Redlands Community College

Financial Statements

June 30, 2014
(With Independent Auditors' Report Thereon)

FINLEY & COOK
CERTIFIED PUBLIC ACCOUNTANTS

REDLANDS COMMUNITY COLLEGE

FINANCIAL STATEMENTS

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FINLEY & COOK
CERTIFIED PUBLIC ACCOUNTANTS

INDEPENDENT AUDITORS' REPORT

Board of Regents
Redlands Community College
El Reno, Oklahoma

Report on the Financial Statements

We have audited the accompanying financial statements of the Redlands Community College (the "College"), a component unit of the State of Oklahoma, as of and for the year ended June 30, 2014, and the related notes to the financial statements, which collectively comprise the College'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 basic financial statement in accordance with accounting principles generally accepted in the United States; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of basic financial statements that are free from material misstatement, whether due to fraud or error.

Auditors' Responsibility

Our responsibility is to express an opinion on these financial statements based on our audit. We did not audit the financial statements of the College's discretely presented component unit, Redlands Community College Foundation (the "Foundation"). Those statements were audited by other auditors, whose report has been furnished to us, and our opinion, insofar as it relates to the amounts included for the Foundation, is based solely on the report of the other auditors. We conducted our audit in accordance with auditing standards generally accepted in the United States and *Government Auditing Standards* issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement. The financial statements of the Foundation were not audited in accordance with *Government Auditing Standards*.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditors' 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 auditors consider 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.

(Continued)

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Auditors' Responsibility, Continued

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

Opinion

In our opinion, based on our audit and the report of the other auditors, the financial statements referred to above present fairly, in all material respects, the financial position of the College and its discretely presented component unit, Redlands Community College Foundation, as of June 30, 2014, and the respective changes in financial position and, where applicable, cash flows for the year then ended, in accordance with accounting principles generally accepted in the United States.

Emphasis of Matters

Restatement of Previously Reported Balances

As discussed in Note 2 to the financial statements, net position as of June 30, 2013, has been restated to correct an error and properly state capital assets, deposits held for others, and accrued interest expense as of that date. Accordingly, adjustments have been made to the balances of net position as of June 30, 2013. Our opinion is not modified with respect to this matter.

As part of our audit of the 2014 financial statements, we also audited the adjustments described in Note 2 that was applied to restate the 2013 financial statements. In our opinion, these adjustments were appropriate and have been properly applied. We were not engaged to audit, review, or apply any procedures to the 2013 financial statements of the College other than with respect to the adjustments, and accordingly, we do not express an opinion or any other form of assurance on the 2013 financial statements.

Commitments and Contingencies

As more fully discussed in Note 11 to the financial statements, the College has guaranteed certain debt of the Foundation in connection with Phase II of the Cougar Crossing Apartment student housing. Presently, the College has requested an Attorney General opinion to determine the validity of certain transactions involved with the guaranty. The outcome of the Attorney General's opinion and impact on the financial statements of the College is not presently known. Our opinion is not modified with respect to this matter.

Other Matters

Prior Year Audited by Other Auditors

The financial statements of the College as of June 30, 2013, were audited by other auditors, whose report dated November 13, 2013, expressed an unmodified opinion on those financial statements.

(Continued)

INDEPENDENT AUDITORS' REPORT, CONTINUED

Other Matters, Continued

Required Supplementary Information

Accounting principles generally accepted in the United States require that the management's discussion and analysis on pages I-1 through I-8 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 basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplemental information in accordance with auditing standards generally accepted in the United States, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the 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 performed for the purpose of forming an opinion on the financial statements that collectively comprise the College's basic financial statements. The accompanying schedule of expenditures of federal awards is presented for purposes of additional analysis as required by U.S. Office of Management and Budget Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations,* and is not a required part of the basic financial statements. The accompanying schedule of expenditures of federal awards 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. The information has been subjected to the auditing procedures applied in the audit of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements or to the financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States. In our opinion, the schedule of expenditures of federal awards is fairly stated, in all material respects, in relation to the basic financial statements taken as a whole.

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated October 24, 2014, on our consideration of the College's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the College's internal control over financial reporting and compliance.

Finley + Cook, PLLC

Shawnee, Oklahoma
October 24, 2014

MANAGEMENT'S DISCUSSION AND ANALYSIS

Management's Discussion and Analysis of Redlands Community College's (the "College") financial statements provides an overview by management of the financial activities for the fiscal year ended June 30, 2014. Since Management's Discussion and Analysis is designed to focus on current activities, resulting changes, and currently known facts, it should be read in conjunction with the basic financial statements and the notes to the financial statements. Where appropriate, year-to-year comparisons have been made and presented for discussion and analysis.

The June 30, 2013, financial statements presented in this Management Discussion and Analysis have been restated to correct errors in recording capital assets, deposits held in custody for others, and accrued interest expense. The effect of the restatement is as follows:

	As Previously Reported	As Restated
Statement of net position:		
Capital assets, net of accumulated depreciation	$ 25,350,230	25,143,509
Total assets	28,174,538	27,967,817
Total liability	20,652,430	20,515,173
Total net position	7,370,579	7,301,115

	As Previously Reported	As Restated
Statement of revenues, expenses, and changes in net position:		
Net nonoperating revenue	$ 9,724,607	9,531,576
Change in net position	(357,023)	(550,054)
Net position, at beginning of year	7,727,602	7,851,169
Net position, at end of year	7,370,579	7,301,115

FINANCIAL HIGHLIGHTS

At June 30, 2014, the College's net position was $8,806,808, which reflects an increase of $1,505,693 over last year. Operating revenues including tuition and fees, federal and state grants and contracts, and auxiliary enterprises totaled $8,289,429. Net non-operating revenues totaled $8,065,848, which includes governmental appropriations, non-operating federal and state grants, interest earned, and interest and miscellaneous expense. Operating expenses totaled $16,598,764, including the provision for depreciation expense.

OVERVIEW OF THE FINANCIAL STATEMENTS

This report consists mainly of three basic financial statements: *Statement of Net Position; Statement of Revenues, Expenses, and Changes in Net Position; and Statement of Cash Flows*.

OVERVIEW OF THE FINANCIAL STATEMENTS, CONTINUED

The Statement of Net Position and the Statement of Revenues, Expenses, and Changes in Net Position report information on the College as a whole and will reflect whether the institution is better off or worse off as a result of the year's activities. When revenues and other support exceed expenses, the result is an increase in net position. When the reverse occurs, the result is a decrease in net position. The relationship between revenues and expenses reflects the College's operating results.

These two statements report the College's net position and changes in it. Net position—the differences between assets and liabilities—reflect one way to measure the institution's financial health, or financial position. Over time, increases or decreases in the net position are one indicator of whether financial health is improving or deteriorating. Other nonfinancial factors, including freshman class size, student retention, programmatic offerings, etc., must be considered as well to assess the overall health of the institution.

The Statement of Cash Flows is another way to assess the financial health of an institution. The primary purpose of the statement is to provide relevant information about the cash receipts and cash payments of an entity during a period. The statement of cash flows also helps users assess an entity's ability to generate future net cash flows, to meet obligations as they come due, and to determine its need for external financing.

Other statistical information from the audit report will be presented in this Management's Discussion and Analysis section for explanatory purposes.

The College has four major sources of revenue: (1) tuition and fees, (2) federal and state grants and contracts, (3) sales and services of auxiliary activities, and (4) state appropriations.

1. As a public college in the state system, tuition and fees are now set by the individual college under the guidance of the Oklahoma State Regents for Higher Education (OSRHE), in accordance with legislative policy. Because each public state college is restricted through legislative action to maximum amounts of increases, the opportunities to increase revenue from this source come from larger enrollment numbers rather than from increased costs to enroll.

2. The College explores every opportunity and has been successful in gaining many opportunities for federal and state grants and for contracts and other sources of revenue. Although many times restricted in expense use, these sources are a significant portion of the operational revenue for increasing the programs offered by the College, thereby offering increased incentive for enrollment.

3. Revenue opportunities in the auxiliary services area include the revenue generated by food service and the printing facility. As a governmental agency, the revenue generated from these two enterprises funds the operational expenses and is not designed to increase the overall revenue of the College.

4. One of the most important sources of revenue for a public college in the state of Oklahoma is the state appropriation allocated to the OSRHE, which in turn is allocated to each college in the state. Every year, the College campaigns for an increased allocation to support its continued growth and the various programs offered. For several years, the College was consistently funded at approximately ½ of 1% of the total budget appropriated to the OSRHE, but for the current year the College was funded at approximately ⅔ of 1%. Although this increase is significant, it still leaves the College as one of the lowest funded colleges in the OSRHE system.

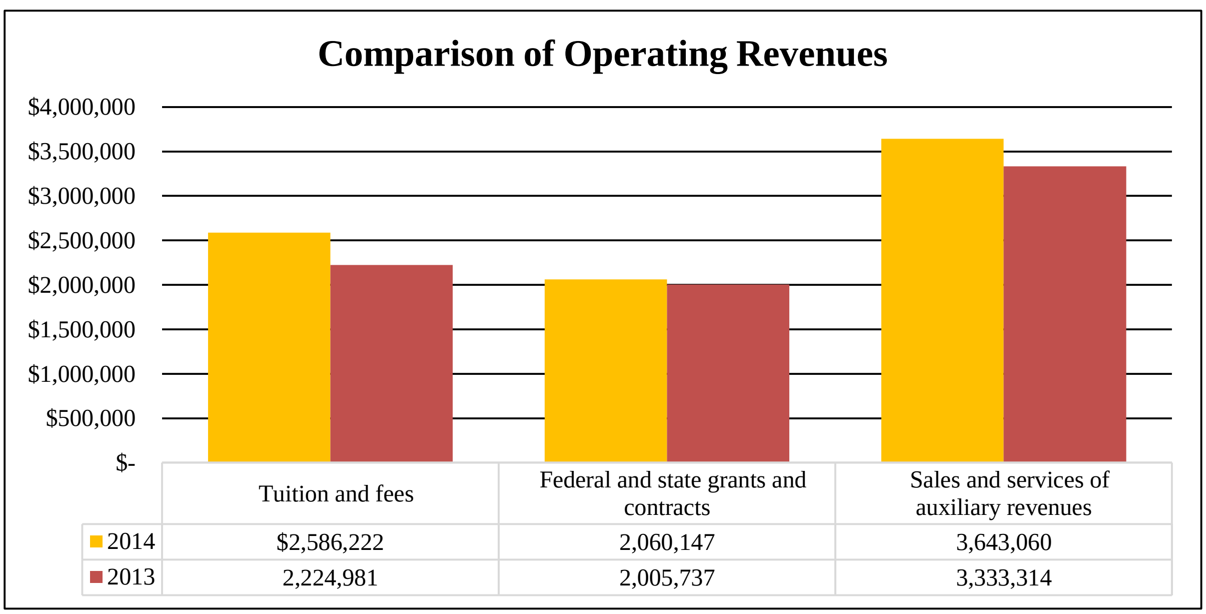
FINANCIAL ANALYSIS OF THE COLLEGE AS A WHOLE
Comparison of Net Position
June 30, 2014 and 2013

	2014	2013
Assets		
Current assets	$ 1,995,693	2,132,353
Noncurrent assets:		
Capital assets, net of depreciation	24,606,520	25,143,509
Commissions receivable	375,405	453,074
Other	185,000	238,881
Total assets	27,162,618	27,967,817
Deferred Outflows of Resources		
Deferred cost on OCIA lease restructure	201,030	301,545
Liabilities		
Current liabilities	2,260,359	3,006,220
Noncurrent liabilities:		
Note payable	-	356,749
Capital lease obligations	15,705,010	17,029,485
Premium on ODFA master lease obligation	13,519	17,719
Revenue bonds	-	105,000
Total liabilities	17,978,888	20,515,173
Deferred Inflows of Resources		
Receipts from service concession arrangement	375,405	453,074
Deferred gain on OCIA lease restructure	202,547	-
Total deferred inflows of resources	577,952	453,074
Net Position		
Invested in capital assets, net	7,657,013	7,043,674
Restricted	409,336	395,910
Unrestricted	740,459	(138,469)
Total net position	$ 8,806,808	7,301,115

This schedule is prepared from the College's statements of net position (page 4), which is presented on an accrual basis of accounting.

