

**Report on Audit
of
Financial Statements**

*For the Fiscal Year Ended
June 30, 2017*

**Prepared by:
Financial Services Department**

**Oklahoma City Independent School
District No. I-089
Oklahoma County, Oklahoma**

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Oklahoma County School District No. I-89
Oklahoma City Public Schools

District Profile

Board of Education

<i>Name</i>	<i>Office</i>	<i>District</i>	<i>Term of Office</i>	<i>End of Term</i>
Paula Lewis	Board Chairperson		4 yrs	2021
Charles Henry	Member	1	4 yrs	2021
Rebecca Budd	Member	2	4 yrs	2021
Carrie Jacobs	Member	3	4 yrs	2020
Mark Mann	Member	4	4 yrs	2022
Ruth Veales	Member	5	4 yrs	2022
Gloria Torres	Vice Chairperson	6	4 yrs	2019
Jace Kirk	Member	7	4 yrs	2022

Acting Superintendent

Rebecca Kaye

Chief Financial Officer

Jean Bostwick, CPA

FINANCIAL SECTION



Independent Auditor's Report

RSM US LLP

To the Board of Education
Oklahoma County School District No. I-89
Oklahoma City, Oklahoma

Report on the Financial Statements

We have audited the accompanying financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the Oklahoma County School District No. I-89 (the District) as of and for the year ended June 30, 2017, and the related notes to 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 of America; 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.

Auditor's Responsibility

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

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

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

Opinions

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the District, as of June 30, 2017, and the respective changes in financial position and cash flows, where applicable, thereof for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis, the budgetary comparison schedule for the General Fund, the schedule of the District's proportionate share of the net pension liability, and the schedule of the District's contributions to Oklahoma Teachers Retirement System, as listed in the table of contents, be presented to supplement the basic financial statements. Such information, although not a 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 of America, 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 basic financial statements, and other knowledge we obtained during our audit of the basic 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 Information

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the District's basic financial statements. The combining financial statements, statement of changes in assets and liabilities for fiduciary funds, and budgetary schedules, listed in the table of contents as supplementary information, and the accompanying schedule of expenditures of federal awards, as required by Title 2 U.S. Office Code of Federal Regulations (CFR) Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* are presented for purposes of additional analysis and are not a required part of the basic financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the basic financial statements. These statements and schedules have 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, these statements and schedules are fairly stated, in all material respects, in relation to the basic financial statements as a whole.

The accompanying Introductory and Other Information sections, as listed in the table of contents, has not been subjected to the procedures applied in the audit of the basic financial statements, and accordingly, we do not express an opinion or provide any assurance on it.

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated March 5, 2018 on our consideration of the District'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 solely describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the District's internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the District's internal control over financial reporting and compliance.

RSM US LLP

Oklahoma City, Oklahoma
March 5, 2018

**Oklahoma County School District No. I-89
Oklahoma City Public Schools**

**Management's Discussion and Analysis
For Fiscal Year Ended June 30, 2017**

Within the management's discussion and analysis of the Oklahoma County School District No. I-89 (the District) annual financial report, the District's management provides narrative discussion and analysis of the financial activities of the District for the fiscal year ended June 30, 2017. The District's financial performance is discussed and analyzed within the context of the accompanying financial statements following this section. The reports are prepared using the integrated approach as prescribed by Government Accounting Standards Board (GASB) Statement No. 34, *Basic Financial Statements—and Management's Discussion and Analysis—for State and Local Governments*, which also requires that certain comparative information between the current year and the prior year be presented.

Financial Highlights

Key financial highlights for the fiscal year ended June 30, 2017 were:

- The District's Statement of Net Position (accrual basis) reported that assets and deferred outflows exceeded liabilities and deferred inflows by \$406.3 million (net position) an increase of \$6.6 million, or 1.7 percent over the previous year-end net position of \$399.7 million.
- General fund expenditures (budgetary basis) of \$318.5 million were greater than total revenues (revenues plus lapsed appropriations) of \$314.8 million by \$3.7 million, or 1.2 percent of total revenues. The fund balance decreased to \$16.7 million, or 5.3 percent of total revenues.
- The District's Bond Ratings were downgraded by Standard & Poor's from a bond rating of AA Stable to a bond rating of AA Negative.
- Student membership totaled 39,979, a decrease of 898 students, or 2.2 percent, from last year's membership of 40,877. Membership and attendance are the critical components in the calculation of the District's revenue allocations.

Overview of the Financial Statements

This discussion and analysis is intended to serve as an introduction to the District's basic financial statements, which are comprised of three components: 1) district-wide financial statements, 2) fund financial statements and 3) notes to the financial statements. This report also contains required and other supplementary information in addition to the basic financial statements.

District-Wide Financial Statements

The district-wide financial statements are designed to provide readers with a broad overview of the District's finances, in a manner similar to a private-sector business.

The *Statement of Net Position* presents information on all of the District's assets, deferred outflows/ inflows of resources and liabilities, with the difference reported as *net position*. Over time, increases or decreases in net position may serve as a useful indicator of whether the financial position of the District is improving or deteriorating.

The *Statement of Activities* presents information reflecting how the District's net position changed during the most recent fiscal year. All changes in net position are reported as soon as the underlying event giving rise to the change occurs, regardless of the timing of related cash flows. Thus, some revenues and expenses reported in this statement will result in cash flows in future fiscal periods (e.g., uncollected taxes).

**Oklahoma County School District No. I-89
Oklahoma City Public Schools**

**Management's Discussion and Analysis
For Fiscal Year Ended June 30, 2017**

Both of the district-wide financial statements distinguish functions of the District that are principally supported by property taxes and intergovernmental revenues (governmental activities) from other functions that are intended to recover all or a significant portion of their costs through user fees and charges (business-type activities).

The governmental activities of the District include regular education, special education, transportation and administration. The business-type activities of the District include school nutrition services.

The district-wide financial statements can be found on pages 17 and 18.

Fund Financial Statements

A fund is a grouping of related accounts that is used to maintain control over resources that have been segregated for specific activities or objectives. The District uses fund accounting to ensure and demonstrate compliance with finance-related laws and regulations. Within the basic financial statements, fund financial statements focus on the District's most significant funds rather than the District as a whole. Major funds are separately reported while all others are combined into a single, aggregated presentation.

The District has three kinds of funds:

Governmental funds are reported in the fund financial statements and encompass essentially the same functions reported as governmental activities in the district-wide financial statements. However, unlike the district-wide financial statements, governmental fund financial statements focus on short-term inflows and outflows of spendable resources, as well as on balances of spendable resources available at the end of the fiscal year. Such information may be useful in evaluating the District's short-term financing requirements. Most of the District's basic services are included here, such as regular education, special education, transportation and administration. Property taxes, federal grants, state grants and state aid formula provide the financing for most of these activities.

Because the focus of governmental funds is narrower than that of the district-wide financial statements, it is useful to compare the information presented for governmental funds with similar information presented for governmental activities in the district-wide financial statements. By doing so, readers may better understand the long-term impact of the government's short-term financing decisions. The Governmental Funds Balance Sheet and the Governmental Funds Statement of Revenues, Expenditures, and Changes in Fund Balances each provide a reconciliation to facilitate this comparison between governmental funds and governmental activities.

The Governmental Funds Balance Sheet and Statement of Revenues, Expenditures and Changes in Fund Balances are presented on pages 19 and 21. Major funds are presented separately, and nonmajor governmental funds are combined into a single column. Individual fund data for each of these nonmajor governmental funds are provided in a combining statement on pages 60 and 61.

Proprietary funds are reported in the fund financial statements and include services for which the District charges a fee. A Statement of Cash Flows – Proprietary Fund is also reported. The District maintains one proprietary fund, which is the enterprise fund for the District's School Nutrition Services program. Proprietary funds are used to report the same functions presented as business-type activities in the district-wide financial statements, only in more detail.

The basic proprietary fund financial statements can be found on pages 23 through 25.

**Oklahoma County School District No. I-89
Oklahoma City Public Schools**

**Management's Discussion and Analysis
For Fiscal Year Ended June 30, 2017**

Fiduciary funds are funds for which the District is the trustee or fiduciary for assets that belong to others. The District is responsible for ensuring that the assets of the funds are used only for their intended purposes and by whom the assets belong. The District maintains one fiduciary fund, which is the student activity fund. Fiduciary fund financial statements report resources that are not available to fund District programs and, as a result, are not included in the district-wide financial statements.

The basic fiduciary fund financial statement can be found on page 26.

Notes to the Financial Statements

The notes provide additional information that is essential to a full understanding of the data provided in the district-wide and fund financial statements. Notes to the financial statements can be found on pages 27 through 53.

Required Supplementary Information

The *Required Supplementary Information (RSI)* section presents information concerning the District's budgeting process. The District adopts an annual appropriated budget for the following funds: general fund, building fund, school nutrition fund, bond funds, debt service fund and insurance fund.

The District is required to present a budget to actual comparison schedule for both the general fund and each major special revenue fund with a legally adopted annual budget. A budgetary comparison schedule has been provided for the general fund, to demonstrate compliance with the budgets. There are no major special revenue funds with a legally adopted annual budget.

Pension information is also included in required supplementary information.

Other Supplementary Information

The *Other Supplementary Information* section presents the detailed by non-major Other Governmental Funds Balance Sheet and Revenues and Expenditures, and Changes in Fund Balances, The Fiduciary Statement of Changes in Assets and Liabilities, and budgetary comparison schedules for the non-major special revenue funds and other funds: building fund, bond funds, debt service fund and insurance fund.

District-Wide Financial Analysis

The following financial analysis discussion reports the District's comparative results in two basic fund categories: Governmental Activities and Business-Type Activities. As year-to-year financial information is accumulated on a consistent basis, changes in net position may be observed and used to discuss the changing financial position of the District as a whole.

**Oklahoma County School District No. I-89
Oklahoma City Public Schools**

**Management's Discussion and Analysis
For Fiscal Year Ended June 30, 2017**

Net Position

The District's total net position at June 30, 2017 and 2016 was \$406.3 million and \$399.7 million, respectively. During the fiscal year ended June 30, 2017, net position increased \$6.6 million or 1.7 percent. As a result of GASB Statements No. 68 and 71, the District is unable to report positive balances in all categories of net position, both for the District as a whole, as well as for its separate governmental and business-type activities.

The largest portion of the District's net position, \$577.1 million (142 percent of total net position), reflects its net investment in capital assets. The District uses these capital assets to provide instruction, support and transportation services; consequently, these assets are not available for future spending. Although the District's investment in capital assets is reported net of related debt, it should be noted that the resources needed to repay this debt must be provided from other sources, since the capital assets themselves cannot be used to liquidate these liabilities.

Detailed financial information is available on page 17.

The following table provides a comparative summary of the District's statements of net position as of June 30, 2017 and 2016:

	Statements of Net Position (in thousands)					
	June 30, 2017 and 2016					
	Governmental Activities		Business-Type Activities		Totals	
	2017	2016	2017	2016	2017	2016
Current assets	\$ 344,396	\$ 354,690	\$ 9,398	\$ 6,361	\$ 353,794	\$ 361,051
Capital and other	679,199	671,118	412	161	679,611	671,279
Total assets	1,023,595	1,025,808	9,810	6,522	1,033,405	1,032,330
Deferred outflows of resources	119,689	42,935	4,938	1,789	124,627	44,724
Current liabilities	74,161	64,462	2,151	1,239	76,312	65,701
Long-term liabilities	523,590	450,933	16,453	12,238	540,043	463,171
Total liabilities	597,751	515,395	18,604	13,477	616,355	528,872
Deferred inflows of resources	134,800	147,221	587	1,232	135,387	148,453
Net position:						
Net investment in capital assets	575,577	561,350	412	161	575,989	561,511
Restricted	69,493	144,355	1,523	1,199	71,016	145,554
Unrestricted	(234,337)	(299,578)	(6,378)	(7,758)	(240,715)	(307,336)
Total net position	\$ 410,733	\$ 406,127	\$ (4,443)	\$ (6,398)	\$ 406,290	\$ 399,729

**Oklahoma County School District No. I-89
Oklahoma City Public Schools**

**Management's Discussion and Analysis
For Fiscal Year Ended June 30, 2017**

The District's total assets at June 30, 2017 were \$1.033 million, an increase of \$0.1 million, or 0.1 percent, over last year's assets of \$1.032 million.

	Total Assets (in thousands)					
	June 30, 2017 and 2016					
	Governmental Activities		Business-Type Activities		Totals	
	2017	2016	2017	2016	2017	2016
Cash and cash equivalents	\$ 162,174	\$ 186,206	\$ 8,929	\$ 5,836	\$ 171,103	\$ 192,042
Investments	7,000	-	-	-	7,000	-
Deposits held by a third party	31,198	31,013	-	-	31,198	31,013
Accounts receivables, net of allowances	143,840	137,270	299	151	144,139	137,421
Inventories	184	201	170	374	354	575
Total current assets	344,396	354,690	9,398	6,361	353,794	361,051
Land and construction	18,103	13,735	148	-	18,251	13,735
Other capital assets, net of accumulated depreciation	661,096	657,383	264	161	661,360	657,544
Total noncurrent assets	679,199	671,118	412	161	679,611	671,279
Total assets	\$ 1,023,595	\$ 1,025,808	\$ 9,810	\$ 6,522	\$ 1,033,405	\$ 1,032,330

Current Assets

The District's current assets consist primarily of cash and cash equivalents, investments, deposits held by a third party, receivables, and inventories. Current assets at June 30, 2017 were \$353.8 million, a decrease of \$7.3 million, or 2 percent, over last year's current assets of \$361.1. Major transactions/factors were:

- Decrease of cash and cash equivalents and investments of \$13.9 million over prior year is primarily related to a decrease in revenues from operating grants and contributions for governmental activities.
- Increase of accounts receivables of \$6.7 million due to a \$3 million increase in property tax receivable and a \$3.5 million increase in receivables due from other governments, specifically federal grant receivables.

Noncurrent Assets

The District's investment in capital assets includes: land; assets under construction; buildings and improvements; technology, appliances, and musical instruments; machinery, equipment, furniture and fixtures; and vehicles. Capital assets, net of accumulated depreciation, at June 30, 2017 were \$679.6 million, an increase of \$8.3 million, or 1.2 percent, over last year's total net capital assets of \$671.3 million. Major transactions/factors were:

- Increase for capital grants transfers of \$2.6 million for buildings, improvements, and technology.
- Increase for assets under construction activity of \$26.3 million.
- Decrease for depreciation expense of \$22.6 million.

**Oklahoma County School District No. I-89
Oklahoma City Public Schools**

**Management's Discussion and Analysis
For Fiscal Year Ended June 30, 2017**

The following table provides a comparative summary of the District's capital assets as of June 30, 2017 and 2016:

	Capital Assets, Net of Accumulated Depreciation (in thousands)					
	June 30, 2017 and 2016					
	Governmental Activities		Business-Type Activities		Totals	
	2017	2016	2017	2016	2017	2016
Land	\$ 3,597	\$ 3,597	\$ -	\$ -	\$ 3,597	\$ 3,597
Assets under construction	14,506	10,138	148	-	14,654	10,138
Buildings and improvements	649,544	640,693	-	-	649,544	640,693
Technology, appliances, and musical instruments	5,749	10,267	1	5	5,750	10,272
Machinery, equipment, furniture and fixtures	2,472	2,483	115	145	2,587	2,628
Vehicles	3,331	3,940	148	11	3,479	3,951
Total capital assets	\$ 679,199	\$ 671,118	\$ 412	\$ 161	\$ 679,611	\$ 671,279

Additional information concerning the District's capital assets is contained in Note 4 to the financial statements.

Total Liabilities

The District's total liabilities at June 30, 2017 were \$616.4 million, an increase of \$87.5 million, or 16.5 percent, over last year's total liabilities of \$528.9 million. The following table provides a comparative summary of the District's liabilities as of June 30, 2017 and 2016:

	Total Liabilities (in thousands)					
	June 30, 2017 and 2016					
	Governmental Activities		Business-Type Activities		Totals	
	2017	2016	2017	2016	2017	2016
Current liabilities	\$ 41,808	\$ 33,547	\$ 2,085	\$ 1,180	\$ 43,893	\$ 34,727
Current portion of long-term liabilities	32,353	30,915	66	59	32,419	30,974
Total current liabilities	74,161	64,462	2,151	1,239	76,312	65,701
Long-term portion of GO bonds	122,860	153,520	-	-	122,860	153,520
Premium on bonds	4,581	1,526	-	-	4,581	1,526
Capital lease obligation	729	931	-	-	729	931
Accrued compensated absences	4,253	4,549	154	138	4,407	4,687
Net pension liability	391,167	290,407	16,299	12,100	407,466	302,507
Total noncurrent liabilities	523,590	450,933	16,453	12,238	540,043	463,171
Total liabilities	\$ 597,751	\$ 515,395	\$ 18,604	\$ 13,477	\$ 616,355	\$ 528,872

**Oklahoma County School District No. I-89
Oklahoma City Public Schools**

**Management's Discussion and Analysis
For Fiscal Year Ended June 30, 2017**

Current Liabilities

The District's total current liabilities at June 30, 2017 were \$76.3 million, an increase of \$10.6 million, or 16.2 percent, over last year's total current liabilities of \$65.7 million. Current liabilities include accounts payables and the current portion of long-term obligations.

Noncurrent Liabilities

The District's total noncurrent liabilities at June 30, 2017 were \$540 million, an increase of \$76.9 million or 16.6 percent, over last year's total noncurrent liabilities of \$463.2 million. Major transactions/factors were:

- Increase of net pension liability as a result of GASB 68 reporting requirements of \$105 million.
- Decrease of the total long-term portion of General Obligation Bonds of \$30.7 million.

Additional information concerning the District's non-current liabilities is contained in Note 6 Long-Term Liabilities to the financial statements.

Outstanding Debt

General Obligation Bond debt at June 30, 2017 was \$153 million, a decrease of \$29.1 million or 16 percent, over last year's total bond debt of \$182.1 million. Changes in the outstanding debt balance reflect the net impact of any increases of debt for new bond sales and any reductions of debt for bond principal payments. Major transactions/factors were:

- Increase for debt associated with the 2016 Bond Sales of \$9 million.
- Decrease for general obligation bond principal payments totaling \$36.5 million.

The following table provides a comparative summary of the District's outstanding debt as of June 30, 2017 and 2016:

	Outstanding Debt (in thousands)					
	June 30, 2017 and 2016					
	Governmental Activities		Business-Type Activities		Totals	
	2017	2016	2017	2016	2017	2016
General obligation bonds	\$ 152,985	\$ 182,140	\$ -	\$ -	\$ 152,985	\$ 182,140
Premium on bonds	4,581	1,526	-	-	4,581	1,526
Total						
outstanding debt	\$ 157,566	\$ 183,666	\$ -	\$ -	\$ 157,566	\$ 183,666

Deferred Outflows of \$123.4 million consist of unrecognized items not yet charged to pension expense and contributions from the employer after the measurement date but before the end of the employer's reporting period. Deferred outflows of 1.2 million relates to debt refunding and equals the difference between the reacquisition price and the net carrying amount of old debt. The deferred outflow will be recognized as a component of interest expense over the life of the old debt or the life of the new debt, whichever is shorter.

Deferred Inflows of \$120.7 million were recorded related to future property tax collections as projected based on the Oklahoma County lien date of January 1, 2017 as these will not be recognized as revenue until the year for which it is budgeted. Deferred inflows of \$14.7 million were recorded related to unrecognized items not yet charged to pension expense.

