

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

**OKLAHOMA SKYNET, INC.
dba
OKLAHOMA VIRTUAL CHARTER ACADEMY NO. E-14,
OKLAHOMA COUNTY, OKLAHOMA**

JUNE 30, 2012

Audited by

**JACK H. JENKINS
CERTIFIED PUBLIC ACCOUNTANT
A PROFESSIONAL CORPORATION
TULSA, OK**

OKLAHOMA VIRTUAL CHARTER ACADEMY NO. E-14
OKLAHOMA COUNTY, OKLAHOMA
JUNE 30, 2012

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**OKLAHOMA VIRTUAL CHARTER ACADEMY NO. E-14
OKLAHOMA COUNTY, OKLAHOMA
SCHOOL OFFICIALS
JUNE 30, 2012**

BOARD OF EDUCATION

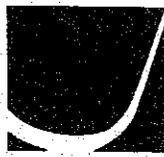
President	Kristi Gifford
Clerk	Alyssa Kline
Member	Dennyse Snyder
Member	Gregory Appleton
Member	Todd Pauley

DIRECTOR OF SCHOOL

Richard Mansheim

MINUTES CLERK

Richard Mansheim



Jack H. Jenkins, CPA *A Professional Corporation*

INDEPENDENT AUDITOR'S REPORT

The Honorable Board of Education
Oklahoma Virtual Charter Academy School District No. E-014
Nicoma Park, Oklahoma 73066

I have audited the accompanying regulatory basis financial statements of Oklahoma Virtual Charter Academy School District No. E-014, Nicoma Park, Oklahoma, as listed in the table of contents as of and for the year ended June 30, 2012. These financial statements are the responsibility of the District's management. My responsibility is to express an opinion on these financial statements based on my audit.

I conducted my audit in accordance with auditing standards generally accepted in the United States of America and *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that I plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall combined financial statement presentation. I believe that my audit provides a reasonable basis for my opinion.

As discussed in Note 1, these financial statements were prepared in conformity with the accounting and financial reporting regulations prescribed by the Oklahoma State Department of Education that demonstrates compliance with the cash basis and budget laws of Oklahoma, which is a comprehensive basis of accounting other than accounting principles generally accepted in the United States of America. The differences between the regulatory basis of accounting and accounting principles generally accepted in the United States of America are also described in Note 1.

Also, as discussed in Note 4, the regulatory basis financial statements referred to above do not include a proper breakdown of the actual expenditures by function dimension as described in the Oklahoma Cost Accounting System (OCAS) manual as required by the Oklahoma State Department of Education.

In my opinion, because of the District's policy to prepare its financial statements on the basis of accounting discussed in the third paragraph, the financial statements referred to above do not present fairly in all material respects, in conformity with accounting principles generally accepted in the United States of America, the financial position of Oklahoma Virtual Charter Academy School District No. E-014, Nicoma Park, Oklahoma as of June 30, 2012, and the results of its operations for the year then ended.

However, in my opinion, except for the omission of a proper breakdown of the actual expenditures by the function dimension, which results in an incomplete presentation as explained in the fourth paragraph, the financial statements referred to above present fairly, in all material respects, the assets, liabilities, and equity arising from regulatory basis transactions of each fund type and account group, where applicable, of Oklahoma Virtual Charter Academy School District No. E-014, Nicoma Park, Oklahoma, as of June 30, 2012, and the revenues collected and expenditures paid for the year then ended on the regulatory basis of accounting described in Note 1.

In accordance with *Government Auditing Standards*, I have also issued a report dated May 23, 2013, on my consideration of the District's internal control over financial reporting and my 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 my testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of my audit.

My audit was conducted for the purpose of forming an opinion on the regulatory basis financial statements that collectively comprise Oklahoma Virtual Charter Academy School District No. E-014's basic financial statements.



Jack H. Jenkins
Certified Public Accountant, P.C.

May 23, 2013

COMBINED FINANCIAL STATEMENTS - REGULATORY BASIS

OKLAHOMA VIRTUAL CHARTER ACADEMY NO. E-014, OKLAHOMA COUNTY
COMBINED STATEMENT OF ASSETS, LIABILITIES AND CASH FUND BALANCES -
REGULATORY BASIS - ALL FUND TYPES
JUNE 30, 2012

	<u>GOVERNMENTAL</u> <u>FUND TYPES</u> <u>GENERAL</u>
<u>ASSETS</u>	
Cash	<u>\$ 717,386</u>
<u>LIABILITIES AND FUND EQUITY</u>	
Liabilities	
Warrants payable	15,077
Encumbrances	702,309
Total liabilities	<u>717,386</u>
Cash Fund Balances	
Unassigned	-
Total Liabilities and Fund Equity	<u>\$ 717,386</u>

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

OKLAHOMA VIRTUAL CHARTER ACADEMY NO. E-014, OKLAHOMA COUNTY
COMBINED STATEMENT OF REVENUES, EXPENDITURES
AND CHANGES IN CASH FUND BALANCES
REGULATORY BASIS - ALL GOVERNMENTAL FUND TYPES
JUNE 30, 2012

