FINANCIAL STATEMENTS – REGULATORY BASIS
AND REPORTS OF INDEPENDENT AUDITOR

SOUTHEASTERN OKLAHOMA INTERLOCAL CO-OP
DISTRICT NO. 48-K002
IDABEL, OKLAHOMA

JUNE 30, 2012

Audited by

SANDERS, BLEDSOE & HEWETT
CERTIFIED PUBLIC ACCOUNTANTS, LLP

BROKEN ARROW, OK

SOUTHEASTERN OKLAHOMA INTERLOCAL CO-OP
SCHOOL DISTRICT OFFICIALS
JUNE 30, 2012

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SOUTHEASTERN OKLAHOMA INTERLOCAL CO-OP
JUNE 30, 2012

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SANDERS, BLEDSOE & HEWETT
CERTIFIED PUBLIC ACCOUNTANTS, LLP

INDEPENDENT AUDITOR'S REPORT

The Honorable Board of Education
Southeastern Oklahoma Interlocal Cooperative 48K-002
Idabel, Oklahoma

We have audited the accompanying fund type and account group financial statements of Southeastern Oklahoma Interlocal Cooperative 48K-002 (the District), McCurtain County, Oklahoma, 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 District's management. Our responsibility is to express an opinion on these financial statements based on our audit.

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

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

In our opinion, because the District's policy is to prepare its combined financial statements on the basis of accounting discussed in the third paragraph, the combined financial statements referred to in the first paragraph do not present fairly, the financial position of the District as of June 30, 2012, or the results of its operations for the year then ended in conformity with accounting principles generally accepted in the United States.

However, in our opinion, the financial statements referred to above present fairly, in all material respects, the assets, liabilities, and equity arising from regulatory basis transactions of each fund type and account group of the District as of June 30, 2012, and the revenues collected, expenditures paid/expenses, and cash flows of each fund type, where applicable, for the year then ended on the regulatory basis of accounting described in Note 1.

In accordance with *Government Auditing Standards*, we have also issued our report dated March 20, 2013, on our consideration of the District's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, 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.

Our audit was conducted for the purpose of forming an opinion on the fund type and account group financial statements within the combined financial statements. The combining fund statements and schedules and other schedules as listed in the table of contents under other supplementary information are presented for purposes of additional analysis. This other supplementary information has been subjected to the auditing procedures applied in the audit of the fund type and account group financial statements within the combined financial statements and, in our opinion, is fairly stated in all material respects in relation to the combined financial statements taken as a whole on the regulatory basis of accounting described in Note 1.

Our audit was performed for the purpose of forming an opinion on the combined financial statements – regulatory basis of the District taken as a whole. 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 Non-Profit Organizations*, and is not a required part of the combined financial statements – regulatory basis. Such information has been subjected to the auditing procedures applied in the audit of the combined financial statements – regulatory basis and, in our opinion, is fairly stated, in all material respects, in relation to the combined financial statements – regulatory basis taken as a whole.

Sanders, Bledsoe & Hewett

Sanders, Bledsoe & Hewett
Certified Public Accountants, LLP

March 20, 2013

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

The Honorable Board of Education
Southeastern Oklahoma Interlocal Cooperative 48K-002
Idabel, Oklahoma

We have audited the combined financial statements – regulatory basis of Southeastern Oklahoma Interlocal Cooperative District (the District) No. 48K-002, Idabel, Oklahoma, as of and for the year ended June 30, 2012, have been prepared on a basis prescribed by the Oklahoma State Department of Education and have issued our report thereon dated March 20, 2013. We conducted our audit in accordance with auditing standards generally accepted in the United States, and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

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

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 preceding paragraph and would not necessarily identify all deficiencies in internal control over financial reporting that might be 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 District's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

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

Sanders, Bledsoe & Hewett
Certified Public Accountants, LLP

March 20, 2013

SOUTHEASTERN OKLAHOMA INTERLOCAL CO-OP
DISPOSITION OF PRIOR YEAR'S SIGNIFICANT DEFICIENCIES AND
MATERIAL INSTANCES OF NON-COMPLIANCE
JUNE 30, 2012

There were no prior year significant deficiencies.