**Oklahoma County School District No. I-89
Oklahoma City Public Schools**

**Management's Discussion and Analysis
For Fiscal Year Ended June 30, 2017**

Financial Analysis of the District's Activities

The District's statement of activities is reported on the accrual basis. Detailed financial information is available on page 18. The following table provides a comparative summary of the District's statements of activities for the years ended June 30, 2017 and 2016:

	Statements of Activities (in thousands)					
	June 30, 2017 and 2016					
	Governmental Activities		Business-Type Activities		Totals	
	2017	2016	2017	2016	2017	2016
Program revenues:						
Charges for services	\$ 1,626	\$ 1,435	\$ 1,188	\$ 1,638	\$ 2,814	\$ 3,073
Operating grants and contributions	54,653	61,623	25,124	24,905	79,777	86,528
Capital grants and contributions	2,483	9,641	-	-	2,483	9,641
General revenues:						
Property and other taxes	153,397	151,812	-	-	153,397	151,812
State aid, charter schools	32,834	26,296	-	-	32,834	26,296
State aid	127,087	128,052	2,493	2,627	129,580	130,679
Support from other governments	7,331	6,709	-	-	7,331	6,709
Interest and dividends	335	40	-	-	335	40
Other	543	369	34	77	577	446
Total revenues	380,289	385,977	28,839	29,247	409,128	415,224
Expenses:						
Instruction	190,546	190,210	-	-	190,546	190,210
Support services	130,797	131,909	-	-	130,797	131,909
Operation of noninstructional services	575	525	26,884	25,065	27,459	25,590
Facilities, acquisitions, and construction	17,165	16,271	-	-	17,165	16,271
Charter schools	32,834	26,296	-	-	32,834	26,296
Other outlays	282	331	-	-	282	331
Interest	3,484	3,470	-	-	3,484	3,470
Total expenses	375,683	369,012	26,884	25,065	402,567	394,077
Increase (decrease) in net position	4,606	16,965	1,955	4,182	6,561	21,147
Net position, beginning	406,127	389,162	(6,398)	(10,580)	399,729	378,582
Net position, ending	\$ 410,733	\$ 406,127	\$ (4,443)	\$ (6,398)	\$ 406,290	\$ 399,729

**Oklahoma County School District No. I-89
Oklahoma City Public Schools**

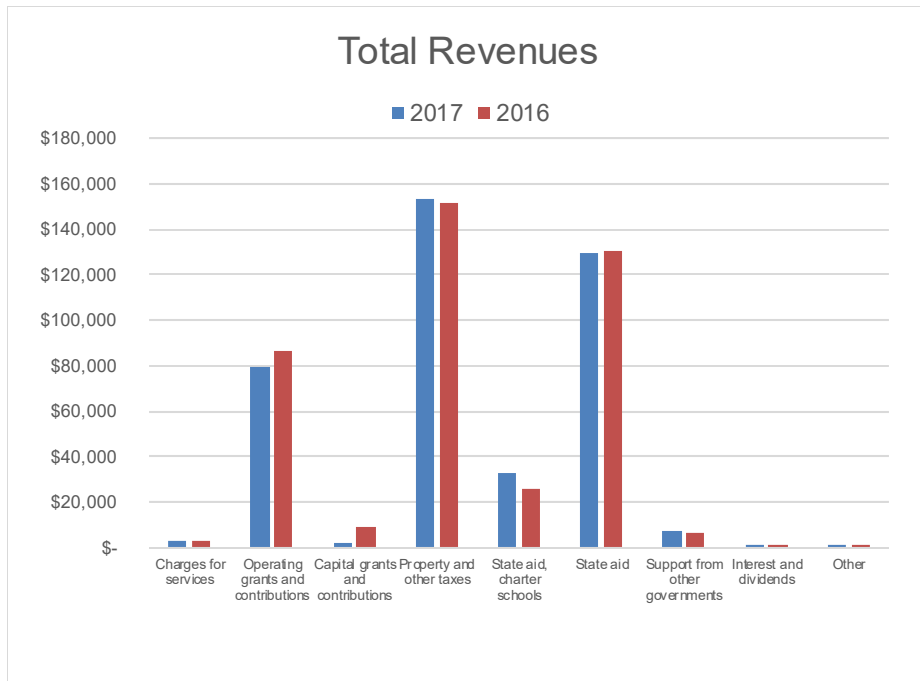
**Management’s Discussion and Analysis
For Fiscal Year Ended June 30, 2017**

Revenues

The District’s total accrual basis revenues at June 30, 2017 were \$409.1 million, a decrease of \$6.0 million, or 1.4 percent, over last year’s total revenues of \$415.2 million. Major transactions/ factors were:

- Revenue from operating grants and capital grants and contributions was \$82.3 million, a decrease of \$13.9 million or 14 percent, over prior year revenues of \$96.2 million.
- State funding for Foundation and Salary Incentive Aid, Flexible Benefit Allowance contribution was \$127 million, a decrease \$1.1 million or 0.9 percent over prior year collections of \$128.1 million.
- Pass through state funding revenue for charter schools was \$32.8 million, an increase of \$6.5 million or 24.7 percent, over prior year revenues of \$26.3 million.

As graphically portrayed below, the District is heavily reliant on state aid to support operations. Property and other taxes support both general fund and building fund operations and provide proceeds for bond indebtedness.



**Oklahoma County School District No. I-89
Oklahoma City Public Schools**

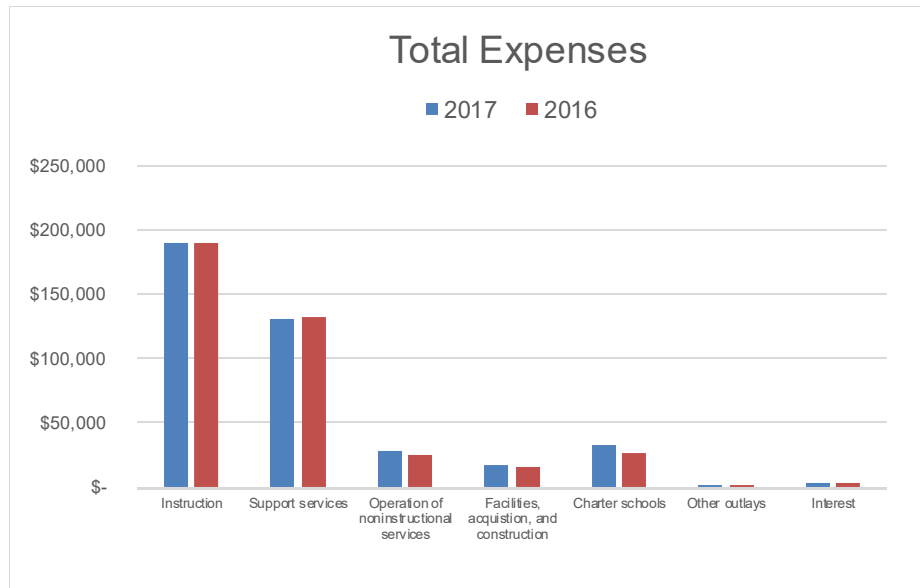
**Management's Discussion and Analysis
For Fiscal Year Ended June 30, 2017**

Expenses

The District's total accrual basis expenses at June 30, 2017 were \$402.6 million, an increase of \$8.5 million, or 2.2 percent, over last year's total expenses of \$394.1 million.

Financial transactions benefiting the District that reflect both revenue and expense impact include the Federal Grant Programs (such as Title I), MAPS Sales Tax projects, E-Rate program participation and on-behalf teacher retirement contributions by the State of Oklahoma. These financial transactions are generally reflected within instructional costs classification. Major transactions/factors were:

- Instructional costs were \$190.5 million, an increase of \$0.3 million or 0.2 percent over last year's expenses of \$190.2 million.
- Support costs were \$130.8 million, a decrease of \$0.1 million or 0.1 percent below last year's expenses of \$131.9 million.
- Pass through expense for charter schools was \$32.8 million, an increase of \$6.5 million or 24.7 percent, over prior year expenses of \$26.3 million.



**Oklahoma County School District No. I-89
Oklahoma City Public Schools**

**Management’s Discussion and Analysis
For Fiscal Year Ended June 30, 2017**

Financial Analysis of the District’s Funds

Governmental funds: The focus of the District’s governmental funds is to provide information on short-term inflows, outflows and balances of spendable resources. Long-Term financial reporting, such as fixed assets and long-term debt, are adjusted back to revenue and expenditures to reflect only short-term activity. Such information is useful in assessing the District’s financing requirements. In particular, unassigned fund balances may serve as a useful measure of a government’s net resources available for spending at the end of the fiscal year. See pages 19 and 21 for detailed reporting.

The District’s main sources of revenues by category are:

- *Local* (including Ad Valorem, tuition and fees, investment earnings, rentals, and reimbursements)
- *Intermediate* (Including County Four Mill Ad Valorem)
- *State* (Including State taxes and fees, State Aid, State Grants, State Programs)
- *Federal* (Federal programs, projects, services, and activities)
- *Charter School* (flow-through of charter school state formula funding)
- *Other* (Reimbursements and other miscellaneous revenues)

Other Financing Sources of Governmental Funds include Bond Sales, Revenue Transfers between funds, and Insurance Recoveries

Total Revenues by Source (in thousands)		
	2017	2016
Local sources	\$ 126,908	\$ 132,228
Intermediate sources	12,924	12,371
State sources	167,211	174,266
Federal sources	33,098	37,334
Charter schools	32,834	26,296
Other	360	355
Total sources of revenue	\$ 373,335	\$ 382,850

The District’s main activities by function are instruction, support services, noninstructional services, facilities acquisition and construction, other outlays (charter school pass-through), and debt service. The following table shows each activity’s total cost before any offsets for fees generated by the activities and intergovernmental aid provided for specific programs, as well as the financial burden that was placed on the State of Oklahoma, federal government, and the District’s taxpayers by each of these functions.

**Oklahoma County School District No. I-89
Oklahoma City Public Schools**

**Management's Discussion and Analysis
For Fiscal Year Ended June 30, 2017**

Total Expenditures by Function (in thousands)

	2017	2016
Instructions	\$ 180,524	\$ 197,928
Support services	123,953	136,066
Noninstructional services	575	525
Facilities acquisition and construction	28,451	30,435
Charter schools	32,834	26,296
Other outlays	664	331
Debt service	47,538	28,133
Total cost of service	\$ 414,539	\$ 419,714

Proprietary funds: The focus of the District's proprietary fund for School Nutrition Services as detailed on pages 23 through 25 is to provide the same type of information found in the district-wide financial statements as of June 30, 2017.

Using the Community Eligibility Provision (CEP), a non-pricing meal service option for school districts in low-income areas, all enrolled students received free breakfast and lunch.

Breakfast and lunch participation decreased to 16,740 and 29,988 respectively, from prior year participation of 17,483 and 31,443.

Proprietary fund total net position at June 30, 2017 and 2016 was \$4.4 million (deficit) and \$6.4 million (deficit), respectively. During the fiscal year ended June 30, 2017, net position increased \$2.0 million or 31.3 percent.

Proprietary fund unrestricted net position at June 30, 2017 and 2016 was \$6.4 million (deficit) and \$7.8 million (deficit), respectively. During the fiscal year ended June 30, 2017, unrestricted net position increased \$1.4 million or 17.9 percent.

Agency funds: The District has numerous School Activity Funds. Activity Funds operate to generate revenues to specifically benefit a school organization. Total assets at June 30, 2017 and 2016 were approximately \$2.7 million and \$2.6 million, respectively.

General Fund Budget Discussion

Under the required supplementary information section (pages 57 through 59); the General Fund is presented on a budgetary basis. Annually, the District files a budget overview in accordance with the School District Budget Act (Section 5-150 et. Seq. of Title 70) adopted June 4, 2001.

The District adopts an annual appropriated budget for all required funds. The budget is prepared in accordance with Oklahoma law and is based on accounting for financial transactions on a basis of cash receipts, disbursements and encumbrances.

**Oklahoma County School District No. I-89
Oklahoma City Public Schools**

**Management's Discussion and Analysis
For Fiscal Year Ended June 30, 2017**

Revenue

State sources of revenue (the primary source of District revenues) are budgeted conservatively. Total state foundation incentive and flexible benefit allowance funding is driven by changes in District WADM (Weighted Average Daily Membership), and Foundation and Salary Incentive Aid factors in state appropriated funding

Federal sources of revenue are budgeted each year to allow an appropriation authorization to expend the full potential allocation of all federal programs. Any unspent allocations are carried forward into the next fiscal year for use. The budgeted amount is based on estimated FY2017 spending and historical program appropriations trends at the time of the budget preparation.

Expenditures

Instructional expenditures mirror the federal sources of revenue budgeting process to allow appropriation authorization to expend the full potential allocation of all federal programs. Federal sources of revenue impact the classroom and instructional setting. As federal actual revenues are less than budget, a direct correlation occurs with instructional expenditures actuals being less than budgeted. Other expenditures are budgeted based on historical trend information and projections for potential increases or decreases for student services and staffing costs.

Economic Outlook

After failing to find a funding solution to address the original state budget shortfall, Oklahoma Governor Mary Fallin, on February 27, 2018, signed the final version of the FY2018 state budget which cuts \$44.7 million from state agencies over the remaining months in the fiscal year. Oklahoma City Public Schools will have an estimated reduction of approximately 2 percent or \$891 thousand. This reduction will result in a total state formula funding appropriation of \$102.6 million for the district as compared to the prior year state formula funding appropriation of \$102.4 million.

The State of Oklahoma is experiencing encouraging economic news. As reported by State Treasurer, Ken Miller, monthly gross receipts to the Treasury entered a second year of growth in January. "Gross collections would indicate Oklahoma, as with the nation, is experiencing increased economic activity," Miller said. However, for the upcoming FY2019 year, it is anticipated that budget writers for the state budget will have to find a solution for an anticipated shortfall of \$167.8 million through spending cuts, one-time funding or new revenue before the legislative session ends in May.

School state funding is highly depending on student enrollment and district enrollment continues to decline. It is anticipated that FY2019 state formula funding appropriation will be reduced by an estimated additional \$2 million as a result of the declining district enrollment and student enrollment growth with charter schools and other school districts. As student enrollment increases or decreases, the related academic staffing is adjusted based on districtwide staffing formulas.

District leadership will continue to carefully evaluate legislative activity and monitor revenues and expenditures to ensure that the financial resources are aligned to meet our student's academic and emotional needs.

**Oklahoma County School District No. I-89
Oklahoma City Public Schools**

**Management's Discussion and Analysis
For Fiscal Year Ended June 30, 2017**

Contacting the District's Financial Management

This financial report is designed to provide our citizens, taxpayers, customers, investors and creditors with a general overview of the District's financials and to demonstrate the District's accountability for the money it receives. If you have questions about this report or need additional financial information, please contact:

Oklahoma County School District I-89
Oklahoma City Public Schools
Financial Services Department
PO Box 36609
Oklahoma City, Oklahoma 73136

BASIC FINANCIAL STATEMENTS

Oklahoma County School District No. I-89
Oklahoma City Public Schools

Statement of Net Position
June 30, 2017
(in thousands)

	Governmental Activities	Business-Type Activities	Total
Assets			
Cash and cash equivalents	\$ 162,174	\$ 8,929	\$ 171,103
Investments	7,000	-	7,000
Deposits held by third party	31,198	-	31,198
Receivables:			
Delinquent/protested property taxes, net of allowance	9,918	-	9,918
Property taxes - succeeding year, net of allowance	120,704	-	120,704
Due from other governments	12,994	284	13,278
Other, net of allowance	224	15	239
Inventories	184	170	354
Total current assets	344,396	9,398	353,794
Noncurrent assets:			
Capital assets:			
Land and assets under construction	18,103	148	18,251
Other capital assets, net of accumulated depreciation	661,096	264	661,360
Total capital assets	679,199	412	679,611
Total assets	1,023,595	9,810	1,033,405
Deferred outflows of resources			
Debt refunding related amounts	1,181	-	1,181
Pension related amounts	118,508	4,938	123,446
Total deferred outflows of resources	119,689	4,938	124,627
Liabilities			
Current liabilities:			
Warrants payable	17,138	875	18,013
Accounts payable and accrued liabilities	23,454	1,210	24,664
Accrued interest payable	1,216	-	1,216
Current portion of long-term obligations	32,353	66	32,419
Total current liabilities	74,161	2,151	76,312
Noncurrent liabilities:			
General obligation bonds	122,860	-	122,860
Premium on bonds	4,581	-	4,581
Capital lease obligation	729	-	729
Accrued compensated absences	4,253	154	4,407
Net pension liability	391,167	16,299	407,466
Total noncurrent liabilities	523,590	16,453	540,043
Total liabilities	597,751	18,604	616,355
Deferred Inflows of Resources			
Property taxes - succeeding year	120,704	-	120,704
Pension related amounts	14,096	587	14,683
Total deferred inflows of resources	134,800	587	135,387
Net Position			
Net investment in capital assets	575,577	412	575,989
Restricted for:			
Debt service	49,647	-	49,647
Capital projects	7,763	-	7,763
Building	11,316	-	11,316
School nutrition	-	1,523	1,523
Other	767	-	767
Unrestricted	(234,337)	(6,378)	(240,715)
Total net position	\$ 410,733	\$ (4,443)	\$ 406,290

See notes to financial statements.

**Oklahoma County School District No. I-89
Oklahoma City Public Schools**

**Statement of Activities
Year Ended June 30, 2017
(in thousands)**

	Program Revenues				Net (Expense) Revenue and Changes in Net Position		
	Expenses	Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions	Governmental Activities	Business-Type Activities	Total
Functions/Programs							
Governmental activities:							
Instruction	\$ 190,546	\$ 732	\$ 32,303	\$ -	\$ (157,511)	\$ -	\$ (157,511)
Support services	130,797	894	20,017	84	(109,802)	-	(109,802)
Noninstructional services	575	-	292	-	(283)	-	(283)
Facilities, acquisitions, and construction	17,165	-	148	2,399	(14,618)	-	(14,618)
Charter schools	32,834	-	-	-	(32,834)	-	(32,834)
Other outlays	282	-	1,893	-	1,611	-	1,611
Interest on long-term debt	3,484	-	-	-	(3,484)	-	(3,484)
Total governmental activities	375,683	1,626	54,653	2,483	(316,921)	-	(316,921)
Business-type activities,							
Noninstructional services	26,884	1,188	25,124	-	-	(572)	(572)
Total district-wide	\$ 402,567	\$ 2,814	\$ 79,777	\$ 2,483	(316,921)	(572)	(317,493)
General revenues:							
Taxes:							
Property taxes, levied for general purposes					84,433	-	84,433
Property taxes, levied for debt service					36,772	-	36,772
Other					32,192	-	32,192
State aid not restricted to specific purposes - charter schools					32,834	-	32,834
State aid not restricted to specific purposes					127,087	2,493	129,580
Support from other local governments, not restricted to specific purposes					7,331	-	7,331
Interest, dividends and investment earnings					335	-	335
Other					543	34	577
Total general revenues					321,527	2,527	324,054
Change in net position					4,606	1,955	6,561
Net position (deficit), beginning of year					406,127	(6,398)	399,729
Net position (deficit), end of year					\$ 410,733	\$ (4,443)	\$ 406,290

See notes to financial statements.