	GOVERNMENTAL FUND TYPES
	GENERAL
Revenues	
Local sources	\$ 62,849
Per Capita sources	1,837,716
Total revenues	1,900,565
Expenditures	
Non-categorical - See Note 4	3,827,149
Total expenditures	3,827,149
Revenues over (under) expenditures	(1,926,584)
Other financing sources (uses)	
In-kind contribution	1,926,904
Bank charges	(320)
Total other financing sources (uses)	1,926,584
Revenue and other sources over (under) expenditures and other uses	-
Cash fund balance, beginning of year	-
Cash fund balance, end of year	\$ -

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

**OKLAHOMA VIRTUAL CHARTER ACADEMY NO. E-014, OKLAHOMA COUNTY
 COMBINED STATEMENT OF REVENUES, EXPENDITURES
 AND CHANGES IN FUND BALANCES - BUDGET AND ACTUAL -
 REGULATORY BASIS - BUDGETED GENERAL FUND
 JUNE 30, 2012**

	GENERAL FUND		
	ORIGINAL BUDGET	FINAL BUDGET	ACTUAL
Revenues			
Local sources	\$ -	4,508	62,849
Per Capita sources		1,913,955	1,837,716
Total revenues	<u>-</u>	<u>1,918,463</u>	<u>1,900,565</u>
Expenditures			
Non-categorical -See Note 4		1,918,463	3,827,149
Total expenditures	<u>-</u>	<u>1,918,463</u>	<u>3,827,149</u>
Revenues over (under) expenditures	-	-	(1,926,584)
Other financing sources (uses)			
In-kind contribution			1,926,904
Bank charges			(320)
Total other financing sources (uses)			<u>1,926,584</u>
Revenue and other sources over (under) expenditures and other uses			-
Cash fund balance, beginning of year	<u>-</u>	<u>-</u>	<u>-</u>
Cash fund balance, end of year	<u>\$ -</u>	<u>-</u>	<u>-</u>

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

**NOTES TO COMBINED FINANCIAL STATEMENTS -
REGULATORY BASIS**

**OKLAHOMA VIRTUAL CHARTER ACADEMY NO. E-14, OKLAHOMA COUNTY
NOTES TO COMBINED FINANCIAL STATEMENTS - REGULATORY BASIS
FOR THE YEAR ENDED JUNE 30, 2012**

1. Summary of Significant Accounting Policies

The accompanying financial statements of the Oklahoma Virtual Charter Academy No. E-14 (the "School") conform to the regulatory basis of accounting, which is an other comprehensive basis of accounting prescribed by the Oklahoma State Department of Education and conforms to the system of accounting authorized by the State of Oklahoma. Accordingly, the accompanying financial statements are not intended to present financial position and results of operations in conformity with accounting principles generally accepted in the United States of America. The School's accounting policies are described in the following notes that are an integral part of the School's financial statements. The School has adopted the Governmental Accounting Standards Board (GASB 54), *Fund Balance Reporting and Governmental Fund Type Definitions*, which redefines the fund balance classifications from the previous two (2) into a possible five (5) classifications.

A. Reporting Entity

The School is a not for profit corporation in the State of Oklahoma filed with the Secretary of State as Oklahoma Skynet, Inc. on April 27, 2011. The School will be applying for exemption from federal income tax under Section 501(a) of the Internal Revenue Code as a Section 501(c)(3). Upon approval, the School will be considered a public charity and will not be subject to income taxes.

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 Education composed of appointed 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

OKLAHOMA VIRTUAL CHARTER ACADEMY NO. E-14, OKLAHOMA COUNTY
NOTES TO COMBINED FINANCIAL STATEMENTS - REGULATORY BASIS
FOR THE YEAR ENDED JUNE 30, 2012

1. **Summary of Significant Accounting Policies-** contd.

A. Reporting Entity- contd.

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, however, the school does have related parties.

B. Measurement Focus

The accounts of the School are organized and operate on the basis of funds. A fund is an independent fiscal accounting entity with a self-balancing set of accounts. Fund accounting segregates funds according to their intended purpose and is used to aid management in demonstrating compliance with finance-related legal and contractual provisions. The minimum number of funds is maintained consistent with legal and managerial requirements.

The School has the following fund type:

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). Basis of accounting refers to when the revenue and expenditures or expenses 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 (Statutory) basis of accounting. All revenues from all sources, including entitlements, grants, and shared revenues are recognized when they are received rather than earned.

Expenditures are generally recognized when encumbered or reserved rather than at the time the related liability is incurred. Compensated absences and claims and judgments are recognized when the obligations are expected to be liquidated with expendable available financial resources. These practices differ from generally accepted accounting principles.

**OKLAHOMA VIRTUAL CHARTER ACADEMY NO. E-14, OKLAHOMA COUNTY
NOTES TO COMBINED FINANCIAL STATEMENTS - REGULATORY BASIS
FOR THE YEAR ENDED JUNE 30, 2012**

1. **Summary of Significant Accounting Policies-** contd.

B. Measurement Focus - contd.

Governmental funds include the following fund type:

General Fund – is the primary operating fund of the School. It accounts for all financial resources of the general government, except those required to be accounted for in another fund. This is a budgeted fund, and any fund balances are considered as resources available for use. Major revenue sources include state funding passed through Choctaw-Nicoma Park School District, and various local sources and state grants. 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 also accounts for federal and state financed programs where restricted monies must be expended for specific programs. When the School incurs an expense for which it may use either restricted or unrestricted funds, it uses restricted resources first.

C. Basis of Accounting and Presentation

The School 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*. This format significantly differs from that required by GASB 34.

