

**FINANCIAL STATEMENTS – REGULATORY BASIS
AND REPORTS OF INDEPENDENT AUDITOR**

**LANGSTON HUGHES ACADEMY FOR ARTS & TECHNOLOGY
TULSA COUNTY, OKLAHOMA**

JUNE 30, 2018

Audited by

**SANDERS, BLEDSOE & HEWETT
CERTIFIED PUBLIC ACCOUNTANTS, LLP**

BROKEN ARROW, OK

LANGSTON HUGHES ACADEMY FOR ARTS & TECHNOLOGY
TULSA COUNTY, OKLAHOMA
SCHOOL DISTRICT OFFICIALS
JUNE 30, 2018

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LANGSTON HUGHES ACADEMY FOR ARTS & TECHNOLOGY
TULSA COUNTY, OKLAHOMA
JUNE 30, 2018

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LANGSTON HUGHES ACADEMY FOR ARTS & TECHNOLOGY
TULSA COUNTY, OKLAHOMA
JUNE 30, 2018

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SANDERS, BLEDSOE & HEWETT

CERTIFIED PUBLIC ACCOUNTANTS, LLP

INDEPENDENT AUDITOR'S REPORT

The Honorable Board of Education
Langston Hughes Academy for Arts & Technology School District Number G-005
Tulsa, Tulsa County, Oklahoma

Report on the Financial Statements

We have audited the accompanying combined fund type and account group financial statements – regulatory basis of the Langston Hughes Academy for Arts & Technology, School District Number G-005, Tulsa, Tulsa County, Oklahoma (the District), as of and for the year ended June 30, 2018, and the related notes to the financial statements, which collectively comprise the District's basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America, and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the 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 District, 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 District as of June 30, 2018, 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. In addition, the District’s financial statements do not disclose information about matters that raise substantial doubt about its ability to continue as a going concern. On January 24, 2019 The State Board of Education voted to non-accredit the District effective June 30, 2019. The District is currently working on ways in which it can reestablish its accreditation, but there can be no assurance that the District will be successful in accomplishing its objectives. In our opinion, disclosure of that information is required to conform with the regulatory basis of accounting prescribed.

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 District, as of June 30, 2018, and the revenues collected and expenditures paid and encumbered for the year then ended on the regulatory basis of accounting described in Note 1.

Substantial Doubt about the District’s Ability to Continue as a Going Concern

The accompanying financial statements have been prepared assuming that the District will continue as a going concern. The conditions described in the Basis for Qualified Opinion paragraph of this report raise substantial doubt about the District’s ability to continue as a going concern. The financial statements do not include any adjustments that might result from the outcome of this uncertainty. Our opinion is not modified with respect to that matter.

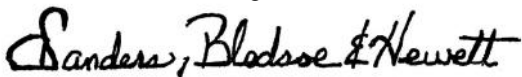
Other Matters

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the District’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 and is 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 combining 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 May 21, 2019 on our consideration of the District’s internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the District’s internal control over financial reporting and compliance.



Sanders, Bledsoe & Hewett
Certified Public Accountants, LLP

May 21, 2019



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

The Honorable Board of Education
Langston Hughes Academy For Arts & Technology District Number G-005
Tulsa, Tulsa 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 Langston Hughes Academy for Arts & Technology District Number G-005, Tulsa, Oklahoma County, Oklahoma (District), as of and for the year ended June 30, 2018, and the related notes to the financial statements, which collectively comprise the District's basic financial statements, and have issued our report thereon dated May 21, 2019, 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 and for the substantial doubt about the District's ability to continue as a going concern.

Internal Control Over Financial Reporting

In planning and performing our audit of the financial statements, we considered the District'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 District's internal control. Accordingly, we do not express an opinion on the effectiveness of District'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 and therefore, material weaknesses or significant deficiencies may exist that were not identified. We did identify certain deficiencies in internal control, described in the accompanying schedule of audit results that we consider to be material weaknesses, as items 2018-1, 2018-2, 2018-3, and 2018-4.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the District's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, non-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 instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards* and which are described in the accompanying schedule of audit results as items, 2018-1, 2018-2, 2018-3, and 2018-4.

District's Response to Findings

The District's response to the findings identified in our audit are described in the attached corrective action plan. The District's responses were not subjected to the auditing procedures applied in the audit on the financial statements and accordingly, we express no opinion on it.

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
Certified Public Accountants, LLP

May 21, 2019

LANGSTON HUGHES ACADEMY FOR ARTS & TECHNOLOGY
TULSA COUNTY, OKLAHOMA
DISPOSITION OF PRIOR YEAR'S SIGNIFICANT DEFICIENCIES AND
MATERIAL INSTANCES OF NON-COMPLIANCE
JUNE 30, 2018

There were no prior year significant deficiencies.

LANGSTON HUGHES ACADEMY FOR ARTS & TECHNOLOGY
TULSA COUNTY, OKLAHOMA
SCHEDULE OF AUDIT RESULTS, FINDINGS AND QUESTIONED COSTS
JUNE 30, 2018

Section 1 – Summary of Auditor’s Results:

1. An adverse opinion was issued on the combined financial statements in conformity with generally accepted accounting principles, and a qualified opinion was issued for the omission of the general fixed asset account group on the combined financial statements in conformity with a regulatory basis of accounting prescribed by the Oklahoma State Department of Education and for the substantial doubt about the District’s ability to continue as a growing concern.
2. The audit disclosed significant deficiencies in the internal controls over financial reporting.
3. The audit disclosed instances of noncompliance which were considered to be material to the financial statements.