Comparison of Operating Revenues
Years Ended June 30, 2014 and 2013

	2014	2013
Operating revenues:		
Tuition and fees	$ 2,586,222	2,224,981
Federal and state grants and contracts	2,060,147	2,005,737
Sales and services of auxiliary revenues	3,643,060	3,333,314
Total operating revenues	8,289,429	7,564,032
Less operating expenses	(16,598,764)	(18,794,136)
Net operating losses	(8,309,335)	(11,230,104)
Non-operating revenues:		
State appropriations	5,967,867	6,292,487
On-behalf payments for OTRS	413,000	447,000
Federal and state grants—non-operating	2,537,368	3,518,100
Investment income	7,609	2,927
Interest on capital debt and miscellaneous expense	(859,996)	(728,938)
Net non-operating revenues	8,065,848	9,531,576
Other revenues	1,749,180	1,148,474
Net position:		
Change in net position	1,505,693	(550,054)
Net position at beginning of year	7,301,115	7,851,169
Net position at end of year	$ 8,806,808	7,301,115

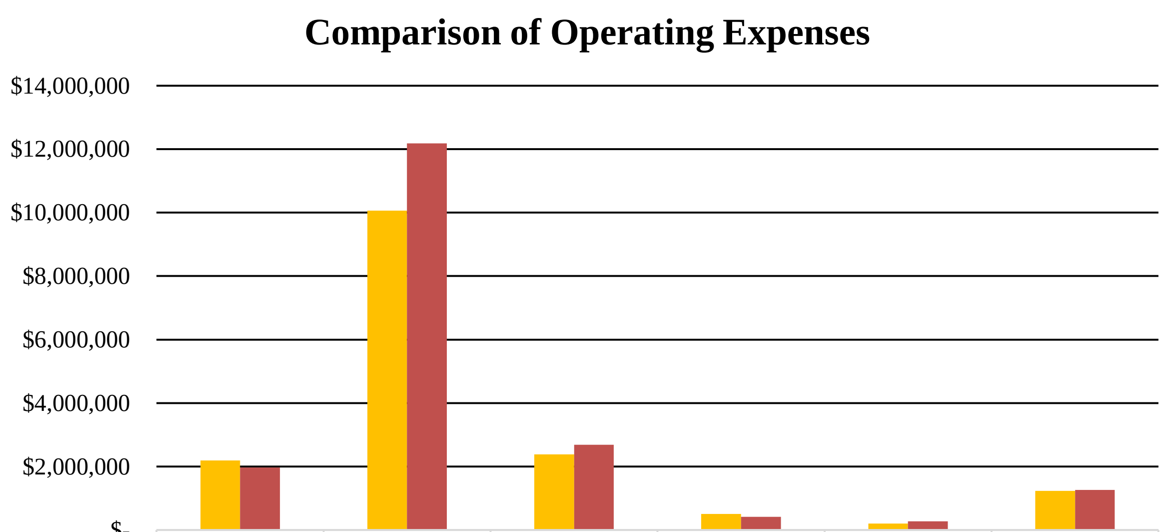


Cash Flows
Years Ended June 30, 2014 and 2013

		2014	2013
Cash (used in) provided by:			
Operating activities	$	(7,231,865)	(9,083,761)
Noncapital financing activities		8,487,512	9,807,618
Capital and related financing		(1,363,608)	(531,613)
Investing activities		61,490	849
Net (decrease) increase in cash		(46,471)	193,093
Cash at beginning of year		386,422	193,329
Cash at end of year	$	339,951	386,422

Comparison of Operating Expenses
Years Ended June 30, 2014 and 2013

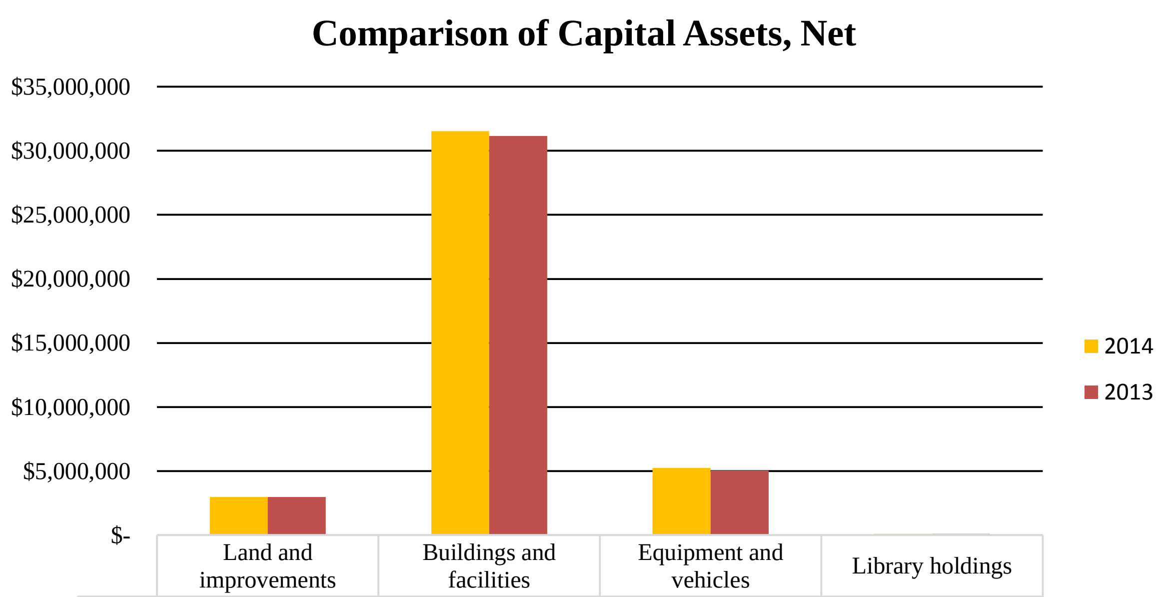
	2014	2013
Operating expenses:		
Scholarships and student aid	$ 2,195,320	1,969,637
Salaries and fringe benefits	10,066,574	12,181,555
Supplies, materials, and services	2,387,153	2,687,492
Utilities	507,548	416,903
Travel	205,885	274,469
Depreciation	1,236,284	1,264,080
Total operating expenses	**$ 16,598,764**	**18,794,136**



	Scholarships and student aid	Salaries and fringe benefits	Supplies, materials, and services	Utilities	Travel	Depreciation
2014	$2,195,320	10,066,574	2,387,153	507,548	205,885	1,236,284
2013	1,969,637	12,181,555	2,687,492	416,903	274,469	1,264,080

Comparison of Capital Assets, Net
Years Ended June 30, 2014 and 2013

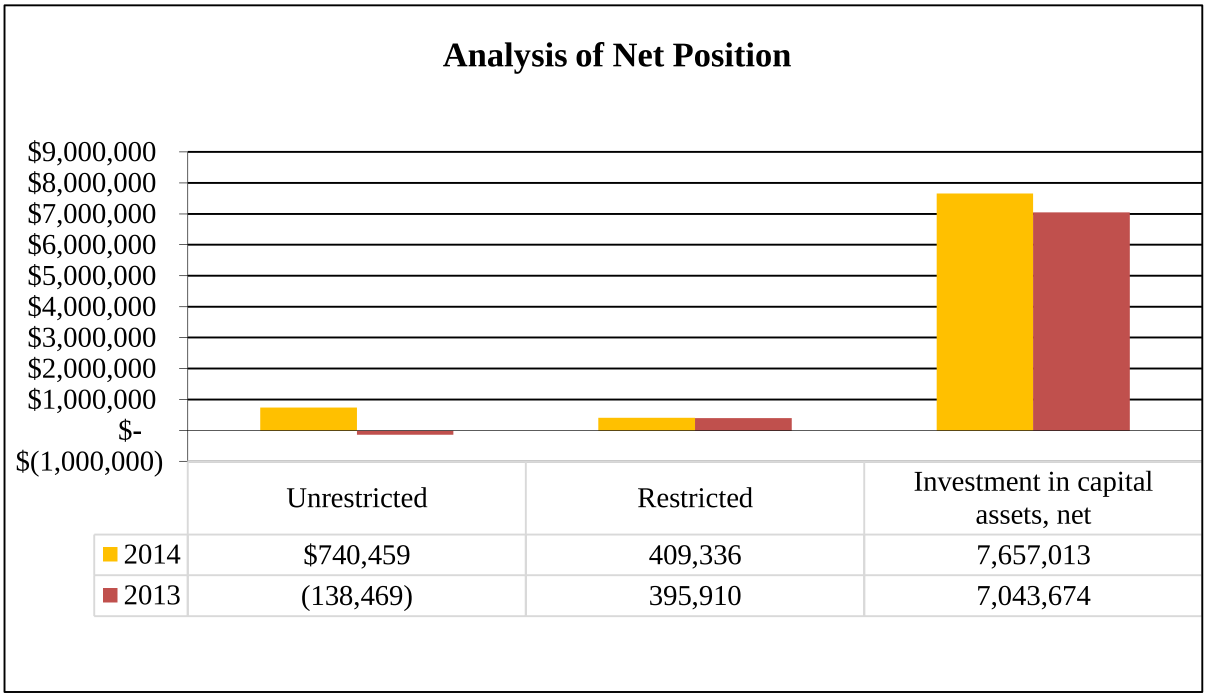
	2014	2013
Capital Assets		
Land and improvements	$ 2,992,790	2,992,790
Buildings and facilities	31,518,536	31,145,944
Equipment and vehicles	5,246,180	5,062,192
Library holdings	102,076	102,076
Total capital assets	39,859,582	39,303,002
Less accumulated depreciation	(15,253,062)	(14,159,493)
Capital assets, net	$ 24,606,520	25,143,509



	Land and improvements	Buildings and facilities	Equipment and vehicles	Library holdings
2014	$2,992,790	31,518,536	5,246,180	102,076
2013	2,992,790	31,145,944	5,062,192	102,076

Analysis of Net Position
Years Ended June 30, 2014 and 2013

	2014	2013
Net Position		
Unrestricted	$ 740,459	(138,469)
Restricted	409,336	395,910
Investment in capital assets, net	7,657,013	7,043,674
Net position	$ 8,806,808	7,301,115



STATEMENTS OF NET POSITION

	Redlands Community College	Redlands Community College Foundation
	June 30, 2014	*January 31, 2014*
Assets		
Current assets:		
Cash and cash equivalents	$ 339,951	186,116
Accounts receivable, net of allowance for doubtful accounts of $402,143 as of June 30, 2014.	1,233,146	-
Grants receivable	187,289	-
Other receivables	235,307	60,000
Total current assets	1,995,693	246,116
Noncurrent assets:		
Restricted investments	185,000	7,868
Beneficial interests in assets held by others	-	575,319
Commissions receivable	375,405	-
Other assets	-	98,130
Capital assets, net of accumulated depreciation	24,606,520	3,140,750
Total noncurrent assets	25,166,925	3,822,067
Total assets	27,162,618	4,068,183
Deferred outflows of resources:		
Deferred cost on OCIA lease restructure	201,030	-

(Continued)

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

REDLANDS COMMUNTIY COLLEGE

STATEMENTS OF NET POSITION, CONTINUED

	Redlands Community College *June 30, 2014*	Redlands Community College Foundation *January 31, 2014*
Liabilities		
Current liabilities:		
Accounts payable	307,426	-
Accrued expenses	37,724	-
Accrued interest	3,281	-
Accrued compensated absences	190,545	-
Unearned revenues	327,899	57,812
Long-term liabilities, current portion	1,227,980	-
Deposits held in custody for others	165,504	98,130
Total current liabilities	2,260,359	155,942
Noncurrent liabilities:		
Long-term liabilities	15,718,529	3,146,189
Total noncurrent liabilities	15,718,529	3,146,189
Total liabilities	17,978,888	3,302,131
Deferred inflows of resources:		
Bookstore service concession arrangement	375,405	-
Deferred gain on OCIA lease restructure	202,547	-
Total deferred inflows of resources	577,952	-
Net Position		
Invested in capital assets	7,657,013	-
Restricted for:		
Endowments	-	584,163
Debt service	185,000	-
Donor restrictions	224,336	-
Scholarships	-	81,214
Unrestricted	740,459	100,675
Total net position	$ 8,806,808	766,052

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

REDLANDS COMMUNITY COLLEGE

STATEMENTS OF REVENUES, EXPENSES, AND CHANGES IN NET POSITION

	Redlands Community College *Year Ended June 30, 2014*	Redlands Community College Foundation *Year Ended January 31, 2014*
Operating revenues:		
Student tuition and fees, net of scholarship allowances of $2,873,000 as of June 30, 2014.	$ 2,586,222	-
Federal and state grants and contracts	2,060,147	-
Sales and services of auxiliary activities (revenues of $105,000 are pledged as security for the 1993 Student Center Revenue Bonds as of June 30, 2014).	3,643,060	-
Other operating revenues	-	468,595
Total operating revenues	8,289,429	468,595
Operating expenses:		
Compensation	10,066,574	-
Supplies and materials	2,387,153	-
Depreciation	1,236,284	1,810
Utilities	507,548	-
Travel	205,885	-
Scholarships and fellowships	2,195,320	32,842
Other operating expenses	-	570,829
Total operating expenses	16,598,764	605,481
Operating loss	(8,309,335)	(136,886)