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

- Encumbrances represented by purchase orders, contracts, and other commitments for the expenditure of monies and are recorded as expenditures when approved.
- Investments are recorded as assets when purchased.
- Inventories of school supplies are recorded as expenditures and not as assets.
- Warrants payable are recorded as liabilities when issued.
- Long-term debt is recorded when incurred.
- Compensated absences are recorded as an expenditure and liability when the obligation is paid.

OKLAHOMA VIRTUAL CHARTER ACADEMY NO. E-14, OKLAHOMA COUNTY
NOTES TO COMBINED FINANCIAL STATEMENTS - REGULATORY BASIS
FOR THE YEAR ENDED JUNE 30, 2012

1. **Summary of Significant Accounting Policies-** contd.

C. Basis of Accounting and Presentation – contd.

This regulatory basis of accounting differs from accounting principles generally accepted in the United States of America, which requires 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.

D. Assets, Liabilities, Cash Fund Balance, Revenues and Expenditures

Deposits and Investments – State statutes govern the School's investment policy. Permissible investments include direct obligations of the United States Government and Agencies; certificates of deposit of savings and loan associations, and bank and trust companies; and savings accounts or savings certificates of savings and loan associations, and trust companies. Collateral is required for demand deposits and certificates of deposit for all amounts not covered by federal deposit insurance. Investments are stated at cost. The School invests entirely in certificates of deposit, U. S. Treasury Securities, and participates in the Secured Investment Program of Oklahoma State School Boards Association, as authorized by Oklahoma Statutes Title 62, Section 348.

Fair Value of Financial Instruments – The School's financial instruments include cash and investments. The School's estimate of the fair value of all financial instruments does not differ materially from the aggregate carrying values of its financial instruments recorded in the accompanying balance sheet. The carrying amount of these financial instruments approximates fair value because of the short maturity of these instruments.

Estimates – The preparation of financial statements in conformity with the regulatory basis of accounting requires management to make estimates and assumptions that affect certain reported amounts and disclosures. Accordingly, actual results could differ from those estimates.

Interfund Transactions – Interfund transactions are accounted for as revenues, expenditures or expenses. Transactions 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. Non-recurring or non-routine permanent transfers of equity are reported as residual equity transfers.

**OKLAHOMA VIRTUAL CHARTER ACADEMY NO. E-14, OKLAHOMA COUNTY
NOTES TO COMBINED FINANCIAL STATEMENTS - REGULATORY BASIS
FOR THE YEAR ENDED JUNE 30, 2012**

1. **Summary of Significant Accounting Policies-** contd.

D. Assets, Liabilities, Cash Fund Balance, Revenues and Expenditures- contd.

Inventories – Inventories consist of minimal amounts of expendable supplies held for consumption. The value of consumable inventories at year-end is not material to the School's financial statements. The cost of inventories are recorded as expenditures when encumbered and purchased rather than when consumed.

Fixed Assets – The regulatory basis of accounting prescribed by the Oklahoma State Board of Education does not require the presentation of a General Fixed Asset Account Group. As a result, the School has not maintained a record of its general fixed assets, and, accordingly, a statement of general fixed assets required by generally accepted accounting principles prior to the issuance of GASB No. 34, is not included in the financial statements. General fixed assets purchased are recorded as expenditures in the various funds at the time of purchase.

Cash Fund Balance Classifications –

Restricted Cash Fund Balance – Cash fund balance should be reported as restricted when constraints placed on the use of resources are either;

- Externally imposed by creditors (such as through debt covenants), grantors, contributors, or laws or regulations of other governments; or
- Imposed by law through constitutional provisions or enabling legislation.

Unassigned Cash Fund Balance – Unassigned cash fund balance is the residual classification for the general fund. This classification represents fund balance that has not been assigned to other funds and that has not been restricted, committed, or assigned to specific purposes within the general fund.

Local Revenues – Local sources of revenues include interest earnings, tuition, fees, rentals, disposals, commissions and reimbursements.

State and Per Capita 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 schools. For purposes of funding, a charter school is considered a site within the school district in which the charter school is located. A charter school is to receive from the sponsoring district, the state aid revenue generated by its students for the applicable year,

**OKLAHOMA VIRTUAL CHARTER ACADEMY NO. E-14, OKLAHOMA COUNTY
NOTES TO COMBINED FINANCIAL STATEMENTS - REGULATORY BASIS
FOR THE YEAR ENDED JUNE 30, 2012**

1. Summary of Significant Accounting Policies- contd.

D. Assets, Liabilities, Cash Fund Balance, Revenues and Expenditures- contd.

less up to 5% of the total, which may be retained by the sponsoring school district as a fee for the administrative services rendered.

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 or additions of revenue of the year when the adjustment is made.

The School receives revenue from the state (through their sponsor) 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 categorical educational program revenues be accounted for in the general fund.

The aforementioned state revenues are apportioned to the School's general fund. State revenues received indirectly from Choctaw-Nicoma Park School District are shown in the report as "Per Capita Sources."

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. Entitlement is the amount of payment to which the School is entitled pursuant to an allocation formula contained in applicable statutes. There were no federal revenues received by the School in the current fiscal year.

