AUDITED FINANCIAL STATEMENTS - REGULATORY BASIS
AND REPORTS OF INDEPENDENT AUDITOR

OKLAHOMA SKYNET, INC.
dba
OKLAHOMA VIRTUAL CHARTER ACADEMY NO. Z-2,
OKLAHOMA COUNTY, OKLAHOMA

JUNE 30, 2016

JENKINS & KEMPER
CERTIFIED PUBLIC ACCOUNTANTS, P.C.

OKLAHOMA VIRTUAL CHARTER ACADEMY NO. Z-2
OKLAHOMA COUNTY, OKLAHOMA
JUNE 30, 2016

TABLE OF CONTENTS

	Page No.
Table of Contents	1-2
School Officials	3
Independent Auditor's Report	4-5
COMBINED FINANCIAL STATEMENTS:	
Combined Statement of Assets, Liabilities and Cash Fund Balances – Regulatory Basis - All Fund Types	6
Combined Statement of Revenues, Expenditures, and Changes in Cash Fund Balances – Regulatory Basis - All Governmental Fund Types	7
Combined Statement of Revenues, Expenditures and Changes in Cash Fund Balance - Budget and Actual – Regulatory Basis - Budgeted Governmental Fund Types	8
Notes to Combined Financial Statements	9-19
OTHER SUPPLEMENTARY INFORMATION:	
COMBINING FINANCIAL STATEMENTS:	
Combining Statement of Changes in Assets and Liabilities - Regulatory Basis - All Agency Funds	20
Schedule of Expenditures of Federal Awards	21
Schedule of Surety Bonds	22

OKLAHOMA VIRTUAL CHARTER ACADEMY NO. Z-2
OKLAHOMA COUNTY, OKLAHOMA
JUNE 30, 2016

TABLE OF CONTENTS

	Page No.
Internal Control and Compliance Reports	
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*	23-24
Report on Compliance with Requirements Applicable to Each Major Program and Internal Control over Compliance in Accordance with OMB Uniform Guidance	25-26
Schedule of Findings and Questioned Costs	27
Disposition of Prior Year's Schedule of Findings	28
Schedule of Accountant's Professional Liability Insurance Affidavit	29

OKLAHOMA VIRTUAL CHARTER ACADEMY NO. Z-2
OKLAHOMA COUNTY, OKLAHOMA
SCHOOL OFFICIALS
JUNE 30, 2016

BOARD OF EDUCATION

President	Kristi Gifford
Vice-President	Lisa Lange
Clerk	Pat Jordan
Member	Terry Hopper
Member	Vickie Hinkle

HEAD OF SCHOOL

Sheryl Tatum

BUSINESS MANAGER

Abe Barela

TREASURER

David Harp

COMBINED FINANCIAL STATEMENTS – REGULATORY BASIS

JENKINS & KEMPER
CERTIFIED PUBLIC ACCOUNTANTS, P.C.

JACK JENKINS, CPA
MICHAEL KEMPER, CPA

INDEPENDENT AUDITOR'S REPORT

The Honorable Board of Education
Oklahoma Virtual Charter Academy No. Z-2
Midwest City, Oklahoma 73130

Report on the Financial Statements
We have audited the accompanying basic financial statements-regulatory basis of the governmental activities, each major fund and the aggregate remaining fund information of Oklahoma Virtual Charter Academy No. Z-2, Midwest City, Oklahoma (the "District") as of and for the year ended June 30, 2016, 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. 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 opinions 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 of 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 modified 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 Oklahoma Virtual Charter Academy No. Z-2, 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 reasonably 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 previous paragraph, the basic 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 governmental activities, each major fund, and the aggregate remaining

116 WEST BRECKENRIDGE AVE, BIXBY, OK 74008
PHONE: 918.366.4440 FAX: 918.366.4443
WWW.JENKINSKEMPER.COM

fund information of the Oklahoma Virtual Charter Academy No. Z-2, Oklahoma County, Oklahoma as of June 30, 2016, 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 assets account group, which is a departure from the regulatory basis of accounting prescribed by the Oklahoma State Department of Education. The amount that should be recorded in the general fixed asset account group is not known.