(Continued)

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

REDLANDS COMMUNTIY COLLEGE

STATEMENTS OF REVENUES, EXPENSES, AND CHANGES IN NET POSITION, CONTINUED

	Redlands Community College *Year Ended June 30, 2014*	Redlands Community College Foundation *Year Ended January 31, 2014*
Non-operating revenues (expenses):		
State appropriations	5,967,867	-
Federal and state grants	2,537,368	-
On-behalf Teachers' Retirement System contributions	413,000	-
Investment income	7,609	48,731
Other operating expenses	(17,723)	-
Interest expense	(842,273)	-
Net non-operating revenues	8,065,848	48,731
Loss before other revenues, expenses, gains, and losses	(243,487)	(88,155)
Other revenues, expenses, gains, and losses:		
On-behalf Oklahoma Capital Improvement Authority contributions	475,541	-
Capital appropriations	904,491	-
Gain on forgiveness of debt	369,148	-
Other revenues and gains	1,749,180	-
Change in net position	1,505,693	(88,155)
Net position at beginning of year, restated	7,301,115	854,207
Net position at end of year	$ 8,806,808	766,052

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

REDLANDS COMMUNITY COLLEGE

STATEMENT OF CASH FLOWS

Year Ended June 30, 2014

	Redlands Community College
Cash flows from operating activities:	
Tuition and fees	$ 2,550,271
Grants and contracts	2,125,963
Payments to employees	(9,654,986)
Payments to vendors	(5,896,362)
Auxiliary enterprise	3,643,249
Net cash used in operating activities	(7,231,865)
Cash flows from noncapital financing activities:	
State appropriations	5,967,867
Federal and state grants	2,537,368
Federal Direct Student Loan receipts	1,707,103
Federal Direct Student Loan disbursements	(1,707,103)
Agency transactions, net	(17,723)
Net cash provided by noncapital financing activities	8,487,512
Cash flows from capital and related financing activities:	
Capital appropriations received	904,491
Interest paid on capital debt and leases	(654,897)
Payments on capital debt and leases	(896,927)
Purchases of capital assets	(716,275)
Net cash used in capital and related financing activities	(1,363,608)
Cash flows from investing activities:	
Sales and maturities of investments	53,881
Interest on investments	7,609
Net cash provided by investing activities	61,490
Net decrease in cash and cash equivalents	(46,471)
Cash and cash equivalents, beginning of year	386,422
Cash and cash equivalents, end of year	$ 339,951

(Continued)

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

STATEMENT OF CASH FLOWS, CONTINUED

Year Ended June 30, 2014

		Redlands Community College
Reconciliation of net operating income to net cash used in operating activities:		
Operating loss	$	(8,309,335)
Adjustments to reconcile operating loss to net cash used in operating activities:		
Depreciation and amortization expense		1,236,284
On-behalf Teachers' Retirement System contributions		413,000
Loss on disposal of assets		16,980
Changes in assets and liabilities:		
Receivables, net		90,189
Accounts payable		(593,990)
Accrued expenses		(18,936)
Compensated absences		(5,922)
Unearned revenues		(60,135)
Net cash used in operating activities	$	(7,231,865)
Supplemental cash flow information:		
Principal and interest paid by OCIA	$	475,541
Bonds issued by OCIA, to be paid by OCIA	$	3,706,808

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

(1) SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Nature of Operations

Redlands Community College (the "College") is a 2-year public college operating under the jurisdiction of the Board of Regents of Redlands Community College (the "Board of Regents") and is part of the Oklahoma System of Higher Education.

Reporting Entity

The financial reporting entity, as defined by Governmental Accounting Standards Board (GASB) Statement No. 14, *The Financial Reporting Entity,* and as amended by GASB Statement No. 39, *Determining Whether Certain Organizations Are Component Units*, and GASB Statement No. 61, *The Financial Reporting Entity: Omnibus—an amendment of GASB Statements No. 14 and 34*, 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 could cause the financial statements to be misleading or incomplete.

The accompanying financial statements include the accounts and funds of the College. The College is governed by the Board of Regents and is part of the State of Oklahoma Higher Education System, which is under the governance of the Oklahoma State Regents for Higher Education. The College is a component unit of the State of Oklahoma and is included in the general-purpose financial statements of the State as part of the higher education component unit.

Redlands Community College Foundation, Inc. (the "Foundation") is a legally separate, tax-exempt component unit of the College. The Foundation is organized for the purpose of receiving and administering gifts intended for the College. Although the College does not control the timing or amount of receipts from the Foundation, the majority of resources, or income thereon, which the Foundation holds and invests, is restricted to the activities of the College by the donors. Because these restricted resources held by the Foundation can only be used by, and for the benefit of, the College, the Foundation is considered a discretely presented component unit of the College, and its financial statements are separately presented in the College's financial statements. The Foundation is a private nonprofit organization that reports under the Financial Accounting Standards Board's (FASB) *Accounting Standards Codification* (ASC) Topic 958 ("*Not-for-profit Entities"*). As such, certain revenue recognition criteria and presentation features are different from GASB revenue recognition criteria and presentation features. No modifications have been made to the Foundation's financial information in the College's financial reporting entity for these differences. In addition, the Foundation's fiscal year ends January 31st. As such, the most recent audit for the year ended January 31, 2014, is being used.

See Independent Auditors' Report.

(1) SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES, CONTINUED

Financial Statement Presentation

The College's financial statements are presented in accordance with the requirements of GASB Statement No. 34, *Basic Financial Statements—and Management's Discussion and Analysis—for State and Local Governments*, and GASB Statement No. 35, *Basic Financial Statements—and Management's Discussion and Analysis—for Public Colleges and Universities*.

Under GASB Statement No. 34 and GASB Statement No. 35, the College is required to present a statement of net position classified between current and noncurrent assets and liabilities; a statement of revenues, expenses, and changes in net position with separate presentation for operating and non-operating revenues and expenses; and a statement of cash flows using the direct method.

Basis of Accounting

For financial reporting purposes, the College is considered a special-purpose government engaged only in business-type activities. Accordingly, the College's financial statements have been presented using the economic resources measurement focus and the accrual basis of accounting. Under the accrual basis, revenues are recognized when earned and expenses are recorded when an obligation has been incurred. All significant intra-agency transactions have been eliminated.

Cash Equivalents

For purposes of the statements of cash flows, the College considers all highly liquid investments with an original maturity of 3 months or less to be cash equivalents, except for deposits held by the College's trustee related to debt service payments on revenue bonds. Funds invested through the state treasurer are considered cash equivalents.

Use of Estimates

The preparation of financial statements in conformity with accounting principles generally accepted in the United States requires management to make estimates and assumptions that affect certain reported amounts and disclosures; accordingly, actual results could differ from those estimates.

See Independent Auditors' Report.

(1) SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES, CONTINUED

Deposits and Investments

The College accounts for its investments at fair value in accordance with GASB Statement No. 31, *Accounting and Financial Reporting for Certain Investments and for External Investment Pools*. Changes in unrealized gains (losses) on the carrying values of investments are reported as a component of investment income in the statements of revenues, expenses, and changes in net position. Investments that are externally restricted to make debt service payments, maintain sinking or reserve funds, or purchase capital or other noncurrent assets are classified as restricted assets in the statements of net position. In accordance with GASB Statement No. 40, *Deposit and Investment Risk Disclosures—an Amendment of GASB Statement No. 3,* the College has disclosed its deposit and investment policies related to the risks identified in GASB Statement No. 40.

Accounts Receivable

Accounts receivable consist of tuition and fee charges to students and auxiliary enterprise services provided to students, faculty, and staff, the majority of each residing in the state of Oklahoma. Accounts receivable also include amounts due from federal, state, or local governments or private sources in connection with reimbursement of allowable expenditures made pursuant to the College's grants and contracts. Accounts receivable are recorded net of estimated uncollectible amounts. The College determines its allowance by considering a number of factors, including the length of time accounts receivable are past due, the College's previous loss history, and the condition of the general economy and the industry as a whole. The College writes-off specific accounts receivable when they become uncollectible, and payments subsequently received on such receivables are credited to the allowance for doubtful accounts. A student account receivable is considered to be past due if any portion of the receivable balance is outstanding after the end of the semester. Interest and late charges are generally not assessed; however, if they are assessed, they are not included in income until received.

Grants Receivable

Grants receivable include amounts due from federal, state, or local governments or private sources in connection with reimbursement of allowable expenditures made pursuant to the College's grants and contracts.

See Independent Auditors' Report.

(1) SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES, CONTINUED

Noncurrent Cash and Investments

Cash and investments that are externally restricted to make debt service payments, maintain sinking or reserve funds, make long-term student loans, or purchase capital or other noncurrent assets are classified as noncurrent assets in the statements of net position.

Unearned Revenues

Unearned revenues include amounts received for tuition and fees and certain auxiliary activities prior to the end of the fiscal year but related to the subsequent accounting period. Unearned revenues also include amounts received from grant and contract sponsors that have not yet been earned.

Capital Assets

Capital assets are recorded at cost at the date of acquisition or fair market value at the date of donation in the case of gifts. The College's capitalization policy for buildings includes all items with a unit cost of $25,000 or more and an estimated useful life of at least 10 years. The College's capitalization policy for improvements other than buildings includes all items with a unit cost of $5,000 or more. The College's capitalization policy for furniture and fixtures includes all items with a unit cost of $2,500 or more and an estimated useful life of greater than 1 year.

The College's capitalization policy for information technology equipment includes all items with a unit cost of $500 or more and an estimated useful life of greater than 1 year. Library books are capitalized at cost if the item becomes part of the volume count for the library. The College does not provide for depreciation of its library books.

Depreciation is computed using the straight-line method over the estimated useful lives of the assets, generally 40 years for buildings, 20 years for infrastructure and land improvements, and 3 to 7 years for library materials and equipment, or the duration of the lease term for capital leases.

Compensated Absences

Employee vacation pay is accrued at year-end for financial statement purposes. The liability and expense incurred are recorded at year-end as accrued expenses in the statements of net position and as a component of compensation and benefit expense in the statements of revenues, expenses, and changes in net position.

(1) SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES, CONTINUED

Noncurrent Liabilities

Noncurrent liabilities include (1) principal amounts of revenue bonds payable and capital lease obligations with contractual maturities greater than 1 year and (2) estimated amounts for accrued compensated absences that will not be paid within the next fiscal year.

Net Position

The College's net position is classified as follows:

Invested in Capital Assets: This represents the College's capital assets, net of accumulated depreciation, reduced by outstanding debt obligations related to those capital assets. To the extent debt has been incurred but not yet expended for capital assets, such amounts are not included as a component of invested in capital assets.

Restricted Net Position—Expendable: Restricted expendable net position includes resources in which the College is legally or contractually obligated to spend resources in accordance with restrictions imposed by external third parties.

Restricted Net Position—Nonexpendable: Nonexpendable restricted net position consists of endowment and similar type funds in which donors or other outside sources have stipulated, as a condition of the gift instrument, that the principal is to be maintained inviolate and in perpetuity, and invested for the purpose of producing present and future income, which may either be expended or added to principal.

Unrestricted Net Position: Unrestricted net position represents resources derived from student tuition and fees, state appropriations, and sales and services of educational departments and auxiliary enterprises. These resources are used for transactions relating to the educational and general operations of the College and may be used at the discretion of the governing board to meet current expenses for any purpose. These resources also include auxiliary enterprises, which are substantially self-supporting activities that provide services for students, faculty, and staff.

When an expense is incurred that can be paid using either restricted or unrestricted resources, the College's policy is to first apply the expense toward restricted resources, and then toward unrestricted resources.

(1) SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES, CONTINUED

Classification of Revenues

The College has classified its revenues as either operating or non-operating revenues according to the following criteria:

Operating Revenues: Operating revenues include activities that have the characteristics of exchange transactions, such as (1) student tuition and fees, net of scholarship discounts and allowances, (2) sales and services of educational departments and of auxiliary enterprises, and (3) certain federal, state, and nongovernmental grants and contracts.

Non-Operating Revenues: Non-operating revenues include activities that have the characteristics of non-exchange transactions, such as gifts, contributions, and other revenue sources that are defined as non-operating revenues by GASB Statement No. 9, *Reporting Cash Flows of Proprietary and Nonexpendable Trust Funds and Governmental Entities That Use Proprietary Fund Accounting*, and GASB Statement No. 34, such as state appropriations and investment income.