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 co-curricular activities. It may also be provided through some other approved medium, such as television, radio, telephone and correspondence. Included here are the activities of teacher assistants of any type (clerks, graders, teaching machines, etc.), which assist in the instructional process. The activities of tutors, translators and interpreters would be recorded here. Department chairpersons who teach

OKLAHOMA VIRTUAL CHARTER ACADEMY NO. E-14, OKLAHOMA COUNTY
NOTES TO COMBINED FINANCIAL STATEMENTS - REGULATORY BASIS
FOR THE YEAR ENDED JUNE 30, 2012

1. **Summary of Significant Accounting Policies-** contd.

D. *Assets, Liabilities, Cash Fund Balance, Revenues and Expenditures-* contd.

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 improvement to sites.

Other Outlays/Uses 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) when applicable. Other uses include scholarships provided by private gifts and endowments; student aid and staff awards supported by outside revenue sources (i.e., foundations). Also, expenditure 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.

2. **Stewardship, Compliance and Accountability**

Budgetary Information

The School is required by state law to prepare an annual budget. Under current Oklahoma Statutes, a formal Estimate of Needs (Budget) is required for all funds except for trust and agency funds. Budgets are presented for all funds that include the originally approved budgeted appropriations for expenditures and final budgeted appropriations as adjusted for

**OKLAHOMA VIRTUAL CHARTER ACADEMY NO. E-14, OKLAHOMA COUNTY
NOTES TO COMBINED FINANCIAL STATEMENTS - REGULATORY BASIS
FOR THE YEAR ENDED JUNE 30, 2012**

2. Stewardship, Compliance and Accountability

Budgetary Information – contd.

supplemental appropriations and approved transfers between budget categories. The annual Estimate of Needs, when approved by the Board and subsequently filed with the County Clerk and approved by the County Excise Board becomes the legal budget. Supplemental appropriations, if required, were made during the year and are reflected on the budget vs. actual presentations shown as original budget and final budget.

Encumbrances represent commitments related to underperformed 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 Fund of the School. Purchase orders or contracts document encumbrance for goods or purchased services. Under Oklahoma law, unencumbered appropriations lapse at year-end.

3. Detailed Notes Concerning the Funds

Deposits and Investments

Custodial Credit Risk

Exposure to custodial credit risk related to deposits exists when the School holds deposits that are uninsured and uncollateralized; collateralized with securities held by the pledging financial institution, or by its trust department or agent but not in the School's name; or collateralized without a written or approved collateral agreement. Exposure to custodial credit risk related to investments exists when the School holds investments that are uninsured and unregistered with securities held by the counterparty or by its trust department or agent but not in the School's name.

The School's policy as it relates to custodial credit risk is to secure its uninsured deposits with collateral, valued at no more than market value, at least at a level of 100 percent of the uninsured deposits and accrued interest thereon. The investment policy and state law also limits acceptable collateral to U.S. Treasury and agency securities and direct obligations of the state, municipalities, counties, and schools in the state of Oklahoma, surety bonds, and letters of credit. As required by Federal 12 U.S.C.A., Section 1823(e), all financial institutions pledging collateral to the School must have a written collateral agreement approved by the board of directors or loan committee.

**OKLAHOMA VIRTUAL CHARTER ACADEMY NO. E-14, OKLAHOMA COUNTY
NOTES TO COMBINED FINANCIAL STATEMENTS - REGULATORY BASIS
FOR THE YEAR ENDED JUNE 30, 2012**

3. Detailed Notes Concerning the Funds

Deposits and Investments -- contd.

At June 30, 2012, the School held deposits of approximately \$717,386 at financial institutions. The School's cash deposits, including interest-bearing certificates of deposit, did not appear to be covered by Federal Depository Insurance (FDIC) or direct obligation of the U.S. government insured or collateralized with securities held by the School or by its agent in the School's name. Therefore, the School was exposed to custodial credit risk as defined above.

Investment Interest Rate Risk

The School does not have a formal investment policy that limits investment maturities as a means of managing its exposure to fair value losses arising from increasing interest rates.

Investment Credit Risk

The School has no policy that limits its investment choices other than the limitation of state law that generally authorize investment in:

- a. Direct obligations of the U.S. Government, its agencies and instrumentalities 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.
- b. 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 deposits or savings accounts in out-of-state financial institutions.
- c. With certain limitation, negotiable certificates of deposit, prime bankers acceptances, prime commercial paper and repurchase agreements with certain limitations.
- d. County, municipal or school tax supported debt obligations, bond or revenue anticipation notes, money judgments, or bond or revenue anticipations notes of public trusts whose beneficiary is a county, municipality or school.
- e. 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.
- f. Money market funds regulated by the SEC and in which investments consist of the investments mentioned in the previous paragraphs (a.-d.).

The School did not have any investments at June 30, 2012.

**OKLAHOMA VIRTUAL CHARTER ACADEMY NO. E-14, OKLAHOMA COUNTY
NOTES TO COMBINED FINANCIAL STATEMENTS - REGULATORY BASIS
FOR THE YEAR ENDED JUNE 30, 2012**

4. Other Information

A. Contingencies

Amounts received or receivable from grantor 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 amount, if any, of expenditures which may be disallowed by the grantor cannot be determined at this time although the School expects such amounts, if any, to be immaterial.

B. 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; and natural disasters. The School continues to carry commercial insurance for these risks, including general and auto liability, property damage, and public officials liability. Settled claims resulting from these risks have not exceeded the commercial insurance coverage in any of the past three fiscal years.