Oklahoma County School District No. I-89
Oklahoma City Public Schools

Balance Sheet - Governmental Funds
June 30, 2017
(in thousands)

	General Fund	2007 Bond Funds	Debt Service Fund	Other Governmental Funds	Total Governmental Funds
Assets					
Cash and cash equivalents	\$ 59,757	\$ 50,804	\$ 23,760	\$ 27,853	\$ 162,174
Investments	-	5,000	-	2,000	7,000
Deposits held by third party	-	-	31,198	-	31,198
Receivables:					
Delinquent/protested property taxes, net of allowance	6,262	-	2,812	844	9,918
Property taxes - succeeding year, net of allowance	73,401	-	36,685	10,618	120,704
Due from other governments	12,790	-	160	44	12,994
Other, net of allowance	211	1	-	12	224
Inventories	184	-	-	-	184
Total assets	\$ 152,605	\$ 55,805	\$ 94,615	\$ 41,371	\$ 344,396
Liabilities					
Warrants payable	\$ 12,454	\$ -	\$ 4,255	\$ 429	\$ 17,138
Accounts payable and accrued liabilities	17,446	4,087	-	1,921	23,454
Total liabilities	29,900	4,087	4,255	2,350	40,592
Deferred inflows of resources					
Unavailable revenue - delinquent/protested property taxes	6,262	-	2,812	844	9,918
Unavailable revenue - property taxes - succeeding year	73,401	-	36,685	10,618	120,704
Unavailable revenue - due from other governments	4,210	-	-	-	4,210
Total deferred inflows of resources	83,873	-	39,497	11,462	134,832
Fund balances					
Nonspendable	184	-	-	25	209
Restricted	1,041	51,718	50,863	22,141	125,763
Committed	-	-	-	5,008	5,008
Assigned	5,970	-	-	385	6,355
Unassigned	31,637	-	-	-	31,637
Total fund balances	38,832	51,718	50,863	27,559	168,972
Total liabilities, deferred inflows of resources and fund balances	\$ 152,605	\$ 55,805	\$ 94,615	\$ 41,371	\$ 344,396

See notes to financial statements.

Oklahoma County School District No. I-89
Oklahoma City Public Schools

**Reconciliation of Total Governmental Fund Balances to Net Position
of Governmental Activities
June 30, 2017
(in thousands)**

Total governmental fund balances		\$ 168,972
Amounts reported for governmental activities in the statement of net position are different because:		
Capital assets used in governmental activities are not financial resources and, therefore, are not reported as assets in the governmental funds.		
Cost of capital assets	\$ 939,694	
Accumulated depreciation	<u>(260,495)</u>	679,199
Other long-term assets are not available to pay for current-period expenditures and, therefore, are deferred in the funds.		
Delinquent/protected property taxes, net of allowance	9,918	
Due from other governments	<u>4,210</u>	14,128
Deferred outflows of resources and deferred inflows of resources are not due and payable in the current year and, therefore, are not reported in the governmental funds, as follows:		
Deferred outflows of resources, debt refunding related amounts	1,181	
Deferred outflows of resources, pension related amounts	118,508	
Deferred inflows of resources, pension related amounts	<u>(14,096)</u>	105,593
Long-term liabilities, including bonds payable, are not due and payable in the current period and, therefore, are not reported as liabilities in the funds. Long-term liabilities consist of:		
General obligation bonds payable	(152,985)	
Premium on bonds	(4,581)	
Capital lease obligation	(1,135)	
Compensated absences	(6,075)	
Net pension liability	(391,167)	
Accrued interest	<u>(1,216)</u>	(557,159)
Net position of governmental activities		<u><u>\$ 410,733</u></u>

See notes to financial statements.

Oklahoma County School District No. I-89
Oklahoma City Public Schools

Statement of Revenues, Expenditures and Changes in Fund Balances -
Governmental Funds
Year Ended June 30, 2017
(in thousands)

	General Fund	2007 Bond Funds	Debt Service Fund	Other Governmental Funds	Total Governmental Funds
Revenues:					
Local sources	\$ 77,260	\$ 213	\$ 37,419	\$ 12,016	\$ 126,908
Intermediate sources	12,924	-	-	-	12,924
State sources	166,426	-	-	785	167,211
Federal sources	33,098	-	-	-	33,098
Charter schools	32,834	-	-	-	32,834
Other	360	-	-	-	360
Total revenues	322,902	213	37,419	12,801	373,335
Expenditures:					
Current:					
Instruction	180,511	13	-	-	180,524
Support services	110,920	3,160	-	9,873	123,953
Noninstructional services	575	-	-	-	575
Facilities, acquisitions, and construction	380	25,705	-	2,366	28,451
Charter schools	32,834	-	-	-	32,834
Other outlays	282	-	382	-	664
Debt service:					
Principal payments	400	-	42,125	-	42,525
Interest and fiscal charges	44	-	4,969	-	5,013
Total expenditures	325,946	28,878	47,476	12,239	414,539
Excess (deficiency) of revenues over (under) expenditures	(3,044)	(28,665)	(10,057)	562	(41,204)
Other financing sources (uses):					
Bond issuances	-	-	-	9,000	9,000
Refunding bond issuances	-	-	30,985	-	30,985
Payment to escrow agent	-	-	(28,346)	-	(28,346)
Premium on bond issuances	-	-	3,539	-	3,539
Capital leases	259	-	-	-	259
Insurance recoveries	1	-	-	28	29
Total other financing sources	260	-	6,178	9,028	15,466
Net change in fund balances	(2,784)	(28,665)	(3,879)	9,590	(25,738)
Fund balances, beginning of year	41,616	80,383	54,742	17,969	194,710
Fund balances, end of year	\$ 38,832	\$ 51,718	\$ 50,863	\$ 27,559	\$ 168,972

See notes to financial statements.

Oklahoma County School District No. I-89
Oklahoma City Public Schools

**Reconciliation of the Statement of Revenues, Expenditures and Changes in Fund
Balances of Governmental Funds to the Statement of Activities
Year Ended June 30, 2017
(in thousands)**

Net changes in fund balances - total governmental funds \$ (25,738)

Amounts reported for governmental activities and the statement
of activities are different because:

Capital outlays to purchase or build capital assets
are reported in governmental funds as expenditures. However,
for governmental activities, those costs are shown in the
statement of net position and allocated over their estimated
useful lives as annual depreciation expense in the statement
of activities. This is the amount by which the capital outlays
exceeded depreciation and retirements in the period.

Capital outlays	\$ 29,121	
Depreciation expense	(22,579)	
Contributed capital	1,732	
Loss on sale of capital assets	<u>(193)</u>	8,081

Repayments of principal on long-term debt are expenditures
in governmental funds but reduce long-term liabilities in the
statement of net position and do not affect the statement
of activities. Also, governmental funds report the effect of
premiums, discounts, and similar items when debt is first issued,
whereas these amounts are deferred and amortized in the statement
of activities. Proceeds from the sale of new bonds are other
financing sources in the governmental funds but have no
impact on the statements of activities.

Principal payments and amortization of bond premium	42,459	
Proceeds from the sale of bonds and premium on the issuance of bonds	(43,524)	
Payment to escrow agent	28,346	
Capital lease payments	400	
Capital lease obligation proceeds	(259)	
Accrued interest payable	<u>1,197</u>	28,619

Because some revenues (property taxes and certain other income)
will not be collected for several months after the
District's fiscal year ends, they are not considered
as "available" revenues in the governmental funds
and are instead deferred inflows of resources. They are,
however, recorded as revenues in the statement of activities.

2,938

Some expenses reported in the statement of activities do not require the
use of current financial resources and, therefore, are not
reported as expenditures in governmental funds.

Compensated absences	424	
Pension expense, net of state on-behalf payments of \$13.6 million	<u>(9,718)</u>	

Change in net position of governmental activities

\$ 4,606

See notes to financial statements.

Oklahoma County School District No. I-89
Oklahoma City Public Schools

Statement of Net Position - Proprietary Fund
June 30, 2017
(in thousands)

	Enterprise Fund School Nutrition Services
Assets	
Current assets:	
Cash and cash equivalents	\$ 8,929
Receivables:	
Due from other governments	284
Other	15
Inventories	170
Total current assets	<u>9,398</u>
Noncurrent assets:	
Capital assets:	
Land and assets under construction	148
Other capital assets, net of accumulated depreciation	264
Total noncurrent assets	<u>412</u>
Total assets	<u>9,810</u>
Deferred outflows of resources , pension related amounts	<u>4,938</u>
Liabilities	
Current liabilities:	
Warrants payable	875
Accounts payable and accrued liabilities	1,210
Current portion of long-term obligations	66
Total current liabilities	<u>2,151</u>
Noncurrent liabilities:	
Accrued compensated absences	154
Net pension liability	16,299
Total noncurrent liabilities	<u>16,453</u>
Total liabilities	<u>18,604</u>
Deferred inflows of resources , pension related amounts	<u>587</u>
Net position	
Investment in capital assets	412
Restricted for child nutrition	1,523
Unrestricted (deficit)	(6,378)
Total net position (deficit)	<u>\$ (4,443)</u>

See notes to financial statements.

Oklahoma County School District No. I-89
Oklahoma City Public Schools

Statement of Revenues, Expenses and Changes in Net Position - Proprietary Fund
Year Ended June 30, 2017
(in thousands)

	Enterprise Fund School Nutrition Services
Operating revenue, meals	<u>\$ 1,188</u>
Operating expenses:	
Personnel services - salaries	6,280
Personnel services - benefits	5,880
Contracted services	8
Purchased property services	301
Other purchased services	90
Supplies	14,221
Depreciation	71
Other	30
Total operating expenses	<u>26,881</u>
Operating (loss)	<u>(25,693)</u>
Nonoperating revenues (expenses):	
Sale of capital assets	(3)
Federal and state grants	27,051
State aid: on-behalf payments	566
Other income	34
Total nonoperating revenues (expenses)	<u>27,648</u>
Change in net position	1,955
Net position (deficit), beginning of year	<u>(6,398)</u>
Net position (deficit), end of year	<u>\$ (4,443)</u>

See notes to financial statements.

**Oklahoma County School District No. I-89
Oklahoma City Public Schools**

**Statement of Cash Flows - Proprietary Fund
Year Ended June 30, 2017
(in thousands)**

	Enterprise Fund School Nutrition Services
<hr/>	
Cash flows from operating activities:	
Receipts from user charges	\$ 1,188
Cash payments to suppliers for goods and services	(12,060)
Cash payments to employees for services	(11,061)
Cash payments for other operating expenses	(30)
Net cash used in operating activities	<u>(21,963)</u>
Cash flows from noncapital financing activities:	
Nonoperating grants received	25,356
Other income	25
Net cash provided by noncapital financing activities	<u>25,381</u>
Cash flows from capital and related financing activities, acquisition of capital assets	<u>(325)</u>
Net increase in cash and cash equivalents	3,093
Cash and cash equivalents:	
Beginning	<u>5,836</u>
Ending	<u><u>\$ 8,929</u></u>
Operating activities:	
Operating loss	\$ (25,693)
Adjustments to reconcile operating loss to net cash used in operating activities:	
Depreciation expense	71
On-behalf payments expense	566
Commodities expense	1,556
Changes in assets and liabilities:	
Inventories	204
Warrants payable	358
Accounts payable and accrued liabilities	547
Compensated absences	23
Deferred outflows of resources	(3,149)
Deferred inflows of resources	(645)
Net pension liability	4,199
Total adjustments	<u>3,730</u>
Net cash used in operating activities	<u><u>\$ (21,963)</u></u>
Supplemental disclosure of noncash noncapital financing activities:	
State aid: on-behalf payments	<u>\$ 566</u>
Commodities revenue and expenses	<u><u>\$ 1,556</u></u>

See notes to financial statements.

Oklahoma County School District No. I-89
Oklahoma City Public Schools

Statement of Net Assets and Liabilities - Fiduciary Fund
June 30, 2017
(in thousands)

	Agency Fund School Activity Funds
<hr/>	
Assets	
Cash and cash equivalents	\$ 2,621
Capital assets, net	<u>59</u>
Total assets	<u><u>\$ 2,680</u></u>
Liabilities	
Due to student groups	\$ 2,621
Capital assets held for the benefit of student groups	<u>59</u>
Total liabilities	<u><u>\$ 2,680</u></u>

See notes to financial statements.

**Oklahoma County School District No. I-89
Oklahoma City Public Schools**

Notes to Financial Statements (dollars in thousands unless specifically noted otherwise)

Note 1. Nature of Operations and Significant Accounting Policies

Nature of operations: Oklahoma County School District No. I-89, Oklahoma City Public Schools (the District), is a corporate body for public purposes created under Title 70 of Oklahoma Statutes and, accordingly, is a separate entity for operating and financial reporting purposes. The District is part of the public school system of Oklahoma under the general direction and control of the Oklahoma State Department of Education. The general operating authority for the public school system is the Oklahoma School Code contained in Title 70, Oklahoma Statutes. The District is a primary government that has a separately elected governing body, is legally separate and is fiscally independent of other state or local governments. The governing body of the District, the Board of Education, is composed of elected members. The Superintendent is appointed by the Board and is the chief executive officer of the District.

Significant accounting policies: The accounting and reporting policies of the District conform to accounting principles generally accepted in the United States of America for state and local governments. Generally accepted accounting principles for school districts are defined as those principles promulgated by the Governmental Accounting Standards Board (GASB).

Significant accounting and reporting policies applied in the preparation of the accompanying financial statements are as follows:

Reporting entity: As required by accounting principles generally accepted in the United States of America, the basic financial statements present the reporting entity, which consists of the primary government, organizations for which the primary government is financially accountable, and other organizations for which the nature and significance of their relationship with the primary government are such that exclusion would cause the District's basic financial statements to be misleading. The District has not identified any organizations that should be included in the District's reporting entity.

Affiliated organizations: A foundation associated with the District is the Foundation for Oklahoma City Public Schools (the Foundation) established in 1984. Advisory Board Members for the Foundation include the District's Superintendent and Board Chairperson. The District's Board of Education does not exercise any oversight authority over the Foundation, and there are no financial interdependencies. The Foundations' financial statements are not included in the financial statements of the District because the resources held by the Foundation for the benefit of the District are not significant to the financial position or activities of the District as a whole.

District-wide and fund financial statements: The district-wide financial statements (the statement of net position and the statement of activities) report information on all of the nonfiduciary activities of the District. Essentially all interfund activity has been removed from these statements. Governmental activities, which normally are supported by taxes and intergovernmental revenues, are reported separately from business-type activities, which rely to a significant extent on fees and charges for support.

The statement of activities demonstrates the degree to which the direct expenses of a given function or segments are offset by program revenues. Direct expenses are those that are clearly identifiable with a specific function or segment. Program revenues include 1) charges to customers or applicants who purchase, use, or directly benefit from goods, services, or privileges provided by a given function or segment and 2) grants and contributions that are restricted to meeting the operational or capital requirements of a particular function or segment. Taxes and other items not properly included among program revenues are reported instead as general revenues.

Oklahoma County School District No. I-89
Oklahoma City Public Schools

Notes to Financial Statements (dollars in thousands unless specifically noted otherwise)

Note 1. Nature of Operations and Significant Accounting Policies (Continued)

Separate financial statements are provided for governmental funds, proprietary funds, and fiduciary funds, even though the latter are excluded from the district-wide financial statements. Major individual governmental funds and major individual enterprise funds are reported as separate columns in the fund financial statements.

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

The District reports the following major Governmental Funds:

General Fund: The General Fund is established as the District's primary operating fund and is used to account for all financial transactions except for those required to be accounted for in another fund. Major revenue sources include local property taxes, state funding under the foundation and incentive aid program, and federal and state restricted monies that must be expended for specific programs.

2007 Bond Funds: The 2007 Bond Funds, capital projects funds, are established to account for the various general obligation bond sale proceeds and expenditures as authorized by the voters on October 9, 2007. These resources are used exclusively for acquiring school sites, constructing and equipping new school facilities, renovating existing facilities, enhancing safety and security, and acquiring technology and transportation equipment.

Debt Service Fund: The Debt Service Fund (the Sinking Fund) is established to account for the local property tax proceeds levied specifically for debt service retirement and related investment interest earnings and the general obligation bond debt obligations and payments.

The District reports the following nonmajor Governmental Funds:

Building Fund: The Building Fund, a special revenue fund, is established to account for the proceeds of the local property taxes levied specifically for the Building Fund. These resources may be used for building operations and maintenance including supplies, services and personnel.

MAPS Sales Tax Fund: The MAPS Sales Tax Fund, a special revenue fund, was established to account for capital assets and other tangible property funded from the Oklahoma City limited purpose sales tax levied January 2002 through January 2009. As the District receives transfers from the City of Oklahoma City and/or property is placed into service, the District records an asset or expenditure with the related in-kind revenue entry to comply with generally accepted accounting principles.

2001 Bond Funds: The 2001 Bond Funds, capital projects funds, are established to account for the various general obligation bond sale proceeds and expenditures as authorized by the voters on November 13, 2001. These resources are used exclusively for acquiring school sites, constructing and equipping new school facilities, renovating existing facilities, and acquiring equipment.

Gifts and Endowments Fund: The Gifts and Endowments Fund, a special revenue fund, is established to account for any receipt of assets by way of philanthropic foundations, individuals, or private organizations for which no repayment or special service to the contributor is expected. Income derived from such funds may be expended but the principal must remain intact.

Oklahoma County School District No. I-89
Oklahoma City Public Schools

Notes to Financial Statements (dollars in thousands unless specifically noted otherwise)

Note 1. Nature of Operations and Significant Accounting Policies (Continued)

Casualty Flood Insurance Recovery Fund: The Casualty Flood Insurance Recovery Fund, a capital project fund, was established July 2, 2007 by Board of Education Resolution in order to establish a reserve for repairs or replacement of District property that has been destroyed or damaged or lost by a hazard or cause which is either excluded from coverage in the policy of the insurance procured by the District or which falls within the self-insured retention (deductible) of the policy.

2016 Bond Fund: The 2016 Bond Funds, capital projects funds, are established to account for the various general obligation bond sale proceeds and expenditures as authorized by the voters on November 8, 2016. These resources are used exclusively for maintaining, renovating, and equipping school facilities, enhancing safety and security, and acquiring technology and transportation equipment.

Proprietary funds: Proprietary funds are used to account for activities similar to those found in the private sector, where the determination of net income is necessary or useful to sound financial administration. Proprietary funds distinguish operating revenues and expenses from non-operating revenues and expenses. Operating revenues and expenses generally result from providing services and producing and delivering food in connection with the fund's principal ongoing operations. Operating expenses include the cost of sales and services, administrative expenses, and depreciation on capital assets. All revenue and expenses not meeting this definition are reported as non-operating revenues and expenses.

The District reports the following major proprietary fund:

School Nutrition Services: The School Nutrition Services program is established to account for revenues collected, including federal and state, for meals served, and for associated costs of the program.

Fiduciary funds: Fiduciary funds are comprised entirely of agency-type funds and are not included in the district-wide financial statements. Agency funds are custodial in nature (assets equal liabilities) and do not involve recognition of net position or measurement of operations. The District reports the following fiduciary fund:

Student Activity Fund: The Student Activity Fund is an agency fund established to account for all financial transactions related to the fund-raising efforts of students and District-sponsored groups.

Basis of accounting, measurement focus, and financial statement presentation: The statement of net position and statement of activities financial statements and the proprietary fund financial statements are reported on the accrual basis of accounting using the economic resources measurement focus. Revenues are recorded when earned, and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows. Property taxes are recognized as revenues in the year for which they are budgeted. Grants and similar items are recognized as revenues as soon as all eligibility requirements imposed by the provider have been met.

