

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

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

**JUNE 30, 2021**

Audited by

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

**BROKEN ARROW, OK**

SOVEREIGN COMMUNITY SCHOOL DISTRICT NO. J-4, OKLAHOMA COUNTY  
SCHOOL DISTRICT OFFICIALS  
JUNE 30, 2021

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Kyla Molina

**Vice-President**

vacant

**Board Secretary/Clerk**

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**DIRECTOR OF OPERATIONS**

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**ENCUMBRANCE CLERK**

ReDaun Beckes

**SCHOOL DISTRICT TREASURER**

James McSpadden

SOVEREIGN COMMUNITY SCHOOL DISTRICT NO. J-4, OKLAHOMA COUNTY  
JUNE 30, 2021

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**INDEPENDENT AUDITOR'S REPORT**

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

**Report on the Financial Statements**

We have audited the accompanying combined fund type and account group financial statements – regulatory basis of the Sovereign Community School District No. J-4, Oklahoma County, Oklahoma (the School), as of and for the year ended June 30, 2021, and the related notes to the financial statements, which collectively comprise the School's basic financial statements as listed in the table of contents.

**Management's Responsibility for the Financial Statements**

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

**Auditor's Responsibility**

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

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

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

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

As discussed in Note 1, the financial statements are prepared by the School, on the basis of the financial reporting provisions of the Oklahoma State Department of Education, which is a basis of accounting other than accounting principles generally accepted in the United States of America, to comply with the requirements of the Oklahoma State Department of Education. The effects on the financial statements of the variances between the regulatory basis of accounting described in Note 1 and accounting principles generally accepted in the United States of America, although not reasonable determined, are presumed to be material.

### **Adverse Opinion on U.S. Generally Accepted Accounting Principles**

In our opinion, because the significance of the matter discussed in the “Basis for Adverse Opinion on U.S. Generally Accepted Accounting Principles” paragraph, the financial statements referred to in the first paragraph do not present fairly, in accordance with accounting principles generally accepted in the United States of America, the financial position of the School as of June 30, 2021, the changes in its financial position, or, where applicable, its cash flows for the year then ended.

### **Basis for Qualified Opinion on Regulatory Basis of Accounting**

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

### **Qualified Opinion on Regulatory Basis of Accounting**

In our opinion, except for the effects of the matter described in the “Basis for Qualified Opinion on Regulatory Basis of Accounting” paragraph, the financial statements referred to in the first paragraph present fairly, in all material respects, the assets, liabilities and fund balance arising from regulatory basis transactions of each fund type and account group of the School as of June 30, 2021, and the revenues collected and expenditures paid and encumbered for the year then ended on the regulatory basis of accounting described in Note 1.

### **Substantial Doubt about the School’s Ability to Continue as a Going Concern**

The accompanying financial statements have been prepared assuming that the School will continue as a going concern. As described in the Notes to the Combined Financial Statements (Note 9) and finding 2021-3 in the accompanying schedule of audit results, findings and questioned costs, the School has outstanding debt obligations and there is uncertainty when the School will be able to repay these obligations. Any past due obligations and any subsequent liabilities could result in School insolvency. In addition, the School continues to be on Accreditation Probation by the State Board of Education, giving concern that the School’s charter contract could be cancelled.

These conditions raise substantial doubt about the School’s ability to continue as a going concern. The financial statements do not include any adjustments that might result from the outcome of this uncertainty. Our opinion is not modified with respect to that matter.

### **Other Matters**

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the School’s basic financial statements. The schedule of expenditures of federal awards is presented for purposes of additional analysis as required by the Oklahoma State Department of Education and is also not a required part of the basic financial statements.

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

### **Other Reporting required by Government Auditing Standards**

In accordance with *Government Auditing Standards*, we have also issued our report dated March 25, 2022, 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 to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the School's internal control over financial reporting and compliance.