Qualified Opinion on Regulatory Basis of Accounting
In our opinion, except for the effects of the matter described in the preceding paragraph, the basic financial statements referred to in the first paragraph present fairly, in all material respects, the respective financial position-regulatory basis of the government activities, each major fund, and the aggregate remaining fund information of the District as of June 30, 2016, and the respective changes in financial position-regulatory basis for the year then ended on the regulatory basis of accounting described in Note 1.

Other Matters
Our audit was conducted for the purpose of forming an opinion on the financial statements that collectively comprise the District's basic financial statements. The combining statements, regulatory basis, listed in the accompanying table of contents are presented for purpose of additional analysis, and are not a required part of the basic financial statements. The schedule of expenditures of federal awards is presented for purposes of additional analysis as required by Title 2 U.S. *Code of Federal Regulations* (CFR) Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards,* and is also not a required part of the basic financial statements.

The combining statements-regulatory basis and the schedule of expenditures of federal awards are the responsibility of management and were derived from and relate directly to the underlying accounting and other records used to prepare the financial statements. Such information has been subjected to the auditing procedures applied in the audit of the financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements or to the financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the combining statements-regulatory basis are fairly stated in all material respects in relation to the financial statements as a whole.

Other Reporting Required by *Government Auditing Standards*
In accordance with *Government Auditing Standards*, we have also issued a report dated November 11, 2016, on our consideration of the District's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the District's internal control over financial reporting and compliance.

Jenkins & Kemper, CPAs P.C.

Jenkins & Kemper
Certified Public Accountants, P.C.

November 11, 2016

COMBINED FINANCIAL STATEMENTS – REGULATORY BASIS

OKLAHOMA VIRTUAL CHARTER ACADEMY NO. Z-2, OKLAHOMA COUNTY
COMBINED STATEMENT OF ASSETS, LIABILITIES AND FUND BALANCES - REGULATORY BASIS - ALL FUND TYPES AND ACCOUNT GROUPS
JUNE 30, 2016

	GOVERNMENTAL FUND TYPES	FIDUCIARY FUND TYPES	
ASSETS	GENERAL	EXPENDABLE TRUST AND AGENCY FUND	TOTALS (MEMO. ONLY)
Cash	$ 2,278,902	3,165	2,282,067
Total assets	2,278,902	3,165	2,282,067
LIABILITIES AND FUND BALANCES			
Liabilities			
Warrants payable	2,179		2,179
Encumbrances	2,227,505		2,227,505
Funds held for school organizations		3,165	3,165
Total liabilities	2,229,684	3,165	2,232,849
Fund balances			
Restricted for:			
Unassigned	49,218		49,218
Total fund balances	49,218	-	49,218
Total liabilities and fund balances	$ 2,278,902	3,165	2,282,067

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

OKLAHOMA VIRTUAL CHARTER ACADEMY NO. Z-2, OKLAHOMA COUNTY
COMBINED STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN CASH FUND BALANCES REGULATORY BASIS - ALL GOVERNMENTAL FUND TYPES
JUNE 30, 2016

	GOVERNMENTAL FUND TYPES
	GENERAL
Revenues	
Local sources	$ 21,172
State sources	10,454,693
Federal sources	1,622,161
Total revenues	12,098,026
Expenditures	
Instruction	10,390,818
Support services	1,719,236
Total expenditures	12,110,054
Revenues over (under) expenditures	(12,028)
Other financing sources (uses)	
In-kind contribution	1,135,676
Non-categorical - See Note 4	(1,135,676)
Estopped warrants	698
Lapsed appropriations	54
Bank fees	(379)
Total other financing sources (uses)	373
Revenue and other sources over (under) expenditures and other uses	(11,655)
Cash fund balance, beginning of year	60,873
Cash fund balance, end of year	$ 49,218

