

**South Oklahoma City Area
School District**
(A Component Unit of
Oklahoma City Community College)

Financial Statements

June 30, 2017
(With Independent Auditors' Reports Thereon)



SOUTH OKLAHOMA CITY AREA SCHOOL DISTRICT
(A Component Unit of Oklahoma City Community College)

FINANCIAL STATEMENTS

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INDEPENDENT AUDITORS' REPORT

Board of Education
South Oklahoma City Area School District
Oklahoma City, Oklahoma

Report on the Financial Statements

We have audited the accompanying financial statements of the South Oklahoma City Area School District (the "District"), a component unit of Oklahoma City Community College, which is comprised of the statement of net position as of June 30, 2017, and the related statements of revenues, expenses, and changes in net position and cash flows for the year then ended, and the related notes to the financial statements, which collectively comprise the District's basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States; this includes 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.

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

(Continued)

INDEPENDENT AUDITORS' REPORT, CONTINUED

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the South Oklahoma City Area School District as of June 30, 2017, and the changes in its financial position and its cash flows for the year then ended, in accordance with accounting principles generally accepted in the United States.

Other Matters

Accounting principles generally accepted in the United States require that the management's discussion and analysis listed in the table of contents be presented to supplement the basic financial statements. Such information, although not part of the basic financial statements is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the financial statements and other knowledge we obtained during our audit of the financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated October 16, 2017, on our consideration of the District's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts, 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 result of that testing and not to provide an opinion on the internal control over financial reporting or compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

Finley + Cook, PLLC

Shawnee, Oklahoma
October 16, 2017

South Oklahoma City Area School District
(A Component Unit of Oklahoma City Community College)

MANAGEMENT'S DISCUSSION AND ANALYSIS

June 30, 2017

Introduction

The management's discussion and analysis of the activities and financial performance of South Oklahoma City Area School District (the "District") provides an overview of the District's financial activities for the fiscal year ended June 30, 2017. It should be read in conjunction with the accompanying financial statements of the District.

Financial Highlights

- During the year ended June 30, 2017, the District's net position increased to \$15,403,353 from \$12,398,756 in 2016 primarily due to an increase in cash generated from building levy funds held for future capital needs and tax funds held for future operational needs.
- Operating revenues remained the same, while nonoperating revenues increased by \$493,592. This increase is due primarily to modest increase in ad valorem taxes.
- Operating expenses increased to \$5,386,049 in 2017 from \$4,391,474 in 2016 primarily as a result of an increase in technical education expense from the previous year.

Using this Annual Report

The District presents its financial statements in accordance with the business-type activities format as designated by the District's primary government, the Oklahoma City Community College. Accordingly, the financial statements include the management's discussion and analysis (as required supplementary information); the statement of net position; the statement of revenues, expenses, and changes in net position; the statement of cash flows; and the notes to financial statements.

The Statements of Net Position and Revenues, Expenses, and Changes in Net Position

One of the most important questions asked about any school district's finances is, "Is the district as a whole better or worse off as a result of the year's activities?" The statements of net position and revenues, expenses, and changes in net position report information about the District as a whole and its activities in a way that helps answer this question. These statements include all assets and liabilities using the accrual basis of accounting, which is similar to the accounting method used by most private-sector companies. Using the accrual basis of accounting means that all of the current year's revenues and expenses are taken into account regardless of when cash is received or paid.

South Oklahoma City Area School District
(A Component Unit of Oklahoma City Community College)

MANAGEMENT'S DISCUSSION AND ANALYSIS, CONTINUED

**The Statements of Net Position and
Revenues, Expenses, and Changes in Net Position, Continued**

These two statements report the District's net position and changes in it. The District's net position—the difference between assets and liabilities—is one measure of the District's financial health or financial position. Over time, increases or decreases in the District's net position are an indicator of whether its financial health is improving or deteriorating. Other nonfinancial factors, such as changes in requirements of the programs funded by the District, in addition to the condition of its physical facilities, should also be considered to assess the overall financial health of the District.