C. Expenditure Classifications

The School did not properly classify all expenditures during the year to the Oklahoma Costs Accounting System, as mentioned in the audit finding 2012-01. Therefore, the expenditures could not be properly broken down by the function code dimension as required by the Oklahoma State Department of Education. The expenditures have been listed as non-categorical for the purposes of this report.

D. Employee Retirement System and Plan

The School has chosen not to participate in the Oklahoma Teacher's Retirement System.

E. Surety Bonds

The School does not currently have a surety bond for any financing officers.

**OKLAHOMA VIRTUAL CHARTER ACADEMY NO. E-14, OKLAHOMA COUNTY
NOTES TO COMBINED FINANCIAL STATEMENTS - REGULATORY BASIS
FOR THE YEAR ENDED JUNE 30, 2012**

4. Other Information

F. Related Parties

All officers of the School are employees of K12, Inc. (K12). K12 provides certain services to the School (see Note 4-H). The School makes payments to K12 for educational products, professional services and reimbursements (see Note 4-H). A provision in the K12 agreement provides for the issuance of accommodation credits to ensure the School does not end a fiscal year in a negative net asset position. At June 30, 2012, in-kind contributions (see Note 4-G) were \$1,926,904, which was the net result of the total billed amount from K12 of \$3,619,439 less payments made of \$990,226 and reserve for encumbrances of \$702,309.

G. In-kind Contributions

As mentioned in the related party note above (see Note 4-F), the School has an agreement with K12, whereby, if the total expenditures exceed the amount of funds available, the related party, K12, will issue a "deficit credit" or what is referred to in the financial pages as an in-kind contribution for the amount of expenditures that would cause the School to go into a fund balance deficit. Any excess expenditure owed to the related party is thus forgiven.

H. Commitments

Management Agreement – On July 1, 2011, the School entered into a ten-year agreement with K12 to provide management and technology services. The fee for the management and technology services is based on a percentage of qualified revenues. The rate in effect for the year ended June 30, 2012 was 15% for management services and 7% for technology services – for a total of 22% of qualified revenues. K12 also provides materials, curriculum, and computers to the school.

I. Subsequent Events

Management has evaluated subsequent events through May 23, 2013, 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.



Jack H. Jenkins, CPA *A Professional Corporation*

**INDEPENDENT AUDITOR'S REPORT ON COMPLIANCE AND ON INTERNAL CONTROL
OVER FINANCIAL REPORTING BASED ON AN AUDIT OF FINANCIAL
STATEMENTS – REGULATORY BASIS PERFORMED IN ACCORDANCE WITH
GOVERNMENT AUDITING STANDARDS**

The Honorable Board of Education
Oklahoma Virtual Charter Academy School District No. E-014
Nicoma Park, Oklahoma 73066

I have audited the regulatory basis financial statements of Oklahoma Virtual Charter Academy School District No. E-014, Nicoma Park, Oklahoma, as of and for the year ended June 30, 2012, and have issued my report thereon, dated May 23, 2013. The audit opinion was adverse to generally accepted accounting principles because the District prepares its financial statements on a basis of accounting prescribed by the Oklahoma State Department of Education that complies with the cash and budget laws of Oklahoma, which is a comprehensive basis of accounting other than generally accepted accounting principles and qualified as to the preparation of financial statements prepared on that basis. I conducted my audit in accordance with generally accepted auditing standards 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.

Internal Control Over Financial Reporting

In planning and performing my audit, I considered the District's internal control over financial reporting as a basis for designing my auditing procedures for the purpose of expressing my opinion on the combined financial statements - regulatory basis, but not for the purpose of expressing an opinion on the effectiveness of the District's internal control over financial reporting. Accordingly, I do not express an opinion on the effectiveness of the District's internal control over financial reporting.

A deficiency in internal control exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect 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.

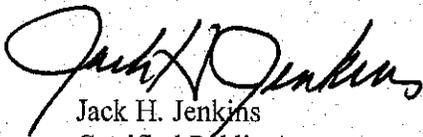
My consideration of internal control over financial reporting was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over financial reporting that might be deficiencies, significant deficiencies, or material weaknesses. There can be no assurance that all deficiencies, significant deficiencies, or material weaknesses have been identified. I did not identify any deficiencies in internal control over financial reporting that I consider to be material weaknesses, as defined above.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the District's financial statements are free of material misstatement, I performed tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of my audit and, accordingly, I do not express such an opinion. The results of my tests disclosed nine (9) 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 Findings. I also reported these matters to the District's management in a separate letter dated May 23, 2013.

The District's response to the findings identified in my audit is described in the letter following the Schedule of Findings. I did not audit the District's response and, accordingly, I express no opinion on it.

This report is intended solely for the information of the school board, management, Oklahoma State Auditor and Inspector's Office and the Oklahoma State Department of Education, and is not intended to be and should not be used by anyone other than these specified parties.



Jack H. Jenkins
Certified Public Accountant, P.C.

May 23, 2013

**OKLAHOMA VIRTUAL CHARTER ACADEMY NO. E-14, OKLAHOMA COUNTY
SCHEDULE OF FINDINGS
JULY 1, 2011 TO JUNE 30, 2012**

2012-01 – Accounting Software

Condition: The School did not contract with an accounting software during the fiscal year that was recommended by the Oklahoma State Department of Education. The software was necessary for entering the proper revenue and expenditures coding under what is referenced in the Oklahoma Cost Accounting System (OCAS) manual.