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

FINDING 2018-1

Condition: The district has a lack of segregation of duties resulting from a small number of employees performing functions that would normally be divided among employees were a larger number available prevent a proper segregation of accounting.

Criteria: A good system of internal control would provide for the proper segregation of entering information, processing information, issuing of checks and reconciling.

Cause / Effect: Due to a limited number of personnel available to perform the various accounting functions, there is an increased risk that errors or fraud may occur and not be detected in a timely manner.

Recommendation: Although this is an ongoing issue in small school districts, we recommend that the Board implement procedures to segregate key accounting functions, and determine the cost effectiveness of the possible hiring/assigning of personnel to help better segregate accounting functions.

FINDING 2018-2

Condition: Purchase orders in both the general fund and activity fund were in complete disarray. We could not locate several of the purchase orders we selected for examination. During the review of the appropriated and activity fund expenditures that were located, we made the following observations:

- Purchase orders were not always encumbered against available appropriations prior to the obligations being incurred
- Most invoices in the general fund and activity fund were not signed received
- There were purchase orders that did not have adequate documentation or could not be located for review
- There was a purchase order with an original encumbrance of \$3,500, but the final amount paid on the purchase order was over \$22,000, with no change orders approved by the Board

Criteria: All District obligations should be encumbered prior to the actual purchase of materials or services, as required by Oklahoma Statutes. All expenditures should be properly authorized, adequate support be obtained and attached to the purchase order. In addition, all invoices or delivery tickets should be signed and dated when the merchandise is received, as required by Oklahoma Statutes.

Cause / Effect: Proper procedures were not in place over the accounts payable function for both the appropriated and activity fund purchases. This increases the risk that a misappropriation of assets will occur and not be detected whether due to error or fraud. Because some records could not be examined, we could not confirm the legality of all transactions during the 2017-18 fiscal year.

Recommendation: We recommend that the District enforce its policies and procedures which would require that purchase orders be encumbered prior to the obligation being incurred, proper approval of the expenditure, original documentation be obtained, invoices be signed as received, the face of the purchase order reflect the total amount actually paid, and the check number(s) be recorded on the purchase order. In addition, if a purchase order amount will exceed the amount that was originally approved by the Board, a change order should be approved by the Board during a regular meeting.

FINDING 2018-3

Condition: Board minutes for several meetings were not available for examination. We were unable to determine if all of the regularly scheduled or special meetings actually took place, or if they were cancelled due to lack of quorum. The minutes that were available did not provide sufficient detail concerning the business to be transacted. The individual votes of the members were not always recorded and it was not always stated if motions passed or failed.

Criteria: Board meeting agendas and minutes should be permanently kept on file and available for review. Board minutes should also provide sufficient detail concerning the business to be transacted.

Cause / Effect: Because these records could not be examined and were not properly detailed, we were unable to determine if the school district was in compliance with the Open Meeting Law.

Recommendation: We recommend that all board minutes and agenda be properly filed and made available for review and proper documentation should be made if a meeting is cancelled or rescheduled. Further, we recommend that the board of education review the open meeting requirements and follow the applicable procedures detailed therein.

FINDING 2018-4

Condition: We observed during the audit that the District has entered into two separate promissory notes with Arvest Bank. One note was for the purpose of cash flow and the other for the purchase of a school vehicle.

Criteria: While Oklahoma Statutes (O.S. 70 § 3-142), allow a charter school to enter into private contracts for the purposes of borrowing money, the statutes also specifically state that “*in no case may a school district participate in a short-term cash management program in any given fiscal year beyond that fiscal year*” (O.S. 70 § 5-136.1).

Cause / Effect: The District continues to have a shortage of cash flow and has periodically received advances from the bank to help with cash flows. Since these loans were not fully paid by the end of the fiscal year, we believe this to be a violation of Oklahoma Statutes. Further, the balance on these notes exceeded the unassigned fund balance by \$84,816, resulting in a negative general fund balance.

Recommendation: We recommend that District make every effort to pay the balances on these notes as soon as possible. Further, we recommend the Board consult with its attorney regarding the possible liability if these notes are not fully paid by the end of the current fiscal year, June 30, 2019 (see Note 8).

LANGSTON HUGHES ACADEMY FOR ARTS & TECHNOLOGY
 COMBINED STATEMENT OF ASSETS, LIABILITIES AND FUND BALANCE -
 REGULATORY BASIS - ALL FUND TYPES AND ACCOUNT GROUPS
 JUNE 30, 2018

<u>ASSETS</u>	<u>GOVERNMENTAL FUND TYPES</u>	<u>FIDUCIARY FUND TYPES</u>	<u>TOTALS (MEMORANDUM ONLY)</u>
	<u>GENERAL</u>	<u>TRUST AND AGENCY FUNDS</u>	
Cash	\$ 130,676	9,750	140,426
<u>LIABILITIES AND FUND BALANCE</u>			
Liabilities:			
Warrants payable	\$ 127,090		127,090
Funds held for school organizations		9,750	9,750
Notes payable	88,402		88,402
Total Liabilities	<u>215,492</u>	<u>9,750</u>	<u>225,242</u>
Fund Balances:			
Restricted for notes payable	(88,402)		(88,402)
Unassigned	3,586		3,586
Cash fund balances	<u>(84,816)</u>	<u>0</u>	<u>(84,816)</u>
Total Liabilities and Fund Balance	<u>\$ 130,676</u>	<u>9,750</u>	<u>140,426</u>