The Balance Sheet - Governmental Funds and Statement of Revenues, Expenditures, and Changes in Fund Balances - Governmental Funds financial statements are reported on the modified accrual basis of accounting using the current financial resources measurement focus. Revenues are recognized as soon as they are both measurable and available. Revenues are considered to be available when they are collectible within the current period or soon enough thereafter to pay liabilities of the current period.

Oklahoma County School District No. I-89
Oklahoma City Public Schools

Notes to Financial Statements (dollars in thousands unless specifically noted otherwise)

Note 1. Nature of Operations and Significant Accounting Policies (Continued)

Specifically, property tax revenues are considered available if they are collected within 60 days of the end of the current fiscal period, and all other revenues are considered to be available if they are collected within 90 days of the end of the current fiscal period. Property tax and other revenues collected within the time frame noted are therefore susceptible to accrual and have been recognized as revenues of the current fiscal period to the extent the availability criteria discussed above was met.

Expenditures generally are recorded when a liability is incurred, as under accrual accounting. However, debt service expenditures, as well as expenditures related to compensated absences and pensions are only recorded when the payment is due.

The Statement of Assets and Liabilities - Agency Fund financial statements do not have an economic measurement focus and therefore have no measurement disclosures.

Cash and cash equivalents and investments: The District considers all cash on hand, demand deposits, interest-bearing checking accounts, high yield savings accounts, and highly liquid investments with an original maturity of three months or less when purchased to be cash and cash equivalents.

As of June 30, 2017, the Districts investments were in sweep accounts which meet the definition of cash equivalents and six month certificates of deposit which are classified as investments. Investments are recorded at amortized cost.

Receivables: Uncollected taxes assessed on valuations made each year are recorded in the District's financial statements. An allowance for doubtful accounts for property taxes receivable is calculated based on an aged analysis of protested and delinquent tax receivables and historical collection data.

Interfund transactions: Activity between funds that are representative of lending/borrowing arrangements outstanding at the end of the fiscal year are referred to as due to/from other funds. Any residual balances outstanding between the governmental activities and business-type activities are reported in the district-wide financial statements as internal balances. There were no amounts due to/from other funds or internal balances as of June 30, 2017. Transfers move revenues from the fund statutorily required to collect the resources to the fund statutorily required to expend the resources. Transfers within governmental activities or within business-type activities are eliminated upon consolidation. During the year-ended June 30, 2017, there were no interfund transactions.

Inventories: Inventories are carried at cost (FIFO method, or first-in/first-out) and are recorded as expenditures when consumed rather than when purchased. Inventories include fuel, maintenance stock, and food service supplies.

Capital assets: Capital assets, which include land, buildings, and improvements; machinery and equipment; vehicles; and computers and technology, are reported in the applicable governmental or business-type activities columns in the district-wide financial statements and the proprietary fund financial statements. Capital assets are defined by the District as assets with an initial unit cost or an estimated acquisition value at the date of donation equal to or greater than \$5,000.

The costs of normal maintenance and repairs that do not add to the value of the asset or do not materially extend an asset's life are not capitalized.

**Oklahoma County School District No. I-89
Oklahoma City Public Schools**

Notes to Financial Statements (dollars in thousands unless specifically noted otherwise)

Note 1. Nature of Operations and Significant Accounting Policies (Continued)

Major outlays for capital assets and improvements are capitalized as the projects are constructed. Interest incurred during the construction phase of capital assets of business-type activities is included as part of the capitalized value of the assets constructed. The District incurred no interest expense for construction of capital assets for business-type activities during the year ended June 30, 2017.

Capital assets are depreciated using the straight-line method over the following useful lives:

Type of Asset	Years
Buildings	50
Land improvements	15
Machinery, equipment, furniture and fixtures	10
Vehicles	10
Technology, appliances, and musical instruments	5

Deferred outflows of resources: In addition to assets, the statement of net position will sometimes report a separate section for deferred outflows of resources. This separate financial statement element represents a consumption of net position that applies to a future period(s). It will not be recognized as an outflow of resources (expense/expenditure) until then. Deferred outflows of resources include the debt refunding loss equal to the difference between the reacquisition price and the net carrying amount of the old debt. The deferred outflow will be recognized as a component of interest expense over the remaining life of the old debt or the life of the new debt, whichever is shorter. Deferred outflows of resources also consist of unrecognized items not yet charged to pension expense and contributions from the employer after the measurement date but before the end of the employer's reporting period. See Note 8 for additional discussion regarding pension deferred outflows of resources.

Deferred inflows of resources: In addition to liabilities, the statement of net position and fund balance sheet will sometimes report a separate section for deferred inflows of resources. This separate financial statement element represents an acquisition of net position that applies to a future period(s). It will not be recognized as an inflow of resources (revenue) until then. The governmental fund balance sheet includes unavailable revenues from delinquent property taxes, succeeding year property taxes, and intergovernmental revenue. These amounts are deferred and recognized as an inflow of resources in the period that the amounts become available. In the District's district-wide statement of net position, the property tax revenues for the succeeding year remain a deferred inflow and will be recognized as revenue in the year for which they are budgeted. The district-wide statement of net position also consists of deferred inflows related to unrecognized items not yet charged to pension expense. See Note 8 for additional discussion regarding pension deferred inflows of resources.

Long-term liabilities: In the governmental fund financial statements, principal and interest on long-term debt and other long-term obligations are recognized as liabilities only when payment has matured or become due. The face amount of debt issued is reported as other financing sources. Premiums received on debt issuances are also reported as other financing sources. Discounts are reported as other financing uses. Principal payments and bond issuance costs are reported as debt service expenditures.

Oklahoma County School District No. I-89
Oklahoma City Public Schools

Notes to Financial Statements (dollars in thousands unless specifically noted otherwise)

Note 1. Nature of Operations and Significant Accounting Policies (Continued)

Long-term debt and other long-term obligations are reported as liabilities in the governmental activities, business-type activities, and proprietary fund statement of net position. Bond premiums and discounts are amortized over the life of the debt using a method which approximates the effective interest method. Bond issue costs are recorded as an expense when incurred.

Pensions: For purposes of measuring the net pension liability, deferred outflows/inflows of resources related to pensions, and pension expense, information about the fiduciary net position of Oklahoma Teachers Retirement System (OTRS) and additions to/deductions from these fiduciary net positions has been determined on the same basis as they are reported by OTRS. For this purpose, benefit payments (including refunds of employee contributions) are recognized when due and payable in accordance with the benefit terms. Investments held by OTRS are reported at fair value.

Compensated absences: The liability for compensated absences attributable to the District's governmental funds is recorded in the district-wide financial statements. The amount attributable to the business-type activities is charged to expense with a corresponding liability established in the district-wide statements, as well as the applicable proprietary fund financial statements. Vested compensated absence balances are reported as a long-term liability with an estimated short-term portion recorded as due within one year.

Equalized pay: Oklahoma City Public Schools utilizes equalized pay to provide equal base pay amounts each pay period to employees throughout the year including intercession periods.

To provide equalized base pay throughout the year, including times when employees do not work, a liability account is maintained for each employee who has a specific annual work schedule. The liability account increases when the employee earns more than equalized base pay and decreases when the employee is not working as many days in a pay period, or is not working at all during intercession periods. This account is zero at the end of the contract year, which is different than the fiscal year.

Net position and fund balance: The district-wide and proprietary fund financial statements utilize a net position presentation. Net position is categorized as net investment in capital assets, restricted, and unrestricted.

Net investment in capital assets: This component of net position reports capital assets less both accumulated depreciation and the outstanding balance of debt (excluding unexpended proceeds) that is directly attributable to the acquisition, construction, or improvement of those assets. Deferred outflows of resources and deferred inflows of resources that are attributable to the acquisition, construction, or improvement of those assets or related debt are also included in this component of net position, if any.

Restricted net position: This component of net position should be reported when constraints placed on the use of resources are either (a) externally imposed by creditors, grantors, contributors, or laws or regulations of other governments or (b) imposed by law through constitutional provisions or enabling legislation. The restricted net position for other purposes is made up of the following: student services \$82; professional development \$75; and state allocation carryover \$585.

Net position totaling \$11,632 is restricted by enabling legislation. The remaining \$57,861 is restricted by creditors, grantors, contributors, or laws or regulations of other governments.

Unrestricted net position: Net position that does not meet the definition of net investment in capital assets or restricted are classified as unrestricted.

Oklahoma County School District No. I-89
Oklahoma City Public Schools

Notes to Financial Statements (dollars in thousands unless specifically noted otherwise)

Note 1. Nature of Operations and Significant Accounting Policies (Continued)

It is the District's policy to first use restricted net position prior to the use of unrestricted net position when an expense is incurred for purposes for which both restricted and unrestricted net position are available.

Governmental fund equity is classified as fund balance. Fund balance consists of five categories, defined as follows:

Nonspendable fund balance: The nonspendable fund balance classification includes amounts that cannot be spent because they are either (a) not in spendable form or (b) legally or contractually required to be maintained intact. This would include items not expected to be converted to cash including inventories, long-term receivables, and prepaid amounts. It may also include long-term loans and receivables, as well as property acquired for resale and the corpus (principal) of a permanent fund.

Restricted fund balance: The restricted fund balance classification should be reported when constraints placed on the use of resources are either (a) externally imposed by creditors, grantors, contributors, or laws or regulations of other governments or (b) imposed by law through constitutional provisions or enabling legislation.

Committed fund balance: The committed fund balance classification reflects specific purposes pursuant to constraints imposed by formal action of the District's highest level of decision-making authority (the District's Board of Education). Such constraints can only be removed or changed by the same form of formal action.

Funds set aside by the Board of Education as committed fund balance requires the approval of a resolution by a majority vote of the members of the Board of Education. Such approval must take place prior to the District's fiscal year-end in order for it to be applicable to that fiscal year. It is permitted for the specific amount of the commitment to be determined after the fiscal year-end if any additional information is required in order to determine the exact amount. The Board of Education has the authority to remove or change the commitment of funds with a resolution.

Assigned fund balance: The assigned fund balance classification reflects amounts that are constrained by the government's intent to be used for specific purposes but meet neither the restricted nor committed forms of constraint. Assigned funds cannot cause a deficit in unassigned fund balance. For the purposes of assigned fund balance, the District has given authority to its Chief Financial Officer as the Board approved Encumbrance Clerk to assign funds for specific purposes.

Unassigned fund balance: The unassigned fund balance classification is the residual classification for the General Fund only. It is also where negative residual amounts for all other governmental funds must be reported. Unassigned fund balance essentially consists of excess funds that have not been classified in the other four fund balance categories mentioned above.

It is the District's policy to use restricted fund balance prior to the use of unrestricted fund balance when an expense is incurred for purposes for which both restricted and unrestricted fund balance are available. The District's policy for the use of unrestricted fund balance amounts requires that committed amounts would be used first, followed by assigned and then unassigned amounts when expenditures are incurred for purposes for which amounts in any of those unrestricted fund balance classifications could be used.

**Oklahoma County School District No. I-89
Oklahoma City Public Schools**

Notes to Financial Statements (dollars in thousands unless specifically noted otherwise)

Note 1. Nature of Operations and Significant Accounting Policies (Continued)

The following table shows the fund balance classifications as shown on the governmental funds balance sheet:

	Major Funds			Non Major	Total Governmental Funds
	General Fund	2007 Bond Funds	Debt Service Fund	Other Governmental Funds	
Nonspendable:					
Inventories	\$ 184	\$ -	\$ -	\$ -	\$ 184
Gifts	-	-	-	25	25
	<u>184</u>	<u>-</u>	<u>-</u>	<u>25</u>	<u>209</u>
Restricted for:					
Capital projects	300	51,718	-	10,824	62,842
Debt service	-	-	50,863	-	50,863
Building	-	-	-	11,316	11,316
Student services	81	-	-	1	82
Professional development	75	-	-	-	75
State allocation carryover	585	-	-	-	585
	<u>1,041</u>	<u>51,718</u>	<u>50,863</u>	<u>22,141</u>	<u>125,763</u>
Committed for,					
Capital projects	-	-	-	5,008	5,008
Assigned for:					
Compensated absences	5,552	-	-	-	5,552
Purchase orders	418	-	-	-	418
Capital projects	-	-	-	385	385
	<u>5,970</u>	<u>-</u>	<u>-</u>	<u>385</u>	<u>6,355</u>
Unassigned					
	31,637	-	-	-	31,637
Total fund balance	<u>\$ 38,832</u>	<u>\$ 51,718</u>	<u>\$ 50,863</u>	<u>\$ 27,559</u>	<u>\$ 168,972</u>

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

After review and verification of reports and supporting documentation, the Oklahoma State Department of Education may adjust subsequent fiscal period allocations of money due to changes in state revenue actual collections versus appropriated funds.

The District receives revenues from the state to administer certain categorical educational programs. Oklahoma State Department of Education rules require that revenues earmarked for these programs are expended only for the program for which the money is provided and require that money not expended as of the close of the fiscal year be carried forward into the following fiscal year to be expended for the same categorical programs. Approximately \$206 of state categorical revenue was carried forward to fiscal year 2018. The Oklahoma State Department of Education requires that categorical educational program revenue be accounted for in the general fund.

**Oklahoma County School District No. I-89
Oklahoma City Public Schools**

Notes to Financial Statements (dollars in thousands unless specifically noted otherwise)

Note 1. Nature of Operations and Significant Accounting Policies (Continued)

Property tax revenue: The District is authorized by state law to levy property taxes. Property tax is levied each October 1st on the assessed valuation of real and personal property within the District as of the preceding January 1st, the lien date. The county assessor, upon receipt of the certification of tax levies from the Oklahoma County Excise Board, extends the tax levies on the tax roll for submission to the County Treasurer. All taxes levied upon an ad valorem basis for each fiscal year shall become due and payable on the first day of November.

The first half of taxes is due prior to January 1, and the second half is due prior to April 1. If the first half of tax payment is not made timely, the entire tax becomes due and payable on January 2. Second half taxes are delinquent on April 1 of the year following the year of assessment. Mortgage servicers are prohibited from paying in halves; ad valorem from mortgage servicers is due prior to January 1. The Oklahoma County Treasurer conducts an annual Resale the second Monday in June. Property with taxes delinquent of four years are sold at Resale. A successful bidder at Resale will be issued a deed to the property by the next business day. Any property not sold at Resale will be deeded to Oklahoma County.

Property tax receivables are recorded on the lien date, although the related revenue is reported as a deferred inflow of resources and will not be recognized as revenue until the year for which it is budgeted.

Use of estimates: The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires the District to make estimates and assumptions in preparing financial statements. Those estimates and assumptions affect the reported amounts of assets, deferred inflows and outflows, liabilities, and net position; the disclosure of contingent assets and liabilities; and the reported revenues and expenditures. Actual results could differ from those estimates.

New accounting pronouncements adopted in fiscal year 2017: The District adopted the following new accounting pronouncements during the year ended June 30, 2017:

GASB Statement No. 77, *Tax Abatement Disclosures*, requires governments that enter into tax abatements to disclose the following information about the agreements: brief descriptive information, such as the tax being abated, the authority under which tax abatements are provided, eligibility criteria, the mechanism by which taxes are abated, provisions for recapturing abated taxes, and the types of commitments made by tax abatement recipients: the gross dollar amount of taxes abated during the period; and commitments made by a government, other than to abate taxes, as part of a tax abatement agreement. Governments may disclose information for individual tax abatement agreements of other governments within the specific tax being abated. For those tax abatement agreements, a reporting government should disclose: the names of the governments that entered into the agreements the specific taxes being abated and the gross dollar amount of taxes abated during the period. The requirements of this statement are included in Note 15 to the financial statements for the year ending June 30, 2017.

New accounting pronouncement issued not yet adopted: The GASB has issued several new accounting pronouncements that will be effective in future years. Only the following issued pronouncements are believed to impact the District:

**Oklahoma County School District No. I-89
Oklahoma City Public Schools**

Notes to Financial Statements (dollars in thousands unless specifically noted otherwise)

Note 1. Nature of Operations and Significant Accounting Policies (Continued)

GASB Statement No. 83, *Certain Asset Retirement Obligations*, issued December 2016, will be effective for the District, beginning with its fiscal year ending June 30, 2019. Under Statement No. 83, a government that has legal obligations to perform future asset retirement activities related to its tangible capital assets is required to recognize a liability and a corresponding deferred outflow of resources. The Statement identifies the circumstances that trigger the recognition of these transactions. The Statement also requires the measurement of an asset retirement obligation to be based on the best estimate of the current value of outlays expected to be incurred while the deferred outflow of resources associated with the asset retirement obligation will be measured at the amount of the corresponding liability upon initial measurement and generally recognized as an expense during the reporting periods that the asset provides service. The Statement requires disclosures including a general description of the asset retirement obligation and associated tangible capital assets; the source of the obligation to retire the assets; the methods and assumptions used to measure the liability; and other relevant information.

GASB Statement No. 84, *Fiduciary Activities*, issued February 2017, will be effective for the District beginning with its fiscal year ending June 30, 2020. The objective of Statement No. 84 is to improve guidance regarding the identification of fiduciary activities for accounting and financial reporting purposes and how those activities should be reported. This Statement establishes criteria for identifying fiduciary activities of all state and local governments. The focus of the criteria generally is on (1) whether a government is controlling the assets of the fiduciary activity and (2) the beneficiaries with whom a fiduciary relationship exists. Separate criteria are included to identify fiduciary component units and postemployment benefit arrangements that are fiduciary activities.

GASB Statement No. 85, *Omnibus 2017*, issued March 2017, will be effective for the District beginning with its fiscal year ending June 30, 2018. Statement No. 85 is designed to address the practice issues that have been identified during implementation and application of certain GASB Statements. This statement addresses a variety of topics including issues related to blending component units, goodwill, fair value measurement and application, and postemployment benefits (pensions and other postemployment benefits).

GASB Statement No. 86, *Certain Debt Extinguishment Issues*, issued May 2017, will be effective for the District beginning with its fiscal year ending June 30, 2018. Statement No. 86 is designed to improve consistency in accounting and financial reporting for in-substance defeasance of debt by providing guidance for transactions in which cash and other monetary assets acquired with only existing resources—resources other than the proceeds of refunding debt—are placed in an irrevocable trust for the sole purpose of extinguishing debt. This Statement also improves accounting and financial reporting for prepaid insurance on debt that is extinguished and notes to financial statements for debt that is defeased in substance.

GASB Statement No. 87, *Leases*, issued June 2017, will be effective for the District beginning with its fiscal year ending June 30, 2021, with earlier adoption encouraged. Statement No. 87 establishes a single approach to accounting for and reporting leases by state and local governments. Under this statement, a government entity that is a lessee must recognize (1) a lease liability and (2) an intangible asset representing the lessee's right to use the leased asset. In addition, the District must report the (1) amortization expense for using the lease asset over the shorter of the term of the lease or the useful life of the underlying asset, (2) interest expense on the lease liability and (3) note disclosures about the lease. The Statement provides exceptions from the single-approach for short-term leases, financial purchases, leases of assets that are investments, and certain regulated leases. This statement also addresses accounting for lease terminations and modifications, sale-leaseback transactions, non-lease components embedded in lease contracts (such as service agreements), and leases with related parties.

**Oklahoma County School District No. I-89
Oklahoma City Public Schools**

Notes to Financial Statements (dollars in thousands unless specifically noted otherwise)

Note 1. Nature of Operations and Significant Accounting Policies (Continued)

The District is currently evaluating the impact that these new standard may have on its financial statements.