Criteria: The School must utilize software that is on the Oklahoma State Department of Education's recommended list of approved accounting software.

Effect: The School did not enter revenue and expenditures during the year with a software vendor that was on the approved list. A software company on the approved list was hired to convert their revenue and expenditures entered on a non-approved software form to OCAS coding at the end of the year in order to report to the Oklahoma State Department of Education.

Recommendation: I recommend that the School implement an accounting software system that is on the list approved by the Oklahoma State Department of Education.

2012-02 – Oklahoma Cost Accounting System

Condition: The School submitted a report at the end of the year that did not adequately reflect the revenue and expenditures for the year. The revenue did not net the sponsor fees from the state aid portion as was the case. The state aid revenue less the sponsor fee should have been coded to revenue source 5800 – Charter School reimbursement. Also, the school showed salaries and benefits on the OCAS report even though no salaries were processed through the School for the year, but processed indirectly through the related party, K12, Inc.

Criteria: Check all transactions for the year and compare to what was submitted to the Oklahoma State Department of Education for accuracy.

Effect: The school would certify a report that is inaccurate and those that rely upon this information would be misinformed.

Recommendation: I recommend that the School hire qualified personnel and purchase accounting software that will ensure that the financial accounting information will be accurate in the future.

OKLAHOMA VIRTUAL CHARTER ACADEMY NO. E-14, OKLAHOMA COUNTY
SCHEDULE OF FINDINGS
JULY 1, 2011 TO JUNE 30, 2012

2012-03 – Purchase Orders

Condition: From my examination of school records, it appears that encumbrance ledgers and purchase orders were not kept for the general fund, since none were presented for examination and the School could not prepare these reports without the necessary accounting software.

Criteria: Purchase orders should be used to encumber funds against approved appropriations to ensure the school does not exceed appropriations and to provide proper management oversight of expenditures.

Effect: The School did not encumber and enter purchase orders prior to the payment of invoices. By not utilizing this process, the School could exceed appropriations by not properly encumbering orders at the time the order was made.

Recommendation: I recommend that encumbrance ledgers and purchase orders be obtained, printed and used, as required by Oklahoma Statutes. (Reference: 70 O.S. 1990 Supp §5-119)

2012-04 – Reserve for Encumbrances

Condition: From my examination of school records, it appears there was no detailed list of reserves for encumbrances provided for the end of the fiscal year.

Criteria: Reserves for encumbrances must be detailed as to the vendors and OCAS codings in order to provide accurate expenditure information to oversight agencies.

Effect: The School had \$702,309 in cash less outstanding checks and this balance was to be reserved for K12, Inc. for what was owed at year end less the “deficit credit”.

Recommendation: I recommend that a detailed listing of accounts payable or reserve for encumbrances be prepared to adequately document those orders that were still pending at the end of the fiscal year.

**OKLAHOMA VIRTUAL CHARTER ACADEMY NO. E-14, OKLAHOMA COUNTY
SCHEDULE OF FINDINGS
JULY 1, 2011 TO JUNE 30, 2012**

2012-05 – Surety Bonds

Condition: The financing officers did not have surety bonds in the current fiscal year of at least \$100,000.

Criteria: In order to comply with House Bill 1592, surety bonds are required of the superintendent/principal and the treasurer of the school district in an amount no less than \$100,000.

Effect: The School would not be insured in the case of fraud or malfeasance if a financial officer was not or could not be bonded.

Recommendation: I recommend that the School ensure that the primary administrator (superintendent or principal) and the school treasurer maintain an annual surety bond of not less than \$100,000 as required by House Bill 1592.

2012-06 – Signed as Received

Condition: The checks that were reviewed had supporting documentation that were not signed as received.

Criteria: Supporting documentation should be signed or initialed and dated by a receiving agent of the District to verify that the goods or services have been received and payment can be made.

Effect: Invoices could be paid without goods or services being received.

Recommendation: That all invoices and/or delivery tickets are initialed and dated when merchandise is received or services are performed, as required by Oklahoma Statutes. (Reference: 62 O.S. 1981 § 310.1a and 70 O.S. 1981 § 5-135C)

**OKLAHOMA VIRTUAL CHARTER ACADEMY NO. E-14, OKLAHOMA COUNTY
SCHEDULE OF FINDINGS
JULY 1, 2011 TO JUNE 30, 2012**

2012-07 – Open Meeting Requirements

Condition: There were no board calendar, special meeting notifications or board agendas presented for review.

Criteria: In order to comply with the open meetings law, documentation must be maintained regarding the notification to the County Clerk whenever the date on which a regularly scheduled board meeting is to be held. Also, the County Clerk should be notified within 48 hours prior to a special meeting. Finally, all board meetings should post the agenda of the items the school board are planning to take action on during the meeting.

Effect: The School could hold a meeting that would not be open to the public as required.

Recommendation: I recommend that these notices be maintained to provide evidence of meeting the time requirement of the open meeting law. (Reference: 25 O.S. 1981 § 311)

2012-08 – Collateral Pledged

Condition: At June 30, 2012, the cash on hand at the School's bank exceeded F.D.I.C. coverage and no collateral was pledged on the School's behalf.