SOUTHEASTERN OKLAHOMA INTERLOCAL CO-OP
SCHEDULE OF AUDIT RESULTS, FINDINGS AND QUESTIONED COSTS
JUNE 30, 2012

Section 1 - Summary of Auditor's Results:

1. An unqualified opinion was issued on the financial statements with respect to the regulatory basis of accounting prescribed.

2. The audit disclosed no significant deficiencies in the internal controls over financial reporting.

3. The audit disclosed no instances of noncompliance which are material to the financial statements.

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

NONE

SOUTHEASTERN OKLAHOMA INTERLOCAL CO-OP
COMBINED STATEMENT OF ASSETS, LIABILITIES AND FUND EQUITY -
ALL FUND TYPES AND ACCOUNT GROUPS - REGULATORY BASIS
JUNE 30, 2012

	GOVERNMENTAL FUND TYPES	ACCOUNT GROUP	
ASSETS	SPECIAL REVENUE FUND	GENERAL FIXED ASSETS	TOTALS (MEMORANDUM ONLY)
Cash	$ 68,269		68,269
Fixed assets		88,478	88,478
Total Assets	$ 68,269	88,478	156,747
LIABILITIES AND FUND EQUITY			
Liabilities:			
Warrants payable	$ 66,040	0	66,040
Fund Equity:			
Investments in fixed assets		88,478	88,478
Cash fund balance	2,229		2,229
Total fund equity	2,229	88,478	90,707
Total Liabilities and Fund Equity	$ 68,269	88,478	156,747

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

SOUTHEASTERN OKLAHOMA INTERLOCAL CO-OP
COMBINED STATEMENT OF REVENUES COLLECTED, EXPENDITURES AND CHANGES IN CASH FUND BALANCES
- ALL GOVERNMENTAL FUND TYPES - REGULATORY BASIS
FOR THE YEAR ENDED JUNE 30, 2012

	GOVERNMENTAL FUND TYPES
	SPECIAL REVENUE FUND
Revenues Collected:	
Local sources	$ 947,467
State sources	229,909
Federal sources	11,633
Interest earnings	134
Return of assets	2,841
Total revenues collected	1,191,984
Expenditures:	
Instruction	
Support services	1,101,188
Operation of non-instructional services	151,282
Other outlays:	
Correcting entry	1,454
Total expenditures	1,253,924
Excess of revenues collected over (under) expenditures	(61,940)
Cash fund balances, beginning of year	64,169
Cash fund balances, end of year	$ 2,229

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

SOUTHEASTERN OKLAHOMA INTERLOCAL CO-OP
COMBINED STATEMENT OF REVENUES COLLECTED, EXPENDITURES AND
CHANGES IN CASH FUND BALANCES - BUDGETED GOVERNMENTAL FUND TYPES - REGULATORY BASIS
FOR THE YEAR ENDED JUNE 30, 2012

	SPECIAL REVENUE FUND - CO-OP FUND		
	Original/Final Budget	Actual	Variance Favorable (Unfavorable)
Revenues Collected:			
Local sources	$ 965,000	947,467	(17,533)
State sources	327,362	229,909	(97,453)
Federal sources	19,450	11,633	(7,817)
Interest earnings		134	134
Return of assets		2,841	2,841
Total revenues collected	1,311,812	1,191,984	(119,828)
Expenditures:			
Support services		1,101,188	(1,101,188)
Operation of non-instructional services		151,282	(151,282)
Other outlays:			
Correcting entry		1,454	(1,454)
Other uses	1,375,981		1,375,981
Total expenditures	1,375,981	1,253,924	122,057
Excess of revenues collected over (under) expenditures	(64,169)	(61,940)	2,229
Cash fund balance, beginning of year	64,169	64,169	0
Cash fund balance, end of year	$ 0	2,229	2,229

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

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The combined financial statements – regulatory basis of the Southeastern Oklahoma Interlocal Cooperative School District No. 48-K002 (the "District") have been prepared in conformity with another comprehensive basis of accounting required by Oklahoma Statutes. The more significant of the District's accounting policies are described below.