Note 2. Deposits and Investments

Custodial credit risk – deposits: Custodial credit risk is the risk that in the event of failure of the counterparty, the District may not be able to recover the value of its deposits. Deposits are exposed to custodial credit risk if they are uninsured and uncollateralized. The District's policy requires all deposits in excess of amounts covered by federal deposit insurance be fully collateralized by the entity holding the deposits. As of June 30, 2017, all of the District's deposits were either covered by federal deposit insurance or were collateralized with securities held by the pledging financial institution's trust department in the District's name. In addition, the District's investments in certificates of deposit, totaling \$7 million, are held by its agent in the District's name and fully insured or collateralized and are therefore not exposed to custodial credit risk.

Custodial credit risk – investments: For an investment, custodial credit risk is the risk that the District will not be able to recover the value of its investments or collateral securities that are in the possession of an outside party. Investment securities are exposed to custodial credit risk if they are uninsured, are not registered in the name of the District, and are held by a counterparty or the counterparty's trust department but not in the name of the District. The District's investments in sweep accounts, totaling \$171.4 million, are not deposits or obligations of any bank, are not guaranteed by any bank and are not insured or guaranteed by the FDIC, the Federal Reserve Board, or any other government agency, and are therefore exposed to custodial credit risk. The District mitigates this risk by investing in sweep accounts that invest primarily in short-term U.S. Treasury and government securities, in accordance with State Statutes.

Concentration of credit risk: The District's investment policy requires that, except for direct obligations of the U.S. government, its agencies, or instrumentalities or certificates of deposit secured by diversified pledges of collateral, the District's investment portfolio will be diversified to avoid incurring undue concentration in securities of one type. As of June 30, 2017, the District's investment portfolio was invested in sweep accounts (96 percent) and certificates of deposit (4 percent).

Interest rate risk: Interest rate risk is the risk that changes in interest rates will adversely affect the fair value of an investment. The District does not have a formal policy that limits investment maturities as a means of managing its exposure to fair value losses arising from increasing interest rates. The District's investment policy does limit investment maturities for purposes of liquidity management. District sources of funding limit investments to be very short-term in nature. Funds are strategically placed for meeting cash flow needs for all areas of cash management. As of June 30, 2017, the District's investments were in sweep accounts that mature daily or six month certificates of deposit.

**Oklahoma County School District No. I-89
Oklahoma City Public Schools**

Notes to Financial Statements (dollars in thousands unless specifically noted otherwise)

Note 3. Receivables

Receivables and allowances at June 30, 2017, for the District's governmental and proprietary funds are as follows:

	Governmental Activities				Total Governmental Activities	Business-Type Activities	
	General Fund	Debt Service Fund	2007 Bond Funds	Other Governmental Funds		School Nutrition Services	Total Business-Type Activities
Delinquent/proteted property taxes	\$ 6,967	\$ 3,140	\$ -	\$ 939	\$ 11,046	\$ -	\$ -
Property taxes receivable - succeeding year	75,523	38,347	-	10,795	124,665	-	-
Due from other governments	12,790	160	-	44	12,994	284	284
Other	553	-	1	36	590	95	95
Total	\$ 95,833	\$ 41,647	\$ 1	\$ 11,814	\$ 149,295	\$ 379	\$ 379

Allowances for uncollectible accounts are as follows:

	Governmental Activities				Total Governmental Activities	Business-Type Activities	
	General Fund	Debt Service Fund	2007 Bond Funds	Other Governmental Funds		School Nutrition Services	Total Business-Type Activities
Allowances for uncollectible accounts attributable to:							
Delinquent/proteted property taxes	\$ 705	\$ 328	\$ -	\$ 95	\$ 1,128	\$ -	\$ -
Property taxes - succeeding year	2,122	1,662	-	177	3,961	-	-
Other	342	-	-	24	366	80	80
Total	\$ 3,169	\$ 1,990	\$ -	\$ 296	\$ 5,455	\$ 80	\$ 80

Receivables, net of allowances for uncollectible accounts, are as follows:

	Governmental Activities				Total Governmental Activities	Business-Type Activities	
	General Fund	Debt Service Fund	2007 Bond Funds	Other Governmental Funds		School Nutrition Services	Total Business-Type Activities
Delinquent/proteted property taxes	\$ 6,262	\$ 2,812	\$ -	\$ 844	\$ 9,918	\$ -	\$ -
Property taxes receivable - succeeding year	73,401	36,685	-	10,618	120,704	-	-
Due from other governments	12,790	160	-	44	12,994	284	284
Other	211	-	1	12	224	15	15
Total	\$ 92,664	\$ 39,657	\$ 1	\$ 11,518	\$ 143,840	\$ 299	\$ 299

**Oklahoma County School District No. I-89
Oklahoma City Public Schools**

Notes to Financial Statements (dollars in thousands unless specifically noted otherwise)

Note 4. Capital Assets

Capital asset activity for governmental and business-type activities for the year ended June 30, 2017, was as follows:

	Beginning Balance	Additions	Reclassifications	Disposals	Ending Balance
Governmental Activities					
Capital assets not being depreciated:					
Land	\$ 3,597	\$ -	\$ -	\$ -	\$ 3,597
Assets under construction	10,138	26,313	(21,945)	-	14,506
Total capital assets not being depreciated	13,735	26,313	(21,945)	-	18,103
Capital assets being depreciated:					
Buildings and improvements	798,207	3,597	21,945	(295)	823,454
Technology, appliances, and musical instruments	73,534	133	-	-	73,667
Machinery, equipment, furniture and fixtures	5,548	488	-	-	6,036
Vehicles	19,085	322	-	(973)	18,434
Total assets being depreciated	896,374	4,540	21,945	(1,268)	921,591
Accumulated depreciation for:					
Buildings and improvements	(157,514)	(16,621)	-	225	(173,910)
Technology, appliances, and musical instruments	(63,267)	(4,651)	-	-	(67,918)
Machinery, equipment, furniture and fixtures	(3,065)	(499)	-	-	(3,564)
Vehicles	(15,145)	(808)	-	850	(15,103)
Total accumulated depreciation	(238,991)	(22,579)	-	1,075	(260,495)
Total capital assets being depreciated, net	657,383	(18,039)	21,945	(193)	661,096
Governmental activities capital assets, net	\$ 671,118	\$ 8,274	\$ -	\$ (193)	\$ 679,199

Oklahoma County School District No. I-89
Oklahoma City Public Schools

Notes to Financial Statements (dollars in thousands unless specifically noted otherwise)

Note 4. Capital Assets (Continued)

	Beginning Balance	Additions	Reclassifications	Disposals	Ending Balance
Business-Type Activities					
Capital assets not being depreciated:					
Assets under construction	\$ -	\$ 148	\$ -	\$ -	\$ 148
Total capital assets not being depreciated	-	148	-	-	148
Capital assets being depreciated:					
Technology, appliances, and musical instruments	\$ 558	\$ -	\$ -	\$ -	\$ 558
Machinery, equipment, furniture and fixtures	1,463	31	-	-	1,494
Vehicles	161	146	-	(39)	268
Total assets being depreciated	2,182	177	-	(39)	2,320
Accumulated depreciation for:					
Technology, appliances, and musical instruments	(553)	(4)	-	-	(557)
Machinery, equipment, furniture and fixtures	(1,318)	(61)	-	-	(1,379)
	(150)	(6)	-	36	(120)
Total accumulated depreciation	(2,021)	(71)	-	36	(2,056)
Total capital assets being depreciated, net	161	106	-	(3)	264
Business-types activities capital assets, net	\$ 161	\$ 254	\$ -	\$ (3)	\$ 412

Depreciation expense for the year ended June 30, 2017, was charged to functions/programs of the District as follows:

Governmental activities:	
Instruction	\$ 2,305
Support services	3,667
Facilities, acquisitions, and construction	16,607
Total governmental activities	\$ 22,579
Business-type activities, food services program	\$ 71

**Oklahoma County School District No. I-89
Oklahoma City Public Schools**

Notes to Financial Statements (dollars in thousands unless specifically noted otherwise)

Note 5. Compensated Absences

Upon retirement or resignation in good standing, the District pays eligible employees for unused sick leave at a set daily rate as determined by classification and/or length of service. The length of service required to receive the sick leave payout is determined by the employee's applicable collective bargaining agreement for the District's school administrators, support, and certified staff and District policy for all other pro-tech/administrative staff. The number of allowed sick leave carry forward days for support, professional/technical and principals is 200 days. Certified employees (teachers) may carryover 201 days.

Unused vacation leave is calculated at hourly rates. The maximum carryover of vacation leave is two times the allowable annual accrued amount.

Personal days not used by employees by June 30 become sick days subject to the accrual calculation and limitations above. As of June 30, 2017, the District had an outstanding liability for unused sick, vacation, and personal leave totaling approximately \$4.81 million and a related liability for payroll taxes associated with the unused sick, vacation, and personal leave totaling approximately \$1.49 million.

This liability is typically liquidated from the fund balance of the General, Building, School Nutrition, and 2007 Bond Funds.

Note 6. Long-Term Liabilities

Oklahoma statutes prohibits the District from becoming indebted in an amount exceeding revenues to be received for any fiscal year without approval by the District's voters. Bond issues have been approved by the voters and issued by the District for various capital improvements. These bonds are required to be fully paid serially within 25 years from the date of issue.

**Oklahoma County School District No. I-89
Oklahoma City Public Schools**

Notes to Financial Statements (dollars in thousands unless specifically noted otherwise)

Note 6. Long-Term Liabilities (Continued)

As of June 30, 2017, the District had the following long-term liabilities:

Governmental Activities:

\$35.0 million general obligation bonds of 2013, dated January 1, 2013, due in annual installments of \$8.75 million beginning July 1, 2015 through July 1, 2018, plus interest ranging from 1.00% to 2.00%.	\$ 17,500
\$60.0 million general obligation bonds of 2014, dated January 1, 2014, due in annual installments of \$12 million beginning July 1, 2016 through July 1, 2020, plus interest of 2.00%.	48,000
\$37.5 million general obligation bonds of 2015, dated June 1, 2015, due in annual installments of \$9.375 million beginning July 1, 2017 through July 1, 2020, plus interest ranging from 0.05% to 3.00%	37,500
\$10.0 million general obligation bonds of 2016, dated June 16, 2016, due in annual installments of \$2.5 million beginning in July 1, 2018 through July 1, 2021, plus interest ranging from 1.50% to 2.00%	10,000
\$9.0 million general obligation bonds of 2017, dated April 20, 2017, due in annual installments of \$2.25 million beginning in July 1, 2019 through July 1, 2022, plus interest ranging from 2.00% to 3.00%	9,000
\$30.985 million general obligation bonds of 2017, dated June 9, 2017, due in varying annual installments beginning July 1, 2018 with an installment of \$7.38 million and a final instalment of \$3.775 million due July 1, 2024, plus interest ranging from 4.00% to 5.00%	<u>30,985</u>
Total general obligation bonds outstanding – at face value	152,985
Premium on bonds outstanding	<u>4,581</u>
Total general obligation bonds outstanding	157,566
Capital lease obligation	1,135
Compensated absences and related taxes	6,075
Net pension liability	<u>391,167</u>
Total long-term liabilities for governmental activities	<u><u>\$ 555,943</u></u>
Business-Type Activities:	
Compensated absences	\$ 220
Net pension liability	<u>16,299</u>
Total long-term liabilities for business-type activities	<u><u>\$ 16,519</u></u>

**Oklahoma County School District No. I-89
Oklahoma City Public Schools**

Notes to Financial Statements (dollars in thousands unless specifically noted otherwise)

Note 6. Long-Term Liabilities (Continued)

During the year ended June 30, 2017, long-term liability transactions were as follows:

	Beginning Balance	Increases	Decreases	Ending Balance	One Year
Governmental Activities:					
General obligation bonds:					
2004 general	\$ 7,200	\$ -	\$ 7,200	\$ -	\$ -
2005 general	6,465	-	6,465	-	-
2009 general	34,725	-	34,725	-	-
2013 general	26,250	-	8,750	17,500	8,750
2014 general	60,000	-	12,000	48,000	12,000
2015 general	37,500	-	-	37,500	9,375
2016 general	10,000	-	-	10,000	-
2017 general	-	9,000	-	9,000	-
2017 general	-	30,985	-	30,985	-
Total general obligation bonds	182,140	39,985	69,140	152,985	30,125
Premium on bonds	1,526	3,539	484	4,581	-
Capital lease obligation	1,276	259	400	1,135	406
Net pension liability	290,407	100,760	-	391,167	-
Compensated absences	6,499	2,037	2,461	6,075	1,822
Total long-term liabilities	\$ 481,848	\$ 146,580	\$ 72,485	\$ 555,943	\$ 32,353
Business-Type Activities:					
Net pension liability	\$ 12,100	\$ 4,199	\$ -	\$ 16,299	\$ -
Compensated absences	197	110	87	220	66
Total long-term liabilities	\$ 12,297	\$ 4,309	\$ 87	\$ 16,519	\$ 66

Debt service requirements to maturity over the next five years and in five-year increments thereafter are as follows:

Year ending June 30,	General Obligation Bonds	
	Principal	Interest
2018	\$ 30,125	\$ 2,734
2019	40,005	3,077
2020	31,280	2,082
2021	29,750	1,247
2022	8,405	705
2023-2025	13,420	770
Total long-term liabilities	\$ 152,985	\$ 10,615

**Oklahoma County School District No. I-89
Oklahoma City Public Schools**

Notes to Financial Statements (dollars in thousands unless specifically noted otherwise)

Note 6. Long-Term Liabilities (Continued)

Interest expense on general obligation bonds during the year ended June 30, 2017 totaling approximately \$4.97 million is recorded in the debt service fund.

Bonds sold at discounts decrease the carrying value of the bond, and bonds sold at a premium increase the carrying value. The discount or premium is then amortized, using the effective interest method, as an increase or decrease, respectively, to the coupon interest payment in reporting interest expense. Amortization expense on bond premiums for the year ended June 30, 2017 is approximately \$484 thousand. The net amount of unamortized premium at June 30, 2017 is approximately \$4.58 million.

Debt refunding:

On June 9, 2017, OKCPS issued \$30,985 General Obligation Refunding Bonds, Series 2017B (the "2017B Refunding Bonds") for the purpose of refunding the outstanding balance of the District's General Obligation Bonds of 2004, 2005, and 2009 (the "Old Debt"). The 2017B Refunding Bonds were issued in accordance with the provisions of the Oklahoma Constitution and laws of the State of Oklahoma supplementary and amendatory thereto. The 2017B Refunding Bonds constitute direct and general obligations of the District, payable from ad valorem taxes levied against all taxable property.

The net proceeds of the 2017B Refunding Bonds, totaling \$33,981 (after premium of \$3,378 and payment of issuance cost of \$382) plus an additional \$8,709 of debt service fund monies, were used to refund the old debt and pay interest due at the time of the refunding of \$839. Funds of \$9,891 were used to immediately pay off the General Obligation Bonds of 2004 and 2005 (current refundings) and pay interest due. The remaining \$32,799 was used to purchase U.S. government securities. Those securities were deposited in an irrevocable trust with an escrow agent to provide for all future debt service payments on the General Obligation Bonds of 2009 (advance refunding). These obligations are considered to be defeased and the liability for those bonds have been removed from the district-wide statement of net position.

These refundings resulted in a difference between the reacquisition price and the net carrying amount of the Old Debt of \$1,181. This difference, reported in the district-wide statements of net position as deferred outflow of resources, is being charged to operations through 2025 using the effective interest method.

Bond proceeds used for the current refundings and debt service fund monies used to refund the old debt and pay interest due, totaling \$14,344, are reported as debt service expenditures in the statement of revenues, expenditures, and changes in fund balance. Remaining bond proceeds transferred to the escrow agent, totaling \$28,346, are reported as other financing uses in the statement of revenues, expenditures and changes in fund balance.

**Oklahoma County School District No. I-89
Oklahoma City Public Schools**

Notes to Financial Statements (dollars in thousands unless specifically noted otherwise)

Note 6. Long-Term Liabilities (Continued)

The District completed these refundings to obtain the following economic gain:

Cash Flow Difference and Economic Gain From Refunding				
	2004 Bonds	2005 Bonds	2009 Bonds	Total 2017 Bond Refunding
Present value of savings from cash flow	\$ 2,590	\$ 1,854	\$ 5,207	\$ 9,651
Less: Prior funds on hand	(2,526)	(1,730)	(4,453)	(8,709)
Plus: Refunding funds on hand	2	4	13	19
Net present value savings	<u>\$ 66</u>	<u>\$ 128</u>	<u>\$ 767</u>	<u>\$ 961</u>

Capital leases: The District records lease agreements that qualify as capital leases for accounting purposes at the present value of their future minimum lease payments at their inception date. The present value is calculated based on the lessor's implicit interest rate.

In November 2014, the District entered into a sixty month equipment lease purchase agreement with Dell totaling approximately \$833. At the end of the lease, the District can exercise the option to purchase the equipment for one dollar. Principal is due in annual installments of approximately \$179.

In December 2015, the District entered into a sixty month equipment lease purchase agreement with Dell totaling approximately \$988. At the end of the lease, the District can exercise the option to purchase the equipment for one dollar. Principal is due in annual installments of approximately \$211.

In December 2016, the District entered into a sixty month equipment lease purchase agreement with Dell totaling approximately \$259. At the end of the lease, the District can exercise the option to purchase the equipment for one dollar. Principal is due in annual installments of approximately \$54.

The future lease payments as of June 30, 2017, are as follows:

Year ending June 30,	
2018	\$ 444
2019	444
2020	265
2021	54
Total minimum lease payments	<u>1,207</u>
Less amount representing interest	<u>(72)</u>
Present value of minimum lease payments	<u>\$ 1,135</u>

The gross amount of assets acquired under capital leases, accumulated depreciation, and net book value by major asset class are as follows:

Technology, appliances, and musical instruments	\$ 2,080
Accumulated depreciation	<u>(718)</u>
Net book value	<u>\$ 1,362</u>

**Oklahoma County School District No. I-89
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Notes to Financial Statements (dollars in thousands unless specifically noted otherwise)

Note 7. Risk Management

The District purchases commercial insurance for all types of risk including, but not limited to, property, casualty, worker's compensation, vehicle, and employee life. The deductibles for property claims is \$500 per occurrence. The deductible for vehicle and general/professional liability claims is \$200 per occurrence. Settlements have not exceeded insurance coverage for each of the past three fiscal years.

Note 8. Employee Retirement Plans

The District participates in the state-administered Oklahoma Teachers Retirement System (OTRS). Additionally, the District provides a defined contribution plan for eligible employees.

Oklahoma Teachers Retirement System

Plan description: The District participates in the OTRS, a cost-sharing multiple-employer public employee retirement system that is self-administered. OTRS provides retirement, disability, and death benefits to plan members and beneficiaries. Benefit provisions are established and may be amended by the legislature of the State of Oklahoma. Title 70 of the Oklahoma State Statutes assigns the authority for management and operation of OTRS to the Board of Trustees of OTRS. OTRS issues a publicly available annual financial report that can be obtained at www.ok.gov/TRS/.

Benefits provided: OTRS provides defined retirement benefits based on members' final compensation, age, and term of service. In addition, the retirement program provides for benefits upon disability and to survivors upon the death of eligible members. Title 70 O. S. Sec. 17-105 defines all retirement benefits. The authority to establish and amend benefit provisions rests with the State Legislature.