Criteria: The cash and investments of a school must be fully collateralized if they exceed the \$250,000 F.D.I.C. coverage.

Effect: The School could lose all depositories in excess of the F.D.I.C. coverage in the case of a bank failure.

Recommendation: I recommend that a sufficient unit collateral always be pledged to cover all deposits in excess of the maximum \$250,000 F.D.I.C. coverage, per depositor, per bank, as required by Oklahoma Statutes. (Reference: 62 O.S. 1981 § 511)

**OKLAHOMA VIRTUAL CHARTER ACADEMY NO. E-14, OKLAHOMA COUNTY
SCHEDULE OF FINDINGS
JULY 1, 2011 TO JUNE 30, 2012**

2012-09 -- Non-profit Tax Status

Condition: Oklahoma Skynet, Inc. dba Oklahoma Virtual Charter Academy did not appear to be recognized by the IRS as a not-for-profit corporation.

Criteria: The School is not tax exempt by Statute as is the case with public school districts since it was established as a charter school. Therefore, in order to be tax exempt, the School must file the necessary forms with the Internal Revenue Service to be accepted as a nonprofit organization.

Effect: If the School does not have tax exempt status, a corporate tax return would be required to be filed for the financial information of the School. Also, the School would not be able to accept tax deductible charitable donations from interested parties.

Recommendation: I recommend that the School file the necessary paperwork to get the entity approved as a nonprofit organization.

June 12, 2013

Jack H. Jenkins, CPA
10026 – A South Mingo Rd, # 309
Tulsa, OK 74133-5700

Dear Mr. Jenkins:

This letter is in response to your letter dated May 23, 2013 to Oklahoma Virtual Charter Academy regarding the Fiscal Year 2012 audit that your firm completed. This is to respond to the 9 immaterial instances of noncompliance with laws and regulations which require written responses from our office to be included in the copy of the audit report that your firm will send to the Oklahoma State Department of Education.

Our responses follow:

2012-01 Accounting Software:

The School has purchased and, as of the date of this letter, is using a software application that was recommended by the Oklahoma State Department of Education, Wen-GAGE.

2012-02 Oklahoma Cost Accounting System:

Thank you for pointing out the report submitted to the Oklahoma State Department of Education did not net out the sponsor fees from the state aid portion; this will be reported correctly in the current fiscal year. With regard to the second part of this recommendation, that salaries and benefits should not be reported on the OCAS report as no salaries were processed for the school for the year, please reference the letter that our office sent electronically to you on May 10th, 2013 to explain why the school reported expenses in this manner. In this note we outlined the conversations and discussions that we had documented in which the state required us to file salaries and benefits as we did on the OCAS submission. In this note we also verified that that the school's original submission classifying teacher salaries as purchased services was denied by the state.

2012-03 – Purchase Orders:

As of the date of this letter, Purchase Orders are being created and utilized as part of the day-to-day accounting process through a state-approved accounting software.

2012-04 – Reserve for Encumbrances:

The school has a services agreement with management company K12 Inc. This agreement establishes the terms under which the school will pay K12 Inc. for curriculum and materials to the extent this is possible based on the school's financial position. If curriculum and materials costs exceed available funds, K12 Inc. will forgive the portion of the balance that cannot be paid through a deficit credit memo. This memo is processed after any audit adjustments are made, so that the school's liquidity will not be affected; it is not prepared at the end of the school year in anticipation of potential audit adjustments that would modify the amount of the deficit credit memo.

In accordance with the audit recommendation, the school will prepare a detailed listing of accounts payable to vendors at year-end, with the stipulation that amounts owed to K12 Inc. are subject to change pending the determination of the need for any audit adjustments.

2012-05 – Surety Bonds

The financing officer, superintendent/principal and treasurer, is a single individual; Rick Mansheim has a surety bond in place now for the required amount of \$100,000.

2012-06 – Signed as Received:

The school has implemented a process to ensure that invoices are not paid without goods and services being received (please see attached procedures). The Accounts Payable clerk is the individual tasked with these procedures.

2012-07 – Open Meeting Requirements:

The school has reviewed open meeting requirements, identified past procedures that needed to be modified in order to comply with open meeting requirements, and is in the process of setting up a training session with an outside consultant to ensure that the school is aware of and has built processes to comply with Open Meeting Requirements going forward.

2012-08 – Collateral Pledged:

The school has confirmed that the bank in which deposits are currently held, BancFirst, will pledge collateral to cover all deposits up to the maximum amount deposited into the school account, and the school recently received the paperwork necessary to effect this change. This is anticipated to be effective by the end of June, 2013.

2012-09 – Non-profit tax status:

School management is working with the board-approved tax attorney to file the form 990, and the board is working on the 501(c)3 paperwork at this time. We anticipate that all paperwork will be filed prior to the FY13 audit site visit.

Sincerely,



Kristi Gifford, President, Board of Directors



Richard Mansheim, Head of School

Jason Jacksack, Finance Manager

Preparing Invoices for Approval and Payment

The following procedures should be followed when preparing invoices for approval and payment.

1. Upon receipt of an invoice, the date received (month, day, year) must either be written or stamped on the invoice.
2. Invoices must be compared to (1) the delivery ticket (when available) to verify that all materials have been received and (2) the purchase or requisition order to verify quantities and price. If a purchase order was issued, the purchase order number must appear on the invoice. If this number is not preprinted, the department must write it on the invoice.
3. Invoices must be verified for mathematical accuracy. If an error is discovered, the department should either contact the vendor and request a revised invoice or receive verbal approval from the vendor to correct the invoice. If an invoice is revised, the name of the individual with the vendor who authorized the change must be written on the front of the invoice.

