



BLEDSON, HEWETT & GULLEKSON
CERTIFIED PUBLIC ACCOUNTANTS, PLLLP

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December 8, 2023

Mr. Bryan Cleveland, General Counsel
Oklahoma State Department of Education
2500 N. Lincoln Blvd.
Oklahoma City, Oklahoma 73015

Dear Mr. Cleveland,

In addition to the findings identified in the audit on pages 12-15, listed below are the exceptions relayed to management that are immaterial instances of noncompliance with laws and regulations and which are not included, but which are referred to, in the audit report. If you have questions or desire additional information, please call us so that any discrepancies may be resolved.

Child Nutrition Programs

We observed during the audit that there were no claims for reimbursement submitted to the Child Nutrition Division of the State Department of Education. It does not appear that the School participated in the NSLP Program even though the School did serve free reimbursable meals and contracted with a Food Service Provider to provide student meals. We recommend that schools comply with the applicable requirements to participate in NSLP so they can be reimbursed for student meals being served.

Activity Fund

- During the audit, we noted that there is not a clear audit trail from when collections are made to the corresponding bank deposit. We recommend that all activity funds collected be receipted in pre-numbered receipt books, with a receipt copy being issued to any student or patron from whom money is received, and all receipt books be kept on file for review. Stronger internal controls will limit the School's risk to lost or stolen funds, in addition to ensuring that collections are being deposited in a timely manner.

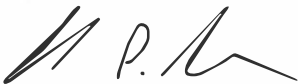
- We observed during the audit that pre-numbered admission tickets were not utilized for events which required a gate to be operated. Although admission was charged and there was a subsequent deposit, there were no pre-numbered tickets issued and therefore, a reconciliation of such tickets could not be performed. We recommend for all events in which a gate will be operated that pre-numbered tickets be issued and that a reconciliation of the tickets used to the revenues collected be performed on a gate collection form.

General Fund Appropriations

We observed during the audit that the applicable form for adding supplemental appropriations was not properly completed in a timely manner. This resulted in the general fund expenditures exceeding approved appropriations for a period of time during the fiscal year. The Board did eventually approve and submit a supplemental appropriation form to the County on September 29, 2023. We recommend that the School implement procedures to ensure that supplemental appropriation forms be completed and executed in a timely manner and that the appropriations ledger be reconciled periodically with expenditure reports to ensure that expenditures do not exceed approved appropriations at any time, in any fund, during the year as required by Oklahoma Statutes.

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

Sincerely,



Christopher P. Gullekson

For

Bledsoe, Hewett & Gullekson
Certified Public Accountants, PLLLP

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

**SOVEREIGN COMMUNITY SCHOOL DISTRICT NO. J-4,
OKLAHOMA COUNTY, OKLAHOMA**

JUNE 30, 2023

Audited by

**BLEDSON, HEWETT & GULLEKSON
CERTIFIED PUBLIC ACCOUNTANTS, PLLLP**

BROKEN ARROW, OK

SOVEREIGN COMMUNITY SCHOOL DISTRICT NO. J-4, OKLAHOMA COUNTY
SCHOOL DISTRICT OFFICIALS
JUNE 30, 2023

BOARD OF EDUCATION

President

Kendra Wilson-Clements

Vice-President

Victoria Redbird

Board Secretary/Clerk

vacant

Member

Joseph Blanchard

DIRECTOR OF OPERATIONS

Theron Wahkinney

ENCUMBRANCE CLERK

Becky Kime

SCHOOL DISTRICT TREASURER

Jack H. Jenkins, CPA

SOVEREIGN COMMUNITY SCHOOL DISTRICT NO. J-4, OKLAHOMA COUNTY
JUNE 30, 2023

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SOVEREIGN COMMUNITY SCHOOL DISTRICT NO. J-4, OKLAHOMA COUNTY
JUNE 30, 2023

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INDEPENDENT AUDITOR'S REPORT

To the Honorable Board of Education
Sovereign Community School District No. J-4
Oklahoma City, Oklahoma County, Oklahoma

Report on the Audit of the Financial Statements

We have audited the accompanying combined fund type and account group financial statements-regulatory basis of the Sovereign Community School District No. J-4, Oklahoma City, Oklahoma County, Oklahoma (the "School"), as of and for the year ended June 30, 2023, and the related notes to the financial statements, which collectively comprise the School's basic financial statements as listed in the table of contents.

Qualified Opinion on Regulatory Basis of Accounting

In our opinion, except for the effects of the matter discussed in the "Basis for Qualified Opinion on Regulatory Basis of Accounting" section of our report, the combined financial statements referred to above present fairly, in all material respects, the assets, liabilities and fund balances arising from regulatory basis transactions of each fund type and account group of the School, as of June 30, 2023, and the revenues it received and expenditures it paid and encumbered for the year then ended, in accordance with the financial reporting provisions of the Oklahoma State Department of Education as described in Note 1.

Adverse Opinion on U.S. Generally Accepted Accounting Principles

In our opinion, because of the significance of the matter discussed in the "Basis for Adverse Opinion on U.S. Generally Accepted Accounting Principles" section of our report, the financial statements referred to in the first paragraph do not present fairly, in accordance with accounting principles generally accepted in the United States of America, the financial position of the School, as of June 30, 2023, or the revenues, expenses, and changes in net position and, where applicable, cash flows thereof for the year then ended.

Basis for Opinions

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. Our responsibilities under those standards are further described in the "Auditor's Responsibilities for the Audit of the Financial Statements" section of our report. We are required to be independent of the School and to meet our other ethical responsibilities, in accordance with the relevant ethical requirements relating to our audit. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our adverse and qualified audit opinions.

Basis for Qualified Opinion on Regulatory Basis of Accounting

As discussed in Note 1, the financial statements referred to above do not include the General Fixed Asset Account Group, which is a departure from the regulatory basis of accounting prescribed or permitted by the Oklahoma State Department of Education. The amount that should be recorded in the General Fixed Asset Account Group is not known.

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

As described in Note 1 to the financial statements, to meet the financial reporting requirements of the Oklahoma State Department of Education, the financial statements are prepared by the School, on the basis of the financial reporting regulations prescribed or permitted by the Oklahoma State Department of Education, which is a basis of accounting other than accounting principles generally accepted in the United States of America. The effects on the financial statements of the variances between the regulatory basis of accounting described in Note 1 and accounting principles generally accepted in the United States of America, although not reasonably determinable, are presumed to be material and pervasive.

Emphasis of Matter – School Closure

As discussed in Note 9 to the financial statements, the School has ceased operations effective June 30, 2023 and has been dissolved. Certain assets after the dissolution of the School have been distributed to the Oklahoma State Board of Education (OSBE). Any outstanding liabilities or School obligations that arise after June 30, 2023 will not be paid.

Responsibilities of Management for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with the financial reporting regulations prescribed or permitted by the Oklahoma State Department of Education as described in Note 1, to meet the financial reporting requirements of the State of Oklahoma; this includes determining that the regulatory basis of accounting is an acceptable basis for the preparation of the financial statements in the circumstances. Management is also responsible for the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements, management is required to evaluate whether there are conditions or events, considered in the aggregate, that raise substantial doubt about the School's ability to continue as a going concern for twelve months beyond the financial statement date, including any currently known information that may raise substantial doubt shortly thereafter.