The District's Net Position

The District's net position is the difference between its assets and liabilities reported in the statement of net position. The District's net position increased in 2017 from 2016 as shown:

Table 1: Assets, Liabilities, and Net Position

	<u>June 30,</u> <u>2017</u>	<u>2016</u>	<u>Increase</u> <u>(Decrease)</u>	<u>%</u> <u>Change</u>
Assets				
Current assets	\$ 4,567,634	3,384,096	1,183,538	35%
Noncurrent assets:				
Noncurrent restricted cash	4,890,394	4,413,426	476,968	11%
Capital assets, net	<u>6,003,284</u>	<u>4,722,020</u>	<u>1,281,264</u>	27%
Total assets	<u>15,461,312</u>	<u>12,519,542</u>	<u>2,941,770</u>	23%
Liabilities				
Current liabilities	<u>57,959</u>	<u>120,786</u>	<u>(62,827)</u>	(52)%
Total liabilities	<u>57,959</u>	<u>120,786</u>	<u>(62,827)</u>	(52)%
Net Position				
Net investment in capital assets	5,984,464	4,646,291	1,338,173	29%
Restricted for capital expenditures	4,890,394	4,413,426	476,968	11%
Unrestricted	<u>4,528,495</u>	<u>3,339,039</u>	<u>1,189,456</u>	36%
Total net position	<u>\$ 15,403,353</u>	<u>12,398,756</u>	<u>3,004,597</u>	24%

South Oklahoma City Area School District
(A Component Unit of Oklahoma City Community College)

MANAGEMENT'S DISCUSSION AND ANALYSIS, CONTINUED

The District's Net Position, Continued

Table 2: Operating Results and Changes in Net Position

	Years Ended June 30,		Increase	%
	<u>2017</u>	<u>2016</u>	<u>(Decrease)</u>	<u>Change</u>
Operating revenues	\$ 1	1	-	0%
Operating expenses	<u>(5,386,049)</u>	<u>(4,391,474)</u>	<u>(994,575)</u>	23%
Operating loss	<u>(5,386,048)</u>	<u>(4,391,473)</u>	<u>(994,575)</u>	23%
Nonoperating revenues:				
Operational and incentive levy	6,246,650	5,888,781	357,869	6%
Building levy	2,135,609	2,006,265	129,344	6%
Investment income	<u>8,386</u>	<u>2,007</u>	<u>6,379</u>	318%
Total nonoperating revenues	<u>8,390,645</u>	<u>7,897,053</u>	<u>493,592</u>	6%
Change in net position	3,004,597	3,505,580	(500,983)	(14)%
Net position at beginning of year	<u>12,398,756</u>	<u>8,893,176</u>	<u>3,505,580</u>	39%
Net position at end of year	<u>\$ 15,403,353</u>	<u>12,398,756</u>	<u>3,004,597</u>	24%

During the year ended June 30, 2017, nonoperating revenues increased by \$493,592. This increase is due to a modest increase in ad valorem taxes. There was no change in the District's millage rate of 5.08 mills or the incentive levy of 2.5 mills.

Overall expenses increased by \$994,575 due primarily to an increase in technical education expense from the previous year. The operating revenues of \$1 represent the annual payment made to the District by Oklahoma City Community College for the lease of the District's facilities and equipment.

South Oklahoma City Area School District
(A Component Unit of Oklahoma City Community College)

MANAGEMENT'S DISCUSSION AND ANALYSIS, CONTINUED

The District's Net Position, Continued

Table 3: Analysis of Net Position

	<u>June 30,</u> <u>2017</u>	<u>2016</u>	<u>Increase</u> <u>(Decrease)</u>	<u>%</u> <u>Change</u>
Net position:				
Net invested in capital assets	\$ 5,984,464	4,646,291	1,338,173	29%
Restricted for capital expenditures	4,890,394	4,413,426	476,968	11%
Unrestricted assets	<u>4,528,495</u>	<u>3,339,039</u>	<u>1,189,456</u>	36%
 Total net position	 <u>\$ 15,403,353</u>	 <u>12,398,756</u>	 <u>3,004,597</u>	 24%

The District's net position increased from \$12,398,756 in 2016 to \$15,403,353 in 2017. This increase was due primarily to due to capitalized construction costs for the Capitol Hill Center Renovation Project and an increase in cash held for future capital and operational needs.