*Bledsoe, Hewett & Gullekson*

Bledsoe, Hewett & Gullekson  
Certified Public Accountants, PLLLP

March 25, 2022



**BLEDSON, HEWETT & GULLEKSON**  
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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 County, Oklahoma

We have audited in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States, the accompanying fund type and account group financial statements – regulatory basis within the combined financial statements of the Sovereign Community School District Number J-4, Oklahoma County, Oklahoma (the School), as of and for the year ended June 30, 2021 and the related notes to the financial statements, which collectively comprise the School's financial statements, and have issued our report thereon dated March 25, 2022, which was adverse with respect to the presentation of the financial statements in conformity with accounting principles generally accepted in the United States because the presentation followed the regulatory basis of accounting for Oklahoma school districts and did not conform to the presentation requirements of the Governmental Accounting Standards Board. However, our report was qualified for the omission of the general fixed asset account group with respect to the presentation of financial statements on the regulatory basis of accounting authorized by the Oklahoma State Board of Education.

**Internal Control Over Financial Reporting**

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

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 a material weakness.

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 2021-1, 2021-2, 2021-3, 2021-4, and 2021-5 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 instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*. These items, identified as 2021-2, 2021-3, 2021-4, and 2021-5 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**

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

March 25, 2022

SOVEREIGN COMMUNITY SCHOOL DISTRICT NO. J-4, OKLAHOMA COUNTY  
DISPOSITION OF PRIOR YEAR'S SIGNIFICANT DEFICIENCIES AND  
MATERIAL INSTANCES OF NON-COMPLIANCE  
JUNE 30, 2021

**FINDING 2020-1**

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, currently in the functions for payroll and accounts payable.

Current Status: This finding continued in the 2020-21 fiscal year (see Finding 2021-1).

**FINDING 2020-2**

Condition: The 2019-20 fiscal year employment contracts for certified and support personnel could not be located for our examination during our visit.

Current Status: This finding was corrected during the 2020-21 fiscal year.

**FINDING 2020-3**

Condition: Purchase orders were used in accordance with Oklahoma Statutes, however, there were several areas of concern which are as follows: purchase orders were not being signed by either the purchasing agent or the encumbrance clerk, many purchase orders did not have any supporting documentation attached, invoices that were included were not always signed as received, and most purchase orders had invoice dates prior to the encumbrance dates. These items appear to be pervasive throughout the purchasing cycle.

Current Status: This finding continued in the 2020-21 fiscal year (see Finding 2021-2).

SOVEREIGN COMMUNITY SCHOOL DISTRICT NO. J-4, OKLAHOMA COUNTY  
SCHEDULE OF AUDIT RESULTS, FINDINGS AND QUESTIONED COSTS  
JUNE 30, 2021

**Section 1** - Summary of Auditor's Results:

1. 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. The audit identified five significant deficiencies (items 2021-1, 2021-2, 2021-3, 2021-4, 2021-5), 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 four instances of noncompliance (items 2021-2, 2021-3, 2021-4, 2021-5) which are material to the financial statements.

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

**FINDING 2021-1 – 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. The Superintendent currently serves as the activity fund custodian and is performing the daily duties of an encumbrance clerk.

*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: (see attached response)

## **FINDING 2021-2 – PURCHASE ORDERS**

Condition: Overall, the purchase orders were not well organized or properly filed. From the purchase orders we were able to find and review, we made the following observations:

- Purchase orders were not always encumbered against available appropriations prior to the obligations being incurred.
- Majority of the invoices were not signed as received by a School employee.
- There was not a clear “school business” purpose for all travel related expenditures documented with the purchase order.
- A non-kickback affidavit was not obtained when the invoices exceeded \$25,000.
- Checks were not countersigned by two officers.
- There were over \$25,000 in debit card purchases on a blanket purchase order. The supporting invoices were filed in vendor folders instead of being attached to the PO. We were able to locate invoices for many of the purchases, however, there were purchases that we were not able to locate an itemized invoice, therefore, we were unable to verify the allowability of these purchases.

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 and all invoices should be signed and dated when the merchandise is received, as required by Oklahoma Statutes.

All travel expenditures should have proper supporting documentation, which would include the trip purpose, the names of all employees or students attending the meal/event, and a detailed receipt listing all items that were purchased.

Oklahoma Statutes require that a non-kickback affidavit be obtained for every vendor from whom at least one invoice of \$25,000 or more is received.

Oklahoma Statutes require that all checks be signed and countersigned, by two School officials.

All expenditures should be properly authorized, 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. Reimbursements and the use of a debit card is allowable, however, a purchase order to the vendor should be used whenever possible.