Scholarship Discounts and Allowances: Student tuition and fee revenues, and certain other revenues from students, are reported net of scholarship discounts and allowances in the statements of revenues, expenses, and changes in net position. Scholarship discounts and allowances are the difference between the stated charge for goods and services provided by the College and the amount that is paid by students and/or third parties making payments on the students' behalf. Certain governmental grants, such as Pell grants and other federal, state, or nongovernmental programs, are recorded as either operating or non-operating revenues in the College's financial statements. To the extent that revenues from such programs are used to satisfy tuition and fees and other student charges, the College has recorded a scholarship discount and allowance.

Deferred Outflows of Resources

Deferred outflows are the consumption of net position by the College that are applicable to a future reporting period. At June 30 2014, the College's deferred outflows of resources were comprised of deferred charges on an OCIA lease restructure.

Deferred Inflows of Resources

Deferred inflows are the acquisition of net position by the College that are applicable to a future reporting period. At June 30, 2014, the College's inflows related to a service concession agreement for the bookstore and a deferred gain on an Oklahoma Capital Improvement Authority lease restructure.

See Independent Auditors' Report.

(1) SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES, CONTINUED

Income Taxes

The College, as a political subdivision of the State of Oklahoma, is exempt from federal income taxes under Section 115(1) of the Internal Revenue Code, as amended. However, the College may be subject to income taxes on unrelated business income under Internal Revenue Code Section 511(a)(2)(B).

Subsequent Events

Management has evaluated subsequent events through October 24, 2014, the date which the financial statements were available to be issued, and determined that no subsequent events have occurred which require adjustment to or disclosure in the financial statements.

New Accounting Pronouncements

Adopted in Fiscal Year 2014

In March 2012, GASB issued Statement No. 66, *Technical Corrections—2012—An Amendment of GASB Statements No. 10 and No. 62* (GASB 66). GASB 66 improves accounting and financial reporting for a governmental financial reporting entity by resolving conflicting guidance that resulted from the issuance of two pronouncements, Statements No. 54, Fund Balance Reporting and Governmental Fund Type Definitions and No. 62, Codification of Accounting and Financial Reporting Guidance Contained in Pre November 30, 1989, FASB and AICPA Pronouncements. The College adopted this statement effective July 1, 2013. The adoption had no significant impact on the financial statements of the College.

In April 2013, GASB issued Statement No 70, *Accounting and Financial Reporting for Nonexchange Financial Guarantees* (GASB 70). GASB 70 will require a government that extends a nonexchange financial guarantee to recognize a liability when qualitative factors and historical data, if any, indicate that it is more likely than not that the government will be required to make a payment on the guarantee. The amount of the liability to be recognized should be the discounted present value of the best estimate of the future outflows expected to be incurred as a result of the guarantee. When there is no best estimate but a range of the estimated future outflows can be established, the amount of the liability to be recognized should be the discounted present value of the minimum amount within the range. A government that has issued an obligation guaranteed in a nonexchange transaction is to report the obligation until legally released as an obligor. This statement also provides additional guidance for intra-entity nonexchange financial guarantees involving blended component units. This statement specifies the information required to be disclosed by governments that extend nonexchange financial guarantees. This statement requires new information to be disclosed by governments that receive nonexchange financial guarantees. The College adopted this statement effective July 1, 2013. The adoption had no significant impact on the financial statements of the College.

(1) SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES, CONTINUED

New Accounting Pronouncements, Continued

New Accounting Pronouncements Not Yet Adopted

GASB Statement No. 68 establishes standards for measuring and recognizing liabilities, deferred outflows of resources, deferred inflows of resources, and pension expenses. GASB Statement No. 68 also details the recognition and disclosure requirements for employers with liabilities to a defined benefit pension plan and for employers whose employees are provided with defined contribution pensions. Defined benefit pensions are further classified by GASB Statement No. 68 as single employer plans, agent employer plans, and cost-sharing plans, and recognition and disclosure requirements are addressed for each classification. GASB Statement No. 68 was issued in June 2012, and the College has not yet determined the impact that implementation of GASB Statement No. 68 will have on its net position.

GASB No. 69 was issued in January 2013 and establishes accounting and financial reporting standards related to government combinations and disposals of government operations. Government combinations can include a variety of transactions, including mergers, acquisitions, and transfers of operations. A disposal of a government's operations results in the removal of specific activities of a government. The requirements of this statement are effective for government combinations and disposals of government operations occurring in financial reporting periods beginning after December 15, 2013, and should be applied on a prospective basis. The College has not yet determined the impact that implementation of GASB Statement No. 69 will have on its net position.

(2) RESTATEMENT

The July 1, 2013, beginning net position has been restated to correct errors in recording capital assets, deposits held in custody for others, and accrued interest expense. The effect of the restatement is as follows:

Statement of net position, July 1, 2013	$ 7,370,579
Capital assets	(206,721)
Accrued interest expense	(193,031)
Deposits held in custody for others	330,288
Total net position, July 1, 2013, restated	$ 7,301,115

See Independent Auditors' Report.

(3) DEPOSITS AND INVESTMENTS

Custodial Credit Risk—Deposits

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

> Oklahoma Statutes require the State Treasurer to ensure that all state funds either be insured by Federal Deposit Insurance, collateralized by securities held by the cognizant Federal Reserve Bank, or invested in U.S. government obligations. The College's deposits with the State Treasurer are pooled with the funds of other state agencies and then, in accordance with statutory limitations, placed in financial institutions or invested as the State Treasurer may determine, in the State's name.

The College requires that balances on deposit with financial institutions, including trustees related to the College's bond indenture and capital lease agreements, be insured by Federal Deposit Insurance or collateralized by securities held by the cognizant Federal Reserve Bank, or invested in U.S. government obligations in the College's name.

At June 30, 2014, the carrying amount of the College's deposits was $339,951. This amount consisted of deposits with the State Treasurer of $339,951 at June 30, 2014.

Some deposits with the State Treasurer are placed in the State Treasurer's internal investment pool, *OK INVEST*. *OK INVEST* pools the resources of all state funds and agencies and invests them in obligations of the United States Government, its agencies and instrumentalities; including agency senior debt and mortgage-backed pass-through securities, tri-party repurchase agreements, money market mutual funds, collateralized Certificates of Deposit, Commercial Paper, obligations of state and local governments and State of Israel Bonds. Various other investments, as allowed by law, may be added to the *OK INVEST* portfolio, as the State Treasurer determines without formal revision to its policy statement. Amounts invested in *OK INVEST* total $138,480 at June 30, 2014.

(3) DEPOSITS AND INVESTMENTS, CONTINUED

Custodial Credit Risk—Deposits, Continued

For financial reporting purposes, deposits with the State Treasurer that are invested in *OK INVEST* are classified as cash equivalents.

At June 30, 2014, the distribution of deposits in *OK INVEST* are as follows:

OK INVEST Portfolio

	Cost	Market Value
U.S. agencies	$ 63,535	63,411
Money market mutual funds	6,686	6,686
End of day commercial paper sweeps	2,914	2,914
Certificates of deposit	3,595	3,595
Mortgage backed securities	56,889	58,063
Municipal bonds	2,124	2,353
Foreign bonds	1,088	1,088
U.S. treasuries	1,649	2,041
	$ 138,480	140,151

Agencies and funds that are considered to be part of the State's reporting entity in the State's Comprehensive Annual Financial Report are allowed to participate in *OK INVEST*. Oklahoma statutes and the State Treasurer establish the primary objectives and guidelines governing the investment of funds in *OK INVEST*. Safety, liquidity, and return on investment are the objectives which establish the framework for the day to day *OK INVEST* management with an emphasis on safety of the capital and the probable income to be derived and meeting the State and its funds and agencies' daily cash flow requirements. Guidelines in the Investment Policy address credit quality requirements, diversification percentages and specify the types and maturities of allowable investments, and the specifics regarding these policies can be found on the State Treasurer's website at *http://www.treasurer.state.ok.us/*. The State Treasurer, at his discretion, may further limit or restrict such investments on a day to day basis. *OK INVEST* includes a substantial investment in securities with an overnight maturity as well as in U.S. government securities with a maturity of up to ten years. *OK INVEST* maintains an overall weighted average maturity of no more than four years.

(3) DEPOSITS AND INVESTMENTS, Continued

Custodial Credit Risk—Deposits, Continued

Participants in *OK INVEST* maintain an interest in its underlying investments and, accordingly, may be exposed to certain risks. As stated in the State Treasurer information statement, the main risks are interest rate risk, credit/default risk, liquidity risk, and U.S. government securities risk.

- *Interest rate risk* is the risk that during periods of rising interest rates, the yield and market value of the securities will tend to be lower than prevailing market rates; in periods of falling interest rates, the yield will tend to be higher.

- *Credit/default risk* is the risk that an issuer or guarantor of a security, or a bank or other financial institution that has entered into a repurchase agreement, may default on its payment obligations.

- *Liquidity risk* is the risk that *OK INVEST* will be unable to pay redemption proceeds within the stated time period because of unusual market conditions, an unusually high volume of redemption requests, or other reasons.

- *U.S. Governmental securities risk* is the risk that the U.S. government will not provide financial support to U.S. government agencies, instrumentalities or sponsored enterprises if it is not obligated to do so by law. Various investment restrictions and limitations are enumerated in the State Treasurer's Investment Policy to mitigate those risks; however, any interest in *OK INVEST* is not insured or guaranteed by the State, the FDIC or any other government agency.

Interest Rate Risk

The College 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.

(3) DEPOSITS AND INVESTMENTS, CONTINUED

Credit Risk

All U.S. government obligations are held by the Federal Reserve Bank in the name of the College. Title 70, Section 4306 of the Oklahoma Statutes directs, authorizes, and empowers the College's Board of Regents to hold, invest, or sell donor-restricted endowments in a manner which is consistent with the terms of the gift as stipulated by the donor and with the provision of any applicable laws.

The Board has authorized short-term funds to be invested in any security currently available through the Oklahoma State Treasurer's Office. Generally, these include direct obligations of the U.S. government and its agencies, certificates of deposit, and demand deposits. The Board has authorized endowment and similar funds to be invested in direct obligations of the U.S. government and its agencies, certificates of deposit, prime commercial paper, bankers' acceptances, demand deposits, corporate debt (no bond below a *Single A* rating by Moody's Investors Service or Standard & Poor's Corporation may be purchased), convertible securities, and equity securities.

Investment maturities at June 30, 2014, were as follows:

	Investment Maturities at Fair Value (in Years)					
Investment Type	Not Applicable	Less than 1	1 or More, Less than 5	5 or More, Less than 10	More than 10	Total Fair Value
Money market	$ 185,000	-	-	-	-	185,000

Concentration of Credit Risk

The College places no limit on the amount the College may invest in any one issuer. The investment is classified as restricted assets in accordance with the Student Center Revenue bond to establish bond sinking funds and reserve funds (see Note 6).

(4) ACCOUNTS RECEIVABLE, NET

Accounts receivable consisted of the following at June 30, 2014:

Student tuition and fees	$ 1,635,289
Less allowance for doubtful accounts	(402,143)
	$ 1,233,146

See Independent Auditors' Report.

(5) CAPITAL ASSETS, NET

Following are the changes in capital assets for the years ended June 30, 2014:

	Balance at June 30, 2013	Additions	Transfers	Retirements	Balance at June 30, 2014
Capital assets not being depreciated:					
Land	$ 874,082	-	-	-	874,082
Library holdings	102,076	-	-	-	102,076
Total capital assets not being depreciated	976,158	-	-	-	976,158
Capital assets being depreciated:					
Land improvements	2,118,708	-	-	-	2,118,708
Building and facilities	31,145,944	431,358	-	(58,766)	31,518,536
Equipment and vehicles	5,062,192	343,684	-	(159,696)	5,246,180
Total capital assets being depreciated	38,326,844	775,042	-	(218,462)	38,883,424
Less accumulated depreciation:					
Land improvements	(1,225,878)	(82,648)	-	-	(1,308,526)
Building and facilities	(8,656,086)	(781,687)	-	-	(9,437,773)
Equipment and vehicles	(4,277,529)	(371,949)	-	142,715	(4,506,763)
Total accumulated depreciation	(14,159,493)	(1,236,284)	-	142,715	(15,253,062)
Total capital assets being depreciated, net	24,167,351	(461,242)	-	(75,747)	23,630,362
Capital assets, net	$ 25,143,509	(461,242)	-	(75,747)	24,606,520

At June 30, 2014, the costs of assets held under capital lease obligations and included in capital assets were $13,122,797.

Costs incurred during construction of long-lived assets are recorded as construction in progress and are not depreciated until placed in service. In 2014, total interest was $842,273. The College capitalizes interest as a component of capital assets constructed for its own use. There was no interest capitalized in 2014.

See Independent Auditors' Report.