Table 4: Condensed Statements of Cash Flows

	<u>Years Ended June 30,</u> <u>2017</u>	<u>2016</u>	<u>Increase</u> <u>(Decrease)</u>	<u>%</u> <u>Change</u>
Cash provided by (used in):				
Operating activities	\$ (5,104,357)	(4,058,466)	(1,045,891)	26%
Noncapital financing available	6,224,162	5,906,493	317,669	5%
Capital and related financing available	509,827	1,352,935	(843,108)	(62)%
Investing activities	<u>8,386</u>	<u>2,007</u>	<u>6,379</u>	318%
Net increase (decrease) in cash and cash equivalents	 1,638,018	 3,202,969	 (1,564,951)	 (49)%
Cash and cash equivalents at beginning of year	<u>7,771,878</u>	<u>4,568,909</u>	<u>3,202,969</u>	70%
Cash and cash equivalents at end of year	<u>\$ 9,409,896</u>	<u>7,771,878</u>	<u>1,638,018</u>	21%

The District's overall cash and cash equivalents increased by \$1,638,018 in 2017, which is primarily the result of the accumulation of the building levy funds retained in the District's cash accounts for ongoing and future capital projects.

South Oklahoma City Area School District
(A Component Unit of Oklahoma City Community College)

MANAGEMENT'S DISCUSSION AND ANALYSIS, CONTINUED

Capital Assets and Debt Administration

Table 5: Condensed Summary of Capital Assets, Net

	Years Ended June 30, <u>2017</u>	2016	Increase (Decrease)	% Change
Capital assets:				
Building and facilities	\$ 12,259,575	12,000,562	259,013	2%
Other improvements	1,030,386	1,030,386	-	0%
Infrastructure	1,197,190	1,197,190	-	0%
Furniture and equipment	530,885	360,745	170,140	47%
Construction in progress	<u>2,418,368</u>	<u>1,279,109</u>	<u>1,139,259</u>	89%
Total capital assets	17,436,404	15,867,992	1,568,412	10%
Less accumulated depreciation	<u>(11,433,120)</u>	<u>(11,145,972)</u>	<u>(287,148)</u>	3%
 Capital assets, net	 <u>\$ 6,003,284</u>	 <u>4,722,020</u>	 <u>1,281,264</u>	 27%

During 2017, the District's investment in capital assets increased by \$1,281,264. This change was primarily due to an increase in expenditures capitalized for the Capitol Hill Center Renovation Project in the approximate amount of \$1,493,196, offset by increases in accumulated depreciation.

The District had no long-term liabilities as of June 30, 2017 or 2016.

South Oklahoma City Area School District
(A Component Unit of Oklahoma City Community College)

MANAGEMENT'S DISCUSSION AND ANALYSIS, CONTINUED

Economic Factors and the District's Future

The District experienced an approximate average increase of 0.2% in the value of the property in the District during calendar year 2017, which is used to calculate the ad valorem tax receipts for fiscal year 2018. There was no change in the District's operational millage of 5.08 mills or the incentive levy of 2.5 mills during fiscal year 2017. During fiscal year 2013, the District began receiving allocation of funds from the assessment of the Building Fund Levy by the county tax assessor. This levy is required to be used solely for expenditures for capital projects, which include furniture, fixtures and equipment. This building levy is a permanent assessment and will continue into future fiscal years. The total millage applicable to the Building Fund Levy is 2.5 mills for the area including Metro Tech Technology Center and Francis Tuttle Technology Center and 2.5 mills for the Moore/Norman Technology Center.

Contacting the District's Financial Management

This financial report is designed to provide our stakeholders, including taxpayers, customers, investors and creditors, with a general overview of the District's finances and to demonstrate the District's accountability for the money it receives. If you have questions about this report or need additional financial information, contact the Chief Financial Officer at Oklahoma City Community College, 7777 South May Avenue, Oklahoma City, Oklahoma 73159.