Cause / Effect: Proper procedures were not in place over the accounts payable function for general fund purchases. This increases the risk that a misappropriation of assets will occur and not be detected whether due to error or fraud. Purchase orders were not well organized and were not appropriately filed, therefore, there were some purchases that we were unable to review.

Recommendation: 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. Training should be provided to all current and new employees so that they understand the importance of record keeping and are aware of what records need to be on file and the rules for record retention.

We also recommend that the School enforce policies and procedures which require 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. Further, we recommend that a non-kickback affidavit be obtained for each invoice received by the School, which is for \$25,000 or more, or, if the School has executed any contracts for services or materials to be used on a continual basis, that only one non-kickback be obtained. We also recommend that all checks be signed and countersigned as required by Oklahoma Statutes. Finally, we recommend that the debit card be strictly controlled and used only for travel and meals of the board members and District employees while they are attending out of District school related functions and all purchases should be supported with an itemized invoice and attached to the purchase order.

Response: (see attached response)

### **FINDING 2021-3 – FINANCIAL POSITION**

Condition: We observed during the audit that the School entered into a loan agreement (line of credit) for \$500,000 with Sante Fe South Development, Inc. (SFS). The loan was approved by the Board for the purpose of cash flow. The School drew down \$300,000 from the loan during the 2020-21 fiscal year. The repayment of this loan is not clearly outlined in the loan agreement, however, School management stated they had anticipated additional funds from the School's 2021-22 mid-year adjustment and planed to repay the loan once these funds are received. Since charter schools can not levy taxes to pay outstanding debt, this obligation will have to be repaid from the School's general fund. The School's general fund ended the year with a \$47,650 fund balance. Without these loan proceeds, the School would have ended the 2020-21 fiscal year with a (\$252,350) deficit fund balance. Although the School did repay \$50,000 in December 2021, the School has incurred an additional \$150,000 in debt from a new loan agreement with Chickasaw Community Bank. These outstanding debt obligations, combined with lower than anticipated enrollment, increases the likelihood of insolvency.

In addition, the School ended the 2019-20 fiscal year with a \$20,812 general fund balance, however, the School had an unreported Teacher's Retirement System liability of \$57,615. The School paid this liability in the 2020-21 fiscal year. Had this expenditure been recorded in the correct fiscal year, the School would have had a deficit balance at 6/30/20 of (\$36,803).

During our audit, we discovered that the School has not filed the annual 990 tax return for tax-exempt organization, as required by the IRS. Although the School has not received a notice from the IRS, it is possible that the School will incur significant penalties for failing to file.

When considering the financial impact of the School's current debt liability, the School's 2021-22 debt liability, and the possible future IRS obligations, it appears that School has obligated futures revenues to pay for prior and current year obligations. Although the School has secured some additional funds through fundraising and donations, there is uncertainty to when the School will be able to pay these debts and what the source of revenue will be.

Criteria: Effective financial monitoring is critical to ensure that charter school 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. In addition, the IRS requires that tax-exempt organizations file an annual information return on IRS Form 990.

Cause / Effect: The School's general fund had \$1,043,092 in expenditures during the 2020-21 fiscal year and only collected \$768,192 in revenues. The School had had to take out \$300,000 in debt in order to maintain a positive cash balance. Future fiscal year revenues will now have to be obligated to pay for the previous year's obligations.

Recommendation: We recommend that the School carefully monitor current year expenditures to ensure that additional loan proceeds are not drawn down. In addition, the School should prepare a budget that will not exceed expected revenues. We also recommend that the School prepare and file any past due IRS 990 tax returns.

Response: (see attached response)

#### **FINDING 2021-4 – ORGANIZATIONAL STRUCTURE**

Condition: During our audit, we noted that the business staff positions are not correctly identified. The currently bonded treasurer is a Board member and we found no evidence that the Board member was performing any treasury duties. 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. Further, 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 2020-21 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.

Criteria: Each school district should appoint a treasurer and an encumbrance clerk and appropriate training should be provided to ensure that the duties and responsibilities of these positions are performed. Oklahoma Statutes also state that the Superintendent and any financial officer have a minimum surety coverage of \$100,000; the minutes clerk, encumbrance clerk, and activity fund custodian should have minimum surety coverage of \$1,000.