(6) LONG-TERM LIABILITIES

Long-term liability activity for the years ended June 30, 2014, was as follows:

	June 30, 2013	Additions	Reductions	June 30, 2014	Due Within 1 Year
Bonds and capital lease obligations, net of bond premium or discount:					
Revenue bond payable	$ 205,000	-	(100,000)	105,000	105,000
OCIA capital lease obligations	6,997,700	3,706,808	(4,096,215)	6,608,293	666,199
ODFA master lease revenue bonds	11,034,543	-	(801,327)	10,233,216	456,781
Notes payable	370,244	-	(370,244)	-	-
Total bonds and capital lease obligations	18,607,487	3,706,808	(5,367,786)	16,946,509	1,227,980
Other liabilities:					
Accrued compensated absences	196,467	190,545	(196,467)	190,545	190,545
Total other liabilities	196,467	190,545	(196,467)	190,545	190,545
Total long-term liabilities	$ 18,803,954	3,897,353	(5,564,253)	17,137,054	1,418,525

Student Center Revenue Bonds, Series 1993

The Board of Regents authorized the College to issue the Student Center Revenue Bonds, Series 1993 (the “Series 1993 Bonds”) dated December 1, 1993, in the amounts of $1,325,000. The Series 1993 Bonds mature July 1 of each year beginning July 1, 1994, through July 1, 2014, in annual amounts varying from $35,000 to $105,000, with interest rates ranging from 5% to 8%. The remaining balance outstanding was $105,000 at June 30, 2014. The Series 1993 Bonds are payable from pledged revenues derived from a student center fee; net revenues from the operations of the bookstore, the student shop, food service facilities, the game room, and other ancillary services; and the reserve account held by the bond trustees. During 2014, the College paid $100,000 in principal and $9,663 in related interest on these bonds.

The schedule of maturities of the bonds is as follows:

Year Ended June 30,	Principal	Interest	Total
2015	$ 105,000	-	105,000

The trust agreements for the series of revenue bonds provide that bond proceeds and pledged revenues be used to establish various bond sinking funds and reserve funds (see Note 3).

See Independent Auditors’ Report.

(6) LONG-TERM LIABILITIES, CONTINUED

Oklahoma Capital Improvement Authority Lease Obligations

In September 1999, the Oklahoma Capital Improvement Authority (OCIA) issued its OCIA Bond Issues, 1999 Series A, B, and C. Of the total bond indebtedness, the State Regents for Higher Education allocated $535,000 to the College. Concurrently with the allocation, the College entered into an individual lease agreement with OCIA, representing the project being funded by the OCIA bonds. The lease agreement provides for OCIA to make the required payments on behalf of the College over the respective terms of the agreement, which is for 20 years. The proceeds of the bonds and subsequent lease are to provide for capital improvements at the College.

In May 2013, the College's 1999 Series B lease agreement with the OCIA was restructured through a refunding of OCIA's 1999B bond debt. OCIA issued a new bond, Series 2013B. The College's lease agreements with OCIA secure the OCIA bond debt and any future debt that might be issued to refund earlier bond issues.

In November 2005, the OCIA issued its OCIA Bond Issues, 2005 Series F and G. Of the total bond indebtedness, the State Regents allocated $6,770,000 to the College. Concurrently with the allocation, the College entered into an individual lease agreement with OCIA, representing the project being funded by the OCIA bonds. The lease agreement provides for OCIA to make the required payments on behalf of the College over the respective terms of the agreement, which is for 25 years. The proceeds of the bonds and subsequent lease are to provide for capital improvements at the College.

In August 2010 the College's 2005 Series F lease agreement with the OCIA was restructured through a partial refunding of OCIA's 2005F bond debt. OCIA issued two new bonds, Series 2010A and 2010B. The College's lease agreements with OCIA secure the OCIA bond debt and any future debt that might be issued to refund earlier bond issues. OCIA issued this new debt to provide budgetary relief for fiscal years 2011 and 2012 by extending and restructuring debt service. Consequently, the College's lease agreement with OCIA automatically restructured to secure the new bond issues. This lease restructuring has extended certain principal payments into the future, resulting in a charge or cost on restructuring. The College has recorded a charge of $603,090 on restructuring as a deferred cost that will be amortized over a period of 6 years. This restructuring resulted in an aggregate debt service difference for principal and interest between the original lease agreement and the restructured lease agreement of $29,806, which also approximates the economic cost of the lease restructuring.

(6) LONG-TERM LIABILITIES, CONTINUED

Oklahoma Capital Improvement Authority Lease Obligations, Continued

On April 9, 2014, the College's remaining 2005F lease agreement with OCIA was restructured through a partial refunding of the Series 2005F bonds. OCIA issued new bonds, Series 2014A, to accomplish the refunding over a period of 17 years. As a result, the total liability of the remaining 2005F bonds refunded and the amount of the 2014A bonds acquired was a gain on restructuring of $205,695, which was recorded as a deferred inflow of resources that will be amortized over a period of 18 years. The restructured lease agreement with OCIA secures the OCIA bond indebtedness and any future indebtedness that might be issued to refund earlier bond issues. The College's aforementioned lease agreement with OCIA was automatically restructured to secure the new bond issues. This refinancing resulted in an aggregate difference in principal and interest between the original lease agreement and the refinanced lease agreement of $480,173, which approximates the economic savings of the transaction.

Through June 30, 2010, the College has drawn its total allotment for expenditures incurred in connection with the project. The expenditures have been capitalized as investments in capital assets in accordance with College policy. The College has recorded a lease obligation payable to OCIA for the total amount of the allotment, less repayment made.

During the year ended June 30, 2014, OCIA made lease principal and interest payments totaling $475,541 on behalf of the College. These payments have been recorded as on-behalf OCIA contributions in the statements of revenues, expenses, and changes in net position.

During the year ended June 30, 2014, the College recognized $100,515 of amortization on the deferred cost of lease restructuring on the OCIA Series 2005F lease obligation, leaving a balance of the unamortized deferred costs of $201,030. The unamortized deferred cost is included in the deferred outflows of resources in the accompanying financial statements.

During the year ended June 30, 2014, the College recognized $3,148 of amortization on the deferred gain on lease restructuring on the OCIA Series 2014A lease obligation, leaving a balance of the unamortized deferred gain of $202,547. The unamortized deferred gain is included in the deferred inflows of resources in the accompanying financial statements.

(6) LONG-TERM LIABILITIES, CONTINUED

Oklahoma Capital Improvement Authority Lease Obligations, Continued

Future minimum lease payments under the College's obligation to the OCIA are as follows:

Year Ending June 30,	Principal	Interest	Total
2015	$ 666,199	135,619	801,818
2016	520,425	239,726	760,151
2017	632,055	247,529	879,584
2018	658,434	226,441	884,875
2019	680,627	195,986	876,613
2020–2024	663,040	805,327	1,468,367
2025–2029	1,897,003	495,290	2,392,293
2030–2034	890,510	66,572	957,082
	$ 6,608,293	2,412,490	9,020,783

Oklahoma Development Finance Authority Master Lease

In December 2004, the College entered into a 10-year lease agreement with the Oklahoma Development Finance Authority (ODFA) and the State Regents as beneficiary of a portion of the proceeds from the Oklahoma Development Finance Authority State Regents for Higher Education Master Lease Revenue Bonds, Series 2004C. The College financed $673,771 to upgrade the College's energy management systems.

In December 2006, the College entered into a 15-year lease agreement with the ODFA and the State Regents as beneficiary of a portion of the proceeds from the Oklahoma Development Finance Authority State Regents for Higher Education Real Property Master Lease Revenue Bonds, Series 2006A. The College financed $806,783 to upgrade the College's real property.

In December 2008, the College entered into a 15-year lease agreement with the ODFA and the State Regents as a beneficiary of a portion of the proceeds from the Oklahoma Development Finance Authority State Regents for Higher Education Master Lease Revenue Bonds, Series 2008A. The College received a net amount of $985,768 (includes $17,768 of bond premium) of the proceeds for improvements to the College's equipment.

(6) LONG-TERM LIABILITIES, CONTINUED

Oklahoma Development Finance Authority Master Lease, Continued

In December 2009, the College entered into a 5-year lease agreement with the ODFA and the State Regents as beneficiary of a portion of the proceeds from the Oklahoma Development Finance Authority Oklahoma State Regents for Higher Education Master Equipment Lease Revenue Bonds, Series 2009A. The College financed $505,716 (includes $5,716 of bond premium) for improvements to the College's technology equipment. This lease was paid in full in 2014.

In December 2009, the College entered into a 25-year lease agreement with the ODFA and the State Regents as beneficiary of a portion of the proceeds from the Oklahoma Development Finance Authority Oklahoma State Regents for Higher Education Real Property Master Lease Revenue Bonds, Series 2009C. The College financed $510,281 (includes $281 of bond premium) for improvements to the College's real property.

In December 2009, the College entered into a 30-year lease agreement with the ODFA and the State Regents as beneficiary of a portion of the proceeds from the Oklahoma Development Finance Authority Oklahoma State Regents for Higher Education Real Property Master Lease Revenue Bonds, Series 2009D. The College financed $8,190,000 for the purchase of real property.

In May 2010, the College entered into a 5-year lease agreement with the ODFA and the State Regents as beneficiary of a portion of the proceeds from the Oklahoma Development Finance Authority Oklahoma State Regents for Higher Education Master Equipment Lease Revenue Bonds, Series 2010A. The College financed $377,880 (includes $14,880 of bond premium) for improvements to the College's equipment.

In September 2010, the College entered into a 25-year lease agreement with the ODFA and the State Regents as beneficiary of a portion of the proceeds from the Oklahoma Development Finance Authority Oklahoma State Regents for Higher Education Real Property Equipment Master Lease Revenue Bonds, Series 2010A. The College financed $599,482 (includes $4,482 of bond premium) for improvements to the College's real property.

In September 2010, the College entered into a 25-year lease agreement with the ODFA and the State Regents as beneficiary of a portion of the proceeds from the Oklahoma Development Finance Authority Oklahoma State Regents for Higher Education Taxable Real Property Equipment Master Lease Revenue Bonds, Series 2010B. The College financed $720,000 for improvements to the College's real property.

(6) LONG-TERM LIABILITIES, CONTINUED

Oklahoma Development Finance Authority Master Lease, Continued

Lease payments made by the College are forwarded to the trustee bank by the State Regents for future principal and interest payments on the Master Lease bonds. The ODFA deposits the lease payments into an interest-bearing sinking fund and may use the interest earnings to reduce the College's future lease payments. During 2014, the College paid $795,833 in principal and $450,375 in related interest on these bonds.

The schedule of maturities of the bonds is as follows:

Year Ending June 30,	Principal	Interest	Total
2015	$ 456,781	429,917	886,698
2016	366,542	418,554	785,096
2017	373,208	404,750	777,958
2018	388,208	391,617	779,825
2019	398,875	377,628	776,503
2020–2024	1,975,555	1,651,224	3,626,779
2025–2029	1,822,703	1,274,157	3,096,860
2030–2034	2,251,119	830,665	3,081,784
2035–2039	2,200,225	301,965	2,502,190
	$ 10,233,216	6,080,477	16,313,693

The ODFA Series 2008 bonds were issued at a premium. The College's pro rata portion of the premium was $17,768. During 2014, the College recognized $1,185 of amortization, leaving a balance of the unamortized bond premium of $10,858. The unamortized bond premium is included in the ODFA capital lease obligation in the accompanying financial statements.

The ODFA Series 2009A bonds were issued at a premium. The College's pro rata portion of the premium was $5,716. During 2014, the College recognized $1,143 of amortization, leaving a balance of the unamortized bond premium of $95. The unamortized bond premium is included in the ODFA capital lease obligation in the accompanying financial statements.

The ODFA Series 2009C bonds were issued at a premium. The College's pro rata portion of the premium was $281. During 2014, the College recognized $11 of amortization, leaving a balance of the unamortized bond premium of $226. The unamortized bond premium is included in the ODFA capital lease obligation in the accompanying financial statements.

(6) LONG-TERM LIABILITIES, CONTINUED

Oklahoma Development Finance Authority Master Lease, Continued

The ODFA Series 2010A bonds were issued at a premium. The College's pro rata portion of the premium was $14,880. During 2014, the College recognized $2,976 of amortization, leaving a balance of the unamortized bond premium of $2,728. The unamortized bond premium is included in the ODFA capital lease obligation in the accompanying financial statements.

The ODFA Real Property Series 2010A bonds were issued at a premium. The College's pro rata portion of the premium was $4,482. During 2014, the College recognized $179 of amortization, leaving a balance of the unamortized bond premium of $3,809. The unamortized bond premium is included in the ODFA capital lease obligation in the accompanying financial statements.