Auditor's Responsibilities for the Audit of the Financial Statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinions. Reasonable assurance is a high level of assurance but is not absolute assurance and therefore is not a guarantee that an audit conducted in accordance with generally accepted auditing standards and *Government Auditing Standards* will always detect a material misstatement when it exists. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control. Misstatements are considered material if there is a substantial likelihood that, individually or in the aggregate, they would influence the judgment made by a reasonable user based on the financial statements.

In performing an audit in accordance with generally accepted auditing standards and *Government Auditing Standards*, we:

- Exercise professional judgment and maintain professional skepticism throughout the audit.
- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, and design and perform audit procedures responsive to those risks. Such procedures include examining, on a test basis, evidence regarding the amounts and disclosures in the financial statements.
- Obtain an understanding of internal control relevant to the audit 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 School's internal control. Accordingly, no such opinion is expressed.
- Evaluate the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluate the overall presentation of the financial statements.

- Conclude whether, in our judgment, there are conditions or events, considered in the aggregate, that raise substantial doubt about the School's ability to continue as a going concern for a reasonable period of time.

We are required to communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit, significant audit findings, and certain internal control-related matters that we identified during the audit.

Supplementary Information

Our audit was conducted for the purpose of forming opinions on the fund type and account group financial statements-regulatory basis that collectively comprise the School's basic financial statements. The accompanying combining financial statements-regulatory basis and other supplementary information and schedule of expenditures of federal awards are presented for purposes of additional analysis and are not a required part of the combined financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the combined financial statements-regulatory basis. The information has been subjected to the auditing procedures applied in the audit of the fund type and account group financial statements within the combined financial statements-regulatory basis and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic financial statements or to the basic financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, except for the financial statements being prepared in compliance with the regulatory basis as prescribed by the Oklahoma State Department of Education as discussed in Note 1, the combining financial statements-regulatory basis and other supplementary information and the schedule of expenditures of federal awards are fairly stated, in all material respects, in relation to the combined financial statements-regulatory basis as a whole.

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated December 8, 2023, on our consideration of the School's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is solely 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 effectiveness of the School's internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the School's internal control over financial reporting and compliance.

Bledsoe, Hewett & Gullekson

Bledsoe, Hewett & Gullekson
Certified Public Accountants, PLLLP

December 8, 2023



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**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
Sovereign Community School District No. J-4
Oklahoma City, Oklahoma, Oklahoma

We have audited in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States, the fund type and account group financial statements – regulatory basis of the Sovereign Community School District No. J-4, Oklahoma City, Oklahoma County, Oklahoma (the "School"), as of and for the year ended June 30, 2023, and the related notes to the financial statements, which collectively comprise the School's basic financial statements, and have issued our report thereon dated December 8, 2023, which was adverse with respect to the presentation of the financial statements in conformity with accounting principles generally accepted in the United States because the presentation followed the regulatory basis of accounting for Oklahoma school districts as provided by the Oklahoma State Department of Education. However, our report was qualified because the omission of the general fixed asset account group results in an incomplete presentation with respect to the presentation of financial statements on the regulatory basis of accounting authorized by the Oklahoma State Board of Education.

Internal Control Over Financial Reporting

In planning and performing our audit of the financial statements, we considered the School's internal control over financial reporting (internal control) as a basis for designing audit procedures that are appropriate in the circumstances for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of School's internal control. Accordingly, we do not express an opinion on the effectiveness of School's internal control.

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or, significant deficiencies and therefore, material weaknesses or significant deficiencies may exist that were not identified. However, as described in the accompanying schedule of audit results, findings and questioned costs, we identified significant deficiencies in internal control that we consider to be material weaknesses.

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. We consider the deficiencies 2023-1, 2023-2, 2023-3 and 2023-4 described in the accompanying schedule of audit results, findings, and questioned costs to be material weaknesses.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the School's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, non-compliance with which could have a direct and material effect on the determination of financial statements amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed two instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*. These items, identified as 2022-2 and 2022-3 are described in the accompanying schedule of audit results, findings, and questioned. We also noted certain immaterial instances of non-compliance which are described in the accompanying management letter.

School's Response to Findings

Government Auditing Standards requires the auditor to perform limited procedures on the School's response to the findings identified in our audit and described in the accompanying schedule of audit results, findings, and questioned costs. The School's response to the findings identified in our audit are described in the attached corrective action plan. The School's responses were not subjected to the auditing procedures applied in the audit on the financial statements and accordingly, we express no opinion on it.

Purpose of this Report

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the entity's internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the School's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

Bledsoe, Hewett & Gullekson

Bledsoe, Hewett & Gullekson
Certified Public Accountants, PLLLP

December 8, 2023

SOVEREIGN COMMUNITY SCHOOL DISTRICT NO. J-4, OKLAHOMA COUNTY
DISPOSITION OF PRIOR YEAR'S SIGNIFICANT DEFICIENCIES AND
MATERIAL INSTANCES OF NONCOMPLIANCE
JUNE 30, 2023

FINDING 2022-1 – SEGREGATION OF DUTIES

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

Current Status: This finding continued in the 2022-23 fiscal year (see Finding 2023-1).

FINDING 2022-2 – PURCHASE ORDERS

Condition: During our review of general fund and activity fund expenditures we made the following observations:

- A non-kickback affidavit was not obtained when the invoices exceeded \$25,000.
- We observed over \$65,000 in debit card purchases. For the majority of these purchases, we were unable to locate itemized invoices; therefore, we were unable to verify the allowability of these purchases.
- Of a sample of 14 activity fund purchase orders, none had itemized receipts or proper supporting documentation.

Current Status: This finding continued in the 2022-23 fiscal year (see Finding 2023-2).

FINDING 2022-3 – FINANCIAL POSITION

Condition: We observed during the audit that in addition to the \$500,000 loan (line of credit) with Sante Fe South Development, Inc. (SFS) that the School is currently indebted, the School also entered into a loan agreement with Chickasaw Community Bank for \$250,000. Both loans were approved by the Board for the purpose of cash flow. The School drew down \$300,000 from the SFS loan during the 2020-21 fiscal year and drew down \$150,000 from the Chickasaw Community Bank loan during the 2021-22 fiscal year. The repayment plans for these loans are not clearly outlined in the loan agreements; however, School management stated they had anticipated additional funds from the School's 2021-22 mid-year adjustment and planned to repay the loans once these funds are received. Since charter schools cannot levy taxes to pay outstanding debt, this obligation will have to be repaid from the School's general fund.

SOVEREIGN COMMUNITY SCHOOL DISTRICT NO. J-4, OKLAHOMA COUNTY
DISPOSITION OF PRIOR YEAR'S SIGNIFICANT DEFICIENCIES AND
MATERIAL INSTANCES OF NONCOMPLIANCE
JUNE 30, 2023

Current Status: This finding continued in the 2022-23 fiscal year. The School drew down an additional \$100,000 from Chickasaw Community Bank in August 2022, however, the School has paid this loan in full as of December 8, 2023. The School did still owe SFS \$250,000 as of December 8, 2023. (see Finding 2023-3).

