FINANCIAL STATEMENTS – REGULATORY BASIS
AND REPORTS OF INDEPENDENT AUDITOR

INDEPENDENCE CHARTER MIDDLE SCHOOL
OKLAHOMA COUNTY, OKLAHOMA

JUNE 30, 2012

Audited by

SANDERS, BLEDSOE & HEWETT
CERTIFIED PUBLIC ACCOUNTANTS, LLP

BROKEN ARROW, OK

INDEPENDENCE CHARTER MIDDLE SCHOOL
OKLAHOMA COUNTY, OKLAHOMA
SCHOOL DISTRICT OFFICIALS
JUNE 30, 2012

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INDEPENDENCE CHARTER MIDDLE SCHOOL
OKLAHOMA COUNTY, OKLAHOMA
JUNE 30, 2012

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INDEPENDENT AUDITOR'S REPORT

The Honorable Board of Education
Independence Charter Middle School
Oklahoma City, Oklahoma

We have audited the accompanying fund type and account group financial statements of Independence Charter Middle School (the School), Oklahoma, 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 School'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.

As also discussed in Note 1, the combined financial statements – regulatory basis referred to above do not include the general fixed assets account group. The amount that should be recorded in the general fixed assets account group is not known. If the general fixed assets account group had been included, the amount of the adjustments to the combined financial statements – regulatory basis is not known, but presumed to be material.

In our opinion, because the School's policy is to prepare its combined financial statements on the basis of accounting discussed in the third paragraph, and because of the omission of the general fixed assets account group as discussed in the fourth paragraph, the combined financial statements referred to in the first paragraph do not present fairly, the financial position of the School 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, except for the omission of the general fixed assets account group as discussed in the fourth paragraph, 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 School 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 29, 2013, 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, 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.

Sanders, Bledsoe & Hewett

Sanders, Bledsoe & Hewett
Certified Public Accountants, LLP

March 29, 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
Independence Charter Middle School
Oklahoma City, Oklahoma

We have audited the combined financial statements – regulatory basis of Independence Charter Middle School (the School) Oklahoma City, Oklahoma, as of and for the year ended June 30, 2012, which, except for the omission of the general fixed assets account group, have been prepared on a basis prescribed by the Oklahoma State Department of Education and have issued our report thereon dated March 29, 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 School'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 School's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the School'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 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*.

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 29, 2013

INDEPENDENCE CHARTER MIDDLE SCHOOL
OKLAHOMA COUNTY, OKLAHOMA
DISPOSITION OF PRIOR YEAR'S SIGNIFICANT DEFICIENCIES AND
MATERIAL INSTANCES OF NON-COMPLIANCE
JUNE 30, 2012

There were no prior year significant deficiencies.

INDEPENDENCE CHARTER MIDDLE SCHOOL
OKLAHOMA COUNTY, OKLAHOMA
SCHEDULE OF AUDIT RESULTS, FINDINGS AND QUESTIONED COSTS
JUNE 30, 2012

Section 1 – Summary of Auditor's Results:

1. A qualified 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.

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

INDEPENDENCE CHARTER MIDDLE SCHOOL, OKLAHOMA COUNTY
COMBINED STATEMENT OF ASSETS, LIABILITIES AND FUND EQUITY -
REGULATORY BASIS - ALL FUND TYPES AND ACCOUNT GROUPS
JUNE 30, 2012

	GOVERNMENTAL FUND TYPES	FIDUCIARY FUND TYPES	TOTALS (Memorandum Only)	
ASSETS	GENERAL	EXPENDABLE TRUST AND AGENCY FUND	2012	2011
Cash	$ 290,341	124,655	414,996	402,233
LIABILITIES AND FUND EQUITY				
Liabilities:				
Warrants payable	$ 108,037		108,037	109,397
Encumbrances	4,351		4,351	17,145
Funds held for school organizations		124,655	124,655	86,140
Total liabilities	112,388	124,655	237,043	212,682
Fund Equity:				
Cash fund balances	177,953	0	177,953	189,551
Total Liabilities and Fund Equity	$ 290,341	124,655	414,996	402,233

INDEPENDENCE CHARTER MIDDLE SCHOOL, OKLAHOMA COUNTY
MBINED STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN CASH FUND BALANC
REGULATORY BASIS - ALL GOVERNMENTAL FUND TYPES
FOR THE YEAR ENDED JUNE 30, 2012