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

LANGSTON HUGHES ACADEMY FOR ARTS & TECHNOLOGY
 COMBINED STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN CASH FUND BALANCES
 REGULATORY BASIS - ALL GOVERNMENTAL FUND TYPES
 FOR THE YEAR ENDED JUNE 30, 2018

	GENERAL FUND
Revenues:	
Local sources	\$ 85,709
State sources	1,012,070
Federal sources	121,332
Non-revenue receipts	91,418
Total revenues	1,310,529
Expenditures:	
Instruction	529,297
Support services	693,271
Operation of non-instructional services	81,711
Other outlays:	
Reimbursement	8,600
Total expenditures	1,312,879
Revenues over (under) expenditures	(2,350)
Other financing sources (uses):	
Estopped warrants	1,243
Total other financing sources (uses)	1,243
Revenue and other sources over (under) expenditures and other uses	(1,107)
Cash fund balance, beginning of year	4,693
Restricted fund balance adjustment for notes payable - see note 4	(88,402)
Cash fund balance, end of year	\$ (84,816)

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

LANGSTON HUGHES ACADEMY FOR ARTS & TECHNOLOGY
 COMBINED STATEMENT OF REVENUES, EXPENDITURES
 AND CHANGES IN FUND BALANCES - BUDGET AND ACTUAL -
 REGULATORY BASIS - ALL GOVERNMENTAL FUND TYPES
 FOR THE YEAR ENDED JUNE 30, 2018

	GENERAL FUND		
	ORIGINAL BUDGET	FINAL BUDGET	ACTUAL
Revenues:			
Local sources	\$ 0	0	85,709
State sources	870,853	1,054,254	1,012,070
Federal sources	173,329	173,329	121,332
Non-revenue receipts	0	84,189	91,418
Total revenues	1,044,182	1,311,772	1,310,529
Expenditures:			
Instruction	261,707	529,297	529,297
Support services	694,481	694,481	693,271
Operation of non-instructional services	83,587	83,587	81,711
Other outlays:			
Reimbursement	9,100	9,100	8,600
Total expenditures	1,048,875	1,316,465	1,312,879
Revenues over (under) expenditures	(4,693)	(4,693)	(2,350)
Other financing sources (uses):			
Estopped warrants			1,243
Total other financing sources (uses)	0	0	1,243
Revenue and other sources over (under) expenditures and other uses	(4,693)	(4,693)	(1,107)
Cash fund balance, beginning of year	4,693	4,693	4,693
Restricted fund balance adjustment for notes payable - see note 4	0	0	(88,402)
Cash fund balance, end of year	\$ 0	0	(84,816)

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

LANGSTON HUGHES ACADEMY FOR ARTS & TECHNOLOGY, TULSA COUNTY
NOTES TO THE COMBINED FINANCIAL STATEMENTS – REGULATORY BASIS
FOR THE YEAR ENDED JUNE 30, 2018

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The accompanying financial statements of the Langston Hughes Academy For Arts & Technology District No. G-005 (the “District”), have been prepared in conformity with another comprehensive basis of accounting prescribed by the Oklahoma State Department of Education as authorized by Oklahoma Statutes. Accordingly, the accompanying financial statements are not intended to present financial position and results of operations in conformity with the accounting principles generally accepted in the United States of America. The District’s accounting policies are described in the following notes that are an integral part of the District’s financial statements.

A. Reporting Entity

The District was formed under provisions of the Oklahoma Charter Schools Act through a contract with Langston University as its sponsoring school. The District is a corporate body for public purposes created under Title 70 of the Oklahoma Statutes and accordingly is a separate entity for operating and financial reporting purposes. The District is part of the public school system of Oklahoma under the general direction and control of the State Board of Education and is financially Independent on State of Oklahoma support. The general operating authority for the public school system is the Oklahoma School Code contained in Title 70, Oklahoma Statutes.

The governing body of the District is the Board of Education composed of seven elected members. The appointed superintendent is the executive officer of the District. The Board, constituting an on-going entity, is the level of government, which has governance responsibilities over all activities, related to public elementary and secondary school education within the jurisdiction of the local Independent school district. The District receives funding from local, state and federal government sources and must comply with the requirements of these funding source entities. However, the District is not included in any other governmental “reporting entity” as defined in Section 2100, Codification of Governmental Accounting and Financial Reporting Standards, since Board members are elected by the public and have decision making authority, the power to designate management, the responsibility to significantly influence operations and primary accountability for fiscal matters.

In evaluating how to define the District, for financial reporting purposes, management has considered all potential component units. The decision to include a potential component unit in the reporting entity was made by applying the criteria established by the Governmental Accounting Standards Board (GASB). The basic – but not the only – criterion for including a potential component unit within the reporting entity is the governing body’s ability to exercise oversight responsibility. The most significant manifestation of this ability is financial interdependency. Other manifestations of the ability to exercise oversight responsibility include, but are not limited to, the selection of governing authority, the

LANGSTON HUGHES ACADEMY FOR ARTS & TECHNOLOGY, TULSA COUNTY
NOTES TO THE COMBINED FINANCIAL STATEMENTS – REGULATORY BASIS
FOR THE YEAR ENDED JUNE 30, 2018

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – cont'd

A. Reporting Entity – cont'd

designation of management, the ability to significantly influence operations and accountability for fiscal matters. A second criterion used in evaluating potential component units is the scope of public service. Application of this criterion involves considering whether the activity benefits the District and/or its citizens, or whether the activity is conducted within the geographic boundaries of the District and is generally available to its patrons. A third criterion used to evaluate potential component units for inclusion or exclusion from the reporting entity is the existence of special financing relationships, regardless of whether the District is able to exercise oversight responsibilities. Based upon the application of these criteria, there are no potential component units included in the District's reporting entity.