SOUTH OKLAHOMA CITY AREA SCHOOL DISTRICT
(A Component Unit of Oklahoma City Community College)
OKLAHOMA CITY, OKLAHOMA

STATEMENT OF NET POSITION

June 30, 2017

Assets	
Current assets:	
Cash and cash equivalents	\$ 4,519,502
Ad valorem taxes receivable	48,132
Total current assets	<u>4,567,634</u>
Noncurrent assets:	
Noncurrent restricted cash and cash equivalents	4,890,394
Capital assets, net of depreciation	6,003,284
Total noncurrent assets	<u>10,893,678</u>
Total assets	<u>15,461,312</u>
Liabilities	
Current liabilities:	
Accounts payable	52,959
Retainage	5,000
Total liabilities	<u>57,959</u>
Net Position	
Net investment in capital assets	5,984,464
Restricted for capital expenditures	4,890,394
Unrestricted	<u>4,528,495</u>
Total net position	<u>\$ 15,403,353</u>

See Independent Auditors' Report.
See accompanying notes to financial statements.

SOUTH OKLAHOMA CITY AREA SCHOOL DISTRICT
(A Component Unit of Oklahoma City Community College)
OKLAHOMA CITY, OKLAHOMA

STATEMENT OF REVENUES, EXPENSES, AND CHANGES IN NET POSITION

Year Ended June 30, 2017

Operating revenues:	
Lease revenue	\$ 1
Total operating revenues	<u>1</u>
Operating expenses:	
Technical education	5,000,000
Professional fees and other expenses	98,440
Depreciation expense	<u>287,609</u>
Total operating expenses	<u>5,386,049</u>
Operating loss	<u>(5,386,048)</u>
Nonoperating revenues:	
Operational and incentive levy funds	6,246,650
Building levy funds	2,135,609
Investment income	<u>8,386</u>
Total nonoperating revenues	<u>8,390,645</u>
Net change in net position	3,004,597
Net position at beginning of year	<u>12,398,756</u>
Net position at end of year	<u>\$ 15,403,353</u>

See Independent Auditors' Report.
See accompanying notes to financial statements.

SOUTH OKLAHOMA CITY AREA SCHOOL DISTRICT
(A Component Unit of Oklahoma City Community College)
OKLAHOMA CITY, OKLAHOMA

STATEMENT OF CASH FLOWS

Increase (Decrease) in Cash and Cash Equivalents

Year Ended June 30, 2017

Cash flows from operating activities:

Operating receipts	\$ 1
Payments to suppliers and others	(5,104,358)
Net cash used in operating activities	<u>(5,104,357)</u>

Noncapital financing activities:

Operational and incentive levy funds received	<u>6,224,162</u>
Net cash provided by noncapital financing activities	<u>6,224,162</u>

Capital and related financing activities:

Building levy funds received	2,135,609
Purchases of capital assets	(1,626,947)
Reimbursements provided by capital assets	<u>1,165</u>
Net cash provided by capital and related financing activities	<u>509,827</u>

Investing activities:

Interest received on investments	<u>8,386</u>
Net cash provided by investing activities	<u>8,386</u>

Increase in cash and cash equivalents

1,638,018

Cash and cash equivalents at beginning of year

7,771,878

Cash and cash equivalents at end of year

\$ 9,409,896

Reconciliation of operating loss to net cash used in operating activities:

Operating loss	\$ (5,386,048)
Adjustments to reconcile operating loss to net cash used in operating activities:	
Depreciation expense	287,609
Accounts payable and retainage	<u>(5,918)</u>
Net cash used in operating activities	<u><u>(5,104,357)</u></u>

Supplemental cash flow information:

Capital asset purchases in accounts payable and accrued expenses	<u>\$ 18,820</u>
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See Independent Auditors' Report.
See accompanying notes to financial statements.

**SOUTH OKLAHOMA CITY AREA SCHOOL DISTRICT
(A Component Unit of Oklahoma City Community College)
OKLAHOMA CITY, OKLAHOMA**

NOTES TO FINANCIAL STATEMENTS

June 30, 2017

(1) SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES, CONTINUED

Nature of Operations

The South Oklahoma City Area School District (the “District”) was formed in 1970 to provide post-secondary technical education to the residents of the District. The District’s primary source of revenue is the ad valorem tax, which is assessed on all real property located within the District. The District together with Oklahoma City Community College (the “College”) use these tax funds to build facilities and pay other expenses to provide technical education.