	GENERAL FUND	
	2012	2011
Revenues:		
Local sources	$ 60,175	48,284
State sources	153,217	2,496
Federal sources	191,499	331,219
Non-revenue receipts	1,309,516	1,416,302
Total revenues	1,714,407	1,798,301
Expenditures:		
Instruction	1,072,944	1,058,097
Support services	533,882	547,837
Operation of non-instructional services	109,993	115,892
Other outlays	9,304	11,478
Repayments	47	8
Total expenditures	1,726,170	1,733,312
Revenues over (under) expenditures	(11,763)	64,989
Other financing sources (uses):		
Lapsed appropriations	225	
Estopped warrants	59	277
Bank charges	(119)	(1,900)
Total other financing sources (uses)	165	(1,623)
Revenue and other sources over (under) expenditures and other uses	(11,598)	63,366
Cash fund balance, beginning of year	189,551	126,185
Cash fund balance, end of year	$ 177,953	189,551

INDEPENDENCE CHARTER MIDDLE SCHOOL, OKLAHOMA COUNTY
COMBINED STATEMENT OF REVENUES, EXPENDITURES
AND CHANGES IN FUND BALANCES - BUDGET AND ACTUAL -
REGULATORY BASIS - BUDGETED GENERAL FUND
FOR THE YEAR ENDED JUNE 30, 2012

	GENERAL FUND			
	ORIGINAL BUDGET	FINAL BUDGET	ACTUAL	
Revenues:				
Local sources	$ 37,968	37,968	60,175	
State sources	136,388	136,388	153,217	
Federal sources	136,750	136,750	191,499	
Non-revenue receipts	1,251,369	1,251,369	1,309,516	
Total revenues	1,562,475	1,562,475	1,714,407	
Expenditures:				
Instruction	1,097,790	1,097,790	1,072,944	
Support services	533,406	533,406	533,882	
Operation of non-instructional services	109,993	109,993	109,993	
Other outlays	10,790	10,790	9,304	
Repayments	47	47	47	
Total expenditures	1,752,026	1,752,026	1,726,170	↔ OKAY
Revenues over (under) expenditures	(189,551)	(189,551)	(11,763)	
Other financing sources (uses):				
Lapsed appropriations			225	
Estopped warrants			59	
Bank charges			(119)	
Total other financing sources (uses)	0	0	165	
Revenue and other sources over (under) expenditures and other uses	(189,551)	(189,551)	(11,598)	
Cash fund balance, beginning of year	189,551	189,551	189,551	
Cash fund balance, end of year	$ 0	0	177,953	

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The combined financial statements – regulatory basis of Independence Charter Middle School (the School) have been prepared in conformity with another comprehensive basis of accounting required by Oklahoma Statutes. The more significant of the School's accounting policies are described below.

A. Reporting Entity

The School 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 School is part of the public school system of Oklahoma under the general direction and control of the State Board of Education and is financially dependent on State of Oklahoma support. The general operating authority for the public school system is the Oklahoma School Code contained in Title 70, Oklahoma Statutes.

The governing body of the School is the Board of Directors composed of elected members. The appointed director 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.

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – cont'd

B. Fund Accounting

The School 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 school 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).

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

Special Revenue Funds – Special revenue funds include the School's building, co-op and child nutrition funds. The School did not maintain any special revenue funds during the 2011-12 fiscal year.

Building Fund – The building fund consists mainly of monies derived from property taxes levied for the purpose of erecting, remodeling, repairing, or maintaining school buildings and for purchasing furniture, equipment and computer software to be used on or for school property, for paying energy and utility costs, for purchasing telecommunications services, for paying fire

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – cont'd

B. Fund Accounting - cont'd

and casualty insurance premiums for school facilities, for purchasing security systems, and for paying salaries of security personnel.

Co-op Fund – The co-op fund is established when the boards of education of two or more school Schools enter into cooperative agreements and maintain joint programs. The revenues necessary to operate a cooperative program can come from federal, state, or local sources, including the individual contributions of participating school Schools. The expenditures for this fund would consist of those necessary to operate and maintain the joint programs.

Child Nutrition Fund - The child nutrition fund consists of monies derived from federal and state financial assistance and food sales. This fund is used to account for the various nutrition programs provided to students.

Debt Service Fund – The debt service fund is the School's sinking fund and is used to account for the accumulation of financial resources for the payment of general long-term (including judgments) debt principal, interest and related costs. The primary revenue sources are local property taxes levied specifically for debt service and interest earnings from temporary investments. The School did not maintain this fund during the 2011-12 fiscal year.