Cause / Effect: The treasurer and encumbrance clerk that are bonded are not actually performing the functions of these positions, therefore, the individuals who are performing these duties are not adequately covered by a surety bond.

Recommendation: We recommend that the financial positions be clearly defined and that the actual individuals performing the duties of these positions be listed as such. We also recommend that adequate surety bond coverage be obtained as soon as possible for all custodial positions, with each position stating the name of the person that is covered.

Response: (see attached response)

## **FINDING 2021-5 – BOARD MINUTES**

Condition: The Board minutes file was in complete disarray. We were unable to determine if the regularly scheduled or special meetings actually took place, or if they were cancelled due to lack of quorum. In addition, the minutes that were available did not provide sufficient detail concerning the business to be transacted.

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. Board minutes should also provide sufficient detail concerning the business to be transacted.

Cause / Effect: Because these records could not be examined and were not properly detailed, we were unable to determine if the School was in compliance with the Open Meetings Act or if the Board is properly reviewing and approving the pertinent financial information.

Recommendation: We recommend that all board minutes and agendas be properly filed and made available for review. Further, we recommend that the Board of Education review the Open Meetings Act requirements and follow the applicable procedures detailed therein. We also recommend that more detailed Treasurer's Reports and Encumbrance Reports from the accounting software be included and approved in the Board minutes each month. These reports should also include supporting documentation (i.e. bank statements, outstanding check lists, fund balances). We recommend that the Board members and the Minutes Clerk attend training specific to Board Meetings and Open Meetings Act.

Response: (see attached response)

SOVEREIGN COMMUNITY **PUBLIC SCHOOL DISTRICT**  
OKLAHOMA **COUNTY**

**AUDIT COMMENT/RECOMMENDATION/MGMT LETTER  
CORRECTIVE ACTION RESPONSE**

**Reference Number:** 2021-1

**Reference Description:** Segregation of Duties

**Condition/Finding:** 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. The Superintendent currently serves as the activity fund custodian and is performing the daily duties of an encumbrance clerk.

**Contact Person:** SCS Superintendent

**Corrective steps that have been implemented and/or the steps that will be implemented.**  
SCS has contracted out financial and accounting support, Mr. David Harp in FY22. SCS has contracted out Federal Programs specialist Ms. Allison Brown in FY22. Once the current FY22 Supt., was in place, those duties were relieved immediately. The Superintendent in the finding was an Interim Supt., prior to this staffing change, the Superintendent was not the activity fund custodian or encumbrance clerk.

**Completion Date:** April 18, 2022

**If a refund is made in relation to this comment please include the mailing date, amount and number of the check for the refund**

<u>Mailing Date</u>	<u>Check Number</u>	<u>Amount of Refund</u>
<u>Superintendent's Signature</u>		<u>Date</u>

**If the district disagrees with the Audit Comments, Recommendation, Management Letters, Exceptions, etc., this would be noted in the Steps Implemented Section.**

SOVEREIGN COMMUNITY **PUBLIC SCHOOL DISTRICT**  
OKLAHOMA **COUNTY**

**AUDIT COMMENT/RECOMMENDATION/MGMT LETTER  
CORRECTIVE ACTION RESPONSE**

**Reference Number:** 2021-2

**Reference Description:** Purchase Orders

**Condition/Finding:** Purchase orders examined were not properly encumbered against available appropriations, not signed "received" and dated, no non-kickback affidavits were obtained, debit card purchases were made with a blanket PO instead of being attached to the paid vendor.

**Contact Person:** SCS Superintendent

**Corrective steps that have been implemented and/or the steps that will be implemented.**

1) All invoices are now stamped "received" and dated upon receipt. 2) Updated signatures have been added to all checks moving forward 3) Any vendors paid in the amount of \$25,000 will be notified of the non kickback affidavit requirement. 4) Debit card purchases and policies regarding will be modified to the recommendations made by the auditors.

