FINANCIAL STATEMENTS – REGULATORY BASIS
AND REPORTS OF INDEPENDENT AUDITOR

INDEPENDENCE CHARTER MIDDLE SCHOOL
OKLAHOMA COUNTY, OKLAHOMA

JUNE 30, 2014

Audited by

SANDERS, BLEDSOE & HEWETT
CERTIFIED PUBLIC ACCOUNTANTS, LLP

BROKEN ARROW, OK

INDEPENDENCE CHARTER MIDDLE SCHOOL
OKLAHOMA COUNTY, OKLAHOMA
SCHOOL DISTRICT OFFICIALS
JUNE 30, 2014

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INDEPENDENCE CHARTER MIDDLE SCHOOL
OKLAHOMA COUNTY, OKLAHOMA
JUNE 30, 2014

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INDEPENDENCE AUDITOR'S REPORT

January 30, 2015

The Honorable Board of Education
Independence Charter Middle School District Number I-089
Oklahoma City, Oklahoma County, Oklahoma

Report on the Financial Statements

We have audited the accompanying combined fund type and account group financial statements – regulatory basis of the Independence Charter Middle School District Number I-089, Oklahoma City, Oklahoma County, Oklahoma (the School), as of and for the year ended June 30, 2014, 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 financial reporting provisions of the Oklahoma State Department of Education. 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. 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.

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

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

As discussed in Note 1, the financial statements are prepared by the School, on the basis of the financial reporting provisions of 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 comply with the requirements of 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 reasonable determined, are presumed to be material.

Adverse Opinion on U.S. Generally Accepted Accounting Principles

In our opinion, because 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 in the first paragraph do not present fairly, in accordance with accounting principles generally accepted in the United States of America, the financial position of the School as of June 30, 2014, the changes in its financial position, or, where applicable, its cash flows for the year then ended.

Basis for Qualified Opinion on Regulatory Basis of Accounting

The financial statements referred to above do not include the general fixed asset account group, which is a departure from the regulatory basis of accounting prescribed by the Oklahoma State Department of Education. The amount that should be recorded in the general fixed asset account group is not known.

Qualified Opinion on Regulatory Basis of Accounting

In our opinion, except for the effects of the matter described in the "Basis for Qualified Opinion on Regulatory Basis of Accounting" Paragraph, the financial statements referred to in the first paragraph present fairly, in all material respects, the assets, liabilities and fund balance arising from regulatory basis transactions of each fund type and account group of the School, as of June 30, 2014, and the revenues collected and expenditures paid and encumbered for the year then ended on the regulatory basis of accounting described in Note 1.

Other Matters

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the School's basic financial statements. The combining statements – regulatory basis, are presented for purposes of additional analysis and are not a required part of the basic financial statements. The schedule of expenditures of federal awards is presented for purposes of additional analysis as required by U.S. Office of Management and Budget Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*, and is also not a required part of the basic financial statements.

The combining statements – regulatory basis and the schedule of expenditures of federal awards are the responsibility of management and were derived from and relate directly to the underlying accounting and other records used to prepare the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic 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 combined statements – regulatory basis and the schedule of expenditures of federal awards are fairly stated in all material respects in relation to the basic financial statements as a whole.

Other Reporting required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated January 30, 2015 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 to 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.

Sanders, Bledsoe & Hewett

Sanders, Bledsoe & Hewett
Certified Public Accounts, LLP

SANDERS, BLEDSOE & HEWETT
CERTIFIED PUBLIC ACCOUNTANTS, LLP

INDEPENDENT AUDITOR'S 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*

January 30, 2015

The Honorable Board of Education
Independence Charter Middle School District Number I-089
Oklahoma City, Oklahoma 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 accompanying fund type and account group financial statements – regulatory basis within the combined financial statements of the Independence Charter Middle School District Number I-089, Oklahoma City, Oklahoma County, Oklahoma (the Schools), as of and for the year ended June 30, 2014, and the related notes to the financial statements, which collectively comprise the School's financial statements, and have issued our report thereon dated January 30, 2015, which was adverse with respect to the presentation of the financial statements in conformity with accounting principles generally accepted in the United States because the presentation followed the regulatory basis of accounting for Oklahoma school districts and did not conform to the presentation requirements of the Governmental Accounting Standards Board. However, our report was qualified for the omission of the general fixed asset account group with respect to the presentation of financial statements on the regulatory basis of accounting authorized by the Oklahoma State Board of Education.