FINDING 2022-4 – ORGANIZATIONAL STRUCTURE

Condition: During our audit, we noted that the business staff positions are not correctly identified. The School outsources treasury duties with a CPA consulting firm. This firm appears to be receipting all revenue into the accounting software, coding revenue according to OCAS, reconciling the bank statement monthly, and providing monthly financial reports to the Board. The currently bonded encumbrance clerk does not appear to be performing any accounts payable duties. All accounts payable duties, including entering purchase orders, maintaining the encumbrance ledger, and submitting payments to vendors, is performed by the 2021-22 Superintendent. Thus, it appears the title of encumbrance clerk and treasurer are incorrectly assigned to individuals who are not actually performing these responsibilities. In addition, the activity fund custodian is not listed on the schedule position bond.

Current Status: Although this finding continued in the beginning of the 2022-23 fiscal year, the former business staff resigned early in the year and the School hired an experienced encumbrance clerk and treasurer to fulfill the necessary responsibilities of those positions.

SOVEREIGN COMMUNITY SCHOOL DISTRICT NO. J-4, OKLAHOMA COUNTY
SCHEDULE OF AUDIT RESULTS, FINDINGS AND QUESTIONED COSTS
JUNE 30, 2023

Section 1 - Summary of Auditor's Results:

1. An adverse opinion was issued on the combined financial statements in conformity with generally accepted accounting principles and a qualified opinion was issued for the omission of the general fixed asset account group on the combined financial statements in conformity with a regulatory basis of accounting prescribed by the Oklahoma State Department of Education.
2. The audit identified four significant deficiencies (items 2023-1, 2023-2, 2023-3, 2023-4) considered to be material weaknesses, and did not report any significant deficiencies not considered to be material weaknesses in the internal controls over financial reporting.
3. The audit disclosed two instances of noncompliance (items 2023-2, 2023-3) which are material to the financial statements.

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

FINDING 2023-1 – SEGREGATION OF DUTIES

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

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

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

Recommendation: Although this is an ongoing issue in small school districts, we recommend that Board implement procedures to segregate key accounting functions and determine the cost effectiveness of the possible hiring/assigning of personnel to help better segregate accounting functions. This may include having board members or other employees take part in the review and reconciliation of selected information.

Response: The School has not responded to the audit findings as of the date of this audit report.

SOVEREIGN COMMUNITY SCHOOL DISTRICT NO. J-4, OKLAHOMA COUNTY
SCHEDULE OF AUDIT RESULTS, FINDINGS AND QUESTIONED COSTS
JUNE 30, 2023

FINDING 2023-2 – PURCHASE ORDERS

Condition: During our review of the general fund and activity fund expenditures, we made the following observations:

- We observed over \$43,000 in general fund debit card purchases. For the majority of these purchases, we were unable to locate itemized invoices; therefore, we were unable to verify the allowability of these purchases.
- We observed that many of the blanket purchase orders encumbered on July 1, 2022 did not accurately reflect the amounts that would need to be paid during the year. Thus, these purchase orders had to be adjusted throughout the year to pay the actual School obligations.
- We were only able to locate partial documentation for most of the purchase orders we selected for testing, as the checks issued for payment did not always equal to supporting documentation attached.
- We observed payments on purchase orders which were issued against fiscal year 2022-23 appropriations but were in payment of indebtedness actually incurred in the 2021-22 fiscal year.
- Many of the invoices/delivery tickets observed were not being signed as received.
- We were unable to locate any original purchase requisitions for activity fund expenditures that would document prior approval of expenditures. In addition, the majority of expenditures from the activity fund were made with the School's debit card. There were debit card receipts located, but we were unable to reconcile these receipts to the individual bank transactions. Further, we could not determine the allowability of these purchases since they did not accompany a requisition that would document the purpose for each expense.

Criteria: Oklahoma Statutes require that Boards prescribe and administer adequate policies and procedures governing the purchase of goods or services of the School. (Reference: 70 O.S. § 1-135) All School obligations should be encumbered prior to the actual purchase of materials or services. Expenditures should be properly authorized, and adequate support be obtained and attached to the purchase order. Adequate support would include original invoices with vendor name, address, phone number and itemized in sufficient detail, prior to issuing payment. In addition, schools should follow Oklahoma Statutes which require all indebtedness incurred during a fiscal year be paid from the collections from the same fiscal year, i.e., a current expense fund.

Cause / Effect: Proper procedures were not in place over the accounts payable function for both general fund and activity fund purchases. This increases the risk that a misappropriation of assets will occur and not be detected whether due to error or fraud.

SOVEREIGN COMMUNITY SCHOOL DISTRICT NO. J-4, OKLAHOMA COUNTY
SCHEDULE OF AUDIT RESULTS, FINDINGS AND QUESTIONED COSTS
JUNE 30, 2023

This also increases the probability of expenditures being paid from the wrong fiscal year collections.

Recommendation: We recommend that the School enforce policies and procedures which require that purchase orders be encumbered prior to the obligation being incurred, proper approval of the expenditure, original documentation be obtained, invoices be signed as received, the face of the purchase order reflect the total amount actually paid, and the check number(s) be recorded on the purchase order. We also recommend that all expenditures be encumbered in the fiscal year in which they were incurred and be paid from the corresponding revenues. Further, we recommend that procedures be put in place to ensure that accounting records are properly maintained and filed in a manner where they are easily located.

Response: The School has not responded to the audit findings as of the date of this audit report.

FINDING 2023-3 – FINANCIAL POSITION

Condition: We observed during the audit that the School was indebted \$250,000 on a loan (line of credit) with Sante Fe South Development, Inc. (SFS). This debt remains unpaid as of December 8, 2023. The School was also indebted on a loan agreement with Chickasaw Community Bank for \$250,000. This loan had been paid in full as of December 8, 2023.

Criteria: Effective financial monitoring is critical to ensure that charter school's operating costs remain within available financial resources. The School should demonstrate that it is financially responsible by only taking on debt when there is anticipated future revenues that will be available to repay this debt.

Cause / Effect: The School's general fund had \$1,460,650 in expenditures during the 2022-23 fiscal year and only collected \$1,279,569 in revenues, not including \$100,000 in new loan proceeds. The School had had to take out the \$100,000 in new debt in order to maintain a positive fund balance.

Recommendation: We recommend that proper planning, budgeting, and monitoring of revenues and expenditures be performed throughout the fiscal year to ensure that a negative fund balance is avoided at all times.

Response: The School has not responded to the audit findings as of the date of this audit report.

SOVEREIGN COMMUNITY SCHOOL DISTRICT NO. J-4, OKLAHOMA COUNTY
SCHEDULE OF AUDIT RESULTS, FINDINGS AND QUESTIONED COSTS
JUNE 30, 2023

FINDING 2023-4 – BOARD MINUTES

Condition: During our review of the Board agendas and minutes we made the following observations:

- There were a couple of board meetings that we were unable to determine if the regularly scheduled or special meeting actually took place, or if they were cancelled due to lack of quorum.
- We could not verify that the 2023 calendar of regularly scheduled meetings was submitted to the County Clerk in a timely manner.

Criteria: Board meeting agendas and minutes should be permanently kept on file and available for review. If a meeting is cancelled or rescheduled, it should be clearly stated in the minutes file and proper notice should be filed with the county clerk. Further, the Open Meeting Act requires that agendas be posted prior to regularly scheduled meetings and that public notice of each calendar year of meetings should be given to the County Clerk prior to December 15th of each year for the upcoming year's meetings.