**Completion Date:** April 18, 2022

**If a refund is made in relation to this comment please include the mailing date, amount and number of the check for the refund**

<b>Mailing Date</b>	<b>Check Number</b>	<b>Amount of Refund</b>
<b>Superintendent's Signature</b>		<b>Date</b>

**If the district disagrees with the Audit Comments, Recommendation, Management Letters, Exceptions, etc., this would be noted in the Steps Implemented Section.**

SOVEREIGN COMMUNITY **PUBLIC SCHOOL DISTRICT**  
OKLAHOMA **COUNTY**

**AUDIT COMMENT/RECOMMENDATION/MGMT LETTER  
CORRECTIVE ACTION RESPONSE**

**Reference Number:** 2021-3

**Reference Description:** Financial Position

**Condition/Finding:** Line of credits causing debt may cause the uncertainty of financial stability.

Non filing of IRS Forms 990  
\_\_\_\_\_  
\_\_\_\_\_  
\_\_\_\_\_

**Contact Person:** SCS Superintendent

**Corrective steps that have been implemented and/or the steps that will be implemented.**

1) SCS contacted Jay Jenkins on 4/14/22 and has a plan in place to file all missing IRS Form 990 2.) SCS hired Federal Programs specialist Allison Brown and named a School Treasurer David Harp to bring more experienced school finance partners to the district. (3) The school will have a committee to follow the recommendations from the audit team to create a budget that will not exceed expected revenues.

**Completion Date:** • June 30, 2022

**If a refund is made in relation to this comment please include the mailing date, amount and number of the check for the refund**

<u>Mailing Date</u>	<u>Check Number</u>	<u>Amount of Refund</u>
<u>Superintendent's Signature</u>		<u>Date</u>

**If the district disagrees with the Audit Comments, Recommendation, Management Letters, Exceptions, etc., this would be noted in the Steps Implemented Section.**



SOVEREIGN COMMUNITY **PUBLIC SCHOOL DISTRICT**  
OKLAHOMA **COUNTY**

**AUDIT COMMENT/RECOMMENDATION/MGMT LETTER  
CORRECTIVE ACTION RESPONSE**

**Reference Number:** 2021-5

**Reference Description:** Board Minutes

**Condition/Finding:** The Board minutes file was in complete disarray. We were unable to determine if the regularly scheduled or special meetings actually took place, or if they were canceled due to lack of quorum. In addition, the minutes that were available did not provide sufficient detail concerning the business to be transact

**Contact Person:** SCS Superintendent ~ SCS Board President

**Corrective steps that have been implemented and/or the steps that will be implemented.**

1) The SCS Board has received Open Meetings Act training. 2) The current minutes clerk (FY22) and the substitute minutes clerk (FY22) have engaged in more training. 3) All notices of meetings have been submitted correctly to the County Clerk. 4) For FY22, the minutes binder has been updated and will seek a thorough review at the end of FY22, June 30 2022 at the latest.

**Completion Date:** June 30, 2022

**If a refund is made in relation to this comment please include the mailing date, amount and number of the check for the refund**

<u>Mailing Date</u>	<u>Check Number</u>	<u>Amount of Refund</u>
<u>Superintendent's Signature</u>		<u>Date</u>

**If the district disagrees with the Audit Comments, Recommendation, Management Letters, Exceptions, etc., this would be noted in the Steps Implemented Section.**

**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, 2021

	GOVERNMENTAL FUND TYPES	FIDUCIARY FUND TYPES	ACCOUNT GROUP	TOTALS (MEMORANDUM ONLY)
	GENERAL FUND	AGENCY FUNDS	GENERAL LONG-TERM DEBT	
<b><u>ASSETS</u></b>				
Cash	\$ 80,208	10,201		90,409
Amount to be provided for retirement of long-term debt			300,000	300,000
Total Assets	<u>\$ 80,208</u>	<u>10,201</u>	<u>300,000</u>	<u>390,409</u>
 <b><u>LIABILITIES AND FUND BALANCES</u></b>				
Liabilities:				
Checks payable	\$ 26,668			26,668
Encumbrances	5,890			5,890
Funds held for school organizations		10,201		10,201
Long-term debt:				
Loans payable			300,000	300,000
Total liabilities	<u>32,558</u>	<u>10,201</u>	<u>300,000</u>	<u>342,759</u>
Fund Balances:				
Unassigned	<u>47,650</u>	<u>0</u>	<u>0</u>	<u>47,650</u>
Total Liabilities and Fund Equity	<u>\$ 80,208</u>	<u>10,201</u>	<u>300,000</u>	<u>390,409</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, 2021