Capital Projects Fund – The capital projects fund is the School's bond fund and is used to account for the proceeds of bond sales to be used exclusively for acquiring school sites, constructing and equipping new school facilities, renovating existing facilities and acquiring transportation equipment. The School did not maintain this fund during the 2011-12 fiscal year.

Fiduciary Fund Types

Fiduciary funds are used to account for assets held on behalf of outside parties, including other governments, or on behalf of other funds within the School. The terms "non-expendable" and "expendable" refer to whether or not the School is under an obligation to maintain the trust principal. Agency funds generally are used to account for assets that the School holds on behalf of others as their agent and do not involve measurement of results of operation.

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – cont'd

B. Fund Accounting – cont'd

Expendable Trust Funds – Expendable trust funds include the gifts and endowments fund, medical insurance fund, workers compensation fund and the insurance recovery fund. The School did not maintain any expendable trust funds during the 2011-12 school year.

Gifts and Endowments Fund – The gifts and endowments fund receives its assets by way of philanthropic foundations, individuals, or private organizations for which no repayment or special service to the contributor is expected. This fund is used to promote the general welfare of the School.

Medical Insurance Fund – The medical insurance fund accounts for revenues and expenditures for all types of self-funded medical insurance coverage.

Workers Compensation Fund – The workers compensation fund accounts for revenues and expenditures for workers compensation claims.

Insurance Recovery Fund – The insurance recovery fund accounts for all types of insurance recoveries, major reimbursements and reserves for property repairs and replacements.

Agency Fund – The agency fund is the school activities fund which is used to account for monies collected principally through the fundraising efforts of students and School-sponsored groups. The administration is responsible, under the authority of the Board, for collecting, disbursing and accounting for these activity funds.

Account Groups
An account group is not a fund and consists of a self-balancing set of accounts used only to establish accounting control over long-term debt and fixed assets.

General Long-Term Debt Account Group – This account group is established to account for all the long-term debt of the School, which is offset by the amount available in the debt service fund and the amount to be provided in future years to complete retirement of the debt principal. It is also used to account for other liabilities (judgments and lease purchases) which are to be paid from funds provided in future years.

General Fixed Assets Account Group – This account group is used by governments to account for the property, plant and equipment of the school. The School does not have the information necessary to include this group in its financial statements.

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – cont'd

B. Fund Accounting – cont'd

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

C. Basis of Accounting

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 and expendable trust 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 generally accepted accounting principles. Significant differences are as follows:

The School 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 general, building and child nutrition funds record purchases of supplies as expenditures rather than as assets to be expensed when used.

Encumbrances are reported as liabilities. Under generally accepted accounting principles, 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.

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – cont'd

C. Basis of Accounting – cont'd

The School has not maintained a record of general fixed assets and, accordingly, a statement of general fixed assets, as required by generally accepted accounting principles, is not 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 generally accepted accounting principles, capital leases are normally capitalized as a fixed asset and recorded in the general long-term debt account group.

D. Budgets and Budgetary Accounting

The School is required by state law to prepare an annual budget.

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.

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 School. Unencumbered appropriations lapse at the end of each fiscal year. While the Debt Service Fund is a governmental fund, a comparison of budget to actual schedule is not presented in the financial statements since the board can exercise no control of the revenue sources for this fund (except interest earnings), and no control over its expenditures.

E. Assets, Liabilities and Fund Equity

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

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – cont'd

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

Investments – The School 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 School. All investments are recorded at cost, which approximates market value.

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 not presented.

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

Encumbrances – Encumbrances represent commitments related to purchase orders, contracts, other commitments for expenditures or 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 regulatory basis of accounting. While the regulatory basis that is used for the Debt Service Fund approximates full accrual accounting, the accruals recorded are reported to meet regulatory requirements, as opposed to the requirements of generally accepted accounting principles.

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.

Funds Held for School Organizations – Funds held for school organizations represent the funds received or collected from students or other cocurricular and extracurricular activities conducted in the School, control over which is exercised by the board of education. These funds are credited to the account maintained for the benefit of each particular activity within the school activity fund.

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – cont'd

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

Long-Term Debt – Long-term debt is recognized as a liability of a governmental fund when due, or when resources have been accumulated in the debt service fund for payment early in the following year. For other long-term obligations, only that portion expected to be financed from expendable available financial resources is reported as a fund liability of a governmental fund. The remaining portion of such obligations is reported in the general long-term debt account group.