(7) NOTE PAYABLE

In October 2009, the College entered into a $407,844 term loan to finance the purchase of real estate. The loan had an initial maturity of October 2014, based on a 20-year amortization at a rate of 6%. The note would renew at the same terms and conditions on each maturity as long as the terms and conditions were met. Annual payments approximated $35,000 through September 2014, with a balloon payment of $360,868 due in October 2014, unless the loan was renewed. During 2014, the College repaid $1,094 in principal and $1,828 in related interest on the note.

In November 2013, the Oklahoma Attorney General determined that the term loan represented a debt that violated the Oklahoma Constitution and therefore is not a debt of the College. Therefore, the College was released from the liability contained in the note. The decision can be appealed; therefore, the ultimate outcome is unknown at this time.

As a result of the Attorney General's decision, the College recognized a gain on the forgiveness of debt of $369,148 in 2014.

(8) SERVICE CONCESSION ARRANGEMENT

On May 1, 2009, the College entered into an agreement with Follett Higher Education Group ("Follett"), under which Follett will operate the bookstore for the next 10 years. Follett will pay the College installment payments over the course of the arrangement; the present value of these installment payments is estimated to be $776,699. Follett will also pay the College 8% of revenues up to $1.5 million and 10% of revenues over $1.5 million that it earns from the operation of the bookstore. Follett is required to operate and maintain the bookstore in accordance with the contract. The College reported a receivable and deferred inflow of resources in the amount of $375,405 at June 30, 2014, pursuant to the service concession arrangement.

(9) RETIREMENT PROGRAMS

Substantially all of the College's academic and nonacademic personnel are covered by the Oklahoma Teachers' Retirement System (OTRS), which is a State of Oklahoma public employee retirement system. Certain eligible employees also participate in a 403(b) defined contribution benefit plan. The College does not maintain the accounting records of, hold the investments for, or administer the OTRS plan.

Oklahoma Teachers' Retirement System

Plan Description

The College contributes to the OTRS, a cost-sharing, multiple-employer defined benefit pension plan sponsored by the State of Oklahoma. The 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. The benefit provisions are established and may be amended by the Legislature of the State of Oklahoma. Title 70 of the Oklahoma Statutes, Sections 17-101 through 17-116.9, as amended, assigns the authority for management and operation of the plan to the Board of Trustees of the OTRS. The OTRS issues a publicly available financial report that includes financial statements and supplementary information for the OTRS. That annual report may be obtained by writing to the OTRS, P.O. Box 53524, Redlands, Oklahoma 73152, by calling (405) 521-2387, or at the OTRS web site at www.trs.state.ok.us.

Funding Policy

Employees' contributions are also determined by state statute. For all employees, the contribution rate was 7% of covered salaries and fringe benefits in 2014. In 2014, the College contributed the required amount of 7% for participating members. The College's contribution to the OTRS for participating members for the year ended June 30, 2014, was approximately $522,000. These contributions included the employee's statutory contribution paid by the College and the federal employment taxes.

The College also contributed 9.5% of covered salaries for active employees to the OTRS during 2014. The College's contribution for the retirement fees for active employees was approximately $677,000 for the year ended June 30, 2014.

(9) RETIREMENT PROGRAMS, CONTINUED

Oklahoma Teachers' Retirement System, Continued

Funding Policy, Continued

The State of Oklahoma is also required to contribute to the OTRS on behalf of the participating employers. For 2014, the State of Oklahoma contributed 5% of state revenues from sales and use taxes and individual income taxes to the OTRS on behalf of participating employers. The College has estimated the amounts contributed to the OTRS by the State of Oklahoma on its behalf by multiplying the ratio of its covered salaries to total covered salaries for the OTRS for the year by the applicable percentage of taxes collected during the year. For the year ended June 30, 2014, the total amount contributed to the OTRS by the State of Oklahoma on behalf of the College was approximately $413,000. These on-behalf payments have been recorded as both revenues and expenses in the statements of revenues, expenses, and changes in net position.

403(b) Plan

Effective on January 1, 2009, the College adopted a 403(b) plan for its employees. Each employee is eligible to participant in the 403(b) plan and elect to have elective deferrals made on his or her behalf immediately upon becoming employed by the College. However, the College does not make any contribution to the Plan. The College reserves the authority to amend or terminate the plan at any time.

Retiree Insurance

The College offers retiree insurance benefits for full-time employees who have retired as of June 2011 or thereafter. The College will pay 100% of the retiree's share of health, dental, and vision insurance premiums that are offered by the College for a maximum of 5 years postretirement, subject to annual renewal and available funds under the following conditions at time of retirement:

- Employee is employed full-time
- Employee is eligible for Medicare
- Employee meets OTRS vesting requirements
- Employee is eligible for OTRS health insurance stipend
- Employee has been employed for a minimum of 7 years

The College is currently paying benefits for 3 retirees as of June 30, 2014. No accrual for benefits has been made as the expense is not considered significant.

(10) RELATED-PARTY TRANSACTIONS

The Foundation is a tax-exempt organization whose objective is the betterment of the College and its related activities. The College is the ultimate beneficiary of the Foundation. The College has entered into a written agreement with the Foundation whereby the College agreed to pay for certain administrative services incurred by the Foundation. The following transactions occurred between the College and the Foundation during the year ended June 30, 2014:

Scholarship funds awarded to the College	$	27,737
Payment of services to the Foundation	$	6,500
Rent collected and submitted to the Foundation	$	382,690

(11) COMMITMENTS AND CONTINGENCIES

Grants and Contracts

The College conducts certain programs pursuant to various grants and contracts, which are subject to audit by various federal and state agencies. Costs questioned as a result of audits, if any, may result in refunds to these governmental agencies from various sources of the College.

The College participates in the Federal Direct Student Loan Program ("Direct Loan Program"). The Direct Loan Program does not require the College to draw down cash; however, the College is required to perform certain administrative functions. Failure to perform such functions may require the College to reimburse the loan guarantee agencies. For the year ended June 30, 2014, approximately $1,707,000 of Direct Loan Program loans were provided to College students.

Guaranty Agreement

On March 28, 2012, the College entered into a guaranty agreement with Redlands/El Reno II, LLC in order to induce Redlands/El Reno II, LLC to enter into a sublease with the Foundation for Phase II of the Cougar Crossing Apartments student housing. The College guarantees to Redlands/El Reno II, LLC the payment and performance of the sublease until the sublease expires in September 2062. The terms of the sublease state that the Foundation will pay base rent of no less than $350,064 per fiscal year in equal monthly installments of $29,172, effective January 10, 2013. The base rent shall be increased annually by an amount equal to 2½% of the base rent for the preceding fiscal year. In addition to base rent, the Foundation will pay 50% of any gross revenues collected in excess of the minimum rent ("percentage rent"). The Foundation will also pay a management fee in equal monthly installments of $1,250, beginning September 1, 2012.

See Independent Auditors' Report.

(11) COMMITMENTS AND CONTINGENCIES, CONTINUED

Guaranty Agreement, Continued

The schedule of possible loss to the College due to this guaranty agreement is as follows:

	Estimates as of June 30, 2014		
	Current	Noncurrent	Total
Base rent	$ 363,301	32,841,701	33,205,002
Management fee	15,000	707,500	722,500
	$ 378,301	33,549,201	33,927,502

College management believes that under current circumstances and historical data, it is more likely than not the College will not be required to make payment on the guaranty. As such, the College has not recorded a liability for the guaranty.

In addition to the above amounts, the College has determined that an additional liability of approximately $59,000 may exist due to a requirement in the lease agreement discussed above to collect and remit revenues on an occupancy basis, as defined in the agreement. However, as discussed below, the payment of the $59,000 is subject to the outcome of a decision of the Attorney General's Office. As such, no liability has been recorded as of June 30, 2014.

Cougar Crossing Phase II—Attorney General Opinion

On August 15, 2013, the College sent a request to the State of Oklahoma's Attorney General's office questioning the propriety of all involved to enter into such terms of the Ground Lease Agreement, the Sublease Agreement, and the Manage and Maintain Agreement. The validity of the 3rd party agreements is under investigation and should be determined by the Attorney General's office at a later date. As of the report date, no decision has been made on the validity of those agreements. Management is uncertain as to the outcome of the Attorney General's decision. Any changes to these agreements could materially affect these financial statements.

Litigation

As discussed in Note 7, the College could be at risk of litigation resulting from an opinion from the Attorney General's office surrounding the forgiveness of debt to a third party.

Other

During the ordinary course of business, the College may be subjected to various lawsuits and civil action claims. There were no pending lawsuits or claims against the College at June 30, 2014, that management believes would result in a material loss to the College in the event of an adverse outcome.

See Independent Auditors' Report.

(12) RISK MANAGEMENT

The College is exposed to various risks of loss from torts; theft of, damage to, and destruction of assets; business interruptions; errors and omissions; employee injuries and illnesses; natural disasters; and employee health, life, and accident benefits. Commercial insurance coverage is purchased for claims arising from such matters other than torts, property, and workers' compensation. Settled claims have not exceeded this commercial coverage in any of the 3 preceding years.

The College, along with other state agencies and political subdivisions, participates in the State of Oklahoma Risk Management Program public entity risk pool currently operating as a common risk management and insurance program for its members. The College pays annual premiums to the pool for its tort, property, and liability insurance coverage. The governing agreement for the Oklahoma Risk Management pool specifies that the pool will be self-sustaining through member premiums and will reinsure through commercial carriers for claims in excess of specified stop-loss amounts.

The College also participates in the College Association of Liability Management (CALM) Workers' Compensation Plan for its workers' compensation coverage. CALM is an interlocal cooperative act agency that was organized to provide workers' compensation insurance coverage for participating colleges and universities through CompSource. CALM is a political subdivision of the State of Oklahoma and is governed by a board of trustees elected from members of the participating colleges and universities.

(13) REDLANDS COMMUNITY COLLEGE FOUNDATION, INC.

The following are significant disclosures of the Redlands Community College Foundation, Inc. (the "Foundation"):

NOTE (A)—SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Nature of Operations

The Foundation is a nonprofit organization organized in 1977 and is located in El Reno, Oklahoma. The Foundation amended its certificate of incorporation from the State of Oklahoma during September 1991. The mission of the Foundation is to benefit, support, and enhance the development and priorities of the College. The primary purposes of the Foundation are to fund scholarships to students attending the College and to provide resources to supplement college operations. The efforts of the Foundation are to generate funds which shall be in alignment with the academic needs and priorities of the College. The Foundation shall ensure integrity to meet donor expectations.

Basis of Accounting

The Foundation prepares its financial statements on the modified cash basis, which is a comprehensive basis of accounting other than accounting principles generally accepted in the United States. Under this method of accounting, revenues are recognized when received and expenses when paid. Property and equipment items are capitalized and depreciated over their estimated useful lives.

Basis of Presentation

In accordance with accounting principles generally accepted in the United States, the Foundation reports information regarding its financial position and activities according to three classes of net assets: unrestricted; temporarily restricted; and permanently restricted.

> Unrestricted Net Assets—Net assets that are not subject to donor-imposed stipulations. These funds represent resources over which the Board of Directors has discretionary control and are used to carry out operations in accordance with its bylaws.
>
> Temporarily Restricted Net Assets—Net assets that are subject to donor-imposed stipulations that will be met either by actions of the Foundation and/or passage of time. When a restriction expires, temporarily restricted net assets are reclassified to unrestricted net assets and reported in the statement of activities as net assets released from restrictions.
>
> Permanently Restricted Net Assets—Net assets that are subject to donor-imposed stipulations that neither expire with time nor can be fulfilled or otherwise removed by the actions of the Foundation.

See Independent Auditors' Report.

(13) REDLANDS COMMUNITY COLLEGE FOUNDATION, INC., CONTINUED

NOTE (A)—SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES, CONTINUED

Cash and Cash Equivalents

The Foundation considers all cash and highly liquid investments with original maturities of 3 months or less to be cash equivalents.

Investments

Investments are reported at fair value based on quoted market prices. Unrealized and realized gains and losses are included in the accompanying statement of revenues, expenses, and changes in net assets—modified cash basis. Investment earnings, net of related expenses, are reported as unrestricted unless specific restrictions apply.

Property and Equipment

Property and equipment are stated at cost or, if donated, at the estimated fair value at the date of donation. Depreciation is computed using the straight-line method over the estimated useful lives of the assets. The estimated useful lives are 3 to 10 years for equipment and furniture and fixtures and 20 years for buildings and related components.

Endowment Funds

As of January 31, 2014, the Foundation's endowments consisted of 23 individual donor-restricted endowment funds established for a variety of purposes. As required by authoritative guidance, net assets associated with endowment funds are classified and reported based on the existence or absence of donor-imposed restrictions.