	GOVERNMENTAL FUND TYPES
	GENERAL FUND
Revenues Collected:	
Local sources	\$ 464,638
State sources	510,803
Federal sources	92,751
Total revenues collected	1,068,192
Expenditures:	
Instruction	638,328
Support services	404,164
Operation of non-instructional services	600
Total expenditures	1,043,092
Excess of revenues collected over (under) expenditures	25,100
Other financing sources (uses):	
Adjustments to prior year encumbrances	1,738
Excess of revenues collected and other financing sources over (under) expenditures and other financing uses	26,838
Cash fund balances, beginning of year	20,812
Cash fund balances, end of year	\$ 47,650

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, 2021

	GENERAL FUND			
	Original Budget	Final Budget	Actual	Prior Year (Memorandum Only)
<b>Revenues Collected:</b>				
Local sources	\$	466,376	464,638	510,643
State sources	263,532	510,803	510,803	252,279
Federal sources	233,148	92,751	92,751	200,436
Non-revenue receipts				18,135
Total revenues collected	<u>496,680</u>	<u>1,069,930</u>	<u>1,068,192</u>	<u>981,493</u>
<b>Expenditures:</b>				
Instruction	112,728	685,978	638,328	408,476
Support services	404,164	404,164	404,164	559,609
Operation of non-instruction services	600	600	600	20,497
<b>Other outlays:</b>				
Correcting entry				145
Total expenditures	<u>517,492</u>	<u>1,090,742</u>	<u>1,043,092</u>	<u>988,727</u>
Excess of revenues collected over (under) expenditures before other financing sources (uses)	(20,812)	(20,812)	25,100	(7,234)
<b>Other financing sources (uses):</b>				
Operating transfers in (out)				28,046
Adjustments to prior year encumbrances			1,738	
Total other financing sources (uses)	<u>0</u>	<u>0</u>	<u>1,738</u>	<u>28,046</u>
Excess of revenues collected and other financing sources over (under) expenditures and other financing uses	(20,812)	(20,812)	26,838	20,812
Cash fund balance, beginning of year	<u>20,812</u>	<u>20,812</u>	<u>20,812</u>	<u>0</u>
Cash fund balance, end of year	<u>\$ 0</u>	<u>0</u>	<u>47,650</u>	<u>20,812</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, 2021

**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, 2021

**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, 2021

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 for the School typically include the child nutrition funds.

Child Nutrition Fund - The child nutrition fund consists of monies derived from federal and state financial assistance and food sales. This fund is used to account for the various nutrition programs provided to students. The School operates their child nutrition program within the general fund.

**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. The School did not operate an expendable trust fund during the 2020-21 fiscal year.

Gifts and Endowments Fund – The gifts and endowments fund receives its assets by way of philanthropic foundations, individuals, or private organizations for which no repayment or special service to the contributor is expected. This fund is used to promote the general welfare of the 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, 2021

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.
- 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, 2021

**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 2020-21 Estimate of Needs was amended by supplemental appropriations as follows:

<u>Fund</u>	<u>Total</u>
General	\$ 573,250

These amendments were approved by the County Excise Board.

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

**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, 2021

**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, 2021 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.

Checks Payable – 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 checks that have yet to be redeemed 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 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, 2021

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, 2021

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

Intermediate Revenues - Revenue from intermediate sources is the amount of money from funds collected by an intermediate administrative unit, or a political subdivision between the 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

SOVEREIGN COMMUNITY SCHOOL DISTRICT NO. J-4, OKLAHOMA COUNTY  
NOTES TO THE COMBINED FINANCIAL STATEMENTS – REGULATORY BASIS  
FOR THE YEAR ENDED JUNE 30, 2021

1. **SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES** – cont'd

F. Revenue and Expenditures – cont'd

money not expended as of the close of the fiscal year be carried forward into the following year to be expended for the same categorical programs. The State Department of Education requires that categorical educational program revenues be accounted for in the general fund.

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

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

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

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

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

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

Operation of Non-Instructional Services Expenditures – Activities concerned with providing non-instructional services to students, staff or the community.