B. Measurement Focus

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

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

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

Governmental Fund Types

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

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.

LANGSTON HUGHES ACADEMY FOR ARTS & TECHNOLOGY, TULSA COUNTY
NOTES TO THE COMBINED FINANCIAL STATEMENTS – REGULATORY BASIS
FOR THE YEAR ENDED JUNE 30, 2018

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – cont'd

B. Measurement Focus - cont'd

Special Revenue Funds – Special revenue funds account for revenue sources that are restricted to expenditures for specific purposes. The special revenue funds typically include the building, co-op and child nutrition funds. The District did not maintain any Special Revenue Funds during the 2017-18 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 district property, for paying energy and utility costs, for purchasing telecommunications services, for paying fire 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 districts 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 districts. 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. The School operates their child nutrition program within the general fund.

Debt Service Fund – The debt service fund is the District'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 District did not maintain this fund during the 2017-18 fiscal year.

Capital Projects Fund – The capital projects fund is the District'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 District did not maintain this fund during the 2017-18 fiscal year.

LANGSTON HUGHES ACADEMY FOR ARTS & TECHNOLOGY, TULSA COUNTY
NOTES TO THE COMBINED FINANCIAL STATEMENTS – REGULATORY BASIS
FOR THE YEAR ENDED JUNE 30, 2018

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – cont'd

B. Measurement Focus – cont'd

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 District. The terms “non-expendable” and “expendable” refer to whether or not the District is under an obligation to maintain the trust principal. Agency funds generally are used to account for assets that the District holds on behalf of others as their agent and do not involve measurement of results of operation.

Expendable Trust Funds – Expendable trust funds typically include the gifts and endowments fund. The District did not maintain any expendable trust funds during the 2017-18 fiscal 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 District.

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 District-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 District, 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 district. The District does not have the information necessary to include this group in its financial statements.

LANGSTON HUGHES ACADEMY FOR ARTS & TECHNOLOGY, TULSA COUNTY
NOTES TO THE COMBINED FINANCIAL STATEMENTS – REGULATORY BASIS
FOR THE YEAR ENDED JUNE 30, 2018

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – cont’d

B. Measurement Focus – 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 accounting principles generally accepted in the United States. Neither is such data comparable to a consolidation. Interfund eliminations have not been made in the aggregation of this data.

C. Basis of Accounting and Presentation

The District prepares its financial statements in a presentation format that is prescribed by the Oklahoma State Department of Education. This format is essentially the generally accepted form of presentation used by state and local governments prior to the effective date of GASB Statement No. 34, *Basic Financial Statements – Management’s Discussion and Analysis for State and Local Governments* with certain modifications. This format differs significantly from that required by GASB 34.

The financial statements are essentially prepared on the basis of cash receipts and disbursements modified as required by the regulations of the Oklahoma State Department of Education as follows:

- Encumbrances represented by purchase orders, contracts, and other commitments for the expenditure of monies are recorded as expenditures when approved.
- Investments are recorded as assets when purchased.
- Inventories of school supplies are recorded as expenditures and not as inventory assets.
- Warrants payable are recorded as liabilities when issued.
- Long-term debt is recorded in the General Long-Term Debt Account Group and not in the basic financial statements.
- Compensated absences are recorded as expenditures when paid and not recorded as a liability.
- Fixed assets are recorded in the General Fixed Asset Account Group and not in the basic financial statements. Fixed assets are not depreciated.

This regulatory basis of accounting differs from accounting principles generally accepted in the United States of America, which require revenues to be recognized when they become available and measurable, or when they are earned, and expenditures or expenses to be recognized when the related liabilities are incurred for governmental fund types; and, when revenues are earned.

LANGSTON HUGHES ACADEMY FOR ARTS & TECHNOLOGY, TULSA COUNTY
NOTES TO THE COMBINED FINANCIAL STATEMENTS – REGULATORY BASIS
FOR THE YEAR ENDED JUNE 30, 2018

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – cont’d

C. Basis of Accounting and Presentation – cont’d

Basis of accounting refers to when revenues and expenditures are recognized in the accounts and reported in the financial statements. Basis of accounting relates to the timing of the measurements made, regardless of the measurement focus applied. All governmental type funds are accounted for using the regulatory basis of accounting. Revenues are recognized when they are received rather than earned and expenditures are generally recognized when encumbered/reserved rather than at the time the related fund liability is incurred. These practices differ from accounting principles generally accepted in the United States.

D. Budgets and Budgetary Accounting

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

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

The District added the following appropriations during the 2017-18 fiscal year:

<u>Fund</u>	<u>Amount</u>
General	\$267,590

These additions were approved by the County Excise Board.

Encumbrances represent commitments related to unperformed contracts for goods or services. Encumbrance accounting – under which purchase orders and other commitments of resources are recorded as expenditures of the applicable fund – is utilized in all governmental funds of the District. Unencumbered appropriations lapse at the end of each fiscal year. While the Debt Service Fund is a governmental fund, a comparison of budget to actual schedule is presented in the financial statements, although the board can exercise no control of the revenue sources for this fund (except interest earnings), and no control over its expenditures.

