ 940,802	$ 800,471
Intermediate sources	-	-	-
State sources	406,319	406,319	325,767
Federal sources	2,813,270	2,813,270	3,477,786
Total revenues collected	4,160,391	4,160,391	4,604,024
Expenditures:			
Instruction	2,714,125	2,714,125	2,671,994
Support services	1,227,462	1,227,462	1,141,885
Non-instructional services	261,599	261,599	-
Capital outlay	-	-	-
Other outlays	38,841	38,841	-
Total expenditures	4,242,027	4,242,027	3,813,879
Excess of revenues over (under) expenditures	(81,636)	(81,636)	790,145
Adjustments to prior year encumbrances	25,491	25,491	-
Beginning fund balances	432,292	432,292	(357,854)
Ending fund balances	$ 376,147	$ 376,147	$ 432,291

The accompanying notes are and integral part of these financial statements.

FIVE STAR INTERLOCAL COOPERATIVE
Cushing, Oklahoma

STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES
BUDGET AND ACTUAL - REGULATORY BASIS

SPECIAL REVENUE FUND - COOP FUND
For the Fiscal Year Ended June 30, 2012

	Budgeted Amounts			Variance with Final Budget Favorable (Unfavorable)
	Original Budget	Final Budget	Actual	
Revenues:				
Local sources	$ 851,642	$ 851,642	$ 940,802	$ 89,160
Intermediate sources	-	-	-	-
State sources	325,767	325,767	406,319	80,552
Federal sources	2,714,305	2,794,305	2,813,270	18,965
Total revenues	3,891,714	3,971,714	4,160,391	188,677
Expenditures:				
Instruction	2,906,405	2,906,405	2,714,125	192,280
Support services	1,111,924	1,191,924	1,227,462	(35,538)
Non-instructional services	265,000	265,000	261,599	3,401
Capital outlay	-	-	-	-
Other outlays	40,677	40,677	38,841	1,836
Total expenditures	4,324,006	4,404,006	4,242,027	161,979
Net change in fund balance	(432,292)	(432,292)	(81,636)	350,656
Adjustments to prior year encumbrance	-	-	25,491	25,491
Beginning fund balance	432,292	432,292	432,292	-
Ending fund balances	$ -	$ -	$ 376,147	$ 376,147

The accompanying notes are an integral part of these financial statements.

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The accompanying financial statements of the Five Star Interlocal Cooperative, Cushing, Oklahoma (the "CO-OP") conform to the regulatory basis of accounting, which is another comprehensive basis of accounting prescribed by the Oklahoma State Department of Education and conforms to the system of accounting authorized by the State of Oklahoma. Accordingly, the accompanying financial statements are not intended to present financial position and results of operations in conformity with accounting principles generally accepted in the United States of America. The CO-OP's accounting policies are described in the following notes that are an integral part of the CO-OP's financial statements.

A. Reporting Entity

The CO-OP 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 CO-OP is part of the public school system of Oklahoma under the general direction and control of the State Board of Education 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 CO-OP was established by the boards of education of two or more school districts entering in cooperative agreements and maintaining joint programs.

The governing body of the CO-OP is the Board of Directors (Board) composed of nine members who are elected by representatives of each school district in the CO-OP. The appointed administrator is the executive officer of the CO-OP. The Board, constituting an on-going entity, is the level of government, which has governance responsibilities over all activities. The CO-OP receives funding from local, including the individual contributions of participating school districts, state and federal government sources and must comply with the requirements of these funding source entities. However, the CO-OP is not included in any other governmental "reporting entity" as defined in Section 2100, Codification of Governmental Accounting and Financial Reporting Standards, since Board members are from each school district and have decision making authority, the power to designate management, the responsibility to significantly influence operations and primary accountability for fiscal matters.

These financial statements present only the activities of the CO-OP. There are no component units (entities that are considered to be financially accountable to the CO-OP).

B. Measurement Focus

The accounts of the CO-OP are organized and operated on the basis of funds and account groups. A fund is an independent fiscal accounting entity with a self-balancing set of accounts. Fund accounting segregates funds according to their intended purpose and is used to aid management in demonstrating compliance with finance-related legal and contractual provisions. The minimum number of funds is maintained consistent with legal and managerial requirements. The Account Groups are reporting devices to account for certain assets and liabilities of the governmental funds not recorded directly in other funds.