SOVEREIGN COMMUNITY SCHOOL DISTRICT NO. J-4, OKLAHOMA COUNTY  
NOTES TO THE COMBINED FINANCIAL STATEMENTS – REGULATORY BASIS  
FOR THE YEAR ENDED JUNE 30, 2021

**1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – cont’d**

**F. Revenue and Expenditures – cont’d**

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 nonroutine permanent transfers of equity are reported as residual equity transfers. All other interfund transfers are reported as operating transfers. There were no interfund transfers made during the 2020-21 fiscal year.

**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, 2021, were \$90,409 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, 2021

**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 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, 2021.

SOVEREIGN COMMUNITY SCHOOL DISTRICT NO. J-4, OKLAHOMA COUNTY  
NOTES TO THE COMBINED FINANCIAL STATEMENTS – REGULATORY BASIS  
FOR THE YEAR ENDED JUNE 30, 2021

**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 will be recognized as a local source of revenue in the fiscal year in which they are received, and any associated debt liability will be 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. No principal or interest payments were made on this loan during the 2020-21 fiscal year; therefore, the \$300,000 proceeds are shown on the Combined Statement of Assets, Liabilities and Fund Balances as General Long-Term Debt. Since the School's General Fund will be responsible for paying this debt, future principal payments will be made from either future revenues or the unassigned fund balance. 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, 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).

**5. EMPLOYEE RETIREMENT SYSTEM**

The School was not approved to participate in the Oklahoma Teacher's Retirement System (the "System") until after the 2019-20 fiscal year was complete. At June 30, 2020, the School was liable to the System for contributions and obligations in the amount of \$57,615.43. This amount was paid in the 2020-21 fiscal year, after approval from the System to participate.

SOVEREIGN COMMUNITY SCHOOL DISTRICT NO. J-4, OKLAHOMA COUNTY  
NOTES TO THE COMBINED FINANCIAL STATEMENTS – REGULATORY BASIS  
FOR THE YEAR ENDED JUNE 30, 2021

**5. EMPLOYEE RETIREMENT SYSTEM – cont'd**

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 2020-21 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 7.70%.

SOVEREIGN COMMUNITY SCHOOL DISTRICT NO. J-4, OKLAHOMA COUNTY  
NOTES TO THE COMBINED FINANCIAL STATEMENTS – REGULATORY BASIS  
FOR THE YEAR ENDED JUNE 30, 2021

**5. EMPLOYEE RETIREMENT SYSTEM – cont'd**

Annual Pension Cost

The School's total contribution for 2021 and 2020 were \$59,332 and \$57,615, respectively. Ten-year historical trend information is presented in the Teacher's Retirement System of Oklahoma Annual Report for the year ended June 30, 2021. 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](http://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 is effective until June 30, 2024.

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 \$64,259 to KLS during the 2020-21 fiscal year.

**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, 2021

**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 2020-21 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 2020-21 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. GOING CONCERN**

As discussed in the accompanying schedule of audit results, findings and questioned costs, as item 2021-3, the School's outstanding loan obligation exceeds the School's fund balance by approximately \$250,000. Management plans to improve the School's financial position by controlling and reducing future expenditures and more effectively monitoring actual expenditures with available appropriations. School enrollment did not meet projections for a third year in a row, however, the School has secured excess funding through fundraising and local grants. The School is also participating in the National School Lunch Program in the current 2021-22 fiscal year and has carryover of federal funds that will be used to improve the current financial position. The School was able to repay the 2019-20 Teacher Retirement System obligation of \$57,615 during the 2020-21 fiscal year and has repaid \$50,000 of the SFS loan in the 2021-22 fiscal year. However, the School has incurred an additional \$150,000 in loan debt from Chickasaw Community Bank during the 2021-22 fiscal year.

In addition, the School continues to be on probation with the State Board. The School is required to comply with all terms of probation in order to maintain accreditation and continue under the current charter authorization. Should the State Board approve terminating the charter contract, the School would need to secure another sponsoring organization in order to continue operations.