(13) REDLANDS COMMUNITY COLLEGE FOUNDATION, INC., CONTINUED

NOTE (A)—SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES, CONTINUED

Endowment Funds, Continued

The Foundation has interpreted the Uniform Prudent Management of Institutional Funds Act (the "Act") as requiring the preservation of the fair value of the original gift as of the gift date of the donor-restricted endowment funds, absent explicit donor stipulations to the contrary. As a result of this interpretation, the Foundation classifies as permanently restricted net assets (a) the original value of gifts donated to the permanent endowment, (b) the original value of subsequent gifts to the permanent endowment, and (c) accumulations to the permanent endowment made in accordance with the direction of the applicable donor gift instrument at the time the accumulation is added to the fund. The remaining portion of a donor-restricted endowment fund that is not classified in permanently restricted net assets is classified as temporarily restricted net assets until those amounts are appropriated for expenditure by the Foundation in a manner consistent with the standard of prudence prescribed by the Act. In accordance with the Act, the Foundation considers the following factors in making a determination to appropriate or accumulate donor-restricted endowment funds: (1) the duration and preservation of the fund, (2) the purposes of the Foundation and the donor-restricted endowment fund, (3) general economic conditions, (4) the possible effect of inflation and deflation, (5) the expected total return from income and the appreciation/depreciation of investments, (6) other resources of the Foundation, and (7) the investment policies of the Foundation.

The Foundation invests its endowment funds with the Oklahoma City Community Foundation (OCCF). In doing so, the Foundation has inherently accepted the investment policies of OCCF. The Foundation believes the investment policies of OCCF, when applied to the endowment funds, facilitate the Foundation's ability to provide funding for programs and provide adequate returns for invested funds. Under OCCF's investment policy, the endowment assets are invested in a manner that is intended to provide acceptable investment returns, while assuming a moderate level of investment risk. This investment policy expects its endowment funds, over time, to provide an average rate of return that is consistent with historical returns of assets allocated 65% equity and 35% fixed income and non-equity investments. Actual returns in any given year are dependent on market conditions and other factors, and they may vary from the expected investment return. To satisfy its long-term rate-of-return objectives, the Foundation relies on OCCF's investment policy, which has a strategy in which investment returns are achieved through both capital appreciation (realized and unrealized) and current yield (interest and dividends).

(13) REDLANDS COMMUNITY COLLEGE FOUNDATION, INC., CONTINUED

NOTE (A)—SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES, CONTINUED

Contributions

All contributions are available for unrestricted use unless specifically restricted by the donor. Amounts received that are designated for future periods or restricted by the donor for specific purposes are reported as an increase in temporarily or permanently restricted net assets, depending on the nature of the restriction. When a restriction expires, that is, when a stipulated time restriction ends or purpose restriction is accomplished, temporarily restricted net assets are reclassified to unrestricted net assets and reported in the statement of activities as net assets released from restrictions.

Use of Estimates

Preparation of financial statements requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Accordingly, actual results could differ from those estimates.

NOTE (B)—ASSETS HELD FOR OTHERS

Assets held for others represent the portion of assets related to the College groups or associations for which the Foundation is the custodian. The Foundation has recorded an asset and an offsetting liability to record these funds. As of January 31, 2014, the assets consisted of cash of $35,935 and certificates of deposit of $62,195 which are carried at fair value. The liability for assets held for others is equal to the fair value of the assets.

NOTE (C)—GROUND LEASE RECEIVABLE

On March 28, 2012, the Foundation entered into a Ground Lease Agreement with Redlands/EI Reno II, LLC, in which the Foundation is to rent land to Redlands/EI Reno II, LLC for the purpose of building additional student housing (Note 9). The lease was to begin on the date the construction of the housing was substantially complete (August 15, 2012) at an annual amount of $1,500 for 40 years, which was to be prepaid in full by Redlands/EI Reno II, LLC as of the date of the agreement. As of January 31, 2014, the prepayment of the lease by Redlands/EI Reno II, LLC had not been received and is recorded in the statement of assets, liabilities, and net assets—modified cash basis as ground lease receivable in the amount of $60,000. The lease income will be matched to the period in which it was earned. The Foundation recognized lease income of $1,500 in 2014, and $2,188 cumulatively since inception, with the remaining $57,812 included in unearned lease income as a liability in the statements of assets, liabilities, and net assets—modified cash basis as of January 31, 2014.

(13) REDLANDS COMMUNITY COLLEGE FOUNDATION, INC., CONTINUED

NOTE (D)—PROPERTY AND EQUIPMENT

Property and equipment consisted of the following as of January 31, 2014:

Land	$ 157,000
Building	3,218,753
Equipment	29,458
Furniture and fixtures	17,844
	3,423,055
Less accumulated depreciation	(282,305)
	$ 3,140,750

NOTE (E)—LONG-TERM INVESTMENTS

Long-term investments are permanently restricted funds that are held temporarily until suitable long-term investment opportunities are identified. Long-term investments consisted of the following as of January 31, 2014:

Certificates of deposit	$ 3,311
Mutual funds	4,557
	$ 7,868

NOTE (F)—BENEFICIAL INTEREST IN ASSETS HELD BY OTHERS

Endowed funds are held at the Oklahoma City Community Foundation (OCCF). OCCF is a not-for-profit entity that provides for endowed contributions to be pooled to maximize return on investments for the benefit of area not-for-profit organizations. Contributions into the endowment fund are permitted by the Foundation, as well as individual donors in the community who designate the beneficiary of their contributions. Distributions from the endowment earnings are paid annually to the Foundation according to OCCF's spending policy. The Foundation has authorized OCCF to manage the endowment, effectively giving variance power to OCCF. As the Foundation designated itself beneficiary for the endowment, the endowed funds contributed by the Foundation and the earnings thereon, net of distributions received, are reflected as beneficial interest in assets held by others in the amount of $575,319 as of January 31, 2014. The endowed funds contributed by third-party donors held by OCCF designated for the benefit of the Foundation were $155,110 as of January 31, 2014, and are not reflected in the Foundation's statement of assets, liabilities, and net assets—modified cash basis.

See Independent Auditors' Report.

(13) REDLANDS COMMUNITY COLLEGE FOUNDATION, INC., CONTINUED

NOTE (G)—INVESTMENT INCOME

Investment income, net of investment expenses, is as follows for the year ended January 31, 2014:

	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Interest and dividends:				
Cash and cash equivalents	$ 273	-	-	273
Certificate of deposit	-	24	-	24
Mutual funds: high yield bond funds	-	257	-	257
Total interest and dividends	273	281	-	554
Realized and unrealized gains (losses), net:				
Mutual funds: high yield bond funds	-	-	202	202
Beneficial interest in assets held by others	-	-	47,975	47,975
Total realized and unrealized gains (losses), net	-	-	48,177	48,177
Investment income, net	$ 273	281	48,177	48,731

See Independent Auditors' Report.

(13) REDLANDS COMMUNITY COLLEGE FOUNDATION, INC., CONTINUED

NOTE (H)—FAIR VALUE MEASUREMENTS

Inputs used to measure fair value are organized into a fair value hierarchy based on how observable the inputs are. Level 1 inputs consist of quoted prices in active markets for identical assets. Level 2 inputs are inputs other than quoted prices for similar assets that are observable. Level 3 inputs are unobservable inputs.

The Foundation's assets reported at fair value on a recurring basis are summarized as follows as of January 31, 2014:

	Fair Value Measurements at Reporting Date Using		
	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
Mutual funds: high yield bond funds	$ 4,557	-	-
Beneficial interest in assets held by others (Note F)	575,319	-	-
	$ 579,876	-	-

See Independent Auditors' Report.

(13) REDLANDS COMMUNITY COLLEGE FOUNDATION, INC., CONTINUED

NOTE (I)—CAPITAL LEASES

The Foundation is the lessee of Cougar Crossing Apartments, Phase II, under a capital lease dated March 28, 2012, and expiring in January 2063. The assets and liabilities under the capital lease are recorded at the lower of the present value of the minimum lease payments or the fair value of the asset. The assets are depreciated over the lower of the related lease terms or the estimated productive life. Depreciation of the assets under the capital lease is included in depreciation expense.

Following is a summary of property held under the capital lease as of January 31, 2014:

Cougar Crossing Apartments, Phase II	$	3,100,000
Less accumulated depreciation		(116,250)
	$	2,983,750

Minimum future lease payments under the capital lease for each of the next 5 years and in the aggregate are:

2015	$	359,563
2016		368,552
2017		377,766
2018		387,210
2019		396,890
2020 and thereafter		31,855,790
		33,745,771
Less amount representing interest		(30,599,582)
	$	3,146,189

The capital lease provides for a purchase option of the property during the term of the lease. The lease payments are guaranteed by the College.

See Independent Auditors' Report.

(13) REDLANDS COMMUNITY COLLEGE FOUNDATION, INC., CONTINUED

NOTE (J)—ENDOWMENT FUNDS

Endowment net assets include permanently restricted cash and cash equivalents, certificates of deposit, mutual funds, and beneficial interests in assets held by others.

Endowment net asset composition by type of fund is as follows as of January 31, 2014:

	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Endowment assets by type of fund:				
Donor-restricted endowment funds	$ -	-	583,187	583,187

Changes in endowment net assets are as follows for the years ended January 31, 2014:

	Permanently Restricted
Endowment net assets at beginning of year	$ 483,326
Investment return:	
Net appreciation (realized and unrealized)	48,177
Total investment return	48,177
Appropriation of endowment assets:	
Contributions	66,100
Reinvestment of unused earnings	7,625
Distribution of earnings	(21,065)
Total appropriation of endowment assets	52,660
Endowment net assets at end of year	$ 584,163

See Independent Auditors' Report.

(13) REDLANDS COMMUNITY COLLEGE FOUNDATION, INC., CONTINUED

NOTE (K)—NET ASSETS

Net assets were available to be used for the following purposes as of January 31, 2014:

Unrestricted net assets:		
Cougar Crossing Phase II	$	(154,572)
Net investment in property and equipment		157,000
Undesignated		98,247
		100,675
Temporarily restricted net assets:		
Scholarships		81,214
Permanently restricted net assets:		
Program endowment fund—with income restricted for scholarships		584,163
	$	766,052

Temporarily restricted net assets were released from donor restrictions by incurring expenses satisfying the restricted purposes of scholarships.

Permanently restricted net assets were transferred to temporarily restricted nets assets as funds become available through annual distribution from OCCF. These temporarily restricted net assets are transferred back to the permanently restricted net assets if the amount received through distribution is in excess of the expenses that satisfy the restricted purposes of scholarships.

See Independent Auditors' Report.

(13) REDLANDS COMMUNITY COLLEGE FOUNDATION, INC., CONTINUED

NOTE (L)—PRIOR-PERIOD RESTATEMENT

The financial statements for 2013 have been restated to correctly account for Cougar Crossing Phase II activity. The following is a columnar representation of the restatement:

Total assets, as reported	$	4,093,888
Cougar Crossing Phase II receivable		90,598
Total assets, restated	$	4,184,486
Total liabilities, as reported	$	3,353,499
Payments received on obligations under capital leases		(23,220)
Total liabilities, restated	$	3,330,279
Total net assets, as reported	$	740,389
Adjusted to unrestricted net assets for Cougar Crossing Phase II activity		113,818
Total net assets, restated	$	854,207
Change in net assets, as reported	$	11,345
Cougar Crossing Phase II revenue		177,516
Cougar Crossing Phase II expenses		(63,698)
Total change in net assets, restated	$	125,163

See Independent Auditors' Report.

(13) REDLANDS COMMUNITY COLLEGE FOUNDATION, INC., CONTINUED

NOTE (M)—TAX-EXEMPT STATUS

The Foundation has qualified as a tax-exempt organization under Internal Revenue Code Section 501(c)(3) under a final ruling by the Internal Revenue Service dated May 1977. Donations, bequests, legacies, transfers, or gifts to the Foundation are deductible for federal income tax purposes. The Foundation has no excise or unrelated business income and therefore no provision is necessary for income taxes.

Management has reviewed the Foundation's tax positions and concluded that there are no uncertain tax positions that require accrual in the financial statements or disclosure in the footnotes to be in compliance with authoritative literature. Generally, the Foundation is no longer subject to income tax examination by federal, state, or local tax authorities for years prior to the fiscal year ended January 31, 2011.

NOTE (N)—CONCENTRATIONS OF CREDIT RISK

Financial instruments that potentially subject the Foundation to concentrations of credit risk consist principally of cash and cash equivalents. As of January 31, 2014, the Foundation had no funds in excess of federally insured limits that are subject to credit risk. The Foundation places its cash and cash equivalents with high credit quality financial institutions and, therefore, does not believe significant credit risk exists with these deposits.

NOTE (O)—RELATED-PARTY TRANSACTIONS

The Foundation leases certain properties to the College on an annual basis. Lease income derived from these properties totaled $6,501 for the year ended January 31, 2014.