Cause / Effect: The School did not have procedures/controls in place to ensure that the Open Meeting Act was complied with consistently during the fiscal year. Not properly following the Open Meeting Act increases the risk that the necessary business transactions of the School will not be properly approved and communicated to the Board.

Recommendation: We recommend that all board minutes and agendas be properly filed and made available for review and proper documentation should be made if a meeting is cancelled or rescheduled. We recommend that the regular meeting dates be prepared for each calendar year and that these dates be submitted to the County Clerk for each upcoming year by December 15th of the previous year. Further, we recommend that the Board of Education review the open meeting requirements and follow the applicable procedures detailed therein.

Response: The School has not responded to the audit findings as of the date of this audit report.

COMBINED FINANCIAL STATEMENTS – REGULATORY BASIS

SOVEREIGN COMMUNITY SCHOOL DISTRICT NO. J-4, OKLAHOMA COUNTY
 COMBINED STATEMENT OF ASSETS, LIABILITIES AND FUND BALANCES -
 ALL FUND TYPES AND ACCOUNT GROUPS - REGULATORY BASIS
 JUNE 30, 2023

	GOVERNMENTAL FUND TYPES	FIDUCIARY FUND TYPES	ACCOUNT GROUP	TOTALS
	GENERAL FUND	EXPEND. TRUST & AGENCY FUNDS	GENERAL LONG-TERM DEBT	(MEMORANDUM ONLY)
<u>ASSETS</u>				
Cash	\$ 139,990	12,188		152,178
Amount to be provided for retirement of long-term debt			250,000	250,000
Total Assets	<u>\$ 139,990</u>	<u>12,188</u>	<u>250,000</u>	<u>402,178</u>
<u>LIABILITIES AND FUND BALANCE</u>				
Liabilities:				
Warrants/checks payable	\$ 34,340	6,178		40,518
Encumbrances	105,650			105,650
Funds held for school organizations		6,010		6,010
Long-term debt:				
Loans payable			250,000	250,000
Total liabilities	<u>139,990</u>	<u>12,188</u>	<u>250,000</u>	<u>402,178</u>
Fund Balances:				
Unassigned	<u>0</u>	<u>0</u>	<u>0</u>	<u>0</u>
Total Liabilities and Fund Equity	<u>\$ 139,990</u>	<u>12,188</u>	<u>250,000</u>	<u>402,178</u>

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

SOVEREIGN COMMUNITY SCHOOL DISTRICT NO. J-4, OKLAHOMA COUNTY
 COMBINED STATEMENT OF REVENUES COLLECTED, EXPENDITURES AND CHANGES IN
 CASH FUND BALANCES - ALL GOVERNMENTAL FUND TYPES - REGULATORY BASIS
 FOR THE YEAR ENDED JUNE 30, 2023

	GOVERNMENTAL FUND TYPES	FIDUCIARY FUND TYPES EXPENDABLE	TOTALS (MEMORANDUM ONLY)
	GENERAL FUND	TRUST FUNDS	
Revenues Collected:			
Local sources	\$ 151,537	161,915	313,452
State sources	821,275		821,275
Federal sources	306,757		306,757
Total revenues collected	<u>1,279,569</u>	<u>161,915</u>	<u>1,441,484</u>
Expenditures:			
Instruction	464,481		464,481
Support services	924,362	146,915	1,071,277
Operation of noninstructional services	71,807		71,807
Total expenditures	<u>1,460,650</u>	<u>146,915</u>	<u>1,607,565</u>
Excess of revenues collected over (under) expenditures	(181,081)	15,000	(166,081)
Other financing sources (uses):			
Adjustments to prior year encumbrances	13,926		13,926
Transfer to activity fund		(15,000)	(15,000)
Loan proceeds	100,000		100,000
Total other financing sources (uses)	<u>113,926</u>	<u>(15,000)</u>	<u>98,926</u>
Excess of revenues collected and other financing sources over (under) expenditures and other financing sources (uses)	(67,155)	0	(67,155)
Cash fund balances, beginning of year	<u>67,155</u>	<u>0</u>	<u>67,155</u>
Cash fund balances, end of year	<u><u>\$ 0</u></u>	<u><u>0</u></u>	<u><u>0</u></u>

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

SOVEREIGN COMMUNITY SCHOOL DISTRICT NO. J-4, OKLAHOMA COUNTY
 COMBINED STATEMENT OF REVENUES COLLECTED, EXPENDITURES AND
 CHANGES IN CASH FUND BALANCES - BUDGETED GOVERNMENTAL FUND TYPES - REGULATORY BASIS
 FOR THE YEAR ENDED JUNE 30, 2023

	GENERAL FUND			
	Original Budget	Final Budget	Actual	Prior Year (Memorandum Only)
Revenues Collected:				
Local sources	\$ 150,000	150,000	151,537	320,000
State sources	620,384	806,916	821,275	733,923
Federal sources	437,369	437,369	306,757	235,683
Total revenues collected	<u>1,207,753</u>	<u>1,394,285</u>	<u>1,279,569</u>	<u>1,289,606</u>
Expenditures:				
Instruction	264,258	450,790	464,481	569,071
Support services	938,843	938,843	924,362	743,587
Operation of noninstruction services	71,807	71,807	71,807	26,912
Facilities acquisition & construction services				54,718
Other outlays:				
Clearing account				15,186
Charter school reimbursement				19,499
Total expenditures	<u>1,274,908</u>	<u>1,461,440</u>	<u>1,460,650</u>	<u>1,428,973</u>
Excess of revenues collected over (under) expenditures before other financing sources (uses)	(67,155)	(67,155)	(181,081)	(139,367)
Other financing sources (uses):				
Adjustments to prior year encumbrances			13,926	8,872
Loan proceeds			100,000	150,000
Total other financing sources (uses)	<u>0</u>	<u>0</u>	<u>113,926</u>	<u>158,872</u>
Excess of revenues collected and other financing sources over (under) expenditures and other financing uses	(67,155)	(67,155)	(67,155)	19,505
Cash fund balance, beginning of year	<u>67,155</u>	<u>67,155</u>	<u>67,155</u>	<u>47,650</u>
Cash fund balance, end of year	<u>\$ 0</u>	<u>0</u>	<u>0</u>	<u>67,155</u>

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

NOTES TO COMBINED FINANCIAL STATEMENTS – REGULATORY BASIS

SOVEREIGN COMMUNITY SCHOOL DISTRICT NO. J-4, OKLAHOMA COUNTY
NOTES TO THE COMBINED FINANCIAL STATEMENTS – REGULATORY BASIS
FOR THE YEAR ENDED JUNE 30, 2023

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The accompanying financial statements of the Sovereign Community School District No. J-4 (the “School”) have been prepared in conformity with another comprehensive basis of accounting prescribed by the Oklahoma State Department of Education as authorized by Oklahoma Statutes. Accordingly, the accompanying financial statements are not intended to present financial position and results of operations in conformity with the accounting principles generally accepted in the United States of America. The School’s accounting policies are described in the following notes that are an integral part of the School’s financial statements.