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

OKLAHOMA VIRTUAL CHARTER ACADEMY NO. Z-2, OKLAHOMA COUNTY
COMBINED STATEMENT OF REVENUES, EXPENDITURES
AND CHANGES IN FUND BALANCES - BUDGET AND ACTUAL -
REGULATORY BASIS - BUDGETED GENERAL FUND
JUNE 30, 2016

	GENERAL FUND		
	ORIGINAL BUDGET	FINAL BUDGET	ACTUAL
Revenues			
Local sources			21,172
State sources	$ 9,200,515	10,448,366	10,454,693
Federal sources	938,612	1,600,815	1,622,161
Total revenues	10,139,127	12,049,181	12,098,026
Expenditures			
Instruction			10,390,818
Support services			1,719,236
Non-categorical	10,200,000	12,110,054	
Total expenditures	10,200,000	12,110,054	12,110,054
Revenues over (under) expenditures	(60,873)	(60,873)	(12,028)
Other financing sources (uses)			
In-kind contribution			1,135,676
Non-categorical - See Note 4			(1,135,676)
Estopped warrants			698
Lapsed appropriations			54
Bank fees			(379)
Total other financing sources (uses)			373
Revenue and other sources over (under) expenditures and other uses	(60,873)	(60,873)	(11,655)
Cash fund balance, beginning of year	60,873	60,873	60,873
Cash fund balance, end of year	$ -	-	49,218

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

NOTES TO THE FINANCIAL STATEMENTS

1. Summary of Significant Accounting Policies

The accompanying financial statements of the Oklahoma Virtual Charter Academy No. Z-2 (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 is recognized by the Internal Revenue Service as an exempt organization under section 501(c)(3) of the Internal Revenue Service Code.

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 Head of Schools 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

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.

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 and 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.

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.

Inter-fund Transactions – Inter-fund 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.

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,

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 "State 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

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

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 – i 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.

3. **Detailed Notes Concerning the Funds**

Deposits and Investments – contd.

At June 30, 2016, the School held deposits of approximately $2,282,067 at financial institutions. The District's cash deposits, including interest-bearing certificates of deposit, are entirely covered by Federal Depository Insurance (FDIC) or direct obligation of the U.S. government insured or collateralized with securities held by the District or by its agent in the District's name.

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 banker's 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, 2016.

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. Employee Retirement System and Plan

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

D. Related Parties

All officers of the School are employees of K12, Inc. (K12). K12 provides certain services to the School (see Note 4-F). The School makes payments to K12 for educational products, professional services and reimbursements (see Note 4-F). 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, 2016, in-kind contributions (see Note 4-E) were $1,135,676, which was the net result of the total billed amount from K12 of $12,247,388 less payments made of $9,175,694 and reserve for encumbrances of $1,936,018.

4. Other Information

E. In-kind Contributions

As mentioned in the related party note above (see Note 4-D), 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.

F. Commitments

Management Agreement – On July 1, 2011, the School entered into a ten-year agreement, subject to annual renewal by the Board of Education, 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, 2016 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.

G. Subsequent Events

Management has evaluated subsequent events through the report date 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.

OTHER SUPPLEMENTARY INFORMATION – REGULATORY BASIS - COMBINING FINANCIAL STATEMENTS

OKLAHOMA VIRTUAL CHARTER ACADEMY NO. Z-2, OKLAHOMA COUNTY
COMBINING STATEMENT OF CHANGES IN ASSETS AND LIABILITIES
REGULATORY BASIS - ALL AGENCY FUNDS
FOR THE YEAR ENDED JUNE 30, 2016

	Balance July 1, 2015	Additions	Net Transfers	Deletions	Balance June 30, 2016
Assets					
Cash	$ -	11,175	-	8,010	3,165
Liabilities					
Funds held for student organizations					
Booster Club - Prom	-	7,217		6,335	882
Booster Club - General	-	3,279		1,595	1,684
Middle School Student Recog.	-	85		80	5
Elementary Student Recog.	-	594		-	594
Total Liabilities	$ -	11,175	-	8,010	3,165