**COMBINING FINANCIAL STATEMENTS – REGULATORY BASIS**

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, 2021

	BALANCE 7-1-20	ADDITIONS	NET TRANSFERS/ ADJUSTMENTS	DEDUCTIONS	BALANCE 6-30-21
<u>ASSETS</u>					
Cash	\$ 100	11,238	0	1,137	10,201
<u>LIABILITIES</u>					
Funds held for school organizations:					
General activity	\$ 100	10,032		0	10,132
Recruitment and enrollment	0	1,206		1,137	69
Total Liabilities	\$ 100	11,238	0	1,137	10,201

**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  
 FOR THE YEAR ENDED JUNE 30, 2021

<u>Federal Grantor / Pass Through Grantor / Program Title</u>	<u>Federal Assistance Listing Number</u>	<u>Project Number</u>	<u>Program or Award Amount</u>	<u>Balance at 7/1/2020</u>	<u>Revenue Collected</u>	<u>Total Expenditures</u>	<u>Balance at 6/30/2021</u>
<u>U.S. Department of Education</u>							
<u>Passed Through Oklahoma Public Schools Resource Center:</u>							
Charter School Program Grant	84.282	771	\$ 272,637	0	92,751	131,886	39,135

**Note 1 - Basis of Presentation** - The accompanying schedule of expenditures of federal awards includes the federal activity of the District for the year ended June 30, 2021. This information is presented on another comprehensive basis of accounting conforming with the accounting practices prescribed or permitted by the Oklahoma State Department of Education, which is a comprehensive basis of accounting other than generally accepted accounting principles. Because the schedule presents only a selected portion of the operations of the District, it is not intended and does not present the financial position, changes in net assets, or cash flows of the District.

**Note 2 - Summary of Significant Accounting Policies** - Expenditures reported on this schedule are reported on the regulatory basis of accounting consistent with the preparation of the combined financial statements. Expenditures are recognized when an approved purchase order is issued.

SOVEREIGN COMMUNITY SCHOOL DISTRICT NO. J-4, OKLAHOMA COUNTY  
 STATEMENT OF STATUTORY, FIDELITY AND HONESTY BONDS  
 FOR THE YEAR ENDED JUNE 30, 2021

BONDING COMPANY	POSITION COVERED	BOND NUMBER	COVERAGE AMOUNT	EFFECTIVE DATES
CNA Surety - Western Surety Company	Treasurer	72318004	\$ 100,000	6/9/21 - 6/9/22
	Superintendent	72318004	100,000	6/9/21 - 6/9/22
	Board President	72318004	100,000	6/9/21 - 6/9/22
	Encumbrance Clerk / Minutes Clerk	72318004	1,000	6/9/21 - 6/9/22

SOVEREIGN COMMUNITY SCHOOL DISTRICT NO. J-4, OKLAHOMA COUNTY  
SCHEDULE OF ACCOUNTANT'S PROFESSIONAL LIABILITY INSURANCE  
AFFIDAVIT  
JULY 1, 2020 TO JUNE 30, 2021

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 2020-21.

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

By   
Authorized Agent

Subscribed and sworn to before me  
This 25<sup>th</sup> day of March, 2022



  
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

March 14, 2022

Dr. Dusty Delso, Head of School  
Sovereign Community School District  
12600 N. Kelley Avenue  
Oklahoma City, Oklahoma 73131

Dear Dr. Delso,

In addition to the findings identified in the audit on pages 10-14, 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. Please review them very carefully, along with the review copy of your audit report. If you have questions or desire additional information, please call us so that any discrepancies may be resolved.

Expenditures in Excess of Appropriations

We observed during the audit that the general fund had issued checks totaling \$1,043,091.70 at June 30, 2021. However, the appropriation balance for the general fund at June 30, 2021 was only \$517,492.12. Therefore, expenditures had exceeded appropriations by \$525,599.58 at June 30, 2021. It appears that a supplemental appropriations request (S.A.&I. Form 150) was filled out requesting an additional \$573,250.27 in appropriations be approved by the County Excise Board. However, we could not locate any evidence that this form was properly published in the newspaper or submitted. It is a violation of state law for any appropriated fund to exceed the approved appropriation balance at any time during the fiscal year. We recommend that the School implement procedures to ensure that only the original legal appropriations set forth in the Estimate of Needs plus any added appropriations, which have been properly approved, be included in the School's encumbrance and appropriations ledger.

Administrative Costs

The School exceeded its allowable administrative costs by approximately \$3,280. Total administrative costs, according to OCAS, was \$86,732. Allowable administrative costs for the School was \$83,452. We recommend that procedures be implemented to ensure