A. Reporting Entity

Sovereign Community School Foundation, an Oklahoma not-for profit corporation described in Internal Revenue Code Section 501(c)(3), was formed for the benefit of a school to be called Sovereign Community Charter School. The School operates under provisions of the Oklahoma Charter Schools Act through a contract with the Oklahoma State Board of Education as its sponsoring school. Approval was granted by the Oklahoma State Department of Education and School student operations began in August 2019. The School is also a corporate body for public purposes created under Title 70 of the Oklahoma Statutes and accordingly is a separate entity for operating and financial reporting purposes. The School is part of the public school system of Oklahoma under the general direction and control of the State Board of Education and is financially dependent on State of Oklahoma support. The general operating authority for the public school system is the Oklahoma School Code contained in Title 70, Oklahoma Statutes.

The governing body of the School is the Board of Education composed of no fewer than three and no more than nine appointed members. The appointed Head of School is the executive officer of the School.

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

SOVEREIGN COMMUNITY SCHOOL DISTRICT NO. J-4, OKLAHOMA COUNTY
NOTES TO THE COMBINED FINANCIAL STATEMENTS – REGULATORY BASIS
FOR THE YEAR ENDED JUNE 30, 2023

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – cont'd

A. Reporting Entity – cont'd

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.

B. Measurement Focus

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

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

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

Governmental Fund Types

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

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

SOVEREIGN COMMUNITY SCHOOL DISTRICT NO. J-4, OKLAHOMA COUNTY
NOTES TO THE COMBINED FINANCIAL STATEMENTS – REGULATORY BASIS
FOR THE YEAR ENDED JUNE 30, 2023

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – cont'd

B. Measurement Focus - cont'd

Special Revenue Funds – Special revenue funds account for revenue sources that are restricted to expenditures for specific purposes. The special revenue funds typically include building, co-op and child nutrition funds. The School did not maintain any special revenue funds during the 2022-23 fiscal year.

Fiduciary Fund Types

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

Expendable Trust Funds – Expendable trust funds typically include the gifts and endowments fund.

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

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

Account Groups

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

SOVEREIGN COMMUNITY SCHOOL DISTRICT NO. J-4, OKLAHOMA COUNTY
NOTES TO THE COMBINED FINANCIAL STATEMENTS – REGULATORY BASIS
FOR THE YEAR ENDED JUNE 30, 2023

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – cont'd

B. Measurement Focus - cont'd

Memorandum Only - Total Column

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

C. Basis of Accounting and Presentation

The 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* with certain modifications. This format differs significantly from that required by GASB 34.

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

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

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

SOVEREIGN COMMUNITY SCHOOL DISTRICT NO. J-4, OKLAHOMA COUNTY
NOTES TO THE COMBINED FINANCIAL STATEMENTS – REGULATORY BASIS
FOR THE YEAR ENDED JUNE 30, 2023

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – cont'd

C. Basis of Accounting and Presentation – cont'd

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

D. Budgets and Budgetary Accounting

The School is required by state law to prepare an annual budget. The Board of Education must request an initial temporary appropriations budget from their County Excise Board before June 30. The School uses the temporary appropriation amounts as their legal expenditure limit until the annual Estimate of Needs is completed.

A budget is legally adopted by the Board of Education for all funds (with the exception of the trust and agency funds) that includes revenues and expenditures. No later than October 1, each Board of Education shall prepare a financial statement and Estimate of Needs to be filed with the applicable County Clerk and the State Department of Education.

The 2022-23 Estimate of Needs was amended by the following supplemental appropriation:

<u>Fund</u>	<u>Total</u>
General	\$ 186,532

This amendment was approved by the County Clerk's Office.

Encumbrances represent commitments related to unperformed contracts for goods or services. Encumbrance accounting – under which purchase orders and other commitments of resources are recorded as expenditures of the applicable fund – is utilized in all governmental funds of the School. Unencumbered appropriations lapse at the end of each fiscal year.

E. Assets, Liabilities and Fund Equity

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

SOVEREIGN COMMUNITY SCHOOL DISTRICT NO. J-4, OKLAHOMA COUNTY
NOTES TO THE COMBINED FINANCIAL STATEMENTS – REGULATORY BASIS
FOR THE YEAR ENDED JUNE 30, 2023

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – cont'd

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

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

Inventories – The value of consumable inventories at June 30, 2023 is not material to the combined financial statements.

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

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

Encumbrances – Encumbrances represent commitments related to purchase orders, contracts, other commitments for expenditures or resources, and goods or services received by the School for which a warrant/check has not been issued. An expenditure is recorded and a liability is recognized for outstanding encumbrances at year end in accordance with the regulatory basis of accounting. While the regulatory basis that is used for the debt service fund approximates full accrual accounting, the accruals recorded are reported to meet regulatory requirements, as opposed to the requirements of generally accepted accounting principles.

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

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

SOVEREIGN COMMUNITY SCHOOL DISTRICT NO. J-4, OKLAHOMA COUNTY
NOTES TO THE COMBINED FINANCIAL STATEMENTS – REGULATORY BASIS
FOR THE YEAR ENDED JUNE 30, 2023

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – cont'd

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

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

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

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

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

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

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

SOVEREIGN COMMUNITY SCHOOL DISTRICT NO. J-4, OKLAHOMA COUNTY
NOTES TO THE COMBINED FINANCIAL STATEMENTS – REGULATORY BASIS
FOR THE YEAR ENDED JUNE 30, 2023

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – cont'd

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

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

F. Revenue and Expenditures

Local Revenues – Revenue from local sources is the money generated from within the boundaries of the District and available to the District for its use. Local sources of revenues may include donations, tuition, fees, rentals, disposals, commissions and reimbursements.

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

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

After review and verification of reports and supporting documentation, the State Department of Education may adjust subsequent fiscal period allocations of money for prior year errors disclosed by review. Normally, such adjustments are treated as reductions from or additions to the revenue of the year when the adjustment is made.

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

SOVEREIGN COMMUNITY SCHOOL DISTRICT NO. J-4, OKLAHOMA COUNTY
NOTES TO THE COMBINED FINANCIAL STATEMENTS – REGULATORY BASIS
FOR THE YEAR ENDED JUNE 30, 2023

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – cont'd

F. Revenue and Expenditures – cont'd

Federal Revenues – Federal revenues consist of revenues from the federal government in the form of operating grants or entitlements. An operating grant is a contribution to be used for a specific purpose, activity or facility. A grant may be received either directly from the federal government or indirectly as a passthrough from another government, such as the state. Entitlement is the amount of payment to which the School is entitled pursuant to an allocation formula contained in applicable statutes.

Non-Monetary Transactions – School districts typically receive commodities from the U.S. Department of Agriculture; however, no commodities were received by the School during the 2022-23 fiscal year. The value of these commodities is typically included in the Schedule of Expenditures of Federal Awards; however, they are not included in the financial statements as either revenue or expense since they are not reported under the regulatory basis of accounting.

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

Nonrevenue Receipts – Nonrevenue receipts represent receipts deposited into a fund that are not new revenues to the School, but the return of assets.

Instruction Expenditures – Instruction expenditures include the activities dealing directly with the interaction between teachers and students. Teaching may be provided for students in a school classroom, in another location, such as a home or hospital, and in other learning situations, such as those involving cocurricular activities. It may also be provided through some other approved medium, such as television, radio, telephone and correspondence. Included here are the activities of teacher assistants of any type (clerks, graders, teaching machines, etc.) which assist in the instructional process. The activities of tutors, translators and interpreters would be recorded here. Department chairpersons who teach for any portion of time are included here. Tuition/transfer fees paid to other LEAs would be included here.