A. Reporting Entity

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

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

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

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – cont'd

B. Fund Accounting

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

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

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

Governmental Fund Types

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

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

C. Basis of Accounting

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

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

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – cont'd

C. Basis of Accounting - cont'd

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

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

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

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

The District has maintained a record of general fixed assets and, accordingly, a statement of general fixed assets, as required by accounting principles generally accepted in the United States, is included in the combined financial statements – regulatory basis.

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

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

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – cont'd

D. Budgets and Budgetary Accounting

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

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

The 2011-12 Estimate of Needs was not amended by any supplemental appropriations.

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

E. Assets, Liabilities and Fund Equity

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

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

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – cont'd

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

Inventories – The value of consumable inventories at June 30, 2012, is not material to the combined financial statements.

Fixed Assets and Property, Plant and Equipment – The General Fixed Assets Account Group is presented at historical cost in the financial statements.

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

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

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

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

F. Revenue and Expenditures

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

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

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

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – cont'd

F. Revenue and Expenditures – cont'd

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

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

Federal Revenues – Federal revenues consist of revenues from the federal government in the form of operating grants or entitlements. An operating grant is a contribution to be used for a specific purpose, activity or facility. A grant may be received either directly from the federal government or indirectly as a passthrough from another government, such as the state.

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

The majority of the federal revenues received by the District are apportioned to the co-op fund.

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

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

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

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – cont'd

F. Revenue and Expenditures – cont'd

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

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

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

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

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

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

2. LONG-TERM DEBT

The district had no outstanding long-term debt (bond issues or capital lease agreements) at June 30, 2012.

3. CASH AND INVESTMENTS

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

Cash – The District's bank balance of deposits and cash pools at June 30, 2012, was $68,269. Custodial credit risk is the risk that in the event of a bank failure, the District's deposits may not be returned to it. State statutes require collateral for amounts in excess of federally insured amounts. The District's policy requires collateral equal to 110% of the deposit amount for all deposits not covered by F.D.I.C. insurance. The bank balance was completely covered by federal depository insurance and by collateral held by the District's third party agent in the District's name.

Investments – At June 30, 2012, the District had no outstanding investments.

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

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

4. EMPLOYEE RETIREMENT SYSTEM AND PLAN

Description of Plan

The District participates in the state-administered Oklahoma Teachers' Retirement System, which is a cost sharing, multiple-employer defined benefit public employee retirement system (PERS), which is administered by the Board of Trustees of the Oklahoma Teachers' Retirement System (the "System"). The System provides retirement and disability benefits, annual cost-of-living adjustments, and death benefits to plan members and beneficiaries. Title 70 Section 17 of the Oklahoma Statutes establishes benefit provisions and may be amended only through legislative action. The Oklahoma Teachers' Retirement System issues a publicly available financial report that includes financial statements and required supplementary

4. EMPLOYEE RETIREMENT SYSTEM AND PLAN – cont'd

Description of Plan

information for the System. That report may be obtained by writing to the Oklahoma Teachers' Retirement System, P.O. Box 53624, Oklahoma City, OK 73152, or by calling 405-521-2387.

Basis of Accounting

The System's financial statements are prepared using the cash basis of accounting, except for accruals of interest income. Plan member contributions are recognized in the period in which the contributions are made. Benefits and refunds are recognized when paid. The pension benefit obligation is a standardized disclosure measure of the present value of pension benefits. This pension valuation method reflects the present value of estimated pension benefits that will be paid in future years as a result of employee services performed to date and is adjusted for the effect of projected salary increases. There are no actuarial valuations performed on individual school districts. The System has an under-funded pension benefit obligation as determined as part of the latest actuarial valuation.