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 opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of School's internal control. Accordingly, we do not express an opinion on the effectiveness of 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 entity'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.

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 agreement, compliance with which could have a direct and material effect on the determination of financial statements 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 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 entity's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

Sanders, Bledsoe & Hewett

Sanders, Bledsoe & Hewett
Certified Public Accounts, LLP

INDEPENDENCE CHARTER MIDDLE SCHOOL
OKLAHOMA COUNTY, OKLAHOMA
DISPOSITION OF PRIOR YEAR'S SIGNIFICANT DEFICIENCIES AND
MATERIAL INSTANCES OF NON-COMPLIANCE
JUNE 30, 2014

There were no prior year significant deficiencies.

INDEPENDENCE CHARTER MIDDLE SCHOOL
OKLAHOMA COUNTY, OKLAHOMA
SCHEDULE OF AUDIT RESULTS, FINDINGS AND QUESTIONED COSTS
JUNE 30, 2014

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, 2014

ASSETS	GOVERNMENTAL FUND TYPES GENERAL	FIDUCIARY FUND TYPES EXPENDABLE TRUST AND AGENCY FUND	TOTALS (Memorandum Only) 2014	2013
Cash	$ 233,119	48,876	281,995	317,063
LIABILITIES AND FUND EQUITY				
Liabilities:				
Warrants payable	$ 90,745		90,745	92,409
Encumbrances	36,593		36,593	2,907
Funds held for school organizations		48,876	48,876	62,745
Total liabilities	127,338	48,876	176,214	158,061
Fund Equity:				
Cash fund balances	105,781	0	105,781	159,002
Total Liabilities and Fund Equity	$ 233,119	48,876	281,995	317,063

INDEPENDENCE CHARTER MIDDLE SCHOOL, OKLAHOMA COUNTY
COMBINED STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN CASH FUND BALANCES
REGULATORY BASIS - ALL GOVERNMENTAL FUND TYPES
FOR THE YEAR ENDED JUNE 30, 2014

	GENERAL FUND	
	2014	2013
Revenues:		
Local sources	$ 208,866	81,582
State sources	2,034	2,274
Federal sources	194,217	219,886
Non-revenue receipts	1,549,556	1,532,526
Total revenues	1,954,673	1,836,268
Expenditures:		
Instruction	1,174,200	1,098,243
Support services	691,207	614,837
Operation of non-instructional services	126,412	141,845
Other outlays	19,097	205
Repayments	0	71
Total expenditures	2,010,916	1,855,201
Revenues over (under) expenditures	(56,243)	(18,933)
Other financing sources (uses):		
Lapsed appropriations		24
Estopped warrants	3,022	106
Bank charges		(148)
Total other financing sources (uses)	3,022	(18)
Revenue and other sources over (under) expenditures and other uses	(53,221)	(18,951)
Cash fund balance, beginning of year	159,002	177,953
Cash fund balance, end of year	$ 105,781	159,002

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, 2014

	GENERAL FUND		
	ORIGINAL BUDGET	FINAL BUDGET	ACTUAL
Revenues:			
Local sources	$ 33,469	33,469	208,866
State sources	158,377	158,377	2,034
Federal sources	204,252	302,849	194,217
Non-revenue receipts	1,361,900	1,361,900	1,549,556
Total revenues	1,757,998	1,856,595	1,954,673
Expenditures:			
Instruction	1,076,200	1,174,797	1,174,200
Support services	695,200	695,200	691,207
Operation of non-instructional services	126,500	126,500	126,412
Other outlays	19,100	19,100	19,097
Total expenditures	1,917,000	2,015,597	2,010,916
Revenues over (under) expenditures	(159,002)	(159,002)	(56,243)
Other financing sources (uses):			
Estopped warrants			3,022
Total other financing sources (uses)	0	0	3,022
Revenue and other sources over (under) expenditures and other uses	(159,002)	(159,002)	(53,221)
Cash fund balance, beginning of year	159,002	159,002	159,002
Cash fund balance, end of year	$ 0	0	105,781

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 2013-14 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 2013-14 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 2013-14 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 2013-14 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, 2014, 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 2013-14 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, 2014, was $282,109. 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, 2014, 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, 2014.

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 2013-14 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 2014, 2013 and 2012 were $168,575, $152,107 and $145,506, respectively.

Ten-year historical trend information is presented in the Teacher's Retirement System of Oklahoma Annual Report for the year ended June 30, 2014. 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 2013-14 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 2013-14 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.

