

Cherokee Immersion Charter School

District No. T001

Independent Auditor's Reports and Financial Statements

June 30, 2018



Cherokee Immersion Charter School
District No. T001
June 30, 2018

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Cherokee Immersion Charter School
District No. T001
School District Officials
July 1, 2017 to June 30, 2018

Leroy Qualls, Superintendent of the Cherokee Immersion Charter School, Cherokee Nation

Rufus King, President

Russell Feeling, Vice President

Melvina Shotpouch, Clerk

Independent Auditor's Report

Board of Education
Cherokee Immersion Charter School
District No. T001
Cherokee County, Oklahoma

Report on the Financial Statements

We have audited the accompanying individual fund (general fund) and account group financial statements – regulatory basis of the Cherokee Immersion Charter School, District No. T001, Cherokee County, Oklahoma (the School) as of and for the year ended June 30, 2018, and the related notes to the financial statements, which collectively comprise the School's basic financial statements, as listed in the table of contents.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting and financial reporting regulations prescribed or permitted by the Oklahoma State Department of Education, as described in *Note 1*; this includes determining that the regulatory basis of accounting is an acceptable basis for the preparation of the financial statements in the circumstances. Management is also responsible for the design, implementation and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

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 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 from 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 the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the School'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 School'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.

Board of Education
Cherokee Immersion Charter School
District No. T001

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

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

As described in *Note 1*, the School has prepared these financial statements 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 differences between the regulatory basis of accounting and accounting principles generally accepted in the United States of America are also described in *Note 1*.

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 above do not present fairly, in accordance with accounting principles generally accepted in the United States of America, the financial position of each fund type or account group of the School as of June 30, 2018, or the results of their operations for the year then ended.

Opinion on Regulatory Basis of Accounting

In our opinion, the individual fund (general fund) and account group financial statements – regulatory basis referred to above present fairly, in all material respects, the financial position and account group of the School as of June 30, 2018, and the results of operations of such funds for the year then ended, in conformity with the regulatory basis of accounting described in *Note 1*.

Other Information

Our audit was conducted for the purpose of forming an opinion on the financial statements that collectively comprise the School’s basic financial statements – regulatory basis. The schedule of statutory, fidelity and honesty bonds and the schedule of accountants’ professional liability insurance affidavit are presented for purposes of additional analysis and are not a required part of the financial statements.

The schedule of statutory, fidelity and honesty bonds is the responsibility of management and was derived from and relates 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 basic financial statements or to the basic financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the schedule of statutory, fidelity and honesty bonds is fairly stated in all material respects in relation to the basic financial statements as a whole on the regulatory basis of accounting described in *Note 1*.

Board of Education
Cherokee Immersion Charter School
District No. T001

The schedule of accountants' professional liability insurance affidavit has not been subjected to the auditing procedures applied in the audit of the basic financial statements and, accordingly, we do not express an opinion or provide any assurance on it.

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated May 8, 2019, on our consideration of the School'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 solely 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 effectiveness of the School's internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the School's internal control over financial reporting and compliance.

BKD, LLP

Tulsa, Oklahoma
May 8, 2019

**Cherokee Immersion Charter School
District No. T001**

**Statement of Assets, Liabilities and Fund Balance – Regulatory Basis –
All Fund Types and Account Groups
June 30, 2018**

	Governmental Fund Type	Account Group	Total
	General	General Fixed Assets	(Memorandum Only)
Assets			
Assets			
Capital assets, net	\$ -	\$ 29,100	\$ 29,100
Total assets	\$ -	\$ 29,100	\$ 29,100
 Fund Balance			
Fund Equity and Other Credits			
Investment in general fixed assets	\$ -	\$ 29,100	\$ 29,100
Total fund equity and other credits	-	29,100	29,100
Total fund balance	\$ -	\$ 29,100	\$ 29,100

**Cherokee Immersion Charter School
District No. T001**

**Statement of Revenues Collected, Expenditures Paid and Changes in
Fund Balance – Regulatory Basis – All Governmental Fund Types
Year Ended June 30, 2018**

	General Fund
Revenues Collected	
Intergovernmental – Oklahoma State Department of Education	\$ 228,653
Federal National School Lunch Program	32,377
Contributions from the Nation	2,198,004
Total revenues collected	2,459,034
Expenditures Paid	
Instruction	1,770,653
Support services	270,711
Noninstruction services	477,378
Total expenditures paid	2,518,742
Deficiency of Revenues Collected over Expenditures Paid	(59,708)
Fund Balance, Beginning of Year	59,708
Fund Balance, End of Year	\$ -

**Cherokee Immersion Charter School
District No. T001**

**Statement of Revenues Collected, Expenditures Paid and Changes in
Fund Balance – Regulatory Basis – Budget to Actual –
Budgeted Governmental Fund Types
Year Ended June 30, 2018**