LANGSTON HUGHES ACADEMY FOR ARTS & TECHNOLOGY, TULSA COUNTY
NOTES TO THE COMBINED FINANCIAL STATEMENTS – REGULATORY BASIS
FOR THE YEAR ENDED JUNE 30, 2018

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – cont'd

E. Assets, Liabilities and Fund Balance

Cash and cash equivalents – The District considers all cash on hand, demand deposit accounts, and highly liquid investments, with an original maturity of three months or less when purchased, to be cash and cash equivalents.

Investments – The District considers investments of direct obligations of the United States government and agencies, certificates of deposits, savings accounts or savings certificates with maturities of greater than three months. All investments are recorded at cost, which approximates market value.

Inventories – The value of consumable inventories at June 30, 2018, is not material to the combined financial statements.

Fixed Assets and Property, Plant and Equipment – The District has not maintained a record of general fixed assets, and, accordingly, a General Fixed Assets Account Group required by the regulatory basis of accounting prescribed by the Oklahoma State Department of Education is not included in the financial statements. General fixed assets purchased are recorded as expenditures in the various funds at the time of purchase.

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

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

Compensated Absences – The District provides vacation and sick leave benefits in accordance with Title 70 of the Oklahoma Statutes, Article 6-104, which provides for annual sick leave and personal business days. District policy allows certified employees to accumulate such days to a maximum number of days. Vested or accumulated vacation leave that is expected to be liquidated with expendable available financial resources had not been reported as an expenditure of the governmental fund that will pay it since the financial statements have been prepared on the regulatory basis of accounting. This practice differs from generally accepted accounting principles.

LANGSTON HUGHES ACADEMY FOR ARTS & TECHNOLOGY, TULSA COUNTY
NOTES TO THE COMBINED FINANCIAL STATEMENTS – REGULATORY BASIS
FOR THE YEAR ENDED JUNE 30, 2018

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – cont'd

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

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 District, 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.

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.

Fund Balance – In the fund financial statements, governmental funds report the hierarchy of fund balances. The hierarchy is based primarily on the degree of spending constraints placed upon use of resources for specific purposes versus availability of appropriation. An important distinction that is made in reporting fund balance is between amounts that are considered *nonspendable* (i.e., fund balance associated with assets that are not in spendable form, such as inventories or prepaid items, long-term portions of loans and notes receivable, or items that are legally required to be maintained intact (such as the corpus of a permanent fund)) and those that are *spendable* (such as fund balance associated with cash, investments or receivables).

Amount in the spendable fund balance category are further classified as *restricted*, *committed*, *assigned* or *unassigned*, as appropriate.

Restricted fund balance represents amounts that are constrained either externally by creditors (such as debt covenants), grantors, contributors or laws or regulations of other governments; or by law, through constitutional provisions or enabling legislation.

Committed fund balance represents amounts that are useable only for specific purposes by formal action of the government's highest level of decision-making authority. Such amounts are not subject to legal enforceability (like restricted amounts), but cannot be used for any other purpose unless the government removes or changes the limitation by taking action similar to that which imposed the commitment.

LANGSTON HUGHES ACADEMY FOR ARTS & TECHNOLOGY, TULSA COUNTY
NOTES TO THE COMBINED FINANCIAL STATEMENTS – REGULATORY BASIS
FOR THE YEAR ENDED JUNE 30, 2018

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – cont'd

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

Assigned fund balance represents amounts that are intended to be used for specific purposes, but are neither restricted nor committed. Intent is expressed by the governing body itself, or a subordinated high-level body or official who the governing body has delegated the authority to assign amounts to be used for specific purposes. Assigned fund balances include all remaining spendable amounts (except negative balances) that are reported in governmental funds other than the general fund, that are neither restricted nor committed, and amounts in the general fund that are intended to be used for specific purposes in accordance with the provisions of the standard.

Unassigned fund balance is the residual classification for the general fund. It represents the amounts that have not been assigned to other funds, and that have not been restricted, committed, or assigned to specific purposes within the general fund.

F. Revenue and Expenditures

Local Revenues – Revenue from local sources is the money generated from within the boundaries of the District and available to the District for its use. The District is authorized by state law to levy property taxes which consist of ad valorem taxes on real and personal property within the District. These property taxes are distributed to the District's general, building and sinking funds based on the levies approved for each fund. The County Assessor, upon receipt of the certification of tax levies from the county excise board, extends the tax levies on the tax rolls for submission to the county treasurer prior to October 1. The county treasurer must commence tax collection within fifteen days of receipt of the tax rolls. The first half of taxes is due prior to January 1. The second half is due prior to April 1. If the first payment is not made in a timely manner, the entire tax becomes due and payable on January 2. Second half taxes become delinquent on April 1, of the year following the year of assessment. If not paid by the following October 1, the property is offered for sale for the amount of taxes due. The owner has two years to redeem the property by paying the taxes and penalty owed. If at the end of two years the owner has not done so, the purchaser is issued a deed to the property. Other local sources of revenues include tuition, fees, rentals, disposals, commissions and reimbursements.

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

LANGSTON HUGHES ACADEMY FOR ARTS & TECHNOLOGY, TULSA COUNTY
NOTES TO THE COMBINED FINANCIAL STATEMENTS – REGULATORY BASIS
FOR THE YEAR ENDED JUNE 30, 2018

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – cont'd

F. Revenue and Expenditures – cont'd

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 districts based on information accumulated from the Districts.