Benefit provisions include:

- Members become 100 percent vested in retirement benefits earned to date after five years of credited Oklahoma service. Members who joined OTRS on June 30, 1992 or prior are eligible to retire at maximum benefits when age and years of creditable service total 80. Members joining OTRS after June 30, 1992 are eligible for maximum benefits when their age and years of creditable service total 90. Members whose age and service do not equal the eligible limit may receive reduced benefits as early as age 55, and at age 62 receive unreduced benefits based on their years of service. The maximum retirement benefit is equal to 2 percent of final compensation for each year of credited service.
- Final compensation for members who joined OTRS prior to July 1, 1992 is defined as the average salary for the three highest years of compensation. Final compensation for members joining OTRS after June 30, 1992 is defined as the average of the highest five consecutive years of annual compensation in which contributions have been made. The final average compensation is limited for service credit accumulated prior to July 1, 1995 to \$40,000 or \$25,000, depending on the member's election. Monthly benefits are 1/12 of this amount. Service credits accumulated after June 30, 1995 are calculated based on each member's final average compensation, except for certain employees of the State's two comprehensive universities. Upon the death of a member who has not yet retired, the designated beneficiary shall receive the member's total contributions plus 100 percent of interest earned through the end of the fiscal year, with interest rates varying based on time of service. A surviving spouse of a qualified member may elect to receive, in lieu of the aforementioned benefits, the retirement benefit the member was entitled to at the time of death as provided under the joint survivor benefit option.

**Oklahoma County School District No. I-89
Oklahoma City Public Schools**

Notes to Financial Statements (dollars in thousands unless specifically noted otherwise)

Note 8. Employee Retirement Plans (Continued)

- Upon the death of a retired member, OTRS will pay \$5,000 to the designated beneficiary, in addition to the benefits provided for the retirement option selected by the member.
- A member is eligible for disability benefits after ten years of credited Oklahoma service. The disability benefit is equal to 2 percent of final average compensation for the applicable years of credited service.
- Upon separation from OTRS, members' contributions are refundable with interest based on certain restrictions provided in the plan, or by the Internal Revenue Code (IRC).
- Members may elect to make additional contributions to a tax-sheltered annuity program up to the exclusion allowance provided under the IRC under Code Section 403(b).

Contributions: The contribution requirements of OTRS are at an established rate determined by Oklahoma Statute and are not based on actuarial calculations. Employees who are non-retired members of OTRS are required to contribute 7 percent of their annual compensation. Annual compensation is defined as the salary plus fringe benefits (excluding flexible benefit allowance). For employees who are covered by the American Federation of Teachers (AFT) Certified Collective Bargaining Agreement (CBA), the District paid 7 percent of the employee's annual compensation minus the OTRS service credit. For building administrators who are covered by the Oklahoma City Business Administrator (OCBA) CBA and Central Office/professional and technical staff, the District paid 100 percent of the 7 percent up to \$60,000 of annual compensation, then the District paid 90 percent and the employee paid 10 percent of the 7 percent of annual compensation for the rest of the fiscal year. For support employees who are covered by the Oklahoma City Federation of Classified Employees (OCFCE) CBA, the District paid 90 percent of the 7 percent and the employee paid 10 percent of the 7 percent up to \$40,000 of annual compensation, then the employee contributed the full 7 percent of annual compensation for the rest of the fiscal year. For all retired OTRS members employed by the District, the District paid 16.5 percent (the employee and District/employer portions) of the employee's annual compensation.

The amount paid by the District for employees totaled approximately \$10.79 million for the year ended June 30, 2017. The District's contribution rate is 7 percent for the year ended June 30, 2017. In addition, the District is required to match the State of Oklahoma's contribution rate on salaries that are paid with grant funds. The District's contributions to OTRS in 2017 were \$17.55 million, equal to the annual required contributions. The District's matching contributions to OTRS in 2017 were \$1.6 million.

The State of Oklahoma makes a contribution on behalf of each teacher meeting minimum salary requirements (known as the OTRS years of service credit). The credit amount is determined based on years of service recognized by the District and ranges from \$60.15 actual dollars per year for 0 years of service to \$1,410.53 actual dollars per year for 25 years or more of service. For the fiscal year ended June 30, 2017, the State paid approximately \$1.64 million on behalf of teachers employed at the District. In accordance with generally accepted accounting principles, the District recognized the on-behalf-of payments as revenue and expense/expenditure in the district wide and fund financial statements.

The State of Oklahoma is also required to contribute to the System on behalf of the participating employers. For 2017, the State of Oklahoma contributed 5 percent of state revenues from sales and use taxes and individual income taxes, to the System on behalf of participating employers. The District has estimated the amounts contributed to the System by the State of Oklahoma on its behalf based on a contribution rate provided to the District. For the year ended June 30, 2017, the total amount contributed to the System by the State of Oklahoma on behalf of the District was approximately \$11.58 million. In accordance with generally accepted accounting principles, District recognized the on-behalf-of payments as revenue and expenditure in the governmental fund financial statements.

**Oklahoma County School District No. I-89
Oklahoma City Public Schools**

Notes to Financial Statements (dollars in thousands unless specifically noted otherwise)

Note 8. Employee Retirement Plans (Continued)

These on-behalf payments do not meet the definition of a special funding situation.

Pension liabilities, pension expense, and deferred inflows/outflows of resources related to pensions: At June 30, 2017, the District reported a liability of \$407.47 million for its proportionate share of the net pension liability. The net pension liability was measured as of June 30, 2016 and the total pension liability used to calculate the net pension liability was determined by an actuarial valuation as of June 30, 2016. The District's proportion of the net pension liability was based on the District's contributions to OTRS relative to total contributions of OTRS for all participating employers for the year ended June 30, 2016. Based upon this information, the District's proportion was 4.8824267 percent. The change in proportion from June 30, 2015 was a decrease of 0.0989477 percent.

For the year ended June 30, 2017, the District recognized pension expense of \$24.28 million. At June 30, 2017, the District reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

	Deferred Outflows of Resources	Deferred Inflows of Resources
Differences between expected and actual experience	\$ -	\$ 9,460
Changes of assumptions	49,064	-
Net difference between projected and actual earnings on pension plan investments	47,565	-
Changes in proportion and differences between District contributions and proportionate share of contributions	7,661	5,223
Total deferred amounts to be recognized in pension expense in future periods	104,290	14,683
District contributions subsequent to the measurement date	19,156	-
Total deferred amounts related to pension	<u>\$ 123,446</u>	<u>\$ 14,683</u>

Deferred pension outflows totaling \$19.2 million resulting from the district's contributions subsequent to the measurement date, will be recognized as a reduction of the net pension liability in the year ended June 30, 2018. Net deferred outflows resulting from the difference between projected and actual earnings on pension plan investments will be recognized in pension expense over five years as of the beginning of each measurement period. Other deferred inflows and outflows are being amortized over a closed period equal to the average of the expected service lives of all employees as of the beginning of the measurement period.

**Oklahoma County School District No. I-89
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Notes to Financial Statements (dollars in thousands unless specifically noted otherwise)

Note 8. Employee Retirement Plans (Continued)

Deferred outflows of resources and deferred inflows of resources will be recognized in pension expense as follows:

Year ended June 30:		
2018	\$	14,695
2019		14,695
2020		30,587
2021		24,250
2022		5,380
	\$	<u>89,607</u>

Actuarial assumptions: The total pension liability was determined based on an actuarial valuation prepared using the following actuarial assumptions:

- Actuarial cost method--Entry Age Normal
- Inflation--2.50 percent
- Future ad hoc cost-of-living increases--None
- Salary increases--Composed of 3.25 percent wage inflation, including 2.50 percent price inflation, plus a service-related component ranging from 0.00 percent to 8.00 percent based on years of service
- Investment return—7.50 percent
- Retirement Age--Experience-based table of rates based on age, service, and gender. Adopted by the Board in May 2015 in conjunction with the five year experience study for the period ending June 30, 2014
- Mortality Rates after Retirement--Males: RP-2000 Combined Healthy mortality table for males with White Collar Adjustments. Generational mortality improvements in accordance with Scale BB from the table's base year of 2000. Females: GRS Southwest Region Teacher Mortality Table, scaled at 105 percent. Generational mortality improvements in accordance with Scale BB from the table's base year of 2012
- Mortality Rates for Active Members--RP-2000 Employee Mortality tables, with male rates multiplied by 60 percent and female rates multiplied by 50 percent

The long-term expected rate of return on pension plan investments was determined using a building block method in which best estimate ranges of expected future real rates of return (expected returns, net of pension plan investment expense and inflation) are developed for each major asset class. These ranges are combined to produce the long-term expected rate of return by weighting the expected future real rates of return by the target asset allocation percentage and by adding expected inflation.

**Oklahoma County School District No. I-89
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Notes to Financial Statements (dollars in thousands unless specifically noted otherwise)

Note 8. Employee Retirement Plans (Continued)

The target asset allocation and best estimates of arithmetic expected real rates of return for each major asset class as of June 30, 2016, are summarized in the following table:

Asset Class	Target Allocation	Expected Real Rate of Return
Domestic All Cap Equity*	7.00%	6.20%
Domestic Large Cap Equity	10.00	5.80
Domestic Mid Cap Equity	13.00	6.30
Domestic Small Cap Equity	10.00	7.00
International Large Cap Equity	11.50	6.60
International Small Cap Equity	6.00	6.60
Core Plus Fixed Income	17.50	1.60
High-yield Fixed Income	6.00	4.90
Private Equity	5.00	8.30
Real Estate**	7.00	4.50
Master Limited Partnerships	7.00	7.70
Total	100.00%	

* The Domestic All Cap Equity total expected return is a combination of 3 rates - US Large Cap, US Mid Cap, and US Small Cap.

** The Real Estate total expected return is a combination of US Direct Real Estate (unlevered) and US Value Added Real Estate (unlevered).

Discount rate: The discount rate used to measure the total pension liability was 7.5 percent, a change of 0.5 percent from prior year. This single discount rate was based solely on the expected rate of return on pension plan investments of 7.5 percent. The projection of cash flows used to determine this single discount rate assumed that plan member and employer contributions will be made at the current statutory levels and remain a level percentage of payroll. The projection of cash flows also assumed that the State's contribution plus the matching contributions will remain a constant percent of projected member payroll based on the past five years of actual contributions. Based on the stated assumptions and the projection of cash flows, OTRS' fiduciary net position and future contributions were projected to be available to finance all projected future benefit payments of current plan members. Therefore, the long-term expected rate of return on pension plan investments was applied to all periods of projected benefit payments to determine the total pension liability.

Oklahoma County School District No. I-89
Oklahoma City Public Schools

Notes to Financial Statements (dollars in thousands unless specifically noted otherwise)

Note 8. Employee Retirement Plans (Continued)

Sensitivity of the Net Pension Liability to Changes in the Discount Rate: The following table presents the net pension liability of the District calculated using the discount rate of 7.5 percent, as well as what the District's net pension liability would be if OTRS calculated the total pension liability using a discount rate that is 1-percentage point lower (6.5 percent) or 1-percentage point higher (8.5 percent) than the current rate:

	1% Decrease (6.5%)	Current Discount Rate (7.5%)	1% Increase (8.5%)
District's net pension liability	\$ 535,583	\$ 407,466	\$ 303,246

Defined Contribution Plan

Plan description: The District provides a defined contribution plan under section 401(a) of the Internal Revenue Code to eligible employees. Eligible employees include administrators, professional/technical staff, and building administrators (e.g., principals). Administrators and professional/technical staff must complete three years of continuous service, and building administrators must complete two years of continuous service in order for the employee to receive an employer contribution at the end of the fiscal year.

Funding policy: Eligible administrators, professional/technical staff members, and building administrators receive a contribution of seven hundred dollars per year. Upon termination or retirement, each of these employees can receive the money paid for them in either a lump sum or in any other benefit option available. This plan is administered by Variable Annuity Life Insurance Company (VALIC). The District contributed \$206 to the plan during the year ended June 30, 2017.

Note 9. Commitment and Contingencies

Encumbrance accounting is utilized to assure effective budgetary control and accountability and to facilitate effective cash planning and control. Encumbrances represent commitments related to unperformed contracts for goods and services. At year end, the amount of encumbrances (less encumbrances that lapsed after year end) expected to be honored upon performance by the vendor in the next year were as follows:

General Fund	\$ 418
2007 Bond Funds	7,316
School Nutrition Services	258
Other governmental funds	2,448
	<u>\$ 10,440</u>

The District receives grant funds from various federal and state grantor agencies. Under the terms of the grants, periodic audits are required, and certain costs may be questioned as not being allowable expenditures under the terms of the grants. Such audits could lead to reimbursements to the grantor agencies. The District management believes disallowances, if any, would be immaterial to the accompanying financial statements.

**Oklahoma County School District No. I-89
Oklahoma City Public Schools**

Notes to Financial Statements (dollars in thousands unless specifically noted otherwise)

Note 9. Commitment and Contingencies (Continued)

The District is a defendant in various lawsuits. The District intends to vigorously defend itself on the various lawsuits. Although the outcome of these lawsuits is not presently determinable, and the amounts are not readily estimable, the District believes the resolution of these matters will not have a material adverse effect on the financial statements and may be settled by the District's insurance carrier.

Note 10. Charter Schools

The District is the pass-through agency of state funds for twelve charter schools, which are considered to be operationally independent of the District. All state funding sources are received by the District and distributed to the charter schools monthly. In addition, certain payments are made and costs incurred by the District to benefit various charter schools through such programs as the School Nutrition Services program, alternative education, at risk sites for adequate yearly progress, and certain contractually obligated costs for custodial care and supplies. The District charges each charter school an administrative fee of 3.00 percent (of state funding sources) for the services it provides.

Note 11. Enterprise Schools

The District has six enterprise schools. An enterprise school is a District school that has established its own governing board. This governing board has contracted with the District to allow for more authority to make certain independent decisions impacting that school. All employees and operating costs are budgeted and processed within the District's regular financial operations. However, the enterprise school can direct their dollars with regard to curriculum and admission standards within the legal laws governing public schools as well as within the specifics of their contract.

Note 12. 2001 General Obligation Bonds

On November 13, 2001, voters in the City of Oklahoma City authorized a general obligation bond issue totaling \$180 million, made up of an approved proposition:

- \$163.3 million for the construction of new and/or renovation of 16 school buildings and
- \$16.7 million for computer and other technology, equipment, software renovation, and improvements.

Note 13. 2007 General Obligation Bonds

On October 9, 2007, voters in the City of Oklahoma City authorized a general obligation bond issue totaling \$248.3 million, made up of four separately approved propositions:

- Proposition 1: \$212 million for capital improvements for elementary school gymnasiums, 54 new classrooms, and routine maintenance;
- Proposition 2: \$21 million to provide network system upgrades to better track and evaluate students and update and add library materials;
- Proposition 3: \$7.3 million to replace school buses more than 10 years old and update the support vehicle fleet; and
- Proposition 4: \$8 million to improve safety and security equipment throughout the District.

**Oklahoma County School District No. I-89
Oklahoma City Public Schools**

Notes to Financial Statements (dollars in thousands unless specifically noted otherwise)

Note 14. 2016 General Obligation Bonds

On November 8, 2016, voters in the City of Oklahoma City authorized a general obligation bond issue totaling \$180 million, made up of three separately approved propositions:

- Proposition 1: \$106.34 million for school building maintenance, including roofing, heating, air conditioning, safety improvements, and general equipment;
- Proposition 2: \$54.46 million for technology infrastructure upgrades, student and testing labs, and computers;
- Proposition 3: \$19.20 million to replace school buses and update the support vehicle fleet.

Note 15. Tax Abatements

The Oklahoma City Economic Development Trust (Trust) was established by Oklahoma City Council resolution on October 9, 2007 to support the City's economic and community development goals. The City has designated the Trust to manage economic development, including incentives. The Trust provides economic development incentives in the form of development financing or performance based incentives that reduce ad valorem increment allocated to the City, and therefore the District. These economic development project plans have been adopted by the Trust pursuant to the Local Development Act, Title 60 of the Oklahoma Statutes, Sections 850, et seq. It is noted that the incentives do not meet the criteria of tax abatement defined in the Oklahoma Local Development Act. The City of Oklahoma City's active TIF agreements resulted in a reduction of reported property tax revenues of approximately \$2,045. The district's share of that tax revenue abatement is 55.03 percent, for a reduction of \$1.1 million of property tax revenues to the District. In all cases of the active agreements, the District receives ad valorem taxes at the assessed valuation of the property prior to the TIF agreement.

The State of Oklahoma grants a 5 year exemption of Ad Valorem taxes for certain new manufacturing or research and development equipment and facilities. Pursuant to Section 193 of Title 62 of the Oklahoma Statutes, the State will reimburse the District for foregone property taxes as a result of this exemption. During the year ended June 30, 2017, the amount of foregone tax revenues as a result of this exemption were \$376, all of which was reimbursed by the State during the year ended June 30, 2017 in connection the with the abated tax revenues.

REQUIRED SUPPLEMENTARY INFORMATION

Oklahoma County School District No. I-89
Oklahoma City Public Schools

Required Supplementary Information
Schedule of the District's Proportionate Share of the Net Pension Liability
Oklahoma Teachers Retirement System
(in thousands)

	As of June 30,		
	2017	2016	2015
Measurement date	June 30, 2016	June 30, 2015	June 30, 2014
District's proportion of the net pension liability	4.88242665%	4.98137440%	4.81459900%
District's proportionate share of the net pension liability	\$ 407,466	\$ 302,507	\$ 259,019
District's covered-employee payroll	\$ 195,534	\$ 195,499	\$ 184,945
District's proportionate share of the net pension liability as a percentage of its covered payroll	208.39%	154.74%	140.05%
Plan fiduciary net position as a percentage of the total pension liability	62.24%	70.31%	72.43%

See notes to Schedule of the District's Proportionate Share of the Net Pension Liability

**Oklahoma County School District No. I-89
Oklahoma City Public Schools**

**Required Supplementary Information
Notes to Schedule of the District's Proportionate Share of the Net Pension Liability**

Note 1. GASB Statement No. 68 requires ten years of information to be presented in this table. However, until a full 10-year trend is compiled, the District will present information for those years for which information is available. Information is as of the measurement date, which is the prior June 30th.

Note 2. Changes in benefit terms: There were no significant changes of benefit terms.

Note 3. Changes of assumptions: The assumptions for salary increases changed for the June 30, 2016 and June 30, 2015 measurement dates. For the June 30, 2014 measurement date, salary increases were composed of 3.00 percent inflation, plus 1.00 percent productivity increase rate, plus step-rate promotional increases for members with less than 25 years of service. For the June 30, 2015 measurement date, salary increases are composed of 3.75 percent wage inflation, including 3.00 percent price inflation, plus a service-related component ranging from 0.00 percent to 8.00 percent based on years of services. For the June 30, 2016 measurement date, salary increases are composed of 3.25 percent wage inflation, including 2.50 percent price inflation, plus a service-related component ranging from 0.00 percent to 8.00 percent based on years of service.

The table used to determine the retirement age changed for the June 30, 2015 measurement date. For the June 30, 2014 measurement date, the retirement age was determined using the experience-based table developed from a five year experience study for the period ending June 30, 2009. This table was adopted by the OTRS Board in September 2010. For the June 30, 2015 measurement date, the retirement age was determined using the experience-based table developed from a five year experience study for the period ending June 30, 2014. This table was adopted by the OTRS Board in May 2015. There were no changes in the retirement age assumptions for the June 30, 2016 measurement date.