	General Fund		
	Original Budget	Final Budget	Actual
Revenues Collected			
Intergovernmental – Oklahoma State Department of Education	\$ 475,000	\$ 183,434	\$ 228,653
Federal National School Lunch Program	40,000	40,000	32,377
Contributions from the Nation	1,932,215	2,381,218	2,198,004
Total revenues collected	<u>2,447,215</u>	<u>2,604,652</u>	<u>2,459,034</u>
Expenditures Paid			
Instruction	1,761,208	1,845,053	1,770,653
Support services	244,476	301,567	270,711
Noninstruction services	441,531	458,032	477,378
Total expenditures paid	<u>2,447,215</u>	<u>2,604,652</u>	<u>2,518,742</u>
Deficiency of Revenues Collected over Expenditures Paid	-	-	(59,708)
Fund Balance, Beginning of Year	<u>-</u>	<u>-</u>	<u>59,708</u>
Fund Balance, End of Year	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>

Cherokee Immersion Charter School
District No. T001
Notes to Financial Statements
June 30, 2018

Note 1: Nature of Operations and Summary of Significant Accounting Policies

The basic financial statements of the Cherokee Immersion Charter School, District No. T001, Cherokee County, Oklahoma (the School) have been prepared in conformity with the basis of accounting as prescribed by the Oklahoma State Department of Education (OSDE). The more significant accounting policies of the School are described below.

Reporting Entity

The School is a charter school for children pre-kindergarten through eighth grade created under Title 70 of the Oklahoma Statutes and is financially dependent on the Cherokee Nation's (the Nation) and the State of Oklahoma's support. The School is not considered a component unit of the Nation but is an operation of the Nation.

The governing body of the School is the Board of Education, which is composed of appointed members. The appointed superintendent is the executive officer of the School.

In evaluating how to define the School 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 School and/or its citizens, or whether the activity is conducted within the geographic boundaries of the School 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 School is able to exercise oversight responsibilities. Based upon the application of these criteria, there are no potential component units included in the School's reporting entity.

The Parent Teacher Association (PTA) is not included in the reporting entity. The School does not appoint any of the board members or exercise any oversight over the PTA.

Fund Accounting and Description of Fund

The School uses fund accounting 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

Cherokee Immersion Charter School
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Notes to Financial Statements
June 30, 2018

and liabilities that are not recorded in the funds because they do not directly affect net expendable available financial resources.

The fund maintained by the School is a governmental fund.

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. However, for the fiscal year ended June 30, 2018, the School only maintained the general fund. Major revenue sources include contributions from the Nation and monies received from the OSDE as a result of the charter school recognition by the OSDE. Expenditures include all costs associated with the daily operations of the School.

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 Assets Account Group – This account group is used to account for property, plant and equipment of the school district.

Total (Memorandum Only)

The total column on the general purpose 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.

Basis of Accounting and Presentation

The School prepares its financial statements in a presentation format that is prescribed by the OSDE. 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 Statement No. 34.

Cherokee Immersion Charter School
District No. T001
Notes to Financial Statements
June 30, 2018

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

- Encumbrances represented by purchase orders, contracts and other commitments for the expenditures of monies are recorded as expenditures when approved.
- Investments and inventories are recorded as assets when purchased.
- Capital assets in proprietary funds are recorded when acquired and depreciated over their useful lives.
- Warrants payable are recorded as liabilities when issued.
- Long-term debt is recorded when incurred.

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, expenditures or expenses to be recognized when the related liabilities are incurred for governmental fund types and when revenues are earned and liabilities are incurred for proprietary fund types and trust funds.

Budgets and Budgetary Accounting

The School 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.

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.

Cash Held by the Nation

The Nation acts as an agent for the cash deposits of the School. Cash held by the Nation represents the amount of cash deposits that are held by the Nation on behalf of the School.

Due from the Nation

Due from the Nation represents the portion of funding owed by the Nation for operations of the School.

Capital Assets

The accounting treatment used for capital assets (property, plant and equipment) depends on whether the assets are used in governmental fund-type operations or proprietary fund-type

Cherokee Immersion Charter School
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Notes to Financial Statements
June 30, 2018

operations. Fixed assets used in governmental fund-type operations (general fixed assets) are recorded as capital outlay expenditures of the governmental fund-type upon acquisition and are recorded as property, plant and equipment in the General Fixed Assets Account Group.

All fixed assets are valued at historical cost, or estimated cost if actual is unavailable, 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.

Encumbrances Payable

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

Fund Balance

Fund balance represents the cash due from the Nation not encumbered by purchase order, legal contracts and outstanding warrants.

Revenues and Expenditures

Intergovernmental Revenues – Revenues received from the OSDE for current operations, which are primarily governed by the state aid formula under the provisions of Article XVIII, Title 70, Oklahoma Statutes. The OSDE 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 OSDE 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 in the year the adjustment is made.

Federal National School Lunch Program – Federal revenues passed through the OSDE for the child nutrition programs are recognized when expenditures are made.

Contributions from the Nation – Nonfederal revenues received from the Nation, the sponsoring organization for the School, for current operations.