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 District receives revenue from the state to administer certain categorical educational programs. State Board of Education rules require that revenue earmarked for these programs be expended only for the program for which the money is provided and require that the money not expended as of the close of the fiscal year be carried forward into the following year to be expended for the same categorical programs. The State Department of Education requires that categorical educational program revenues be accounted for in the 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 passthrough from another government, such as the state. Entitlement is the amount of payment to which the District is entitled pursuant to an allocation formula contained in applicable statutes. The majority of the federal revenues received by the District are apportioned to the general fund. The District maintains a separate child nutrition fund and the federal revenues received for the child nutrition programs are apportioned there.

Non-Monetary Transactions – Some school districts receive commodities from the U.S. Department of Agriculture. The value of these commodities has been included in the Schedule of Expenditures of Federal Awards; however, they have not been included in the financial statements as either revenue or expense since they are not reported under the regulatory basis of accounting.

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

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

LANGSTON HUGHES ACADEMY FOR ARTS & TECHNOLOGY, TULSA COUNTY
NOTES TO THE COMBINED FINANCIAL STATEMENTS – REGULATORY BASIS
FOR THE YEAR ENDED JUNE 30, 2018

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – cont'd

F. Revenue and Expenditures – cont'd

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.

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

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

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

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

LANGSTON HUGHES ACADEMY FOR ARTS & TECHNOLOGY, TULSA COUNTY
NOTES TO THE COMBINED FINANCIAL STATEMENTS – REGULATORY BASIS
FOR THE YEAR ENDED JUNE 30, 2018

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – cont’d

F. Revenue and Expenditures – cont’d

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 was no interfund transfers during the 2017-18 fiscal year.

2. CASH AND INVESTMENTS

Custodial Credit Risk – Custodial credit risk is the risk that in the event of a bank failure, the District’s deposits may not be returned to the District. The District’s cash deposits and investments at June 30, 2018, were \$140,271, at financial institutions, and were completely insured or collateralized by federal depository insurance, direct obligations of the U.S. Government, or securities held by the District or by its agent in the District’s name.

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

Investment Credit risk – Credit risk is the risk that the issuer or other counterparty to an investment will not fulfill its obligations. The District does not have a formal policy limiting its investment choices, other than the limitation of state law as follows:

- Direct obligations of the U.S. Government, its agencies and instrument to which the full faith and credit of the U.S. Government is pledged, or obligations to the payment of which the full faith and credit of the State is pledged.
- Certificates of deposit or savings accounts that are either insured or secured with acceptable collateral with in-state financial institutions, and fully insured certificates of deposit or savings accounts in out-of-state financial institutions.
- With certain limitation, negotiable certificates of deposit, prime bankers acceptances, prime commercial paper and repurchase agreements with certain limitations.

LANGSTON HUGHES ACADEMY FOR ARTS & TECHNOLOGY, TULSA COUNTY
 NOTES TO THE COMBINED FINANCIAL STATEMENTS – REGULATORY BASIS
 FOR THE YEAR ENDED JUNE 30, 2018

2. CASH AND INVESTMENTS – cont’d

- County, municipal or school district tax supported debt obligations, bond or revenue anticipation notes, money judgments, or bond or revenue anticipation notes of public trusts whose beneficiary is a county, municipality or school district.
- Notes or bonds secured by mortgage or trust deed insured by the Federal Housing Administrator and debentures issued by the Federal Housing Administrator, and in obligations of the National Mortgage Association.
- Money market funds regulated by the SEC and in which investments consist of the investments mentioned in the previous bullet items.

Concentration of Investment Credit Risk – The District places no limit on the amount it may invest in any one issuer.

3. INTERFUND RECEIVABLES AND PAYABLES

There were no interfund receivables or payables at June 30, 2018.

4. NOTES PAYABLE

State statutes prohibit the District from becoming indebted in an amount exceeding the revenue to be received for any fiscal year without approval by the District’s voters.

General debt of the District consists of two promissory notes. Since these notes were not paid in full prior to year-end, an adjustment was made to the financial statements to reflect the amount that is restricted in order to pay the balance on these notes.

The following is a summary of the debt transactions of the District for the year ended June 30, 2018:

	Note No. 4358635	Note No. 4383407	Total
Balance, July 1, 2017	\$ 55,000	0	55,000
Additions	120,350	45,371	165,721
Deductions	(125,000)	(7,319)	(132,319)
Balance, June 30, 2018	\$ 50,350	38,052	88,402

LANGSTON HUGHES ACADEMY FOR ARTS & TECHNOLOGY, TULSA COUNTY
 NOTES TO THE COMBINED FINANCIAL STATEMENTS – REGULATORY BASIS
 FOR THE YEAR ENDED JUNE 30, 2018

4. NOTES PAYABLE – cont’d

A brief description of the outstanding debt at June 30, 2018, is set forth below:

	<u>Amount Outstanding</u>
<u>Promissory Note and Security Agreements:</u>	
Loan agreement 4358635 for cash management, dated 10-21-16, issue \$150,000, interest rate of 6.0%, due in installments dependent on amount outstanding	\$ 50,350
Loan agreement for a vehicle, dated 7-14-17, original issue \$45,371, interest rate of 6.00%, due in monthly installments of \$879, final payment due 7-14-22	<u>8,052</u>
Total	<u>\$ 88,402</u>

Interest paid on debt incurred during the 2017-18 fiscal year totaled \$6,553.