The CO-OP has the following fund types and account groups:

Governmental funds - are used to account for most of the CO-OP's general activities and disbursement of earmarked monies (special revenue funds). Basis of accounting refers to when revenues and expenditures or expenses are recognized in the accounts and reported in the financial statements. Basis of accounting relates to the timing of the measurements made, regardless of the measurement focus applied. All governmental type funds are accounted for using the Regulatory (Statutory) basis of accounting. All revenues from all sources, including property taxes, entitlements, grants, and shared revenues are recognized when they are received rather than earned.

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

B. Measurement Focus (Continued)

Expenditures are generally recognized when encumbered or reserved rather than at the time the related liability is incurred. These practices differ from generally accepted accounting principles.

Governmental funds include the following fund type:

Special Revenue Fund - account for revenue sources that are restricted to expenditures for specific purposes (not including expendable trusts or major capital projects). The special revenue fund is composed of the CO-OP's operating fund. This is a budgeted fund and any fund balance is considered as resources available for use. Major revenue sources include local, federal and state funding. Expenditures include all costs associated with the daily operations of the CO-OP. The fund also accounts for federal and state financed programs where restricted monies must be expended for specific programs. Project accounting is employed to maintain integrity for the various sources of these funds.

Account groups – are not funds and consist of a self-balancing set of accounts used only to establish accounting control over fixed assets.

General Fixed Asset Account Group - accounts for the original costs of all fixed assets of the CO-OP.

C. Basis of Accounting and Presentation

The CO-OP 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* with certain modifications. This format differs significantly from that required by GASB 34.

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

- Encumbrances represented by purchase orders, contracts, and other commitments for the expenditure of monies are recorded as expenditures when approved.
- Investments are recorded as assets when acquired.
- Supplies are recorded as expenditures and not as inventory assets.
- Warrants payable are recorded as liabilities when issued.
- Long-term debt is recorded in the General Long-Term Debt Account Group and not in the basic financial statements.
- Compensated absences are recorded as expenditure when paid and not recorded as a liability.
- Fixed assets are recorded in the General Fixed Asset Account Group and not in the basic financial statements. Fixed assets are not depreciated.

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; and, when revenues are earned.

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

D. Assets, Liabilities, Fund Balance, Revenue and Expenditures

1. Deposits and Investments

State statutes govern the CO-OP's investment policy. 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, and trust companies. Collateral is required for demand deposits and certificates of deposit for all amounts not covered by federal deposit insurance. Investments are stated at cost. The CO-OP invests entirely in certificates of deposit, U.S. Treasury Securities, and participates in the Secured Investment Program of Oklahoma State School Boards Association, as authorized by Oklahoma Statutes Title 62, Section 348.

2. Fair Value of Financial Instruments

The CO-OP's financial instruments include cash and investments. The CO-OP's estimate of the fair value of all financial instruments does not differ materially from the aggregate carrying values of its financial instruments recorded in the accompanying statement of assets, liabilities and fund balances. The carrying amount of these financial instruments approximates fair value because of the short maturity of these instruments.

3. Estimates

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

4. Interfund Transactions

Interfund transactions are accounted for as revenues, expenditures or expenses. Transactions that constitute reimbursements to a fund or expenditures/expenses initially made from it that are properly applicable to another fund are recorded as expenditures/expenses in the fund that is reimbursed. Non-recurring or non-routine permanent transfers of equity are reported as residual equity transfers.

5. Inventories

Inventories consist of minimal amounts of expendable supplies held for consumption. The value of consumable inventories at year-end is not material to the CO-OP's financial statements. The costs of inventories are recorded as expenditures when encumbered and purchased rather than when consumed.

6. Fixed Assets

Fixed assets used in governmental fund-type operations (general fixed assets) are recorded as capital expenditures at the time of purchase and are recorded as property, plant and equipment in the General Fixed Asset Account Group. All fixed assets are valued at historical cost, except for donated fixed assets, which are recorded at their estimated fair value at the date of donation. Depreciation and accumulated depreciation are not reported against general fixed assets.