Subsequent Events

Management has evaluated subsequent events through January 30, 2015, which is the date the financial statements were available to be issued, and have determined that no additional information needs to be added to the financial statements.

INDEPENDENCE CHARTER MIDDLE SCHOOL, OKLAHOMA COUNTY
COMBINING STATEMENT OF ASSETS, LIABILITIES AND
FUND EQUITY - REGULATORY BASIS - ALL FIDUCIARY FUND TYPES
JUNE 30, 2014

	AGENCY FUNDS	
	ACTIVITY FUNDS	
	2014	2013
ASSETS		
Cash	$ 48,876	62,745
LIABILITIES AND FUND EQUITY		
Liabilities:		
Funds held for school organizations	$ 48,876	62,745

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, 2014

Activities	Balance July 1, 2013	Additions	Net Transfers	Deletions	Balance June 30, 2014
General Activity	$ 22,293	14,209	5,985	23,425	19,062
After School Activity	1,000	23,748	(11,113)	12,635	1,000
Art Classroom	1,000	2,860	(6)	2,854	1,000
Capital Campaign	4,901	0		2,477	2,424
Directory	300	0	(300)	0	0
Fall Picnic	500	490	74	564	500
Memorial Fund	2,000	650	196	846	2,000
PE Uniforms	4,000	8,426	1,950	10,376	4,000
Planners	1,600	1,336	212	1,548	1,600
Student Council	2,183	5,000		5,585	1,598
Yearbook	5,000	4,768	(28)	4,383	5,357
All Sports Account	13,968	30,666	(45)	38,254	6,335
8th Grade	4,000	5,697	3,074	8,771	4,000
TOTAL ASSETS - AGENCY FUNDS	$ 62,745	97,850	0	111,718	48,876
LIABILITIES AND FUND EQUITY					
Funds held for school organizations	$ 62,745	97,850	0	111,718	48,876

INDEPENDENCE CHARTER MIDDLE SCHOOL, OKLAHOMA COUNTY
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
FOR THE YEAR ENDED JUNE 30, 2014

Federal Grantor/Pass Through Grantor/Program Title	Federal CFDA Number	Federal Grantor's/ Pass-through Grantor's Number	Program or Award Amount	Beginning Balance 7/01/2013	Revenue Collected	Total Expenditures	Ending Balance 6/30/2014
U.S. Department of Education							
Passed Through State Department of Education:							
Title I-Part A, Improving Basic Programs	84.010		$ 53,948		47,543	51,216	3,674
Title II-Part A, Teacher & Principal Training	84.367		5,720			405	405
IDEA-B, Flow Through	84.027		56,033		56,033	56,033	
Subtotal			115,701	0	103,576	107,654	4,079
U.S. Department of Agriculture:							
Passed Through State Department of Education:							
Child Nutrition Cluster:							
Non-Cash Assistance (Commodities):							
National School Lunch Program	10.555						
Non-Cash Assistance Subtotal					0	0	
Cash Assistance:							
National School Lunch Program	10.555				69,203	69,203	
School Breakfast Program	10.553				21,438	21,438	
Cash Assistance Subtotal				0	90,641	90,641	0
Total For Program (Cluster)				0	90,641	90,641	0
Total Federal Assistance			$ 115,701	0	194,217	198,295	4,079

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

Note 2 - 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, 2014

BONDING COMPANY	POSITION COVERED	POLICY NUMBER	COVERAGE AMOUNT	EFFECTIVE DATES
Old Republic Surety Company	CPA	W150039567	$ 100,000	10/30/13 - 10/30/14
Old Republic Surety Company	Treasurer	W150039663	100,000	10/30/13 - 10/30/14
Old Republic Surety Company	Encumbrance Clerk	W150040149	100,000	10/30/13 - 10/30/14
Old Republic Surety Company	Principal	W150039569	100,000	10/30/13 - 10/30/14

INDEPENDENCE CHARTER MIDDLE SCHOOL, OKLAHOMA COUNTY
SCHEDULE OF ACCOUNTANT'S PROFESSIONAL LIABILITY INSURANCE
AFFIDAVIT
JULY 1, 2013 TO JUNE 30, 2014

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 2013-14.

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

By _____
Authorized Agent

Subscribed and sworn to before me
This 30th day of January, 2014

EARLENE HART
NOTARY PUBLIC
IN AND FOR
STATE OF OKLAHOMA
TULSA COUNTY

Earlene Hart
Notary Public (or Clerk or Judge)

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