The mortality rate tables used changed for the June 30, 2015 measurement date. For the June 30, 2014 measurement date, mortality rates were determined using the RP-2000 Combined Mortality table, projected to 2016 using Scale AA, multiplied by 90 percent for males and 80 percent for females. For the June 30, 2015 measurement date, the mortality rates for active employees were determined using the RP-2000 Employee Mortality tables, with male rates multiplied by 60 percent and female rates multiplied by 50 percent. The mortality rates for males after retirement were determined using the RP-2000 combined health Mortality Table for males with white collar adjustments. Generational mortality improvements in accordance with Scale BB from the table's base year of 2000 were used. The mortality rates for females after retirement were determined using the GRS Southwest Region Teacher Mortality Table, scaled at 105 percent. Generational mortality improvements in accordance with Scale BB from the tables base year of 2012 were used. There were no changes in the mortality rate assumptions for June 30, 2016 measurement date.

The assumptions for investment return changed for the June 30, 2016 measurement date. For the June 30, 2015 and June 30, 2014 measurement dates, investment return was 8.00 percent per year, net of investment-related expenses and compounded annually, composed of an assumed 3.00 percent inflation rate and a 5.00 percent net real rate of return. For the June 30, 2016 measurement date, investment return was 7.50 percent per year, net of investment-related expenses and compounded annually, composed of an assumed 2.50 percent inflation rate and a 5.00 percent net real rate of return.

**Oklahoma County School District No. I-89
Oklahoma City Public Schools**

**Required Supplementary Information
Schedule of District Contributions
Oklahoma Teachers Retirement System
(in thousands)**

Fiscal year ending:	Statutorily Required Contribution	Contributions in Relation to the Statutorily Required Contribution	Contributions Deficiency (Excess)	District's Covered- Employee Payroll	Contributions as a Percentage of Covered Employee Payroll
2017	\$ 19,156	\$ 19,156	\$ -	\$ 181,767	10.54%
2016	20,764	20,764	-	195,534	10.62
2015	20,780	20,780	-	195,499	10.63
2014	19,677	19,677	-	184,945	10.64
2013	18,914	18,914	-	177,916	10.63
2012	18,506	18,506	-	173,534	10.66
2011	17,079	17,079	-	164,455	10.39
2010	17,095	17,095	-	170,051	10.05
2009	15,504	15,504	-	165,178	9.39
2008	13,395	13,395	-	158,051	8.48

The District's statutorily required contribution rate has changed over the prior 10 years as follows:

1. July 1, 2005 to December 31, 2006 7.05%
2. January 1, 2007 to June 30, 2007 7.60%
3. July 1, 2007 to December 31, 2007 7.85%
4. January 1, 2008 to June 30, 2008 8.35%
5. July 1, 2008 to December 31, 2008 8.50%
6. January 1, 2009 to December 31, 2009 9.00%
7. January 1, 2010 to present 9.50%

Oklahoma County School District No. I-89
Oklahoma City Public Schools

Budgetary Comparison Schedule (Budgetary Basis) - General Fund
Year Ended June 30, 2017
(in thousands)

	Budgeted Amounts		Actual	Variance with Final Budget Over (Under)
	Original	Final		
Revenues:				
Local sources	\$ 77,257	\$ 77,257	\$ 77,015	\$ (242)
Intermediate sources	12,800	12,800	12,912	112
State sources	181,021	181,021	153,606	(27,415)
Federal sources	42,713	42,713	34,561	(8,152)
Nonrevenue receipts	400	400	33,195	32,795
Total revenues	314,191	314,191	311,289	(2,902)
Expenditures:				
Instruction	173,831	173,831	171,778	(2,053)
Support services	116,294	116,294	112,950	(3,344)
Operation of noninstruction services	320	320	575	255
Facilities acquisition and construction services	257	257	101	(156)
Other	27,489	27,489	33,138	5,649
Total expenditures	318,191	318,191	318,542	351
Excess (deficiency) of revenues over (under) expenditures	(4,000)	(4,000)	(7,253)	(3,253)
Other financing sources:				
Lapsed appropriations	4,000	4,000	3,539	(461)
Transfers out	-	-	-	-
Insurance recoveries	-	-	-	-
Total other financing sources	4,000	4,000	3,539	(461)
Net change in fund balances	-	-	(3,714)	(3,714)
Fund balances, beginning of year	15,438	15,438	20,430	4,992
Fund balances, end of year	\$ 15,438	\$ 15,438	\$ 16,716	\$ 1,278

See notes to required supplementary information.

**Oklahoma County School District No. I-89
Oklahoma City Public Schools**

Notes to Budgetary Comparison Schedule

Budgetary Comparison Schedule - General Fund: The budgetary comparison schedule is prepared using the cash plus encumbrances basis of accounting. A reconciliation from this basis to the modified accrual basis of accounting, which is generally accepted accounting principles (GAAP), is included below.

Budgetary Reconciliation - General Fund: Items required to adjust actual revenues, expenditures, and fund balance reported on the budgetary basis to those reported within the fund financial statements as of and for the year ended June 30, 2017, are as follows (in thousands):

Fund balance - budgetary basis	\$ 16,716
Current year revenue accrual less portion deferred in fund statements	8,791
Grant revenue received, but not expended (deferred for budgetary purposes)	1,233
Inventory	184
Encumbrances outstanding	6,356
Compensated absences	5,552
	<hr/>
Fund balance - fund financial statements	<u><u>\$ 38,832</u></u>
Revenues - budgetary basis	\$ 311,289
Current year revenue accrual	92,664
Prior year revenue accrual	(87,221)
Current year revenue deferred in fund statements	(83,873)
Prior year deferred revenue recognized in fund statements in current year	78,978
Current year grant revenue received, but not expended (deferred for budgetary purposes)	1,233
Other	89
Insurance recoveries reported in other financing sources in fund statements	(1)
Prior year grant revenue recognized in the current year	(2,790)
On-behalf payments	12,534
	<hr/>
Revenues - fund financial statements	<u><u>\$ 322,902</u></u>
Expenditures - budgetary basis	\$ 318,542
Change in encumbrance payable	(5,748)
Change in compensated absences	253
Change in inventory	17
Capital lease expenditures	259
Other	89
On-behalf payments	12,534
	<hr/>
Expenditures - fund financial statements	<u><u>\$ 325,946</u></u>

**Oklahoma County School District No. I-89
Oklahoma City Public Schools**

Notes to Budgetary Comparison Schedule

Budget Law and Practice: The following is the budget development process for all funds appropriated on an annual basis (General Fund, Building Fund, School Nutrition Services Fund, and Sinking Fund). For each fiscal year of the District, which begins on July 1, a tentative, or preliminary, budget is presented to the Board of Education at the first meeting in July, if not earlier. As required by the School District Budget Act (adopted June 4, 2001), a public hearing on the proposed budget summary shall be held within five days' notice published in a newspaper of general circulation in the school district. Within the thirty day period preceding the beginning of each fiscal year, a budget for the school district shall be approved by the Board of Education. The District may amend the budget after June 30 and present it for Board of Education approval, as required by law, and filed (the legal appropriation establishing revenue, tax levies, and ad valorem valuations) with the county excise board and the State of Oklahoma Auditor & Inspector.

The Board of Education must approve revisions to the final budget and ensure it will not exceed the level of appropriation for each fund as established by temporary budget or supplemental appropriation, according to law. The budget is updated and reported to the superintendent and Board of Education in the fiscal year, as needed.

The following is the budget development process for all funds operated on an overall budget basis (Bond Funds, and Casualty Flood Insurance Recovery Fund). Based on available bonding capacity, the superintendent and staff prepare a list of projects determined by the needs within the District and with available monies. This list, once approved by the Board of Education, becomes the resolution that is then presented to the voters in the District. Oklahoma laws allow schools to be indebted to a maximum of 110 percent of the net assessed valuation of the district.

The following is the budget administration and management process. Each fund has a budget that is assigned by cost center. This budget is administered by a designee authorized by the superintendent to monitor and control the budget in compliance with Board of Education policies and State law.

Budget expenditures are monitored through the financial management system, which will not allow expenditures to exceed the appropriated budget. The District's superintendent or designee may transfer an unexpended and unencumbered appropriation from one account to another within the same fund. Purchase orders are submitted to the Board of Education for approval of payment.

There are not approved budgets for the MAPS Sales Tax Fund, Gifts and Endowments Fund, or the 2016 Bond Funds.

Encumbrances: Encumbrances represent commitments related to unperformed contracts for goods and/or services. Encumbrance accounting, under which purchase orders, contracts, and other commitments for the expenditure of resources are recorded to reserve that portion of the applicable appropriation, is utilized in the governmental funds. Encumbrances outstanding at year-end are included in the "actual" amounts shown as expended during the year for the budgetary presentation but are excluded from the fund balances in the governmental fund financial statements, as they do not constitute expenditures or liabilities because the commitments will be honored during the subsequent year.

Revenues: Revenues, except for federal revenues, are recorded on a cash basis and include deposits to District accounts from the first day through the last day of the fiscal year regardless of when they were actually earned. Federal revenues are recognized for any prior year April through June 30th collections deferred and for any collections received July 1 through March 31 of the current year. Any federal cash collections received April 1 through June 30 are deferred into the subsequent year.

OTHER SUPPLEMENTARY INFORMATION

Oklahoma County School District No. I-89
Oklahoma City Public Schools

Combining Balance Sheet - Nonmajor Governmental Funds
June 30, 2017
(in thousands)

	Special Revenue Funds			Capital Project Funds			Total
	Building Fund	MAPS Sales Tax Fund	Gifts and Endowments Fund	2001 Bond Funds	Casualty Flood Insurance Recovery Fund	2016 Bond Funds	
Assets							
Cash and cash equivalents	\$ 10,448	\$ -	\$ 26	\$ 1,943	\$ 5,666	\$ 9,770	\$ 27,853
Investments	2,000	-	-	-	-	-	2,000
Receivables:							
Delinquent/proteted property taxes, net of allowance	844	-	-	-	-	-	844
Property taxes receivable - succeeding year, net of allowance	10,618	-	-	-	-	-	10,618
Due from other governments	44	-	-	-	-	-	44
Other, net of allowance	1	-	-	-	11	-	12
Total assets	23,955	-	26	1,943	5,677	9,770	41,371
Liabilities							
Warrants payable	429	-	-	-	-	-	429
Accounts payable and accrued liabilities	748	-	-	9	284	880	1,921
Total liabilities	1,177	-	-	9	284	880	2,350
Deferred inflows of resources							
Unavailable revenue - delinquent/proteted property taxes	844	-	-	-	-	-	844
Unavailable revenue - property taxes - succeeding year	10,618	-	-	-	-	-	10,618
Total deferred inflows of resources	11,462	-	-	-	-	-	11,462
Fund balances							
Nonspendable	-	-	25	-	-	-	25
Restricted	11,316	-	1	1,934	-	8,890	22,141
Committed	-	-	-	-	5,008	-	5,008
Assigned	-	-	-	-	385	-	385
Total fund balances	11,316	-	26	1,934	5,393	8,890	27,559
Total liabilities, deferred inflows of resources, and fund balances	\$ 23,955	\$ -	\$ 26	\$ 1,943	\$ 5,677	\$ 9,770	\$ 41,371

Oklahoma County School District No. I-89
Oklahoma City Public Schools

Combining Statement of Revenues, Expenditures and Changes in Fund Balances -
Nonmajor Governmental Funds
Year Ended June 30, 2017
(in thousands)

	Special Revenue Funds			Capital Project Funds			Total
	Building Fund	MAPS Sales Tax Fund	Gifts and Endowments Fund	2001 Bond Funds	Casualty Flood Insurance Recovery Fund	2016 Bond Funds	
Revenues:							
Local sources	\$ 11,585	\$ 410	\$ 1	\$ 4	\$ 9	\$ 7	\$ 12,016
State sources	785	-	-	-	-	-	785
Total revenues	12,370	410	1	4	9	7	12,801
Expenditures:							
Current:							
Support services	9,151	84	-	129	392	117	9,873
Facilities acquisition and constructions	1,214	326	-	65	761	-	2,366
Total expenditures	10,365	410	-	194	1,153	117	12,239
Excess (deficiency) of revenues over (under) expenditures	2,005	-	1	(190)	(1,144)	(110)	562
Other financing sources:							
Issuance of bonds	-	-	-	-	-	9,000	9,000
Insurance recoveries	14	-	-	-	14	-	28
Total other financing sources	14	-	-	-	14	9,000	9,028
Net change in fund balances	2,019	-	1	(190)	(1,130)	8,890	9,590
Fund balances, beginning of year	9,297	-	25	2,124	6,523	-	17,969
Fund balances, end of year	\$ 11,316	\$ -	\$ 26	\$ 1,934	\$ 5,393	\$ 8,890	\$ 27,559

Oklahoma County School District No. I-89
Oklahoma City Public Schools

Statement of Changes in Assets and Liabilities - Fiduciary Fund
Year Ended June 30, 2017
(in thousands)

	Balance June 30, 2016	Additions	Deductions	Balance June 30, 2017
Cash and cash equivalents, by location:				
Elementary schools	\$ 1,046	\$ 1,524	\$ (1,518)	\$ 1,052
Middle schools	196	309	(318)	187
High schools	1,011	2,132	(2,166)	977
Other sites	246	435	(276)	405
Total funds held for student activities	\$ 2,499	\$ 4,400	\$ (4,278)	\$ 2,621
Summary Activity Funds				
Assets:				
Cash and cash equivalents	\$ 2,499	\$ 4,400	\$ (4,278)	\$ 2,621
Capital assets, net	46	13	-	59
Total assets	\$ 2,545	\$ 4,413	\$ (4,278)	\$ 2,680
Liabilities:				
Due to student groups	\$ 2,499	\$ 4,400	\$ (4,278)	\$ 2,621
Capital assets held for the benefit of student groups	46	13	-	59
Total liabilities	\$ 2,545	\$ 4,413	\$ (4,278)	\$ 2,680

Oklahoma County School District No. I-89
Oklahoma City Public Schools

Budgetary Comparison Schedule (Budgetary Basis) - 2007 Bond Funds
Year Ended June 30, 2017
(in thousands)

	Budgeted Amounts		Actual	Variance with Final Budget Over (Under)
	Original	Final		
Revenues:				
Local sources	\$ 10	\$ 10	\$ 212	\$ 202
Nonrevenue receipts	-	-	-	-
Total revenues	10	10	212	202
Expenditures:				
Instruction	-	-	17	17
Support services	32,221	32,221	2,773	(29,448)
Facilities acquisition and construction services	32,263	32,263	13,611	(18,652)
Other	-	-	-	-
Total expenditures	64,484	64,484	16,401	(48,083)
Excess (deficiency) of revenues over (under) expenditures	(64,474)	(64,474)	(16,189)	48,285
Other financing sources, prior year lapsed appropriations	2,000	2,000	738	(1,262)
Net change in fund balances	(62,474)	(62,474)	(15,451)	47,023
Fund balances, beginning of year	62,474	62,474	59,525	(2,949)
Fund balances, end of year	\$ -	\$ -	\$ 44,074	\$ 44,074

Oklahoma County School District No. I-89
Oklahoma City Public Schools

Budgetary Comparison Schedule (Budgetary Basis) - Debt Service Funds
Year Ended June 30, 2017
(in thousands)

	Budgeted Amounts		Actual	Variance with Final Budget Over (Under)
	Original	Final		
Revenues:				
Local sources	\$ 39,688	\$ 39,688	\$ 37,397	\$ (2,291)
Nonrevenue receipts	-	-	160	160
Total revenues	39,688	39,688	37,557	(2,131)
Expenditures:				
Other	39,688	39,688	41,459	1,771
	39,688	39,688	41,459	1,771
Excess (deficiency) of revenues over (under) expenditures	-	-	(3,902)	(3,902)
Other financing sources, prior year lapsed appropriations	-	-	-	-
Net change in fund balances	-	-	(3,902)	(3,902)
Fund balances, beginning of year	55,377	55,377	54,603	(774)
Fund balances, end of year	\$ 55,377	\$ 55,377	\$ 50,701	\$ (4,676)

Oklahoma County School District No. I-89
Oklahoma City Public Schools

Budgetary Comparison Schedule (Budgetary Basis) - Building Fund
Year Ended June 30, 2017
(in thousands)

	Budgeted Amounts		Actual	Variance with Final Budget Over (Under)
	Original	Final		
Revenues:				
Local sources	\$ 13,876	\$ 13,876	\$ 11,593	\$ (2,283)
State sources	590	590	553	(37)
Total revenues	14,466	14,466	12,146	(2,320)
Expenditures:				
Support services	11,043	11,043	9,328	(1,715)
Facilities acquisition and construction services	872	872	2,085	1,213
Total expenditures	11,915	11,915	11,413	(502)
Excess (deficiency) of revenues over (under) expenditures	2,551	2,551	733	(1,818)
Other financing sources, prior year lapsed appropriations	450	450	842	392
Net change in fund balances	3,001	3,001	1,575	(1,426)
Fund balances, beginning of year	5,582	5,582	7,352	1,770
Fund balances, end of year	\$ 8,583	\$ 8,583	\$ 8,927	\$ 344

Oklahoma County School District No. I-89
Oklahoma City Public Schools

Budgetary Comparison Schedule (Budgetary Basis) - 2001 Bond Funds
Year Ended June 30, 2017
(in thousands)

	Budgeted Amounts		Actual	Variance with Final Budget Over (Under)
	Original	Final		
Revenues:				
Local sources	\$ -	\$ -	\$ 4	\$ 4
Total revenues	-	-	4	4
Expenditures:				
Instruction	530	530	-	(530)
Support services	1,826	1,826	160	(1,666)
Facilities, acquisition, and construction services	-	-	65	65
	<u>2,356</u>	<u>2,356</u>	<u>225</u>	<u>(2,131)</u>
Excess (deficiency) of revenues over (under) expenditures	(2,356)	(2,356)	(221)	2,135
Other financing sources, prior year lapsed appropriations	100	100	12	(88)
Net change in fund balances	(2,256)	(2,256)	(209)	2,047
Fund balances, beginning of year	2,256	2,256	2,141	(115)
Fund balances, end of year	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 1,932</u>	<u>\$ 1,932</u>

Oklahoma County School District No. I-89
Oklahoma City Public Schools

Budgetary Comparison Schedule (Budgetary Basis) - Casualty Flood Insurance Recovery Fund
Year Ended June 30, 2017
(in thousands)

	Budgeted Amounts		Actual	Variance with Final Budget Over (Under)
	Original	Final		
Revenues:				
Local sources	\$ 101	\$ 101	\$ 12	\$ (89)
Nonrevenue receipts	-	-	3	3
Total revenues	101	101	15	(86)
Expenditures:				
Support services	2,718	2,718	412	(2,306)
Facilities acquisition and construction services	3,611	3,611	944	(2,667)
	6,329	6,329	1,356	(4,973)
Excess (deficiency) of revenues over (under) expenditures	(6,228)	(6,228)	(1,341)	4,887
Other financing sources, prior year lapsed appropriations	5	5	-	(5)
Net change in fund balances	(6,223)	(6,223)	(1,341)	4,882
Fund balances, beginning of year	6,223	6,223	6,420	197
Fund balances, end of year	\$ -	\$ -	\$ 5,079	\$ 5,079