The Board of Trustees for the District consists of the same members as the Board of Regents of the College with the exception of the Treasurer. The District has no employees of its own; however, the District provides funds, along with those of the College, to construct facilities and pay other costs associated with providing technical education to the residents of the District.

Reporting Entity

The District is a component unit of the College and is included in the financial statements of the College using the blended method. The College is a component unit of the State of Oklahoma and is included in the financial statements of the State of Oklahoma as part of the higher education fund.

Basis of Accounting

The financial statements of the District have been prepared on the accrual basis of accounting whereby revenues are recognized when earned and expenditures are recognized when incurred.

See Independent Auditors’ Report.

**SOUTH OKLAHOMA CITY AREA SCHOOL DISTRICT
(A Component Unit of Oklahoma City Community College)
OKLAHOMA CITY, OKLAHOMA**

NOTES TO FINANCIAL STATEMENTS, CONTINUED

(1) SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES, CONTINUED

Net Position

The District's net position is classified as follows:

Net Investment in Capital Assets—Represents the District's total investment in capital assets, net of outstanding obligations related to those capital assets. To the extent debt has been incurred but not yet expended for capital assets, such amounts are not included as a component of invested in capital assets, net of related debt.

Restricted for Capital Expenditures—Represents unexpended building levy fund taxes that are restricted for use in capital projects, which include furniture, fixtures and equipment.

Unrestricted Net Position—Represents resources derived from operational and incentive levy funds that are available to fund the operations of the District.

Use of Estimates

The preparation of financial statements in conformity with accounting principles generally accepted in the United States requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues, expenses, and other changes in net position during the reporting period. Actual results could differ from those estimates.

Cash and Cash Equivalents

The District considers all cash on hand, demand deposits and interest-bearing checking accounts to be cash and cash equivalents.

Receivables

The District considers all ad valorem taxes receivable to be fully collectible and, accordingly, has recorded no allowance for uncollectible accounts as of June 30, 2017.

See Independent Auditors' Report.

SOUTH OKLAHOMA CITY AREA SCHOOL DISTRICT
(A Component Unit of Oklahoma City Community College)
OKLAHOMA CITY, OKLAHOMA

NOTES TO FINANCIAL STATEMENTS, CONTINUED

(1) SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES, CONTINUED

Capital Assets

Capital assets are stated at cost or fair value, if acquired by gift, less accumulated depreciation. Depreciation is provided using the straight-line method over the estimated useful lives of the assets, generally 40 years for buildings and improvements and 7 to 20 years for furniture and equipment. The investment in capital assets in the accompanying statement of net position represents the capital assets or portions thereof, which were paid for by the District's ad valorem tax revenues.

Income Taxes

The District is, by way of the College, a component unit of the State of Oklahoma, and is, therefore, exempt from federal income taxes under the Internal Revenue Code.

New Accounting Pronouncements

New Accounting Pronouncements Adopted

In June 2015, GASB issued Statement No. 74, *Financial Reporting for Postemployment Benefit Plans Other Than Pension Plans* (GASB 74). GASB 74 seeks to improve the usefulness of information about postemployment benefits other than pensions (other postemployment benefits or "OPEB"). This statement provides guidance for reporting and disclosure of defined benefit and defined contribution OPEB plans. GASB 74 is effective for financial statements for fiscal years beginning after June 15, 2016. The District adopted this statement on July 1, 2016. The adoption had no significant impact on the District's financial statements.

In August 2015, GASB issued Statement No. 77, *Tax Abatement Disclosures* (GASB 77). GASB 77 provides financial reporting and disclosure guidance to governments that have either entered into tax abatement agreements or that have revenues affected by tax abatements entered into by another government. Governments will generally use tax abatements to encourage specific economic development that benefit either the government or its citizens by forgoing certain taxes. The District adopted this statement on July 1, 2016. The District has no items to be reported, and the adoption had no significant impact on the District's financial statements.

See Independent Auditors' Report.