OKLAHOMA VIRTUAL CHARTER ACADEMY NO. Z-2, OKLAHOMA COUNTY
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
FOR THE YEAR ENDED JUNE 30, 2016

	Federal Grantor/Pass Through Grantor/Program Title	Federal CFDA Number	Pass-through Grantor's Project Number	Program or Award Amount	Beginning Balance 7/01/2015	Revenue Collected	Total Expenditures	Ending Balance 6/30/2016
	U.S. Department of Education							
	Passed Through State Department of Education:							
*	Title I-Part A, Improving Basic Programs	84.010	511	$ 650,283		480,587	627,313	(146,726)
	Title I-Part A, Improving Basic Programs 2014-15 - Note 1	84.010	799		(188,605)	188,605		
	Title I-School Improvement 2013-14 - Note 1	84.010	799		(9,837)	9,837		
	Title II-Part A, Teacher & Principal Training	84.367	541	131,092		103,658	110,948	(7,290)
	Title II-Part A 2014-15 - Note 1	84.367	799		(105,921)	105,921		
	Special Education, Flowthrough, P.L. 105-17	84.027	621	421,914		384,466	421,914	(37,448)
*	Special Education, Flowthrough 2014-15 - Note 1	84.027	799		(345,581)	345,581		
*	Special Education, Preschool, Ages 3-5, P.L. 105-17	84.173	641	1,402		1,402	1,402	
	Special Education, Preschool, Ages 3-5 2014-15 - Note 1	84.173	799		(2,104)	2,104		
	Subtotal - Passed Through State Dept. of Education			1,204,690	(652,048)	1,622,161	1,161,577	(191,464)
	Total Federal Assistance			$ 1,204,690	(652,048)	1,622,161	1,161,577	(191,464)

* Major federal programs

Note 1 - Project number 799 refers to revenues received from prior-year programs.

Note 2 - This schedule was prepared on a regulatory basis of accounting consistent with the preparation of the combined financial statements.

OKLAHOMA VIRTUAL CHARTER ACADEMY NO. Z-2, OKLAHOMA COUNTY
SCHEDULE OF SURETY BONDS
FOR THE YEAR ENDED JUNE 30, 2016

BONDING COMPANY	POSITION COVERED	BOND NUMBER	COVERAGE AMOUNT	EFFECTIVE DATES
The Ohio Casualty Insurance Co	Superintendent	601066205	$ 100,000	8/1/15-8/1/16
	Treasurer	601065555	$ 100,000	7/1/15-7/1/16
	Encumbrance Clerk	601080134	$ 1,000	8/15/15-8/15/16
	Minutes Clerk	601080137	$ 1,000	8/18/15-8/18/16

JENKINS & KEMPER
CERTIFIED PUBLIC ACCOUNTANTS, P.C.

JACK JENKINS, CPA
MICHAEL KEMPER, CPA

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
Oklahoma Virtual Charter Academy No. Z-2
Midwest City, Oklahoma 73130

We have audited, in accordance with the 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 financial statements of the governmental activities, each major fund and the aggregate remaining fund information-regulatory basis, of Oklahoma Virtual Charter Academy No. Z-2, Midwest City, Oklahoma, as of and for the year ended June 30, 2016, and the related notes to the financial statements, which collectively comprise the District's basic financial statements, and have issued our report thereon dated November 11, 2016. This report was adverse with respect to the presentation of the financial statements in conformity with accounting principles generally accepted in the United States because the presentation followed the regulatory basis of accounting for Oklahoma school districts and did not conform to the presentation requirements of the Governmental Accounting Standards Board. However, our report was qualified for the omission of the general fixed asset account group with respect to the presentation of financial statements on the regulatory basis of accounting authorized by the Oklahoma State Board of Education.

Internal Control Over Financial Reporting
In planning and performing our audit of the financial statements, we considered the District's internal control over financial reporting to determine the audit procedures that are appropriate in the circumstances for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the District's internal control. Accordingly, we do not express an opinion on the effectiveness of the 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 over that might be material weaknesses or significant deficiencies. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

116 WEST BRECKENRIDGE AVE, BIXBY, OK 74008
PHONE: 918.366.4440 FAX: 918.366.4443
WWW.JENKINSKEMPER.COM

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, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

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.