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

D. Assets, Liabilities, Fund Balance, Revenue and Expenditures (Continued)

7. Compensated Absences

The CO-OP provides vacation and sick leave benefits in accordance with Title 70 of the Oklahoma Statutes, Article 6-104, which provides for annual sick leave and personal business days. CO-OP policy allows certified employees to accumulate such days to a maximum number of days. None of the benefits are payable upon retirement or death. Accrued vacation and sick leave benefits are not reflected in the financial statements because such statements are prepared on the regulatory basis of accounting. This practice differs from generally accepted accounting principles.

8. Long-term Obligations

The CO-OP has no long-term debt at June 30, 2012; therefore, it is not presented in the financial statements. If so, it would be reported in the general long-term debt account group.

9. Fund Balance

In the fund financial statements, governmental funds report the hierarchy of fund balances. The hierarchy is based primarily on the degree of spending constraints placed upon use of resources for specific purposes versus availability of appropriation. An important distinction that is made in reporting fund balance is between amounts that are considered *nonspendable* (i.e., fund balance associated with assets that are *not in spendable form,* such as inventories or prepaid items, long-term portions of loans and notes receivable, or items that are legally required to be maintained intact (such as the corpus of a permanent fund)) and those that are *spendable* (such as fund balance associated with cash, investments or receivables).

Amounts in the *spendable* fund balance category are further classified as *restricted, committed, assigned* or *unassigned*, as appropriate.

Restricted fund balance represents amounts that are constrained either externally by creditors (such as debt covenants), grantors, contributors or laws or regulations of other governments; or by law, through constitutional provisions or enabling legislation.

Committed fund balance represents amount that are useable only for specific purposes by formal action of the government's highest level of decision-making authority. Such amounts are not subject to legal enforceability (like restricted amounts), but cannot be used for any other purpose unless the government removes or changes the limitation by taking action similar to that which imposed the commitment. The City Ordinance is the highest level of decision-making authority of the City.

Assigned fund balance represents amounts that are *intended* to be used for specific purposes, but are neither restricted nor committed. Intent is expressed by the governing body itself, or a subordinated high-level body or official who the governing body has delegated the authority to assign amounts to be used for specific purposes. Assigned fund balances includes all remaining spendable amounts (except negative balances) that are reported in governmental funds *other than the general fund*, that are neither restricted nor committed, and amounts in the general fund that are intended to be used for specific purpose in accordance with the provisions of the standard.

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

D. Assets, Liabilities, Fund Balance, Revenue and Expenditures (Continued)

9. Fund Balance (Continued)

Unassigned fund balance is the residual classification for the general fund. It represents the amounts that have not been assigned to other funds, and that have not been restricted, committed, or assigned to specific purposes within the general fund.

10. Local Revenues

Revenue from local sources is the money generated from within the boundaries of the CO-OP and available to the CO-OP for its use. Local sources of revenues include interest earnings, tuition, fees, rentals, disposals, commissions and reimbursements.

11. Intermediate Revenues

Revenue from intermediate source is the amount of money from funds collected by an intermediate administrative unit, or a political subdivision between the CO-OP and the state, and distributed to CO-OPs in amounts that differ in proportion to those which were collected within such systems.

12. State Revenues

Revenues from state sources for current operations are primarily governed by 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 CO-OPs based on information accumulated from the CO-OPs. 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 CO-OP 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 general fund.

13. 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 pass through from another government, such as the state. Entitlement is the amount of payment to which the CO-OP is entitled pursuant to an allocation formula contained in applicable statutes. The majority of the federal revenues received by the CO-OP are apportioned to the operating fund.

14. Non-Revenue Transactions

Non-revenue receipts represents receipts deposited that are not new revenues to the CO-OP, but the return of assets.

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

D. Assets, Liabilities, Fund Balance, Revenue and Expenditures (Continued)

15. Memorandum Only - Total Columns

Total columns on the combined financial statements are captioned "memorandum only" because they do not represent consolidated financial information and are presented only to facilitate analysis. The columns do not present information that reflects financial position or results of operations in accordance with generally accepted accounting principles. Inter-fund eliminations have not been made in the aggregation of this data.