5. EMPLOYEE RETIREMENT SYSTEM

The District did not participate in the state-administered Oklahoma Teachers’ Retirement System or any other retirement program during the 2017-18 fiscal year.

6. RISK MANAGEMENT

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

LANGSTON HUGHES ACADEMY FOR ARTS & TECHNOLOGY, TULSA COUNTY
NOTES TO THE COMBINED FINANCIAL STATEMENTS – REGULATORY BASIS
FOR THE YEAR ENDED JUNE 30, 2018

7. CONTINGENCIES

Federal Grants

Amounts received or receivable from grant agencies are subject to audit and adjustment by grantor agencies. Any disallowed claims, including amounts already collected, may constitute a liability of the applicable funds. The amounts, if any, of expenditures which may be disallowed by the grantor cannot be determined at this time, although the District expects such amounts, if any, to be immaterial.

Schedule of Expenditure of Federal Awards

The schedule shows the federal awards received and expended by the District during the 2017-18 fiscal year. The revised Uniform Guidance Audits of States, Local Governments and Non-Profit Organizations, established uniform audit requirements for nonfederal entities which expended more than \$750,000 in federal awards.

The District did not fall under this threshold during the 2017-18 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 District.

8. GOING CONCERN

On January 24, 2019 The State Board of Education voted to non-accredit the District effective June 30, 2019. The District is currently working on ways in which it can reestablish its accreditation, but there can be no assurance that the District will be successful in accomplishing its objectives. In our opinion, disclosure of that information is required to conform with the regulatory basis of accounting prescribed.

9. NEGATIVE FUND BALANCE

As described in Note 4, an adjustment was made to the financials in order to disclose the amounts outstanding on the District's two promissory notes. Since the District did not have a larger enough unassigned fund balance, this disclosure has caused a deficit in the District's total fund balances.

LANGSTON HUGHES ACADEMY FOR ARTS & SCIENCE, TULSA COUNTY
 COMBINING STATEMENT OF CHANGES IN ASSETS AND LIABILITIES -
 AGENCY FUNDS - REGULATORY BASIS
 FOR THE YEAR ENDED JUNE 30, 2018

	<u>BALANCE</u> 7-01-17	<u>ADDITIONS</u>	<u>NET</u> <u>TRANSFERS</u>	<u>DEDUCTIONS</u>	<u>BALANCE</u> 6-30-18
<u>ASSETS</u>					
Cash	\$ 94	30,583	0	20,927	9,750
<u>LIABILITIES</u>					
Funds held for school organizations:					
Basketball	\$ 85	93		0	178
Student Council	0	184		0	184
Cheerleading	0	75		0	75
Track	0	50		170	(120)
Football	0	1,173		815	358
General Activity	0	29,008		19,373	9,635
Black Flower Society	9	0		569	(560)
Total Liabilities	<u>\$ 94</u>	<u>30,583</u>	<u>0</u>	<u>20,927</u>	<u>9,750</u>

LANGSTON HUGHES ACADEMY FOR ARTS & TECHNOLOGY, TULSA COUNTY
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
FOR THE YEAR ENDED JUNE 30, 2018

<u>Federal Grantor/Pass Through Grantor/Program Title</u>	<u>Federal CFDA Number</u>	<u>Federal Grantor's/ Pass-through No.</u>	<u>Program or Award Amount</u>	<u>Balance at 7/01/2017</u>	<u>Revenue Collected</u>	<u>Total Expenditures</u>	<u>Balance at 6/30/2018</u>
<u>U.S. Department of Education</u>							
<u>Passed Through State Department of Education:</u>							
Title I-Part A, Improving Basic Programs	84.010		\$ 52,941		35,140	50,406	15,266
Title I-Part A, 2016-17 - Note	84.010			1,091	1,091		
Title II-Part A, Teacher & Principal Training	84.367		9,472		9,472	9,472	
IDEA-B, Flow Through	84.027		27,036		27,036	27,036	
Subtotal			89,449	1,091	72,739	86,914	15,266
<u>Passed Through State Department of Education:</u>							
Child Nutrition Cluster:							
Cash Assistance:							
National School Lunch Program	10.555				33,746	33,746	
School Breakfast Program	10.553				14,847	14,847	
Total For Program (Cluster)				0	48,593	48,593	0
Total Federal Assistance			\$ 89,449	1,091	121,332	135,507	15,266

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

Note 1 - Basis of Presentation - The accompanying schedule of expenditures of federal awards includes the federal activity of the District for the year ended June 30, 2018. This information is presented in accordance with the requirements of Title 2 U.S. Code of Federal Regulations Part 200, Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards (Uniform Guidance). Because the schedule presents only a selected portion of the operations of the District, it is not intended and does not present the financial position, changes in net assets, or cash flows of the District.

Note 2 - Summary of Significant Accounting Policies - Expenditures reported on this schedule are reported on the regulatory basis of accounting consistent with the preparation of the combined financial statements except as noted in Note 3. Expenditures are recognized following the cost principles contained in the Uniform Guidance, wherein certain types of expenditures are not allowable or are limited as to reimbursement. The District has elected not to use the 10 percent de minimus indirect cost rate allowed under the Uniform Guidance.