Support Services Expenditures – Support services expenditures provide administrative, technical (such as guidance and health) and logistical support to facilitate and enhance instruction. These services exist as adjuncts for fulfilling the objectives of instruction, community services and enterprise programs, rather than as entities within themselves.

SOVEREIGN COMMUNITY SCHOOL DISTRICT NO. J-4, OKLAHOMA COUNTY
NOTES TO THE COMBINED FINANCIAL STATEMENTS – REGULATORY BASIS
FOR THE YEAR ENDED JUNE 30, 2023

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – cont'd

F. Revenue and Expenditures – cont'd

Operation of Noninstructional Services Expenditures – Activities concerned with providing noninstructional services to students, staff or the community.

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

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

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

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

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

All other interfund transactions, except quasi-external transactions and reimbursements, are reported as transfers. Nonrecurring or non-routine permanent transfers of equity are reported as residual equity transfers. All other interfund transfers are reported as operating transfers. During the 2022-23 fiscal year, the School transferred \$15,000 from the gifts and endowment fund into the activity fund.

2. CASH AND INVESTMENTS

Custodial Credit Risk – Custodial credit risk is the risk that in the event of a bank failure, the School's deposits may not be returned to the School. The School's cash deposits and investments at June 30, 2023 were \$151,829 at financial institutions and were completely insured or collateralized by federal depository insurance, direct obligations of the U.S. Government, or securities held by the School or by its agent in the School's name.

SOVEREIGN COMMUNITY SCHOOL DISTRICT NO. J-4, OKLAHOMA COUNTY
NOTES TO THE COMBINED FINANCIAL STATEMENTS – REGULATORY BASIS
FOR THE YEAR ENDED JUNE 30, 2023

2. CASH AND INVESTMENTS – cont'd

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

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

- Direct obligations of the U.S. Government, its agencies and instrument to which the full faith and credit of the U.S. Government is pledged, or obligations to the payment of which the full faith and credit of the State is pledged.
- Certificates of deposit or savings accounts that are either insured or secured with acceptable collateral with in-state financial institutions, and fully insured certificates of deposit or savings accounts in out-of-state financial institutions.
- With certain limitation, negotiable certificates of deposit, prime bankers acceptances, prime commercial paper and repurchase agreements with certain limitations.
- County, municipal or school tax supported debt obligations, bond or revenue anticipation notes, money judgments, or bond or revenue anticipation notes of public trusts whose beneficiary is a county, municipality or school district.
- Notes or bonds secured by mortgage or trust deed insured by the Federal Housing Administrator and debentures issued by the Federal Housing Administrator, and in obligations of the National Mortgage Association.
- Money market funds regulated by the SEC and in which investments consist of the investments mentioned in the previous bullet items.

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

3. INTERFUND RECEIVABLES AND PAYABLES

There were no interfund receivables or payables at June 30, 2023.

SOVEREIGN COMMUNITY SCHOOL DISTRICT NO. J-4, OKLAHOMA COUNTY
NOTES TO THE COMBINED FINANCIAL STATEMENTS – REGULATORY BASIS
FOR THE YEAR ENDED JUNE 30, 2023

4. GENERAL LONG-TERM DEBT

Paycheck Protection Program

On April 30, 2020 the School executed a promissory note for \$102,500 and on April 21, 2021 the School executed a second promissory note for \$103,597, both under the Paycheck Protection Program (PPP) authorized by the Coronavirus Aid Relief and Economic Security Act (CARES Act). The loan bears an interest rate of 1.00%. Under the PPP, loan funds are eligible for forgiveness to the extent that they are used to cover certain payroll, rent, and utility costs and if certain employment levels are maintained during a specified period of time. If the Small Business Administration (SBA) confirms full forgiveness of the unpaid balance of the note, the School's obligation under the arrangement will be deemed fully satisfied. The loan was facilitated through Arvest Bank.

The \$102,500 PPP loan was totally forgiven on March 17, 2021, and the \$103,597 PPP loan was totally forgiven on September 13, 2021. Therefore, the proceeds were recognized as a local source of revenue in the fiscal year in which they are received, and any associated debt liability was removed from the financial statements.

Line of Credit

On August 26, 2020, the School entered into a Loan Agreement with Santa Fe South Development, Inc. (SFS) for a \$500,000 line of credit. The School requested and received \$300,000 from SFS during the 2020-21 fiscal year. The School made one principal payment of \$50,000 on the loan during the 2021-22 fiscal year; therefore, the remaining balance of \$250,000 proceeds is included on the Combined Statement of Assets, Liabilities and Fund Balances as General Long-Term Debt. The loan agreement states that from the closing date (8/30/20) through the conversion date, no interest shall accrue on the outstanding principal amount of the aggregate advances. Beginning on January 1, 2022 and continuing annually on each of January 1, 2023 and January 1, 2024, the borrower shall make interest payments on the principal debt then outstanding. The principal debt then outstanding, plus accrued but unpaid interest, shall be due in full on the maturity date (1/31/24).

Additionally, on December 6, 2021, the School entered into a Loan Agreement with Chickasaw Community Bank for a \$250,000 line of credit with an interest rate of 5.75%. The School requested and received \$150,000 from Chickasaw Community Bank during the 2021-22 fiscal year and another \$100,000 during the 2022-23 fiscal year. The loan states that payment is due in monthly interest payments starting January 31, 2022 and the principal amount to be paid by December 31, 2022; however, the school made no principal payments on the loan until May 2023. As of December 8, 2023, the School has paid this loan off. The principal payments made on this loan are included in the 2022-23 financial statements. Approximately \$146,000 was paid from the gifts fund, \$6,000 from the activity fund, and \$98,000 from the general fund.

SOVEREIGN COMMUNITY SCHOOL DISTRICT NO. J-4, OKLAHOMA COUNTY
NOTES TO THE COMBINED FINANCIAL STATEMENTS – REGULATORY BASIS
FOR THE YEAR ENDED JUNE 30, 2023

5. EMPLOYEE RETIREMENT SYSTEM

Description of Plan

The state-administered Oklahoma Teachers' Retirement System, which is a cost sharing, multiple-employer defined benefit public employee retirement system (PERS), which is administered by the Board of Trustees of the Oklahoma Teachers' Retirement System. The System provides retirement and disability benefits, annual cost-of-living adjustments, and death benefits to plan members and beneficiaries. Title 70 Section 17 of the Oklahoma Statutes establishes benefit provisions and may be amended only through legislative action. The Oklahoma Teachers' Retirement System issues a publicly available financial report that includes financial statements and required supplementary information for the System. That report may be obtained by writing to the Oklahoma Teachers' Retirement System, P.O. Box 53624, Oklahoma City, OK 73152, or by calling 405-521-2387.

Basis of Accounting

The System's financial statements are prepared using the cash basis of accounting, except for accruals of interest income. Plan member contributions are recognized in the period in which the contributions are made. Benefits and refunds are recognized when paid. The pension benefit obligation is a standardized disclosure measure of the present value of pension benefits. This pension valuation method reflects the present value of estimated pension benefits that will be paid in future years as a result of employee services performed to date and is adjusted for the effect of projected salary increases. There are no actuarial valuations performed on individual school districts. The System has an under-funded pension benefit obligation as determined as part of the latest actuarial valuation.