16. Comparative Data

Comparative total data for the prior year has been presented in the accompanying financial statements in order to provide an understanding of changes in the CO-OP's assets, liabilities, fund balances, revenues and expenses. However, complete comparative date (i.e., presentation of prior year totals by fund type in each of the statements) has not been presented since their inclusion would make the statements unduly complex and difficult to read. Certain previously reported amounts have been reclassified to conform to current year classifications.

17. Resource Use Policy

It is in the District's policy for all funds that when an expenditure/expense is incurred for purposes for which both restricted and unrestricted resources, including fund balances, are available, the District considers restricted amounts to be spent first before any unrestricted amounts are used. Furthermore, it is the District's policy that when an expenditure/expense is incurred for purposes for which committed, assigned, or unassigned resources, including fund balances, are available, the School considers committed amounts to be spent first, followed by assigned amounts and lastly unassigned amounts.

2. STEWARDSHIP, COMPLIANCE AND ACCOUNTABILITY

Budgetary Information

The CO-OP is required by state law to prepare an annual budget. A preliminary budget is submitted to the Board of Education by December 31 for the fiscal year beginning the following July 1. Under current Oklahoma Statutes, a formal Estimate of Needs (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. The annual Estimate of Needs, when approved by the Board and subsequently filed with the County Clerk and approved by the County Excise Board becomes the legal budget. Supplemental appropriations, if required, were made during the year and are reflected on the budget vs. actual presentations shown as original budget and final budget.

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 CO-OP. Purchase orders or contracts document encumbrances for goods or purchased services. Under Oklahoma law, unencumbered appropriations lapse at year-end.

3. DETAILED NOTES CONCERNING THE FUNDS

A. Deposits and Investments

Custodial Credit Risk

At June 30, 2012, the CO-OP held deposits of approximately $941,990 at financial institutions. The CO-OP's cash deposits, including interest-bearing certificates of deposit, are entirely covered by Federal Depository Insurance (FDIC) or direct obligation of the U.S. Government insured or collateralized with securities held by the CO-OP or by its agent in the CO-OP's name.

Investment Interest Rate Risk

The CO-OP does not have a formal investment policy that limits investment maturities as a means of managing its exposure to fair value losses arising from increasing interest rates.

Investment Credit Risk

The CO-OP has no policy that limits its investment choices other than the limitation of state law as follows:

a. Direct obligations of the U.S. Government, its agencies and instrumentalities to which the full faith and credit of the U.S. Government is pledged, or obligations to the payment of which the full faith and credit of the State is pledged.
b. Certificates of deposits or savings accounts that are either insured or secured with acceptable collateral with in-state financial institutions, and fully insured certificates of deposit or savings accounts in out-of-state financial institutions.
c. With certain limitation, negotiable certificates of deposit, prime bankers acceptances, prime commercial paper and repurchase agreements with certain limitations.
d. County, municipal or school CO-OP tax supported debt obligations, bond or revenue anticipation notes, money judgments, or bond or revenue anticipation notes of public trusts whose beneficiary is a county, municipality or school CO-OP.
e. Notes or bonds secured by mortgage or trust deed insured by the Federal Housing Administrator and debentures issued by the Federal Housing Administrator, and in obligations of the National Mortgage Association.
f. Money market funds regulated by the SEC and in which investments consist of the investments mentioned in the previous paragraphs (a.-d.).

The cash and investments held at June 30, 2012 are as follows:

Type	Weighted Average Maturity (Months)	Credit Rating	Market Value	Cost
Investments				
Money Market	N/A	AAAm	$ 941,990	$ 941,990
Total investments			$ 941,990	$ 941,990

Concentration of Investment Credit Risk

The CO-OP places no limit on the amount it may invest in any one issuer. The CO-OP has the following of credit risk: 100% in Money Market funds ($941,990).

4. OTHER INFORMATION

A. Risk Management

The CO-OP 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 CO-OP purchases commercial insurance to cover these risks, including general and auto liability, property damage, and public officials liability. Settled claims resulting from these risks have not exceeded the commercial insurance coverage in any of the past three fiscal years.