LANGSTON HUGHES ACADEMY FOR ARTS & TECHNOLOGY, TULSA COUNTY
STATEMENT OF STATUTORY, FIDELITY AND HONESTY BONDS
FOR THE YEAR ENDED JUNE 30, 2018

BONDING COMPANY	POSITION COVERED	POLICY NUMBER	COVERAGE AMOUNT	EFFECTIVE DATES
Travelers Insurance Company	Superintendent	106344366	\$ 100,000	7/1/17 - 7/1/18
	Treasurer	106344366	100,000	7/1/17 - 7/1/18
	Encumbrance Clerk	106344366	1,000	7/1/17 - 7/1/18
	Minutes Clerk	106344366	1,000	7/1/17 - 7/1/18

LANGSTON HUGHES ACADEMY FOR ARTS & TECHNOLOGY, TULSA COUNTY
SCHEDULE OF ACCOUNTANT'S PROFESSIONAL LIABILITY INSURANCE
AFFIDAVIT
JULY 1, 2017 TO JUNE 30, 2018

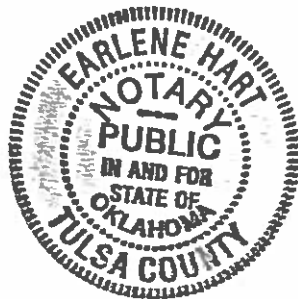
State of Oklahoma)
) ss
County of Tulsa)

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 Langston Hughes Academy for Arts & Technology for the audit year 2017-18.

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

By 
Authorized Agent

Subscribed and sworn to before me
This 21st day of May, 2019




Notary Public (or Clerk or Judge)

My Commission Expires: 5/19/2020
Commission No. 00008621



SANDERS, BLEDSOE & HEWETT
CERTIFIED PUBLIC ACCOUNTANTS, LLP

Stephen H. Sanders, CPA (ret.)
Eric M. Bledsoe, CPA
Jeffrey D. Hewett, CPA
Christopher P. Gullekson, CPA

P.O. BOX 1310 • 101 N. MAIN ST. • BROKEN ARROW, OK 74013 • (918) 449-9991 • (800) 522-3831 • FAX (918) 449-9779

May 21, 2019

Dr. Libby Adjei, Superintendent
Langston Hughes Academy for Arts & Technology
1821 E 66th St N
Tulsa, Oklahoma 74130

Dear Dr. Adjei:

Listed below are additional audit exceptions and recommendations from the final audit work we performed for you. These items may not be referred to in your audit report. Please review them very carefully, along with the review copy of your audit report. If you have questions or desire additional information, please call us so that any discrepancies may be resolved.

Activity Fund

During the audit, we observed that there is a weakness in the activity fund receipting procedures. Currently, there is not a clear audit trail from when collections are made to the corresponding bank deposit. We recommend that all activity funds collected be receipted in pre-numbered receipt books, with a receipt copy being issued to any student or patron from whom money is received, and all receipt books be kept on file for review. Further, we recommend that sponsor receipt books be checked in/out to sponsors at the beginning/end of each year and a log be used to record the checking in/out of receipt books. In addition, when sponsors turn over daily collections to the activity fund custodian, the sponsor should be issued a receipt. We recommend that the activity fund collection/receipts processes and procedures be reexamined and improved upon. Stronger internal controls will limit the District's risk to lost or stolen funds, in addition to ensuring that collections are being deposited in a timely manner.

Child Nutrition

We observed during the audit of the Child Nutrition Programs that the March, April, and May claims for reimbursement were not submitted to the Child Nutrition Division of the State Department of Education. This resulted in federal lunch and breakfast reimbursements not being received.

Deficit Sub-Account Balance

We observed during the audit that the Track sub-account and the Black Flower Society sub-account showed a deficit balance at June 30, 2018. We recommend that the student activity fund sub-accounts be maintained with a balance no less than -0- , as required by the State Department of Education.

Employment Contracts

We observed during the audit that there were a few employees for whom a contract was not prepared or could not be located for audit. We recommend that contracts be prepared for all certified, support and administrative personnel, as required by Oklahoma Statutes.

Surety Bonds

It appears that surety bond coverage was not obtained for the activity fund custodian during the 2017-2018 fiscal year, as required by Oklahoma Statutes. We recommend that surety bond coverage be obtained as soon as possible for all custodial positions, with each position stating the name of the person that is covered. It does appear that the activity fund custodian was added to a schedule position bond during the 2018-19 fiscal year.

Ongoing Allegations

During the current 2018-19 fiscal year, there were numerous allegations of fraud, grade tampering, student safety, security, special education, child nutrition, Open Meetings Act violations, and more that were brought against the District. The Oklahoma State Board of Education placed the District on probation in July, 2018 and, on January 24, 2019, voted to non-accredit the District effective June 30, 2019. Although, most of these concerns were for the 2018-19 fiscal year, they resulted in a going concern qualification in our 2017-18 audit report and show an immediate need to restructure internal controls, policies, and procedures. There were numerous staff suspensions and changes in administrative positions as a result of these allegations. All current school personnel should be educated on all applicable laws, rules, and regulations. We recommend that, should the District remain open for the 2019-20 fiscal year, all staff member received appropriate training and corrective action be implemented to correct all of these concerns.

We take this opportunity to thank you and your professional staff for the outstanding cooperation and invaluable assistance you gave us during our recent onsite audit work.

Sincerely,

A handwritten signature in black ink, appearing to read "Chris Gullekson", written over a faint, illegible background.

Christopher P. Gullekson

For

Sanders, Bledsoe & Hewett
Certified Public Accountants, LLP