Funding Policy

The School, the State of Oklahoma, and the participating employee make contributions. The contribution rates for the School and its employees are established by and may be amended by Oklahoma Statutes. The rates are not actuarially determined. The rates are applied to the employee's earnings plus employer-paid fringe benefits. The required contribution for the participating members is 7.0% of compensation. Contributions received by the System from the State of Oklahoma are used to offset required employer contributions by the local school district. For the 2022-23 fiscal year, the School contributed 9.5% and the State of Oklahoma contributed the remaining amount during the year. The School is allowed by Oklahoma Teachers' Retirement System to make the required contributions on behalf of the participating members. In addition, if a member's salary is paid in part by federal or private funds, the contribution on that portion of the salary paid by those funds must be matched by the School at 8.00%.

SOVEREIGN COMMUNITY SCHOOL DISTRICT NO. J-4, OKLAHOMA COUNTY
NOTES TO THE COMBINED FINANCIAL STATEMENTS – REGULATORY BASIS
FOR THE YEAR ENDED JUNE 30, 2023

5. EMPLOYEE RETIREMENT SYSTEM – cont'd

Annual Pension Cost

The School's total contribution for 2023, 2022 and 2021 were \$67,151, \$62,972 and \$59,332, respectively. Ten-year historical trend information is presented in the Teacher's Retirement System of Oklahoma Annual Report for the year ended June 30, 2023. This information is useful in assessing the pension plan's accumulation of sufficient assets to pay pension benefits as they become due. Please visit www.ok.gov/TRS for all plan information.

GASB Statement 68 became effective for fiscal years beginning after June 15, 2014, and significantly changes pension accounting and financial reporting for governmental employers who participate in a pension plan, such as the System, and who prepare published financial statements on an accrual basis using Generally Accepted Accounting Principles. Since the School does not prepare and present their financial statements on an accrual basis, the net pension amount is not required to be presented on the audited financial statements.

6. COMMITMENTS

Charter Contract – The school operates under a charter granted by Oklahoma State Board of Education (the State Board). As the sponsoring organization, the State Board exercises certain oversight responsibilities. Under this charter, the School has agreed to pay the State Board an annual administrative fee equal to 3% of state aid revenue. The current charter contract ended on June 30, 2023 (See Note 9).

Building Lease – The School leases their building at 12600 N. Kelley Ave, Oklahoma City, Oklahoma 73131 from KLS Leasing II, LLC (KLS). The lease agreement is renewable annually and also includes terms and conditions for utilities, maintenance, ground keeping, and a purchase option. The annual rent is equal to 12% of the annual Foundation and Salary Incentive Aid (FSI) for each pupil received by the School from the State Board multiplied by the School's student enrollment. The annual rent shall be paid quarterly. The School made lease payments totaling \$175,689 to KLS during the 2022-23 fiscal year, which included approximately \$87,618 for property insurance, per the terms of the lease.

7. RISK MANAGEMENT

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

SOVEREIGN COMMUNITY SCHOOL DISTRICT NO. J-4, OKLAHOMA COUNTY
NOTES TO THE COMBINED FINANCIAL STATEMENTS – REGULATORY BASIS
FOR THE YEAR ENDED JUNE 30, 2023

8. CONTINGENCIES

Federal Grants

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

Schedule of Expenditure of Federal Awards

The schedule shows the federal awards received and expended by the School during the 2022-23 fiscal year. The revised Uniform Guidance Audits of States, Local Governments and Non-Profit Organizations, established uniform audit requirements for nonfederal entities which expended more than \$750,000 in federal awards.

The School did not fall under this threshold for the 2022-23 fiscal year; therefore, this schedule is not required and is for informational purposes only.

Litigation

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

9. SUBSEQUENT EVENTS

On January 26, 2023, the Oklahoma State Board of Education (“OSBE”) voted to terminate its charter contract with Sovereign Community School. As required by Title 70 Section 3-136 of the Oklahoma Statutes, “The governing board of the charter school shall continue to meet as necessary to take actions needed to wind down school operations, manage school finances, allocate resources and facilitate all aspects of closure.” The School Board was responsible for ensuring that “all necessary and prudent notifications are issued to agencies, employees, insurers, contractors, creditors, debtors and management organizations”.

The School Board approved a Certificate of Dissolution for the School’s nonprofit status during its April 2023 meeting and subsequently published the notice in the newspaper. The School terminated its operations effective June 30, 2023. At the School Board’s July 2023 meeting, the School Board approved the FY24 Estimate of Needs, approved payment of financial obligations and outstanding invoices for which the school had funds available and approved the closure of school-related bank accounts.

SOVEREIGN COMMUNITY SCHOOL DISTRICT NO. J-4, OKLAHOMA COUNTY
NOTES TO THE COMBINED FINANCIAL STATEMENTS – REGULATORY BASIS
FOR THE YEAR ENDED JUNE 30, 2023

9. SUBSEQUENT EVENTS – cont'd

Per the charter contract, OSBE took ownership of two used school buses and other items of nominal value from the closed school. Real or personal property purchased by the School using public funds could not be used by the School Board to retire debt. There no longer exists any mechanism to pay any outstanding creditors once the School Board transferred real or personal property and closed its bank accounts. By law and by contract, OSBE only assumes ownership of the transferred property and does not assume any other assets or any liability incurred by the School. Thus, the School Board's decisions on which liabilities to pay with remaining assets were final, and any remaining liabilities will not be paid.

SUPPLEMENTARY INFORMATION

SOVEREIGN COMMUNITY SCHOOL DISTRICT NO. J-4, OKLAHOMA COUNTY
 COMBINING STATEMENT OF CHANGES IN ASSETS AND LIABILITIES -
 AGENCY FUNDS - REGULATORY BASIS
 FOR THE YEAR ENDED JUNE 30, 2023

	<u>BALANCE</u> <u>7-1-22</u>	<u>ADDITIONS</u>	<u>TRANSFERS/ ADJUSTMENTS</u>	<u>DEDUCTIONS</u>	<u>BALANCE</u> <u>6-30-23</u>
<u>ASSETS</u>					
Cash	\$ 6,314	3,727	15,000	19,031	6,010
<u>LIABILITIES</u>					
Funds held for school organizations:					
General Activity	\$ 6,537	0		6,537	0
Athletics	50	1,820		1,870	0
Student Council	(273)	273		0	0
Class of 2023	0	1,634	15,000	10,624	6,010
Total Liabilities	\$ 6,314	3,727	15,000	19,031	6,010

**SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
REGULATORY BASIS**

SOVEREIGN COMMUNITY SCHOOL DISTRICT NO. J-4, OKLAHOMA COUNTY
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS - REGULATORY BASIS
PREPARED FOR THE OKLAHOMA STATE DEPARTMENT OF EDUCATION
FOR THE YEAR ENDED JUNE 30, 2023

Federal Grantor / Pass Through Grantor / Program Title	Federal Assistance Listing Number	OCAS Project Number	Program / Award Amount	Balance at 7/1/22	Revenue Collected	Total Expenditures	Balance at 6/30/23
<u>Passed Through State Department of Education:</u>							
Title I, Part A	84.010	511	\$ 92,427		86,221	87,821	1,600
Title II Part A	84.367	541	8,660		8,660	8,660	
Title IV, Part A	84.424	552	20,000		20,000	20,000	
ARP - IDEA-B Flow Through	84.027X	628	3,999				
ARP - IDEA-B Preschool	84.027X	643	227				
IDEA-B Flow Through	84.027	621	63,067		26,626	30,786	4,160
IDEA-B Professional Development District	84.027	615	956				
IDEA-B Preschool	84.173	641	360				
COVID-19 - Education Stabilization Fund:							
ESSERF / CARES Act 2021-22	84.425D	799		1,065	1,065		
ARP - ESSER III	84.425U	795	200,740		164,184	166,184	2,000
Total COVID-19 ESF			<u>200,740</u>	<u>1,065</u>	<u>165,249</u>	<u>166,184</u>	<u>2,000</u>
Sub Total			<u>390,436</u>	<u>1,065</u>	<u>306,756</u>	<u>313,451</u>	<u>7,760</u>
Total Federal Assistance			<u>\$ 390,436</u>	<u>1,065</u>	<u>306,756</u>	<u>313,451</u>	<u>7,760</u>

Note 1 - This schedule was prepared on a regulatory basis of accounting consistent with the preparation of the combined financial statements.