The School also participates in a risk pool for Workers' Compensation coverage in which there is a transfer or pooling of risks among the participants of that pool. In accordance with GASB No. 10, the School reports the required contribution to the pool, net of refunds, as insurance expense. The risk pool is the Oklahoma School Assurance Group (OSAG), an organization formed for the purpose of providing workers' compensation coverage to participating schools in the State of Oklahoma. In that capacity, OSAG is responsible for providing loss control services and certain fiscal activities, including obtaining contract arrangements for the underwriting, excess insurance agreements, claims processing, and legal defense for any and all claims submitted to them during the plan year. As a member of OSAG the CO-OP is required to pay fees set by OSAG according to an established payment schedule. A portion of the fees paid by the CO-OP goes into a loss fund for the CO-OP. The fee for the loss fund is calculated by projecting losses based on the schools losses for the last five years. OSAG provides coverage in excess of the Loss Fund so the CO-OP's liability for claim loss is limited to the balance of the loss fund. If the CO-OP does not use their loss fund in three years it is returned to them with no interest.

B. Contingent Liabilities

Amounts received or receivable from grantor agencies are subject to audit and adjustment by grantor agencies, principally the federal government. 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 CO-OP expects such amounts, if any, to be immaterial.

C. Employee Retirement System and Plan

Description of Plan

The CO-OP 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.

4. OTHER INFORMATION (Continued)

C. Employee Retirement System and Plan (Continued)

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 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 CO-OPs. The System has an under-funded pension benefit obligation as determined as part of the latest actuarial valuation.

Funding Policy

The CO-OP, the State of Oklahoma, and the participating employee make contributions. The contribution rates for the CO-OP 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. Additionally, OTRS receives "federal matching contributions" for positions whose funding comes from federal sources or certain grants. The CO-OP and State are required to contribute 14.0% of applicable compensation. Contributions received by the System from the State of Oklahoma are from 3.54% of its revenues from sales tax use taxes, corporate income taxes and individual income taxes. The CO-OP contributed 9.5% and the State of Oklahoma plus the federal contribution contributed the remaining 4.5% during this year. The CO-OP is allowed by the Oklahoma Teachers' Retirement System to make the required contributions on behalf of the participating members.

Annual Pension Cost

The CO-OP's total contributions for 2012, 2011 and 2010 were $265,728, $248,492 and $283,928 respectively.

401(a) Governmental Plan

The CO-OP provides a 401(a) governmental plan for eligible employees. Employees with six months or more employment may enroll in the plan. The CO-OP pays into the plan for any participating employee based on a schedule using term or employment and whether certified or non-certified. Employees do not contribute to the plan. Plan participants are vested after three years. Normal retirement age is 55. Participants may withdraw funds in a lump sum or installment payments. The amount of the payment will vary depending on the amount invested, years of employment and earning of the investment. The CO-OP paid $55,461 and $51,691 into the plan for the fiscal years ending June 30, 2012 and 2011, respectively.

D. Surety Bonds

The Treasurer, Executive Director and Financial Secretary are bonded by Farmers Alliance, bond number BD075265, for the penal sum of $200,000, $100,000 and $2,000 for the term July 16, 2011 to July 16, 2012.

5. SUBSEQUENT EVENTS

Management has evaluated subsequent events through July 24, 2012, which is the date the financial statements were available to be issued and have determined that no additional information will need to be added to the financial statements.

FIVE STAR INTERLOCAL COOPERATIVE
Cushing, Oklahoma

SUPPLEMENTAL INFORMATION
June 30, 2012

FIVE STAR INTERLOCAL COOPERATIVE
Cushing, Oklahoma

SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
For the Fiscal Year Ended June 30, 2012

Federal Grantor/ Federal Grantor/Pass Through Grantor/Program Title	Federal CFDA Number	Pass-through Grantor's Project Number	Program or Award Amount	Balance at July 1, 2011	Revenue Collected	Total Expenditures	Balance at June 30, 2012
U.S. Department of Education:							
Passed through State Department of Education:							
IDEA-B, Flow Through	84.027	621	2,420,710	-	2,413,652	2,420,710	(7,058)
IDEA-B, Flow Through 10-11	84.027	621	2,644,905	(20,712)	20,712	-	-
IDEA-B, Preschool	84.173	641	55,507	-	55,507	55,507	-
Sub-Total			5,121,122	(20,712)	2,489,871	2,476,217	(7,058)
Passed through State Department of Human Services:							
Medicaid Resources	93.778	698	323,399	-	323,399	323,399	-
Total Expenditures of Federal Awards			$ 5,444,521	$ (20,712)	$ 2,813,270	$ 2,799,616	$ (7,058)

Note A - This schedule was prepared on a regulatory basis of accounting consistent with the preparation of the combined financial statements.