Funding Policy

The District, the State of Oklahoma, and the participating employee make contributions. The contribution rates for the District and its employees are established by and may be amended by Oklahoma Statutes. The rates are not actuarially determined. The rates are applied to the employee's earnings plus employer-paid fringe benefits. The required contribution for the participating members is 7.0% of compensation. Contributions received by the System from the State of Oklahoma are used to offset required employer contributions by the local school district. For the 2011-12 fiscal year, the District contributed 9.50% and the State of Oklahoma contributed the remaining amount during this year. The District is allowed by Oklahoma Teachers' Retirement System to make the required contributions on behalf of the participating members. In addition, the District is required to match the retirement paid on salaries that are funded with federal funds.

Annual Pension Cost

The District's total contributions for 2012, 2011 and 2010 were $66,242, $74,069 and $95,372, respectively.

4. EMPLOYEE RETIREMENT SYSTEM AND PLAN – cont'd

Annual Pension Cost

Ten-year historical trend information is presented in the Teacher's Retirement System of Oklahoma Annual Report for the year ended June 30, 2012. This information is useful in assessing the pension plan's accumulation of sufficient assets to pay pension benefits as they become due. Please visit www.ok.gov/TRS for all plan information.

5. RISK MANAGEMENT

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

6. CONTINGENCIES

Schedule of Expenditure of Federal Awards

The schedule shows the federal awards received and expended by the District during the 2011-12 fiscal year. The revised OMB Circular A-133 Audits of States, Local Governments and Non-Profit Organizations, established uniform audit requirements for nonfederal entities which expend more than $500,000 in federal awards.

The District did not fall under this threshold during the 2011-12 fiscal year, therefore, this schedule is not required and is for information purposes only.

Litigation

District personnel state that they are not aware of any pending or threatened litigation, or of any asserted or unasserted claims or judgments against the District at June 30, 2012.

SOUTHEASTERN OKLAHOMA INTERLOCAL CO-OP
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS - REGULATORY BASIS
FOR THE YEAR ENDED JUNE 30, 2012

Federal Grantor / Pass Through Grantor / Program Title	Federal CFDA Number	Federal Grantor's/ Pass-through No.	Program or Award Amount	Balance at 7/1/11	Revenue Collected	Total Expenditures	Balance at 6/30/12
Passed Through Department of Health and Human Services:							
Alcohol Abuse Reduction Grant	84.184	Q184A080277-11	$ 11,633	0	11,633	11,633	0
Total Federal Assistance			$ 11,633	0	11,633	11,633	0

Note - These amounts represent reimbursements for prior year expenditures which were not received until the current fiscal year.

SOUTHEASTERN OKLAHOMA INTERLOCAL CO-OP
STATEMENT OF STATUTORY, FIDELITY AND HONESTY BONDS
FOR THE YEAR ENDED JUNE 30, 2012

BONDING COMPANY	POSITION COVERED	BOND NUMBER	COVERAGE AMOUNT	EFFECTIVE DATES
CNA Surety Company	Treasurer	68549803	$100,000	11/12/11 - 11/12/12
	Assistant Treasurer	68549803	100,000	11/12/11 - 11/12/12
	Executive Director	68549803	100,000	11/12/11 - 11/12/12
	Encumbrance Clerk	68549803	50,000	11/12/11 - 11/12/12
	Minutes Clerk	68549803	50,000	11/12/11 - 11/12/12

SOUTHEASTERN OKLAHOMA INTERLOCAL CO-OP
SCHEDULE OF ACCOUNTANT'S PROFESSIONAL LIABILITY INSURANCE AFFIDAVIT
JULY 1, 2011 TO JUNE 30, 2012

State of Oklahoma)
) ss
County of Tulsa)

The undersigned auditing firm of lawful ages, being first duly sworn on oath says that said firm had in full force and effect Accountant's Professional Liability Insurance in accordance with the "Oklahoma Public School Audit Law" at the time of audit contract and during the entire audit engagement with McCurtain County Interlocal Cooperative School District for the audit year 2011-12.

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

By _____
Authorized Agent

Subscribed and sworn to before me
This 20th day of March, 2013

_____
Notary Public (or Clerk or Judge)

My Commission Expires: 5/19/2016
Commission No. 00008621