Jenkins & Kemper, CPAs P.C.

Jenkins & Kemper
Certified Public Accountants, P.C.

November 11, 2016

JENKINS & KEMPER
CERTIFIED PUBLIC ACCOUNTANTS, P.C.

JACK JENKINS, CPA
MICHAEL KEMPER, CPA

INDEPENDENT AUDITOR'S REPORT ON COMPLIANCE FOR EACH MAJOR PROGRAM AND ON INTERNAL CONTROL OVER COMPLIANCE REQUIRED BY OMB UNIFORM GUIDANCE

The Honorable Board of Education
Oklahoma Virtual Charter Academy No. Z-2
Midwest City, Oklahoma 73130

Report on Compliance for Each Major Federal Program
We have audited the compliance of Oklahoma Virtual Charter Academy No. Z-2, Midwest City, Oklahoma, with the types of compliance requirements described in the *U.S. Office of Management and Budget (OMB) Compliance Supplement* that could have a direct and material effect on each of its major federal programs for the year ended June 30, 2016. The District's major federal programs are identified in the summary of auditor's results section of the accompanying schedule of findings and questioned costs.

Management's Responsibility
Management is responsible for compliance with the requirements of laws, regulations, contracts, and grants applicable to its federal programs.

Auditor's Responsibility
Our responsibility is to express an opinion on compliance for each of the District's major federal programs based on our audit of the types of compliance requirements referred to above. We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards,* issued by the Comptroller General of the United States; and *OMB's Uniform Guidance (2 CFR part 200, subpart E).* Those standards and the Uniform Guidance require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about the District's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion on compliance for each major federal program. However, our audit does not provide a legal determination of the District's compliance.

Opinion on Each Major Federal Program
In our opinion, Oklahoma Virtual Charter Academy No. Z-2, Midwest City, Oklahoma complied, in all material respects, with the types of compliance requirements referred to above that could have a direct and material effect on each of its major federal programs for the year ended June 30, 2016.

116 WEST BRECKENRIDGE AVE, BIXBY, OK 74008
PHONE: 918.366.4440 FAX: 918.366.4443
WWW.JENKINSKEMPER.COM

Report on Internal Control over Compliance

The management of Oklahoma Virtual Charter Academy No. Z-2, Midwest City, Oklahoma is responsible for establishing and maintaining effective internal control over compliance with the types of compliance requirements referred to above. In planning and performing our audit, we considered the District's internal control over compliance with the types of requirements that could have a direct and material effect on each major federal program to determine our auditing procedures that are appropriate in the circumstances for the purpose of expressing our opinion on compliance for each major federal program and to test and report on internal control over compliance in accordance with the Uniform Guidance, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of the District's internal control over compliance.

A *deficiency in internal control over compliance* exists when the design or operation of a control over compliance does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, noncompliance with a type of compliance requirement of a federal program on a timely basis. A *material weakness in internal control* over compliance is a deficiency, or combination of deficiencies, in internal control over compliance, such that there is a reasonable possibility that material noncompliance with a type of compliance requirement of a federal program will not be prevented, or detected and corrected, on a timely basis. A *significant deficiency in internal control over compliance* is a deficiency, or combination of deficiencies, in internal control over compliance with a type of compliance requirement of a federal program that is less severe than a material weakness in internal control over compliance, yet important enough to merit attention by those charged with governance.

Our consideration of internal control over compliance 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 compliance that might be material weaknesses or significant deficiencies. We did not identify any deficiencies in internal control over compliance that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

The purpose of this report on internal control over compliance is solely to describe the scope of our testing of internal control over compliance and the results of that testing based on the requirements of the Uniform Guidance. Accordingly, this report is not suitable for any other purpose.

Jenkins & Kemper, CPAs P.C.

Jenkins & Kemper
Certified Public Accountants, P.C.