**REPORTS REQUIRED BY
GOVERNMENT AUDITING STANDARDS
AND UNIFORM GUIDANCE**

**Oklahoma County School District No. I-89
Oklahoma City Public Schools**

**Schedule of Expenditures of Federal Awards
Year Ended June 30, 2017**

Federal Grantor/Program	Federal CFDA Number	Pass through Grantor	Pass-through		Federal Expenditures
			Grantor's Project Number	Passed Through to Subrecipients	
U.S. Department of Education Direct Program					
Indian Education - Grants to Local Educational Agencies	84.060	N/A	561	\$ -	\$ 525,527
U.S. Department of Agriculture					
Child Nutrition Cluster:					
School Breakfast Program, (SBP)	10.553	Oklahoma Department of Education	764	-	5,540,309
National School Lunch Program (NSLP)	10.555	Oklahoma Department of Education	763	-	15,856,867
National School Lunch Program - Commodity (noncash)	10.555	Oklahoma Department of Human Services	773	-	1,555,565
Summer Food Program	10.559	Oklahoma Department of Education	766	-	121,686
Total Child Nutrition Cluster				-	23,074,427
Child and Adult Care Food Program	10.558	Oklahoma Department of Human Services	769	-	27,293
Fresh Fruit/Vegetable Program	10.582	Oklahoma Department of Education	768	-	1,231,708
Total U.S. Department of Agriculture				-	24,333,428
U.S. Department of the Interior					
Title VII, Johnson O'Malley	15.130	Oklahoma Department of Education	563	-	60,922
U.S. Department of Education					
Title I, Part A, Basic	84.010	Oklahoma Department of Education	511	-	20,530,344
Title I, School Support	84.010	Oklahoma Department of Education	515	-	975,677
Title I, Part A, Neglected	84.010	Oklahoma Department of Education	518	-	216,947
Consolidated Administrative Fund	84.010	Oklahoma Department of Education	786	-	617,986
Subtotal				-	22,340,954
Title I, Part D, Local Delinquent Program	84.013	Oklahoma Department of Education	532	-	144,291
Special Education Cluster:					
Discretionary PL 108-446, IDEA, Part B	84.027	Oklahoma Department of Education	621	-	6,946,385
Flow Through, PL 108-446, IDEA Part B Private Schools	84.027	Oklahoma Department of Education	625	-	33,266
Flow Through, PL 108-446, IDEA Part B High Cost Fund	84.027	Oklahoma Department of Education	626	-	33,745
Preschool, Ages 3-5 PL 108-446, IDEA Part B	84.173	Oklahoma Department of Education	641	-	123,760
Total Special Education Cluster				-	7,137,156
Carl Perkins Secondary	84.048	Oklahoma Department of Career & Technology Education	421	-	980,003
Carl Perkins High Schools That Work	84.048	Oklahoma Department of Career & Technology Education	426	-	2,112
Subtotal				-	982,115
Job Training - OJT	84.126	Oklahoma Department of Rehabilitation Services	456	-	77,346
Title X, Part C, Education for Homeless Children and Youth	84.196	Oklahoma Department of Education	596	-	32,747
Undergraduate Programs	84.334	University of Oklahoma	772	-	665,064
Title III, Part A, Immigrant Education Act	84.365	Oklahoma Department of Education	571	-	166,809
Title III, Part A, English Language Acquisition, Language Enhancement and Academic Achievement	84.365	Oklahoma Department of Education	572	-	795,955
Subtotal				-	962,764
Title II, Part A, Teacher and Principal Training	84.367	Oklahoma Department of Education	541	-	2,116,867
Total U.S. Department of Education				-	34,459,304

(Continued)

Oklahoma County School District No. I-89
Oklahoma City Public Schools

Schedule of Expenditures of Federal Awards (Continued)
Year Ended June 30, 2017

Federal Grantor/Program	Federal CFDA Number	Pass through Grantor	Pass-through Grantor's Project Number	Passed Through to Subrecipients	Federal Expenditures
U.S. Department of Health and Human Services					
Maternal, Infant & Early Childhood Home Visiting (MIECHV) - PAT	93.505	Oklahoma Department of Human Services	771	\$ -	\$ 282,608
Oklahoma Strong (MIECHV) - PAT	93.505	Oklahoma Department of Human Services	774	-	115,820
Subtotal				-	398,428
DayCare @ sites	93.575	Oklahoma Department of Human Services	775	-	32,983
Head Start Funds to Schools	93.600	Oklahoma Department of Commerce	691	-	145,152
Total U.S. Department of Health and Human Services				-	576,563
U.S. Department of Homeland Security					
Disaster Grants - Public Assistance (Presidentially Declared Disasters)	97.036	Oklahoma Emergency Mangement	594	-	84,070
Total expenditures of federal awards				\$ -	\$ 60,039,814

See notes to schedule of expenditures of federal awards.

Oklahoma County School District No. I-89
Oklahoma City Public Schools

Notes to Schedule of Expenditures of Federal Awards
Year Ended June 30, 2017

Note 1. Basis of Presentation

The accompanying schedule of expenditures of federal awards (the "Schedule") includes the federal grant activity of the District under programs of the federal government for the year ended June 30, 2017. The information in this schedule is presented in accordance with the requirements of Title 2 U.S. Code of Federal Regulations Part 200, *Uniform Administrative Requirements, Cost Principles and Audit Requirements for Federal Awards (Uniform Guidance)*. Because the Schedule presents only a selected portion of the operations of the District, it is not intended to and does not present the financial position, changes in fund balance and net position, or cash flows of the District.

Note 2. Summary of Significant Accounting Policies

Expenditures reported on the Schedule are reported on the accrual basis of accounting. Such expenditures are recognized following, as applicable, either the cost principles in OMB Circular A-87, *Cost Principles for State, Local, and Indian Tribal Governments*, or the cost principles contained in Title 2 U.S. Code of Federal Regulations Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards*, wherein certain types of expenditures are not allowable or are limited as to reimbursement

Note 3. Indirect Cost Rate

The District has elected not to use the 10 percent de minimis indirect cost rate allowed under the Uniform Guidance.

Note 4. Awards Provided to Subrecipients

During the year ended June 30, 2017, the District did not provide any federal awards to subrecipients.

Summary Schedule of Prior Audit Findings For The Year Ended June 30, 2017

Identifying Number: 2016-001

Finding: The District presents financial statements on the accrual, modified accrual, and budgetary bases of accounting. Transactions are initially entered into the financial reporting system on the accrual basis of accounting. Conversion entries are then posted to convert balances to the modified accrual basis of accounting and then to the budgetary basis of accounting. The 2016 audit identified several material misstatements in the conversion entries initially recorded by the District. Correcting entries were recorded and reflected in the June 30, 2016 financial statements.

Corrective Actions Taken: The District i) reviewed its existing year-end closing processes for accrual, modified accrual, and budgetary bases of accounting and ii) revised and enhanced procedures, documentation, and monitoring tools to ensure that conversion entries are proper and complete.

Status: Fully corrected.

**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***

Independent Auditor's Report

To the Board of Education
Oklahoma County School District No. I-89
Oklahoma City, Oklahoma

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of Oklahoma County School District No. I-89 (the District) as of and for the year ended June 30, 2017, and the related notes to the financial statements, which collectively comprise the District's basic financial statements, and have issued our report thereon dated March 5, 2018.

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 combination of deficiencies, in internal control, such that there is a reasonable possibility that a material misstatement of the District's financial statements will not be prevented, or detected and corrected on a timely basis. A *significant deficiency* is a deficiency, or 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, and therefore material weaknesses or significant deficiencies might exist that have not been identified. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. We did identify a certain deficiency in internal control, described in the accompanying schedule of findings and questioned costs as Finding 2017-001 that we consider to be a significant deficiency.

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*.

District's Response to the Finding

The District's response to the finding identified in our audit is described in the accompanying schedule of findings and questioned costs. The District's response was not subjected to the auditing procedures applied in the audit of 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 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.

RSM US LLP

Oklahoma City, Oklahoma
March 5, 2018

**Report on Compliance for Each Major Federal Program and
Report on Internal Control Over Compliance
Required by the Uniform Guidance**

Independent Auditor's Report

To the Board of Education
Oklahoma County School District No. I-89
Oklahoma County, Oklahoma

Report on Compliance for Each Major Federal Program

We have audited the Oklahoma County School District No. I-89's (the District) compliance with the types of compliance requirements described in the *OMB Compliance Supplement* that could have a direct and material effect on each of the District's major federal programs for the year ended June 30, 2017. The District's major federal programs are identified in the summary of auditor's results section of the accompanying schedule of findings and questioned costs.

Management's Responsibility

Management is responsible for compliance with federal statutes, regulations, and the terms and conditions and grants of its federal awards applicable to its federal programs.

Auditor's Responsibility

Our responsibility is to express an opinion on compliance for each of the District's major federal programs based on our audit of the types of compliance requirements referred to above. We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and the audit requirements of Title 2 U.S. Office Code of Federal Regulations (CFR) Part 200, Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards (Uniform Guidance). Those standards and the Uniform Guidance require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about the District's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances.

We believe that our audit provides a reasonable basis for our opinion on compliance for each major federal program. However, our audit does not provide a legal determination of the District's compliance.

Opinion on Each Major Federal Program

In our opinion, the District complied, in all material respects, with the types of compliance requirements referred to above that could have a direct and material effect on each of its major federal programs for the year ended June 30, 2017.

Report on Internal Control Over Compliance

Management of the District is responsible for establishing and maintaining effective internal control over compliance with the types of compliance requirements referred to above. In planning and performing our audit of compliance, we considered the District's internal control over compliance with the types of requirements that could have a direct and material effect on each of the major federal programs to determine the auditing procedures that are appropriate in the circumstances for the purpose of expressing an opinion on compliance for each of the major federal programs and to test and report on internal control over compliance in accordance with Uniform Guidance, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of the District's internal control over compliance.

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

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

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

RSM US LLP

Oklahoma City, Oklahoma
March 5, 2018

Oklahoma County School District No. I-89
 Oklahoma City Public Schools

Schedule of Findings and Questioned Costs
 Year Ended June 30, 2017

I. Summary of the Independent Auditor's Results

Financial Statements

Type of auditor's report issued: Unmodified

Internal control over financial reporting:

- . Material weakness(es) identified? Yes No
- . Significant deficiency(ies) identified? Yes None Reported
- . Noncompliance material to financial statements noted? Yes No

Federal Awards

Internal control over major programs:

- . Material weakness(es) identified? Yes No
- . Significant deficiency(ies) identified? Yes None Reported

Type of auditor's report issued on compliance for major programs: Unmodified

- . Any audit findings disclosed that are required to be reported in accordance with Section 2 CFR 200 516(a)? Yes No

Identification of major program:

CFDA Number	Name of Federal Program
84.010	Title I
84.027, 84.173	Special Education Cluster
84.060	Indian Education

Dollar threshold used to distinguish between type A and type B programs: \$ 1,801,194

Auditee qualified as low-risk auditee? Yes No

(Continued)

Oklahoma County School District No. I-89
Oklahoma City Public Schools

Schedule of Findings and Questioned Costs (Continued)
Year Ended June 30, 2017

II. Findings Relating to the Financial Statement Audit as Required to be Reported in Accordance with Generally Accepted *Government Auditing Standards*

A. Internal Control

Finding 2017-001

Significant deficiency in internal control over financial reporting

Criteria

Effective internal controls are established and maintained to prevent, or detect and correct, material misstatements in the annual financial statements on a timely basis.

Condition

Auditing procedures over the District's accounts payable accounts identified a \$1.0 million overstatement of accounts payable. The District performed an additional analysis and identified \$3.6 million of additional overstatements of accounts payable. Thus, the District had recognized assets and liabilities in the government-wide financial statements, and expenditures and liabilities in the fund-level financial statements for assets, primarily school buses, that had been ordered but the assets had not yet been received as of June 30, 2017. The assets were received in July 2017.

Cause

This matter occurred due to several reasons, including:

- Significant and unusual end of year lease vs. purchase transactions for school busses.
- Inadequate verification of receipt dates.
- SAP automatic accrual of assets based on invoice, instead of receipt, dates.

Effect or Potential Effect

The preliminary financial statements were misstated, because the District recognized assets that it had not yet received and expenditures and liabilities that had not yet been incurred, totaling \$4.6 million. The District posted correcting entries for all errors that were identified.

Context

The preliminary and adjusted accounts payable balances are as follows;

	<u>Preliminary</u>	<u>Adjusted</u>
Governmental activities	\$28.1 million	\$23.4 million
General Fund	\$17.3 million	\$17.4 million
2007 Bond Fund	\$4.0 million	\$4.1 million
Non-major governmental funds	\$6.8 million	\$1.9 million

Oklahoma County School District No. I-89
Oklahoma City Public Schools

Schedule of Findings and Questioned Costs (Continued)
Year Ended June 30, 2017

III. Findings Relating to the Financial Statement Audit as Required to be Reported in Accordance with Generally Accepted *Government Auditing Standards*

B. Internal Control

Finding 2017-001, continued:

Recommendation

We recommend that the District evaluate its processes for recognizing and recording expenditures and liabilities. Significant and nonrecurring transactions may require an additional layer of review to ensure proper recording.

Management View

Management agrees with the finding. See corrective action plan.

C. Instance of Noncompliance

None reported.

IV. Findings and Questioned Costs for Federal Awards

A. Internal Control

None reported.

B. Instances of Noncompliance

None reported.

Corrective Action Plan Year Ended June 30, 2017

Identifying Number: 2017-001

Finding: Auditing procedures over the District's accounts payable accounts identified a \$1.0 million overstatement of accounts payable. The District performed an additional analysis and identified \$3.6 million of additional overstatements of accounts payable. Thus, the District had recognized assets and liabilities in the government-wide financial statements, and expenditures and liabilities in the fund-level financial statements for assets, primarily school buses, that had been ordered but the assets had not yet been received as of June 30, 2017. The assets were received in July 2017.

Corrective Actions Taken or Planned: The District i) reviewed its existing year-end accrual processes and ii) revised and enhanced procedures, documentation, and monitoring tools to ensure that accrual entries are proper and complete. Specifically:

- All purchases possible will be completed by year end.
- Accrual verification will include additional i) receipt documentation (e.g. statement of work, proof of deliveries, etc.) for evaluation and as support and ii) review of all significant subsequent activity.
- All asset purchases not received and invoiced by year end will be evaluated and adjusted for accurate recording as necessary.

Anticipated Completion Date: The revised procedures and monitoring tools will be implemented during the 06/30/18 closing procedures and will continue going forward.

Contact Person: Director of Accounts Payable

OTHER INFORMATION

**Oklahoma County School District No. I-89
Oklahoma City Public Schools**

**Schedule of Surety Bonds
Year Ended June 30, 2017**

The District provides the following surety bonds, compliant with 70 Okla. Stat. §5-116a and §5-129 (E) requirements for any Superintendent or financial officer or other relevant employee of the school district who has supervision of or authority to expend school district funds. The District had the following Surety Bonds for fiscal year 2017:

Effective 07/01/2016 through 06/30/2017
Insurance Carrier: Ohio Casualty

Position/Description	Bond #	Amount
District Officers		
Treasurer	1597454	1,000,000
Assistant Treasurer	1597454	1,000,000
Assistant Treasurer/Assistant Encumbrance Clerk/Controller	1597454	1,000,000
Director of Purchasing	1597454	750,000
Encumbrance Clerk/Chief Financial Officer	1597454	500,000
Superintendent	1597454	500,000
Assistant Encumbrance Clerk	1597454	300,000
Minute Clerk & Board Clerk	1597454	10,000
Deputy Board Clerk/Deputy Minute Clerk	1597454	10,000
Activity Funds		
Activity Fund Custodian - Administration	1597443	25,000
Activity Fund Custodian - High Schools	1597443	25,000
Activity Fund Custodian - Middle Schools	1597443	10,000
Activity Fund Custodian - Elementary Schools	1597443	2,500
Financial Secretary	1597443	2,500

**Oklahoma County School District No. I-89
Oklahoma City Public Schools**

**Charter School Membership
Year Ended June 30, 2017**

Charter school membership for the year ended June 30, 2017 was as follows:

	Membership
Independence Charter Middle School	315
Justice Alma Wilson SeeWorth Academy	443
Stanley Hupfeld Academy at Western Village	325
Dove Science Academy	495
Dove Elementary School	314
Santa Fe South	2,420
Harding Charter Preparatory High School	473
Harding Fine Arts Center	383
Harper Academy	125
KIPP Reach College Preparatory	283
Lighthouse Academies	288
John W. Rex Charter Elementary School	443
	<hr/>
Total	6,306
	<hr/> <hr/>

**Oklahoma County School District No. I-89
Oklahoma City Public Schools**

**Enterprise School Membership
Year Ended June 30, 2017**

Enterprise school membership for the year ended June 30, 2017 was as follows:

Enterprise School	Membership
Belle Isle Enterprise Middle School	451
Jackson Enterprise Elementary School	592
John Marshall Enterprise Middle School	246
John Marshall Enterprise High School	457
Northeast Academy Enterprise Middle School	100
Northeast Academy Enterprise High School	<u>164</u>
Total	<u><u>2,010</u></u>

**Oklahoma County School District No. I-89
Oklahoma City Public Schools**

**Schedule of MAPS Sales Tax Funded Transfers and Classification
Year Ended June 30, 2017**

A schedule of MAPS sales tax funded transfers and classification is reported as follows (in thousands):

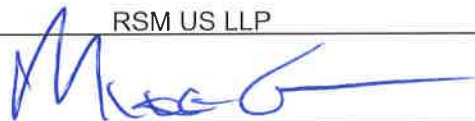
Sales Tax Project ID	Description	Value
ES-035	John Rex Building	103
ES-079	Emerson Renovation	97
ES-079	Emerson Renovation	84
ES-T045	BYOD/High Density Wireless Network Equip-EHS	48
ES-035	John Rex Building	26
ES-T040	Clean up/organized computer equipment all schools	16
ES-079	Emerson Renovation	11
ES-T038	Voip Phonelines for Multiple Locations	11
ES-T044	BYOD/High Density Wireless Cabling-Emerson	9
ES-079	Emerson Renovation	5
Total Transferred in FY 2017		<u>410</u>
Total Retirements FY17		(171)
Total Transferred FY 2005 - FY 2016		<u>376,269</u>
Total Transferred through June 30, 2017		<u>376,508</u>
TOTAL Technology		24,969
TOTAL Other Construction/FFE etc.		343,042
TOTAL Transportation		<u>8,497</u>
		<u><u>\$ 376,508</u></u>

OKLAHOMA CITY INDEPENDENT SCHOOL DISTRICT NO. I-89
OKLAHOMA COUNTY, OKLAHOMA
SCHEDULE OF ACCOUNTANTS' PROFESSIONAL
LIABILITY INSURANCE AFFIDAVIT


Year Ended June 30, 2017

STATE OF OKLAHOMA
COUNTY OF OKLAHOMA

The undersigned auditing firm of lawful age, being first duly sworn on oath, says that said firm did have, in full force and effect, Accountant's Professional Liability Insurance, in accordance with the "Oklahoma Public School Audit Law" at the time of the audit contract and during the entire audit engagement with Oklahoma City Independent School District No. I-89 for the audit year ended June 30, 2017.

RSM US LLP

Signature of Authorized Agent

Michael J. Gibson
Printed Name of Authorized Agent

Subscribed and sworn to before me on this
4th Day of January, 2018

NOTARY PUBLIC

My commission expires on:
18th Day of September, 2021
Commission No. 17008665