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 – Revenue from local sources is the money generated from within the boundaries of the School and available to the School for its use.

Local sources of revenues include tuition, fees, rentals, disposals, commissions and reimbursements.

Intermediate Revenues - Revenues from intermediate sources are the amounts of money from funds collected by an intermediate administrative unit, or a political subdivision between the School and the state, and distributed to Schools in amounts that differ in proportion to those which are collected within such systems.

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

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.

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

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – cont'd

F. Revenue and Expenditures – cont'd

The aforementioned state revenues are apportioned to the School's general 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 pass through from another government, such as the state.

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

The majority of the federal revenues received by the School are apportioned to the general 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 School, 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.

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.

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – cont'd

F. Revenue and Expenditures – cont'd

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 School 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 School funds.

Interfund Transactions – Quasi-external transactions are accounted for as revenues, expenditures or expenses. Transactions that constitute reimbursements to a fund or expenditures/expenses initially made from it that are properly applicable to another fund, are recorded as expenditures/expenses in the fund that is reimbursed.

All other interfund transactions, except quasi-external transactions and reimbursements, are reported as transfers. Nonrecurring or nonroutine permanent transfers of equity are reported as residual equity transfers. All other interfund transfers are reported as operating transfers. There were no operating transfers or residual equity transfers during the 2011-12 fiscal year.

2. CASH AND INVESTMENTS

The School'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 School.

2. CASH AND INVESTMENTS – cont'd

Cash – The School's bank balance of deposits and cash pools at June 30, 2012, was $415,565. Custodial credit risk is the risk that in the event of a bank failure, the School's deposits may not be returned to it. State statutes require collateral for amounts in excess of federally insured amounts. The School'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 School's third party agent in the School's name.

Investments – At June 30, 2012, the School 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 School 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 School 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 School does not have a formal policy limiting its exposure arising from concentration of investments.

3. INTERFUND RECEIVABLES AND PAYABLES

There were no interfund receivables or payables at June 30, 2012.

4. EMPLOYEE RETIREMENT SYSTEM AND PLAN

Description of Plan

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

4. EMPLOYEE RETIREMENT SYSTEM AND PLAN – cont'd

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

Funding Policy

The School, the State of Oklahoma, and the participating employee make contributions. The contribution rates for the School 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. For the 2011-12 fiscal year, the School contributed 9.5% and the State of Oklahoma contributed the remaining amount during the year. The School is allowed by Oklahoma Teachers' Retirement System to make the required contributions on behalf of the participating members. In addition, if a member's salary is paid in part by federal or private funds, the contribution on that portion of the salary paid by those funds must be matched by the School at 5.12%.

Annual Pension Cost

The School's total contributions for 2012, 2011 and 2010 were $145,506, $148,077 and $144,431, respectively.

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 School 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 School 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 School 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 expended more than $500,000 in federal awards.

The School 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

School officials are not aware of any pending or threatened litigation, claims or assessments or unasserted claims or assessments against the School.

INDEPENDENCE CHARTER MIDDLE SCHOOL, OKLAHOMA COUNTY
COMBINING STATEMENT OF ASSETS, LIABILITIES AND
FUND EQUITY - REGULATORY BASIS - ALL FIDUCIARY FUND TYPES
JUNE 30, 2012

	AGENCY FUNDS	
	ACTIVITY FUNDS	
	2012	2011
ASSETS		
Cash	$ 124,655	86,140
LIABILITIES AND FUND EQUITY		
Liabilities:		
Funds held for school organizations	$ 124,655	86,140

INDEPENDENCE CHARTER MIDDLE SCHOOL, OKLAHOMA COUNTY
COMBINING STATEMENT OF CHANGES IN ASSETS AND LIABILITIES
REGULATORY BASIS - ALL AGENCY FUNDS
FOR THE YEAR ENDED JUNE 30, 2012