FIVE STAR INTERLOCAL COOPERATIVE
Cushing, Oklahoma

SCHEDULE OF ACCOUNTANT'S PROFESSIONAL LIABILITY INSURANCE AFFIDAVIT

JULY 1, 2011 TO JUNE 30, 2012

State of Oklahoma)

County of Payne)

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 Five Star Interlocal Cooperative for the audit year 2011-2012.

CBEW Professional Group, LLP

Auditing Firm

By Walter Hubbard

Authorized Agent

Subscribed and sworn to before me on this 24th day of, July, 2012.

Rebecca Toops

Notary Public

REBECCA TOOPS
Notary Public, State of Oklahoma
Commission # 11007004
My Commission Expires August 02, 2015

My commission expires on:

2nd day of Aug., 2015 11007004.

FIVE STAR INTERLOCAL COOPERATIVE
Cushing, Oklahoma

REPORTS REQUIRED BY *GOVERNMENT AUDITING STANDARDS*
June 30, 2012

CBEW Professional Group, LLP
Certified Public Accountants

206 N. HARRISON ● P.O. BOX 790 ● CUSHING, OKLAHOMA 74023 ● 918-225-4216 ● FAX 918-225-4315

DON K. ETHRIDGE, CPA
WALTER H. WEBB, CPA
JANE FRAZIER, CPA
CHARLES E. CROOKS, CPA
TRISHA J. RIEMAN, CPA

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*

July 24, 2012

The Honorable Board of Directors
Five Star Interlocal Cooperative
Cushing, Oklahoma

We have audited the accompanying fund type and account group financial statements—regulatory basis within the combined financial statements of the Five Star Interlocal Cooperative, Cushing, Oklahoma (CO-OP), as of and for the year ended June 30, 2012, and have issued our report thereon dated July 24, 2012, which was adverse with respect to the presentation of the financial statements in conformity with accounting principles generally accepted in the United States because the presentation followed the regulatory basis of accounting for Oklahoma school districts and did not conform to the presentation requirements of the Governmental Accounting Standards Board. 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.

Internal Control Over Financial Reporting

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

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.

Our consideration of internal control over financial reporting 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 financial reporting that might be deficiencies, significant deficiencies or material weaknesses. We did not identify any deficiencies in internal control over financial reporting that we consider to be material weaknesses, as defined above.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the CO-OP's combined 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.*

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Serving Our Clients Since 1960

Five Star Interlocal Cooperative
July 24, 2012

This report is intended solely for the information and use of the board of education and management, all applicable federal and state agencies, and those other Governments from which federal financial assistance was received and is not intended to be and should not be used by anyone other than these specified parties.

CBEW Professional Group LLP

CBEW PROFESSIONAL GROUP, LLP
Certified Public Accountants

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INDEPENDENT AUDITOR'S REPORT ON COMPLIANCE WITH REQUIREMENTS THAT COULD HAVE A DIRECT MATERIAL EFFECT ON EACH MAJOR PROGRAM AND INTERNAL CONTROL OVER COMPLIANCE IN ACCORDANCE WITH OMB CIRCULAR A-133

July 24, 2012

The Honorable Board of Directors
Five Star Interlocal Cooperative
Cushing, Oklahoma

Compliance

We have audited the compliance of the Five Star Interlocal Cooperative, Cushing, Oklahoma (CO-OP) with the types of compliance requirements described in the *U. S. Office of Management and Budget (OMB) Circular A-133 Compliance Supplement* that are applicable to each of its major federal programs for the year ended June 30, 2012. The CO-OP's major federal programs are identified in the summary of auditor's results section of the accompanying schedule of findings and questioned costs. Compliance with the requirements of laws, regulations, contracts and grants applicable to each of its major federal programs is the responsibility of the CO-OP's management. Our responsibility is to express an opinion on the Five Star Interlocal Cooperative, Cushing, Oklahoma's compliance based on our audit.

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 the Five Star Interlocal Cooperative, Cushing, Oklahoma's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion. Our audit does not provide a legal determination of the CO-OP's compliance with those requirements.