OKLAHOMA VIRTUAL CHARTER ACADEMY NO. E-14, OKLAHOMA COUNTY
SCHEDULE OF ACCOUNTANT'S PROFESSIONAL
LIABILITY INSURANCE AFFIDAVIT
JULY 1, 2011 TO JUNE 30, 2012

State of Oklahoma)
County of Tulsa)

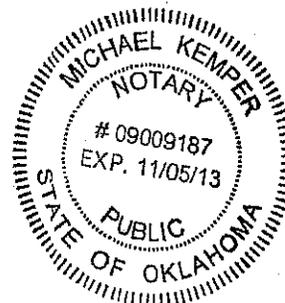
The undersigned auditing firm representative of lawful age, being first duly sworn on oath, says that said firm had in full force and effect Accountant's Professional Liability Insurance in accordance with the "Oklahoma Public School Audit Law" at the time of audit contract and during the entire audit engagement with Oklahoma Virtual Charter Academy for the audit year 2011-12.

Jack H. Jenkins, CPA, P.C.
AUDITING FIRM

BY *Jack H. Jenkins*
AUTHORIZED AGENT

Subscribed and sworn to before me on this
23rd day of, May, 2013

Michael Kemper
NOTARY PUBLIC



**OKLAHOMA VIRTUAL CHARTER ACADEMY NO. E-14, OKLAHOMA COUNTY
AUDIT ACKNOWLEDGEMENT
JULY 1, 2011 TO JUNE 30, 2012**

The annual independent audit for the Oklahoma Virtual Charter Academy was presented to the Board of Education in an Open Board Meeting as indicated below, by Jack H. Jenkins, CPA, P.C.

The School Board acknowledges that as the governing body of the school, responsible for the schools financial and compliance operations, the audit findings and exceptions have been presented to them.

A copy of the audit, including this acknowledgement form, will be sent to the Oklahoma State Department of Education within 30 days from it's presentation, as stated in 70 O.S. § 22-108:

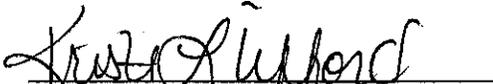
"The local board of education shall forward a copy of the audit report to the State Board of Education within thirty (30) days after receipt of said audit."



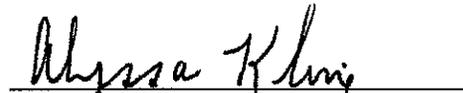
Superintendent of Schools

6/12/13

Date of Board Meeting



Board of Education President



Board of Education Clerk

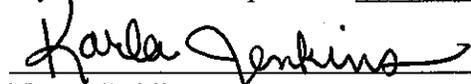
Board of Education Vice President



Board of Education Member

Board of Education Member

Subscribed and sworn to before me on this 12 day of June, 2013.
My commission expires on 20 day of November, 2013.



Notary Public

Affix Notary Seal





Jack H. Jenkins, CPA *A Professional Corporation*

May 23, 2013

Oklahoma Virtual Charter Academy Public Schools
Attn: Mr. Richard Mansheim
PO Box 4490
Nicoma Park, OK 73066

Dear Mr. Mansheim:

Listed below are the audit exceptions and recommendations from the final audit work we performed for you. Please review them carefully along with the copy of your audit report. We will mail out a copy of the audit report to the State Department of Education and the Oklahoma State Auditor and Inspector's Office within 30 days after the presentation of your audit. If you have questions or desire additional information, please call us so that any discrepancies may be resolved.

The following section contains the exception relayed to management that are immaterial instances of noncompliance with laws and regulations and which are included in the audit report. These comments require written responses from your office to be included in the copy of the audit report that we send to the State Department of Education.

2012-01 – Accounting Software

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Recommendation: I recommend that the School implement an accounting software system that is on the list approved by the Oklahoma State Department of Education.

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revenue source 5800 -- Charter School reimbursement. Also, the school showed salaries and benefits on the OCAS report even though no salaries were processed through the School for the year, but processed indirectly through the related party, K12, Inc.

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Recommendation: I recommend that a sufficient unit collateral always be pledged to cover all deposits in excess of the maximum \$250,000 F.D.I.C. coverage, per depositor, per bank, as required by Oklahoma Statutes. (Reference: 62 O.S. 1981 § 511)

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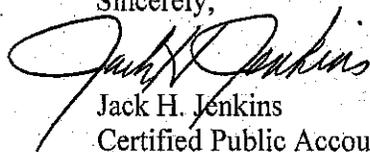
Criteria: The School is not tax exempt by Statute as is the case with public school districts since it was established as a charter school. Therefore, in order to be tax exempt, the School must file the necessary forms with the Internal Revenue Service to be accepted as a nonprofit organization.

Effect: If the School does not have tax exempt status, a corporate tax return would be required to be filed for the financial information of the School. Also, the School would not be able to accept tax deductible charitable donations from interested parties.

Recommendation: I recommend that the School file the necessary paperwork to get the entity approved as a nonprofit organization.

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,



Jack H. Jenkins
Certified Public Accountant, P.C.