SOUTH OKLAHOMA CITY AREA SCHOOL DISTRICT
(A Component Unit of Oklahoma City Community College)
OKLAHOMA CITY, OKLAHOMA

NOTES TO FINANCIAL STATEMENTS, CONTINUED

(1) SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES, CONTINUED

New Accounting Pronouncements, Continued

New Accounting Pronouncements Adopted, Continued

In December 2015, GASB issued Statement No. 78, *Pensions Provided through Certain Multiple-Employer Defined Benefit Pension Plans* (GASB 78). GASB 78 addresses an issue that arose as a result of the employer reporting for pension plans under GASB 68, *Accounting and Financial Reporting for Pensions*. Certain state and local governments participate in a cost-sharing multi-employer pension plan that (1) is not a state or local governmental plan, (2) provides defined benefits both to employees of state or local governmental employers and to employees of employers that are not state or local governmental employers, and (3) has no predominant state or local governmental employer. This Statement establishes the requirements for recognition, reporting, disclosures, and required supplementary information for governmental employers that provide pensions through pension plans with the above-mentioned characteristics. The District adopted this statement on July 1, 2016. The adoption had no significant impact on the District's financial statements.

In January 2016, GASB issued Statement No. 80, *Blending Requirements for Certain Component Units* (GASB 80). GASB 80 amends blending requirements for the financial statements of component units to include criteria requiring blending of a component unit organized as a not-for-profit corporation in which the primary government is the sole corporate member. The District adopted this statement on July 1, 2016. The adoption had no significant impact on the District's financial statements.

New Accounting Pronouncements Not Yet Adopted

In June 2015, GASB issued Statement No. 75, *Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions* (GASB 75). GASB 75 addresses employer and governmental non-employer contributing entities accounting and financial reporting when participating in an OPEB plan. This statement requires proper recognition of OPEB liabilities by employers and requires a more comprehensive measure of OPEB expense. More robust disclosures will also improve transparency and accountability. GASB 75 is effective for financial statements for the periods beginning after June 15, 2017. The District will adopt GASB 75 effective July 1, 2017, for the June 30, 2018, reporting year. The District does not expect GASB 75 to have a significant impact on the financial statements.

See Independent Auditors' Report.

SOUTH OKLAHOMA CITY AREA SCHOOL DISTRICT
(A Component Unit of Oklahoma City Community College)
OKLAHOMA CITY, OKLAHOMA

NOTES TO FINANCIAL STATEMENTS, CONTINUED

(1) SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES, CONTINUED

New Accounting Pronouncements, Continued

New Accounting Pronouncements Not Yet Adopted, Continued

In March 2016, GASB issued Statement No. 81, *Irrevocable Split-Interest Agreements* (GASB 81). GASB 81 provides recognition and measurement guidance for situations in which a government is one of the beneficiaries of an irrevocable split-interest agreement. Irrevocable split-interest agreements are a type of giving by a donor to provide resources to two or more beneficiaries, including governments. GASB 81 provides the recognition and reporting requirements applicable when a government is one of the parties to such an agreement. The District will adopt GASB 81 effective July 1, 2017, for the June 30, 2018, reporting year. The District does not expect GASB 81 to have a significant impact on the financial statements.

In November 2016, GASB issued Statement No. 83, *Certain Asset Retirement Obligations* (GASB 83). GASB 83 provides accounting and reporting requirements for certain asset retirement obligations (ARO) that arise from legally enforceable liabilities associated with the retirement of certain tangible capital assets. ARO's require an internal and external obligating event and the costs to be reasonable estimable for the incurrence of such a liability. The District will adopt GASB 83 effective July 1, 2018, for the June 30, 2019, reporting year. The District does not expect GASB 83 to have a significant impact on the financial statements.

In January 2017, GASB issued Statement No. 84, *Fiduciary Activities* (GASB 84). GASB 84 improves guidance regarding the recognition and reporting of fiduciary activities. GASB 84 identifies four types of reportable fiduciary fund types, including 1) pension (and other employee benefit) trust funds, 2) investment trust funds, 3) private-purpose trust funds, and 4) custodial funds. GASB 84 outlines the accounting and disclosure requirements for operating structures that qualify as a fiduciary activity. The District will adopt GASB 84 effective July 1, 2019, for the June 30, 2020, reporting year. The District does not expect GASB 84 to have a significant impact on the financial statements.