Note 2 - None of the federal programs include any loan programs, loan guarantee programs, has no sub-reipients and does not use the 10% de minimis indirect cost rate.

SOVEREIGN COMMUNITY SCHOOL DISTRICT NO. J-4, OKLAHOMA COUNTY
STATEMENT OF STATUTORY, FIDELITY AND HONESTY BONDS
FOR THE YEAR ENDED JUNE 30, 2023


BONDING COMPANY	POSITION COVERED	BOND NUMBER	COVERAGE AMOUNT	EFFECTIVE DATES
BancFirst Insurance Services - RLI Surety	Superintendent	LSM1742328	\$ 100,000	2/6/23 - 2/6/24
	Treasurer	LSM1676992	100,000	7/1/22 - 7/1/23
	Encumbrance Clerk	LSM1742304	1,000	12/30/22 - 12/30/23
	Activity Fund Custodian	LSM1735663	1,000	11/7/22 - 11/7/23
	Minutes Clerk	LSM1742326	100,000	2/6/23 - 2/6/24
(previous staff positions):	Encumbrance Clerk	LSM1735664	1,000	7/1/22 - 7/1/23
	Superintendent	LSM1701022	100,000	7/1/22 - 7/1/23
	Treasurer	LSM1669333	100,000	7/1/22 - 7/1/23
	Activity Fund Custodian	LSM1701020	1,000	7/1/22 - 7/1/23

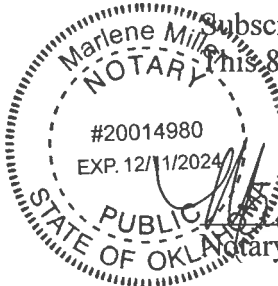

SOVEREIGN COMMUNITY SCHOOL DISTRICT NO. J-4, OKLAHOMA COUNTY
SCHEDULE OF ACCOUNTANT'S PROFESSIONAL LIABILITY INSURANCE
AFFIDAVIT
JULY 1, 2022 TO JUNE 30, 2023

State of Oklahoma)
) ss
County of Tulsa)

The undersigned auditing firm of lawful ages, being first duly sworn on oath says that said firm had in full force and effect Accountant's Professional Liability Insurance in accordance with the "Oklahoma Public School Audit Law" at the time of audit contract and during the entire audit engagement with Sovereign Community School for the audit year 2022-23.

Bledsoe, Hewett & Gullekson
Certified Public Accountants, PLLLP
Auditing Firm

By 
Authorized Agent

Subscribed and sworn to before me
This 8th day of December, 2023


Notary Public (or Clerk or Judge)

My Commission Expires: 12/11/2024
Commission No. 20014980



BLEDSON, HEWETT & GULLEKSON
CERTIFIED PUBLIC ACCOUNTANTS, PLLLP

Eric M. Bledsoe, CPA
Jeffrey D. Hewett, CPA
Christopher P. Gullekson, CPA

P.O. BOX 1310 • 121 E. COLLEGE ST. • BROKEN ARROW, OK 74013 • (918) 449-9991 • (800) 522-3831 • FAX (918) 449-9779

December 8, 2023

Mr. Bryan Cleveland, General Counsel
Oklahoma State Department of Education
2500 N. Lincoln Blvd.
Oklahoma City, Oklahoma 73015

Dear Mr. Cleveland,

In addition to the findings identified in the audit on pages 12-15, listed below are the exceptions relayed to management that are immaterial instances of noncompliance with laws and regulations and which are not included, but which are referred to, in the audit report. If you have questions or desire additional information, please call us so that any discrepancies may be resolved.

Child Nutrition Programs

We observed during the audit that there were no claims for reimbursement submitted to the Child Nutrition Division of the State Department of Education. It does not appear that the School participated in the NSLP Program even though the School did serve free reimbursable meals and contracted with a Food Service Provider to provide student meals. We recommend that schools comply with the applicable requirements to participate in NSLP so they can be reimbursed for student meals being served.

Activity Fund

- During the audit, we noted that there is not a clear audit trail from when collections are made to the corresponding bank deposit. We recommend that all activity funds collected be receipted in pre-numbered receipt books, with a receipt copy being issued to any student or patron from whom money is received, and all receipt books be kept on file for review. Stronger internal controls will limit the School's risk to lost or stolen funds, in addition to ensuring that collections are being deposited in a timely manner.

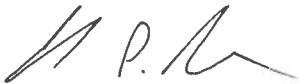
- We observed during the audit that pre-numbered admission tickets were not utilized for events which required a gate to be operated. Although admission was charged and there was a subsequent deposit, there were no pre-numbered tickets issued and therefore, a reconciliation of such tickets could not be performed. We recommend for all events in which a gate will be operated that pre-numbered tickets be issued and that a reconciliation of the tickets used to the revenues collected be performed on a gate collection form.

General Fund Appropriations

We observed during the audit that the applicable form for adding supplemental appropriations was not properly completed in a timely manner. This resulted in the general fund expenditures exceeding approved appropriations for a period of time during the fiscal year. The Board did eventually approve and submit a supplemental appropriation form to the County on September 29, 2023. We recommend that the School implement procedures to ensure that supplemental appropriation forms be completed and executed in a timely manner and that the appropriations ledger be reconciled periodically with expenditure reports to ensure that expenditures do not exceed approved appropriations at any time, in any fund, during the year as required by Oklahoma Statutes.

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

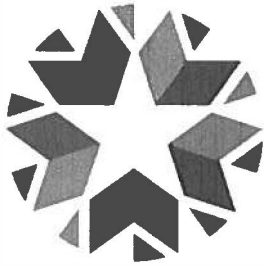
Sincerely,



Christopher P. Gullekson

For

Bledsoe, Hewett & Gullekson
Certified Public Accountants, PLLLP



OKLAHOMA Education

Audit
Acknowledgement Audit
Year: 2022-2023

District Name _____

District Number _____

County Name _____

County Code _____

The annual independent audit was presented to the Board of Education in a meeting conducted in accordance with the Open Meeting Act 25 O.S. Section 301-314 on _____

Date of Meeting

The audit was presented by _____

(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."

Signature of the Board of Education:

Superintendent

Board of Education Vice President

Board of Education President

Board of Education Member

Board of Education Member

Board of Education Member

Board of Education Member

Subscribed and sworn before me on _____

My Commission expires _____

(Notary Public)