In our opinion, the Five Star Interlocal Cooperative, Cushing, Oklahoma complied, in all material respects, with the requirements referred to above that are applicable to each of its major federal programs for the year ended June 30, 2012.

Internal Control Over Compliance

The management of the CO-OP is responsible for establishing and maintaining effective internal control over compliance with requirements of laws, regulations, contracts and grants applicable to federal programs. In planning and performing our audit, we considered the Five Star Interlocal Cooperative, Cushing, Oklahoma's internal control over compliance with the requirements that could have a direct and material effect on a major federal program in order to determine the auditing procedures for the purpose of expressing our opinion on compliance, 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 the CO-OP's internal control over compliance.

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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.

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 deficiencies, significant deficiencies or material weaknesses. We did not identify any deficiencies in internal control over compliance that we consider to be material weaknesses, as defined above.

This report is intended solely for the information and use of the board of education and management, all applicable federal and state agencies, and those other Governments from which federal financial assistance was received and is not intended to be and should not be used by anyone other than these specified parties.

CBEW Professional Group, LLP

CBEW PROFESSIONAL GROUP, LLP
Certified Public Accountants

FIVE STAR INTERLOCAL COOPERATIVE
Cushing, Oklahoma

SCHEDULE OF FINDINGS AND QUESTIONED COSTS
For the Fiscal Year Ended June 30, 2012

SUMMARY OF AUDITOR'S RESULTS

1. The auditor's report expresses an adverse opinion on the combined financial statements in conformity with generally accepted accounting principles.

2. No significant deficiencies relating to the audit of the financial statements are reported in the Schedule of Findings and Questioned Costs.

3. No instances of noncompliance material to the financial statements of Five Star Interlocal Cooperative were reported during the audit.

4. No significant deficiencies relating to the audit of the major federal award programs are reported in the "Independent Auditor's Report on Compliance with Requirements That Could Have a Direct Material Effect on Each Major Program and Internal Control over Compliance in Accordance with OMB Circular A-133".

5. The auditor's report on compliance for the major federal award programs for Five Star Interlocal Cooperative expresses an unqualified opinion.

6. Audit findings relative to the major federal award programs for Five Star Interlocal Cooperative are reported in this Schedule.

7. The programs tested as major programs included: IDEA-B Flow Through – CFDA No. 84.027 & IDEA-B Preschool – CFDA No. 84.173 as a cluster and Medicaid – CFDA No. 93.778.

8. The threshold used for distinguishing between Types A and B programs was $300,000.

9. The Five Star Interlocal Cooperative did not qualify as a low-risk auditee.

FINDINGS - FINANCIAL STATEMENT AUDIT

1. None

FINDINGS AND QUESTIONED COSTS - MAJOR FEDERAL AWARD PROGRAMS AUDIT

1. None

FIVE STAR INTERLOCAL COOPERATIVE
Cushing, Oklahoma

SUMMARY SCHEDULE OF PRIOR AUDIT FINDINGS
For the Fiscal Year Ended June 30, 2012

1. None.

FIVE STAR INTERLOCAL COOPERATIVE
Cushing, Oklahoma
June 30, 2012

AUDIT ACKNOWLEDGEMENT

The annual independent audit for the Five Star Interlocal Cooperative was presented to the Board of Directors in an Open Board Meeting on August 22, 2012, by CBEW Professional Group, LLP.

The Board acknowledges that as the governing body of the district, responsible for the district's financial and compliance operations, the audit findings and exceptions have been presented to them.

A copy of the audit, including this acknowledgement form, will be sent to the Oklahoma State Department of Education within 30 days from it's presentation, as stated in 70 O.S. § 22-108:

> "The local board of education shall forward a copy of the audit report to the State Board of Education within thirty (30) days after receipt of said audit."

_____	_____
Administrator	Board of Directors Vice President
_____	_____
Board of Directors President	Board of Directors Member
_____	_____
Board of Directors Member	Board of Directors Member
_____	_____
Board of Directors Member	Board of Directors Member
	_____
	Board of Education Member

Subscribed and sworn to before me on this _____ day of, _____, 2012.

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

_____
Notary Public

Affix Notary Seal