In March 2017, GASB issued Statement No. 85, *Omnibus 2017* (GASB 85). GASB 85 clarified several practice issues identified during the application of earlier GASB pronouncements. GASB 85 addresses topics including the blending of component units, goodwill and negative goodwill, fair value measurement and application, employer accounting and reporting for pensions and OPEB, and reporting by OPEB plans. The District will adopt GASB 85 effective July 1, 2017, for the June 30, 2018, reporting year. The District does not expect GASB 85 to have a significant impact on the financial statement.

See Independent Auditors' Report.

SOUTH OKLAHOMA CITY AREA SCHOOL DISTRICT
(A Component Unit of Oklahoma City Community College)
OKLAHOMA CITY, OKLAHOMA

NOTES TO FINANCIAL STATEMENTS, CONTINUED

(1) SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES, CONTINUED

New Accounting Pronouncements, Continued

New Accounting Pronouncements Not Yet Adopted, Continued

In May 2017, GASB issued Statement No. 86, *Certain Debt Extinguishment Issues* (GASB 86). GASB 86 provides guidance regarding the in-substance defeasance of debt. Normally, a government will issue new debt at favorable rates and place the proceeds in trust to eliminate the liability of an existing debt. GASB 86 provides accounting and reporting guidance for situations where a government irrevocably sets aside cash and other assets to defease an existing debt. Guidance also addresses prepaid insurance related to extinguished debt and the financial valuation and disclosure of other assets used to defease debt. The District will adopt GASB 86 effective July 1, 2017, for the June 30, 2018, reporting year. The District does not expect GASB 86 to have a significant impact on the financial statements.

In June 2017, GASB issued Statement No. 87, *Leases* (GASB 87). GASB 87 defines a lease as a contract that conveys control of the right to use another entity's nonfinancial asset (the underlying asset) as specified in the contract for a period of time in an exchange or exchange-like transaction. GASB 87 improves accounting and financial reporting for leases by governments by requiring recognition of certain lease assets and liabilities for leases that previously were classified as operating leases and recognized as inflows of resources or outflows of resources based on the payment provisions of the contract. It establishes a single model for lease accounting based on the foundational principle that leases are financings of the right to use an underlying asset. Under GASB 87, a lessee is required to recognize a lease liability and an intangible right-to-use lease asset, and a lessor is required to recognize a lease receivable and a deferred inflow of resources, thereby enhancing the relevance and consistency of information about governments' leasing activities. The requirements of this Statement are effective for reporting periods beginning after December 15, 2019. Earlier application is encouraged. The District has not determined the impact of GASB 87 on the financial statements.

Subsequent Events

Subsequent events have been evaluated through October 16, 2017, which is the date the financial statements were issued.

See Independent Auditors' Report.

**SOUTH OKLAHOMA CITY AREA SCHOOL DISTRICT
(A Component Unit of Oklahoma City Community College)
OKLAHOMA CITY, OKLAHOMA**

NOTES TO FINANCIAL STATEMENTS, CONTINUED

(2) DEPOSITS

Custodial Credit Risk—Deposits

Custodial credit risk is the risk that in the event of a bank failure a government's deposits may not be returned to it. The District's deposit policy for custodial credit risk is described as follows:

Oklahoma Statutes require the State Treasurer to ensure that all state funds either be insured by Federal Deposit Insurance Corporation (FDIC), collateralized by securities held by the cognizant Federal Reserve Bank or invested in U.S. government obligations.

The District requires that balances on deposit with financial institutions be insured by the FDIC, collateralized by securities held by the cognizant Federal Reserve Bank or invested in U.S. government obligations in the District's name. As of June 30, 2017, there were no uncollateralized deposits.

Deposits and Investments

The District's carrying amount of deposits was \$9,409,896 as of June 30, 2017. Deposits are carried at cost.

See Independent Auditors' Report.