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; and in other learning situations, such as those involving co-curricular 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, etc.) who assist in the instructional process.

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District No. T001
Notes to Financial Statements
June 30, 2018

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.

Noninstruction Services Expenditures – Activities concerned with providing noninstruction services to students and staff, such as indirect cost charges and allocated space costs.

Use of Estimates

The preparation of financial statements in conformity with accounting and financial reporting regulations prescribed or permitted by the OSDE requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues, expenditures, gains, losses and other changes in fund balance during the reporting period. Actual results could differ from those estimates.

Note 2: Direct and Indirect Cost Allocation

The School is a component of the Nation's indirect cost plan. The Nation's plan utilizes a fixed rate with carryforward. The School is allocated a percentage of total costs incurred during the year. The rate applied for the year ended June 30, 2018, was 14.05%. The rate is capped at 5% for expenditures paid by funds received from the OSDE. Total indirect costs allocated to the School for the year ended June 30, 2018, were approximately \$257,000 and \$13,000 related to funds received from the Nation and the OSDE, respectively.

The School does not directly own buildings. These items are owned by the Nation. The Nation allocates cost based on the usage of square footage according to its space allocation plan or through the indirect cost allocation process described above. For the year ended June 30, 2018, approximately \$213,000 was charged to the School through the Nation's space allocation plan.

Note 3: Oklahoma Cost Accounting System Reporting

The only expenditures included in the Oklahoma Cost Accounting System (OCAS) are instruction expenditures totaling \$1,770,653, which are presented in the accompanying statement of revenues collected, expenditures paid and changes in fund balance – regulatory basis – all governmental fund types (the Statement) for the year ended June 30, 2018. The support services expenditures and noninstruction services expenditures presented in the Statement totaling \$270,711 and \$477,378, respectively, are approved exemptions and are not included in the State's OCAS reporting.

Cherokee Immersion Charter School
District No. T001
Notes to Financial Statements
June 30, 2018

Note 4: Related Party

The Nation is the sponsoring organization of the School and maintains all cash; processes all cash disbursements, cash receipts and payroll; and performs various other administrative functions. In addition, faculty and staff of the School are participants in the employee benefit plans of the Nation.

Note 5: Risk Management

The School participates in the Nation's various insurance programs to manage certain exposures from general liability, property and employee health insurance. The Nation manages its exposures through risk retention and the purchase of commercial insurance and maintains the risk of loss for claims incurred by the School outside of purchased insurance or within the Nation's self-insured plans. The School was allocated approximately \$10,400 of insurance expense for the year ended June 30, 2018.

Note 6: Federal Awards Received

The School expended approximately \$32,400 of federal awards that were passed through the OSDE for the Federal National School Lunch program under CFDA Number 10.555 for the year ended June 30, 2018. The amount of expenditures is included in the Nation's schedule of expenditures of federal awards.

Note 7: Subsequent Events

Subsequent events have been evaluated through May 8, 2019, which is the date the financial statements were available to be issued.

Supplementary Information

**Cherokee Immersion Charter School
District No. T001
Schedule of Statutory, Fidelity and Honesty Bonds
Year Ended June 30, 2018**

Travelers Casualty and Surety Company of America

- A. Fidelity
- B. Forgery or Alteration
- C. On Premises
- D. In Transit
- E. Money Orders and Counterfeit Money
- F. Computer Crime
- G. Funds Transfer Fraud
- H. Personal Accounts Protection
- I. Claims Expense

Policy # (Bond #): CRP400269102

Policy Period: October 1, 2016 through October 1, 2018

Policy Limit: \$1,000,000

**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**

Independent Auditor's Report

Board of Education
Cherokee Immersion Charter School
District No. T001
Cherokee 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 individual fund (general fund) and account group financial statements – regulatory basis of the Cherokee Immersion Charter School, District No. T001, Cherokee County, Oklahoma (the School) as of and for the year ended June 30, 2018, and the related notes to the financial statements, which collectively comprise the School's basic financial statements, and have issued our report thereon dated May 8, 2019, which expressed an adverse opinion on U.S. generally accepted accounting principles because the financial statements were prepared in conformity with the accounting and financial reporting regulations prescribed or permitted by the Oklahoma State Department of Education (regulatory basis) and expressed an unmodified opinion on the regulatory basis of accounting, which is a basis of accounting other than accounting principles generally accepted in the United States of America.

Internal Control over Financial Reporting

In planning and performing our audit of the financial statements, we considered the School'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 opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the School's internal control. Accordingly, we do not express an opinion on the effectiveness of the School's internal control.

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 School's financial statements will not be prevented, or detected and corrected on a timely basis. 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.

Board of Education
Cherokee Immersion Charter School
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Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the School'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*.

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 School'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 School's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

BKD, LLP

Tulsa, Oklahoma
May 8, 2019

Cherokee Immersion Charter School
District No. T001
Schedule of Findings and Responses
Year Ended June 30, 2018

Findings Required to be Reported by *Government Auditing Standards*

**Reference
Number**

Finding

No matters are reportable.

