

Cherokee Immersion Charter School

District No. T001

Independent Auditor's Reports and Financial Statements

June 30, 2016



**Cherokee Immersion Charter School
District No. T001
June 30, 2016**

Contents

School District Officials	1
Independent Auditor’s Report	2
Basic Financial Statements	
Statement of Assets, Liabilities and Fund Balance – Regulatory Basis – All Fund Types	5
Statement of Revenues Collected, Expenditures Paid and Changes in Fund Balance – Regulatory Basis – All Governmental Fund Types	6
Statement of Revenues Collected, Expenditures Paid and Changes in Fund Balance – Regulatory Basis – Budget to Actual – Budgeted Governmental Fund Types	7
Notes to Financial Statements	8
Supplementary Information	
Statement of Statutory, Fidelity and Honesty Bonds.....	13
Independent Auditor’s Report on Internal Control over Financial Reporting and on Compliance and Other Matters Based on an Audit of the Financial Statements Performed in Accordance with <i>Government Auditing Standards</i>	14
Schedule of Findings and Responses	16
Schedule of Accountants’ Professional Liability Insurance Affidavit	17

Cherokee Immersion Charter School
District No. T001
School District Officials
July 1, 2015 to June 30, 2016

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 fund type 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, 2016, 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 prescribed 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 entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

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 basis of accounting other than accounting principles generally accepted in the United States of America, to meet the requirements prescribed or permitted by the Oklahoma State Department of Education.

The effects on the financial statements of the variances between the regulatory basis of accounting described in *Note 1* and accounting principles generally accepted in the United States of America, although not reasonably determinable, are presumed to be material.

Adverse Opinion on U.S. Generally Accepted Accounting Principles

In our opinion, because of the significance of the matter discussed in the *Basis for Adverse Opinion on U.S. Generally Accepted Accounting Principles* paragraph, the financial statements referred to above do not present fairly the financial position of each fund type of the School as of June 30, 2016, or the results of their operations for the year then ended.

Opinion on Regulatory Basis of Accounting

In our opinion, the financial statements referred to above present fairly in all material respects, the assets, liabilities and fund balance arising from regulatory basis transactions of the general fund type of the School as of June 30, 2016, and the revenues collected, expenditures paid and budgetary results for the year then ended on the regulatory basis of accounting described in *Note 1*.

Supplementary Information

Our audit was conducted for the purpose of forming an opinion on the financial statements as a whole. The schedule of statutory, fidelity and honesty bonds is presented for purposes of additional analysis and is not a required part of the financial statements. Such information 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. The information has been subjected to the auditing procedures applied in the audit of the financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements or to the financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the information is fairly stated in all material respects in relation to the financial statements as a whole on the regulatory basis of accounting described in *Note 1*.

Board of Education
Cherokee Immersion Charter School
District No. T001

Other Information

Our audit was conducted for the purpose of forming an opinion on the financial statements as a whole. The schedule of accountants' professional liability insurance affidavit is presented for purposes of additional analysis and is not a required part of the basic financial statements. Such information 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 April 4, 2017, on our consideration of the School's internal control over financial reporting and 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* in considering the School's internal control over financial reporting and compliance.

BKD, LLP

Tulsa, Oklahoma
April 4, 2017

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

**Statement of Assets, Liabilities and Fund Balance – Regulatory Basis –
All Fund Types
June 30, 2016**

Assets

	<u>General Fund</u>
Due from the Cherokee Nation	\$ 43,682
Total assets	<u>\$ 43,682</u>

Liabilities and Fund Balance

Liabilities

Encumbrances payable	\$ 43,682
Total liabilities	<u>43,682</u>

Fund Credits, Equity and Other

Fund balance	<u>-</u>
Total fund balance	<u>-</u>
Total liabilities and fund balance	<u>\$ 43,682</u>

**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, 2016**

	General Fund
Revenues Collected	
Intergovernmental – Oklahoma State Department of Education	\$ 515,232
Contributions from the Cherokee Nation	1,857,030
Total revenues collected	2,372,262
Expenditures Paid	
Instruction	1,634,466
Support services	205,934
Noninstruction services	531,862
Total expenditures paid	2,372,262
Excess (Deficiency) of Revenues Collected over Expenditures Paid	-
Fund Balance, Beginning of Year	-
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, 2016**