SOUTH OKLAHOMA CITY AREA SCHOOL DISTRICT
(A Component Unit of Oklahoma City Community College)
OKLAHOMA CITY, OKLAHOMA

NOTES TO FINANCIAL STATEMENTS, CONTINUED

(3) CAPITAL ASSETS

Capital assets activity for the year ended June 30, 2017, was as follows:

	<u>Beginning Balance</u>	<u>Increases</u>	<u>Transfers</u>	<u>Retirements</u>	<u>Ending Balance</u>
Capital assets not being depreciated:					
Construction in progress	\$ 1,279,110	1,139,258	-	-	2,418,368
Depreciable capital assets:					
Buildings and facilities	12,000,562	259,013	-	-	12,259,575
Other improvements	1,030,386	-	-	-	1,030,386
Infrastructure	1,197,190	-	-	-	1,197,190
Furniture and equipment	360,745	171,766	-	(1,626)	530,885
Total depreciable capital assets	<u>14,588,883</u>	<u>430,779</u>	<u>-</u>	<u>(1,626)</u>	<u>15,018,036</u>
Accumulated depreciation:					
Buildings and facilities	(10,141,313)	(155,243)	-	-	(10,296,556)
Other improvements	(721,271)	(25,760)	-	-	(747,031)
Infrastructure	(123,592)	(59,859)	-	-	(183,451)
Furniture and equipment	(159,796)	(46,747)	-	461	(206,082)
Total accumulated depreciation	<u>(11,145,972)</u>	<u>(287,609)</u>	<u>-</u>	<u>461</u>	<u>(11,433,120)</u>
Capital assets, net	<u>\$ 4,722,021</u>	<u>1,282,428</u>	<u>-</u>	<u>(1,165)</u>	<u>6,003,284</u>

(4) RELATED-PARTY TRANSACTIONS

All buildings owned by the District, which are situated on the campus of the College, are leased to the College for \$1 under a year-to-year lease renewed annually. The College provides for all maintenance, insurance and operating costs related thereto.

The District provides funding to the College for post-secondary vocational technical education for students in the District. During the year ended June 30, 2017, the District provided \$5,000,000 to the College to provide technical education to students of the District.

See Independent Auditors' Report.

**SOUTH OKLAHOMA CITY AREA SCHOOL DISTRICT
(A Component Unit of Oklahoma City Community College)
OKLAHOMA CITY, OKLAHOMA**

NOTES TO FINANCIAL STATEMENTS, CONTINUED

(5) AD VALOREM TAX LEVIES

Pursuant to Oklahoma Statutes, the District may cause taxes to be levied on all taxable property in the District. For the year ended June 30, 2017, the operational levy was 5.08 mills. There was no change in the District's operational millage of 5.08 mills or the incentive levy of 2.5 mills during fiscal year 2017. The total millage applicable to the incentive levy is for the area including Moore/Norman Technology Center and the Francis Tuttle Technology Center. Such levies are collectible on December 31 and March 31 of each year by the Oklahoma County Treasurer with subsequent remittance to the District. During fiscal year 2013, the South Oklahoma City Area School District began receiving allocation of funds from the assessment of the Building Fund Levy by the County Assessor. This levy is required to be used solely for expenditures for capital projects, which include furniture, fixtures and equipment. This building levy is a permanent assessment and will continue into future fiscal years. The total millage applicable to the Building Fund Levy is 2.5 mills for the area including Metro Tech Technology Center and Francis Tuttle Technology Center and 2.5 mills for Moore/Norman Technology Center.

See Independent Auditors' Report.



**INDEPENDENT AUDITORS' 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**

Board of Education
South Oklahoma City Area School District
Oklahoma City, Oklahoma

We have audited, in accordance with the auditing standards generally accepted in the United States and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of the business-type activities of the South Oklahoma City Area School District (the "District"), a component unit of Oklahoma City Community College, which comprise the statement of net position as of June 30, 2017, and the related statements of revenues, expenses, and changes in net position and cash flows for the year then ended, and the related notes to the basic financial statements, and have issued our report thereon dated October 16, 2017.

Internal Control Over Financial Reporting

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

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

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

**INDEPENDENT AUDITORS' 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, CONTINUED**

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the District's financial statements are free from material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

Purpose of this Report

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the District'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 District's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

Finley + Cook, PLLC

Oklahoma City, Oklahoma
October 16, 2017