November 11, 2016

OKLAHOMA VIRTUAL CHARTER ACADEMY NO. Z-2, OKLAHOMA COUNTY
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
JULY 1, 2015 TO JUNE 30, 2016

Summary of Auditor's Results

1. The auditor's report expresses an adverse opinion on the combined financial statements in conformity with generally accepted accounting principles and a qualified opinion 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.

2. No significant deficiencies relating to the audit of the financial statements are reported in the Schedule of Findings and Questioned Costs.

3. No instances of noncompliance material to the financial statements of the School were reported during the audit.

4. No significant deficiencies relating to the audit of the major federal award programs are reported in the "Report on Compliance with Requirements Applicable to Each Major Program and Internal Control over Compliance in Accordance with OMB Uniform Guidance"

5. An unqualified opinion report was issued on the compliance of major federal award programs.

6. The audit disclosed no audit findings and questioned costs, which are required to be reported under OMB Uniform Guidance.

7. The program tested as a major federal program was: Title I and Special Education programs, which were clustered in the determination.

8. The dollar threshold used to determine between Type A and Type B programs was $750,000.

9. The School did not qualify to be a low-risk auditee.

Findings – Financial Statement Audit

None

Findings and Questioned Costs – Major Federal Award Programs Audit

None

OKLAHOMA VIRTUAL CHARTER ACADEMY NO. Z-2, OKLAHOMA COUNTY
DISPOSITION OF PRIOR YEAR'S SCHEDULE OF FINDINGS
JULY 1, 2015 TO JUNE 30, 2016

There were no material findings in the previous fiscal year.

OKLAHOMA VIRTUAL CHARTER ACADEMY NO. Z-2, OKLAHOMA COUNTY
SCHEDULE OF ACCOUNTANT'S PROFESSIONAL
LIABILITY INSURANCE AFFIDAVIT
JULY 1, 2015 TO JUNE 30, 2016

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 2015-16.

Jenkins & Kemper, CPAs, P.C.
AUDITING FIRM

BY _____
AUTHORIZED AGENT

Subscribed and sworn to before me on this
14 day of, Nov., 2016

_____
NOTARY PUBLIC

NOTARY SEAL PUBLIC
KARLA JENKINS
Notary Public in and for the
State of Oklahoma
Commission #09009637
My Commission expires 11/20/2017

Print Form

Joy Hofmeister
State Superintendent of Public Instruction
Oklahoma State Department of Education
2500 North Lincoln Boulevard, Oklahoma City, Oklahoma 73105-4599

AUDIT ACKNOWLEDGEMENT

District Name Oklahoma Virtual Charter Academy District Number Z-2

County Name Oklahoma County Code 55

Audit Year: 2015-16

The annual independent audit for the Oklahoma Virtual Charter Academy
(District Name)

was presented to the Board of Education in an Open Board Meeting on 11/17/2016
(Date of Meeting)

by Jenkins & Kemper, CPAs, P.C.
(Independent Auditor)

(Independent Auditor's Signature)

The School Board acknowledges that as the governing body of the district, responsible for the district's 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 State Board of Education and the State Auditor and Inspector within 30 days from its presentation, as stated in 70 O.S. § 22-108:

"The district board of education shall forward a copy of the auditor's opinions and related financial statements to the State Board of Education and the State Auditor and Inspector within thirty (30) days after receipt of the audit."

Superintendent of Schools

Board of Education President

Melissa "Lisa" Lange
Board of Education Vice President

Terry Tagger
Board of Education Member

Linda Goodnight
Board of Education Member

Vicki Hinkle
Board of Education Member

Board of Education Member

Board of Education Member

Board of Education Member

Board of Education Member

Subscribed and sworn before me on 11/17/2016 (Sworn On) My Commission expires 12/16/17

Courtney Love
(Notary Public)

COURTNEY LOVE
NOTARY PUBLIC – STATE OF OKLAHOMA
COMMISSION # 13011256
My Commission Expires Dec. 16, 2017
Bonded Through RLI Insurance Company

* * * A copy of the Board Agenda and Board Minutes with the approval of the audit must accompany the audit. * * *