Activities	Balance July 1, 2011	Additions	Net Transfers	Deletions	Balance June 30, 2012
General Activity	$ 26,472	11,573	3,999	18,626	23,418
After School Activity	1,000	20,095	(16,724)	3,371	1,000
Art Classroom	1,000	2,831	392	3,064	1,159
Capital Campaign	27,221	82,775	12,053	50,448	71,601
Cheerleading	871	15,739	600	15,574	1,636
Directory	300	175	145	320	300
Fall Picnic	747	670	(492)	425	500
Memorial Fund	2,000	552	1,037	1,589	2,000
PE Uniforms	6,000	7,186	(4,628)	4,558	4,000
Planners	2,500	1,510	(1,276)	1,234	1,500
Student Council	945	5,191	0	5,095	1,041
What's the Word	123	1,538	(366)	1,295	0
Yearbook	5,000	3,372	(2,507)	865	5,000
All Sports Account	7,569	7,114	4,963	12,146	7,500
8th Grade	4,000	5,053	3,196	8,249	4,000
Art Club After School	392	0	(392)	0	0
TOTAL ASSETS - AGENCY FUNDS	$ 86,140	165,374	0	126,859	124,655
LIABILITIES AND FUND EQUITY					
Funds held for school organizations	$ 86,140	165,374	0	126,859	124,655

INDEPENDENCE CHARTER MIDDLE SCHOOL, E-001 OKLAHOMA COUNTY
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
FOR THE YEAR ENDED JUNE 30, 2012

Federal Grantor/Pass Through Grantor/Program Title	Federal CFDA Number	Federal Grantor's/ Pass-through Grantor's Number	Program or Award Amount	Beginning Balance 7/01/2011	Revenue Collected	Total Expenditures	Ending Balance 6/30/2012	Agrees W/ Budget	Sufficient Expenditures
U.S. Department of Education									
Passed Through State Department of Education:									
Title I-Part A, Improving Basic Programs	84.010		$ 37,261		37,261	37,261		x	511
Title I-Part A, Transferability	84.010		5,000		5,000	5,000		x	511
Special Education, Flowthrough, P.L. 105-17	84.027		57,918		57,918	57,918		x	621
Special Education, Flowthrough, P.L. 105-17 - Note 1	84.027			(3,828)	3,828			n/a	621,799
Title II-Part A, Teacher & Principal Training	84.367		12,660		5,372	7,012	(1,640)	x	541
Title II-Part A, Teacher & Principal Training - Note 1	84.367			(5,060)	5,060			n/a	541,799
Title II-Part D, Enh. Educ. Through Tech. - Note 1	84.318			(94)	94			n/a	546,799
Title II-Part D, Enh. Educ. Through Tech. P.D. - Note 1	84.318			(31)	31			n/a	548,799
ARRA Education Stabilization Fund	84.394		40		40	40		x	782
Subtotal			112,879	(9,013)	114,604	107,231	(1,640)		
U.S. Department of Agriculture:									
Passed Through State Department of Education:									
Child Nutrition Cluster:									
Non-Cash Assistance (Commodities):									
National School Lunch Program	10.555				4,175	4,175		n/a	n/a
Non-Cash Assistance Subtotal					4,175	4,175			
Cash Assistance:									
National School Lunch Program	10.555				60,165	60,165		x	763
School Breakfast Program	10.553				16,730	16,730		x	764
Cash Assistance Subtotal				0	76,895	76,895	0		
Total For Program (Cluster)				0	81,070	81,070	0		
Total Federal Assistance			$ 112,879	(9,013)	195,674	188,301	(1,640)		

Note 1 - These amounts represent reimbursements for prior year expenditures which were not received until the current fiscal year.

Note 2 - Commodities received by the District in the amount of $4,175 were of a non-monetary nature and therefore the total revenue does not agree with the financial statements by this amount.

Note 3 - This schedule was prepared on a regulatory basis of accounting consistent with the preparation of the combined financial statements.

INDEPENDENCE CHARTER MIDDLE SCHOOL, OKLAHOMA COUNTY
STATEMENT OF STATUTORY, FIDELITY AND HONESTY BONDS
FOR THE YEAR ENDED JUNE 30, 2012

BONDING COMPANY	POSITION COVERED	POLICY NUMBER	COVERAGE AMOUNT	EFFECTIVE DATES
Old Republic Surety Company	CPA	W150039567	$ 100,000	10/30/11 - 10/30/12
Old Republic Surety Company	Treasurer	W150039663	100,000	10/30/11 - 10/30/12
Old Republic Surety Company	Encumbrance Clerk	W150040149	100,000	10/30/11 - 10/30/12
Old Republic Surety Company	Principal	W150039569	100,000	10/30/11 - 10/30/12

INDEPENDENCE CHARTER MIDDLE SCHOOL, OKLAHOMA COUNTY
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 Independence Charter Middle School – Oklahoma City 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 29th day of March, 2013

_____
Notary Public (or Clerk or Judge)

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