	General Fund		
	Original Budget	Final Budget	Actual
Revenues Collected			
Intergovernmental – Oklahoma State Department of Education	\$ 551,000	\$ 515,232	\$ 515,232
Contributions from the Cherokee Nation	1,922,358	1,958,126	1,857,030
Total revenues collected	<u>2,473,358</u>	<u>2,473,358</u>	<u>2,372,262</u>
Expenditures Paid			
Instruction	1,637,309	1,637,309	1,634,466
Support services	224,481	224,481	205,934
Noninstruction services	611,568	611,568	531,862
Total expenditures paid	<u>2,473,358</u>	<u>2,473,358</u>	<u>2,372,262</u>
Excess (Deficiency) of Revenues Collected over Expenditures Paid	-	-	-
Fund Balance, Beginning of Year	<u>-</u>	<u>-</u>	<u>-</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, 2016

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 and State of Oklahoma's support.

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 and liabilities that are not recorded in the funds because they do not directly affect net expendable available financial resources. The School does not maintain any account group types.

Cherokee Immersion Charter School
District No. T001
Notes to Financial Statements
June 30, 2016

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, 2016, the School only maintained the general fund. Major revenue sources include contributions from the Cherokee 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.

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.

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.
- Accrued compensated absences are recorded as an expenditure and liability when the obligation is 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.

Cherokee Immersion Charter School
District No. T001
Notes to Financial Statements
June 30, 2016

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.

Due from the Cherokee Nation

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

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 in accordance with the OSDE regulatory basis of accounting.

Fund Balance

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

Revenues and Expenditures

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

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

Cherokee Immersion Charter School
District No. T001
Notes to Financial Statements
June 30, 2016

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

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 Cherokee Nation's indirect cost plan. The Cherokee 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, 2016, was 11.85%. 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, 2016, were approximately \$182,000 and \$24,000 related to funds received from the Cherokee Nation and the OSDE, respectively.

The School does not directly own buildings or equipment. These items are owned by the Cherokee Nation. The Cherokee 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, 2016, approximately \$225,000 was charged to the School through the Cherokee Nation's space allocation plan.

Cherokee Immersion Charter School
District No. T001
Notes to Financial Statements
June 30, 2016

Note 3: Oklahoma Cost Accounting System Reporting

The only expenditures included in the Oklahoma Cost Accounting System (OCAS) are instruction expenditures totaling \$1,634,466, 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, 2016. The support services expenditures and noninstruction services expenditures presented in the Statement totaling \$205,934 and \$531,862, respectively, are approved exemptions and are not included in the State’s OCAS reporting.

Note 4: Related Party

The Cherokee 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 Cherokee Nation.

Note 5: Risk Management

The School participates in the Cherokee Nation’s various insurance programs to manage certain exposures from general liability, property and employee health insurance. The Cherokee 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 Cherokee Nation’s self-insured plans. The School was allocated approximately \$20,500 of insurance expense for the year ended June 30, 2016.

Note 6: Federal Awards Received

The School expended approximately \$32,000 of federal awards that were passed through the OSDE for the National School Lunch program under CFDA Number 10.555 for the year ended June 30, 2016. The amount of expenditures is included in the Cherokee Nation’s Schedule of Expenditures of Federal Awards.

Note 7: Subsequent Events

Subsequent events have been evaluated through the date of the Independent Auditor’s Report, which is the date the financial statements were available to be issued.

Supplementary Information

Cherokee Immersion Charter School
District No. T001
Statement of Statutory, Fidelity and Honesty Bonds
Year Ended June 30, 2016

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 #): CRP400269101

Policy Period: October 1, 2015 through October 1, 2016

Policy Limit: \$1,000,000

**Independent Auditor's Report on Internal Control over
Financial Reporting and on Compliance and Other Matters
Based on an Audit of the Financial Statements Performed in
Accordance with *Government Auditing Standards***

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 fund type 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, 2016, and the related notes to the financial statements, which collectively comprise the School's basic financial statements, and have issued our report thereon dated April 4, 2017, 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

Management of the School is responsible for establishing and maintaining effective internal control over financial reporting (internal control). In planning and performing our audit of the financial statements, we considered the School's 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
District No. T001

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*.

We noted certain matters that we reported to the School's management in a separate letter dated April 4, 2017.

Purpose of This Report

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

BKD, LLP

Tulsa, Oklahoma
April 4, 2017

**Cherokee Immersion Charter School
District No. T001
Schedule of Findings and Responses
Year Ended June 30, 2016**

Findings Required to be Reported by *Government Auditing Standards*

**Reference
Number**

Finding

No matters are reportable.