The Foundation has an agreement with the College, whereas the College has agreed to manage and maintain the Cougar Crossing Apartments. The agreement commenced on August 15, 2012, and is automatically renewed annually unless official action not to extend the agreement is taken by either party. Under the agreement, the College is to collect all rent revenue from the tenants on behalf of the Foundation.

(13) REDLANDS COMMUNITY COLLEGE FOUNDATION, INC., CONTINUED

NOTE (P)—COUGAR CROSSING PHASE II

	Year Ended January 31, 2014
Assets:	
Cash and cash equivalents	$ 6,367
Ground lease receivable	60,000
Property and equipment, net	2,983,750
Total assets	$ 3,050,117
Liabilities:	
Unearned lease income	$ 57,812
Obligations under capital leases	3,146,189
Total liabilities	3,204,001
Net assets:	
Unrestricted—Cougar Crossing Phase II	(153,884)
Total net assets	(153,884)
Total liabilities and net assets	$ 3,050,117

See Independent Auditors' Report.

(13) REDLANDS COMMUNITY COLLEGE FOUNDATION, INC., CONTINUED

NOTE (P)—COUGAR CROSSING PHASE II, CONTINUED

	Year Ended January 31, 2014
Revenues, gains, and other support:	
Cougar Crossing Phase II lease income	$ 328,312
Ground lease income	1,500
Total revenues, gains, and other support	329,812
Expenses:	
Utilities	47,765
Insurance	19,831
Repairs and maintenance	4,112
Miscellaneous	1,151
Management fees	13,750
Depreciation	77,500
Interest expense	395,343
Total expenses	559,452
Changes in net assets	$ (229,640)

On August 15, 2013, the College sent a request to the State of Oklahoma's Attorney General's Office questioning the propriety of all involved to enter into such terms of the Ground Lease Agreement (Note C), the Sublease Agreement (Note I), and the Manage and Maintain Agreement (Note O). After further review of the Manage and Maintain Agreement, the Attorney General's Office notified the College that all rent and related expenses must be paid directly by the Foundation. Therefore, for subsequent periods, the Foundation will be responsible for making all payments relating to this property. Additionally, the validity of the other agreements is under investigation and should be determined by the Attorney General's Office at a later date. As of the report date, no decision had been made on the validity of these agreements. Management is uncertain as to the outcome of the Attorney General's decision. Any changes to these agreements could materially affect these financial statements.

REDLANDS COMMUNITY COLLEGE

REQUIRED SUPPLEMENTARY INFORMATION

INDEPENDENT AUDITORS' REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND ON COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT OF FINANCIAL STATEMENTS PERFORMED IN ACCORDANCE WITH *GOVERNMENT AUDITING STANDARDS*

Board of Regents
Redlands Community College
El Reno, Oklahoma

We have audited the financial statements of the Redlands Community College (the "College"), a component unit of the State of Oklahoma, which comprise the statement of net position as of June 30, 2014, and the related statements of revenues, expenses, and changes in net position and cash flows for the year then ended, and the related notes to the financial statements, and have issued our report thereon dated October 24, 2014. We conducted our audit in accordance with the auditing standards generally accepted in the United States and the standards applicable to financial statements contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Our report includes a reference to other auditors who audited the financial statements of Redlands Community College Foundation (the "Foundation"), the College's discretely presented component unit, as described in our report on the College's financial statements. The financial statements of the Foundation were not audited in accordance with *Government Auditing Standards* and, accordingly, this report does not include reporting on internal control over financial reporting or instances of reportable noncompliance associated with the Foundation. Our report includes an explanatory paragraph to emphasize the restatement of the July 1, 2013, beginning net position for the correction of an error. Also, our report includes an explanatory paragraph to emphasize certain commitments and contingencies. In addition, our report also includes explanatory paragraphs which disclaim an opinion on required supplementary information and notes that the 2013 financial statements were audited by other auditors.

Internal Control Over Financial Reporting

In planning and performing our audit of the financial statements, we considered the College'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 opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the College's internal control. Accordingly, we do not express an opinion on the effectiveness of the College's internal control.

(Continued)

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INDEPENDENT AUDITORS' REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND ON COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT OF FINANCIAL STATEMENTS PERFORMED IN ACCORDANCE WITH *GOVERNMENT AUDITING STANDARDS*, CONTINUED

Internal Control Over Financial Reporting, Continued

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

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

Compliance and Other Matters

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

Purpose of This Report

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

Finley & Cook, PLLC

Shawnee, Oklahoma
October 24, 2014

FINLEY & COOK
CERTIFIED PUBLIC ACCOUNTANTS

INDEPENDENT AUDITORS' REPORT ON COMPLIANCE FOR EACH MAJOR PROGRAM AND ON INTERNAL CONTROL OVER COMPLIANCE REQUIRED BY OMB CIRCULAR A-133

Board of Regents
Redlands Community College
El Reno, Oklahoma

Report on Compliance for Each Major Federal Program

We have audited the Redlands Community College's (the "College") compliance with the types of compliance requirements described in the *OMB Circular A-133 Compliance Supplement* that could have a direct and material effect on each of the College's major federal programs for the year ended June 30, 2014. The College's major federal programs are identified in the summary of auditors' results section of the accompanying schedule of findings and questioned costs.

Management's Responsibility

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

Auditors' Responsibility

Our responsibility is to express an opinion on compliance for each of the College'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; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. Those standards and OMB Circular A-133 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 College'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 College's compliance.

(Continued)

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Opinion on Each Major Federal Program

In our opinion, the College 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, 2014.

Other Matters

The results of our auditing procedures disclosed an instance of noncompliance, which is required to be reported in accordance with OMB Circular A-133 and which is described in the accompanying schedule of findings and questioned costs as item 2014-01. Our opinion on each major federal program is not modified with respect to these matters.

The College's response to the noncompliance finding identified in our audit is described in the accompanying schedule of findings and questioned costs. The College's response was not subjected to the auditing procedures applied in the audit of compliance and, accordingly, we express no opinion on the response.

Report on Internal Control Over Compliance

Management of the College 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 College's internal control over compliance with the types of requirements that could have a direct and material effect on each major federal program to determine the auditing procedures that are appropriate in the circumstances for the purpose of expressing an opinion on compliance for each major federal program and to test and report on internal control over compliance in accordance with OMB Circular A-133, 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 College'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.

(Continued)

INDEPENDENT AUDITORS' REPORT ON COMPLIANCE FOR EACH MAJOR PROGRAM AND ON INTERNAL CONTROL OVER COMPLIANCE REQUIRED BY OMB CIRCULAR A-133, CONTINUED

Report on Internal Control Over Compliance, Continued

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. However, we identified certain deficiencies in internal control over compliance, as described in the accompanying schedule of findings and questioned costs as Finding 2014-01, that we consider to be significant deficiencies.

The College's response to the internal control over compliance findings identified in our audit is described in the accompanying schedule of findings and questioned costs. The College's response was not subjected to the auditing procedures applied in the audit of compliance and, accordingly, we express no opinion on the response.

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 OMB Circular A-133. Accordingly, this report is not suitable for any other purpose.

Finley + Cook, PLLC

Shawnee, Oklahoma
October 24, 2014

REDLANDS COMMUNITY COLLEGE

SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS

Year Ended June 30, 2014

Federal Grantor/Pass-Through Grantor/Program Title	Federal CFDA Number	Expenditures
U.S. Department of Education:		
Student Financial Assistance Cluster:		
Federal Pell Grant Program	84.063	$ 2,187,021
Federal Supplemental Educational Opportunity Grant	84.007	28,000
Federal Direct Student Loans Program	84.268	1,707,103
Federal Work Study Program	84.033	33,222
Total Student Financial Assistance Cluster		3,955,346
TRIO Cluster:		
Upward Bound	84.047	255,523
Veterans Upward Bound	84.047	248,798
Student Support Services	84.042	257,190
Total TRIO Cluster		761,511
United States Department of Education—Other Programs:		
Carl Perkins Vocational and Technical Education Funds	84.048	52,355
Strengthening Minority-Serving Institutions (NASNTI)	84.382	431,634
Total Other Programs		483,989
Total U.S. Department of Education		5,200,846

(Continued)

See Independent Auditors’ Report.
See accompanying notes to schedule of expenditures of federal awards.

Federal Grantor/Pass-Through Grantor/Program Title	Federal CFDA Number	Expenditures
U.S. Department of Health and Human Services:		
Passed through OSHRE:		
Temporary Assistance to Need Families	93.558	271,922
AHEC—Scholars for Excellence in Child Care	93.596	66,104
Total OSHRE		338,026
Passed through Area Agency on the Aging:		
Title III-B	93.044	85,452
Title III-C	93.045	217,421
Title III-D	93.043	758
Title III-E	93.052	3,829
NSIP	93.053	21,822
Total Area Agency on the Aging		329,282
National Institute for Health and Human Services:		
East Central University Initiative for Minority Students:		
Bridges to Baccalaureate Degree	93.960	1,410
Total East Central University Initiative for Minority Students		1,410
Total U.S. Department of Health and Human Services		668,718
U.S. Department of Commerce:		
Oklahoma Manufacturing Alliance	11.611	89,495
Total U.S. Department of Commerce		89,495
National Science Foundation:		
Passed through Missouri State University:		
VESTA	47.076	34,682
Total National Science Foundation		34,682
Total expenditures of federal awards		$ 5,993,741

See Independent Auditors' Report.

See accompanying notes to schedule of expenditures of federal awards.

(1) BASIS OF ACCOUNTING

The schedule of expenditures of federal awards includes the federal awards activity of Redlands Community College (the "College") and is presented on the accrual basis of accounting. The information in this schedule is presented in accordance with the requirements of OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. Therefore, some amounts presented in the schedule may differ from amounts presented in or used in the preparation of the basic financial statements.

(2) FEDERAL DIRECT STUDENT LOAN PROGRAM

Under the Federal Direct Student Loan Program ("Direct Loan Program"), the U.S. Department of Education makes loans to enable a student or parent to pay the costs of the student's attendance at a postsecondary school. The Direct Loan Program enables an eligible student or parent to obtain a loan to pay for the student's cost of attendance directly from the U.S. Department of Education rather than through private lenders. The College administers the origination and disbursement of the loans to eligible students or parents. The College is not responsible for the collection of these loans.

(3) SUBRECIPIENTS

During the year ended June 30, 2014, the College did not provide any federal awards to subrecipients.

SCHEDULE OF FINDINGS AND QUESTIONED COSTS

Year Ended June 30, 2014

SECTION I—SUMMARY OF AUDITORS' RESULTS

Financial Statements

Type of auditors' report issued: **Unmodified**

Internal control over financial reporting:

Material weakness(es) identified? ☐ **Yes** ☑ **No**

Significant deficiency(ies) identified that are not considered to be material weakness(es)? ☐ **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 that are not considered to be material weakness(es)? ☑ **Yes** ☐ **None Reported**

Type of auditors' report issued on compliance for the major programs: **Unmodified**

Any audit findings disclosed that are required to be reported in accordance with Section 510(a) of Circular A-133? ☑ **Yes** ☐ **No**

Identification of major programs:

CFDA #	Name of Federal Program
84.007, 84.268, 84.033, and 84.063	**Student Financial Assistance Cluster**
84.042 and 84.047	**TRIO Cluster**

Dollar threshold used to distinguish between Type A and Type B programs: **$300,000**

Auditee qualified as low-risk auditee? ☐ **Yes** ☑ **No**

SECTION II—FINDINGS—FINANCIAL STATEMENTS AUDIT

None noted.

SECTION III—FINDINGS AND QUESTIONED COSTS— MAJOR FEDERAL AWARD PROGRAMS AUDIT

SIGNIFICANT DEFICIENCY IDENTIFIED AND FINDING TO BE REPORTED IN ACCORDANCE WITH SECTION 501(a) OF OMB CIRCULAR A-133

Finding 2014-01

Program CFDA No:

Student Financial Assistance Cluster

Federal Award Year:

June 30, 2014

Requirement:

Unearned Title IV funds are required to be returned to the Department of Education.

Finding:

During our audit procedures we reviewed 50 student accounts who received Title IV assistance, and noted that the College did not perform the *Calculation of the Amount of Title IV Assistance Earned* for 5 selected recipients who were required to return unearned Title IV funds to the Department of Education.

Criteria:

In accordance with 34 CFR section 668.22 "If the total amount of Title IV assistance earned by the student is less than the amount that was disbursed to the student or on his or her behalf as of the date of the institution's determination that the student withdrew, the difference must be returned to the Title IV programs and no additional disbursements may be made to the student for the payment period or period of enrollment.

Also in accordance with 34 CFR section 668.173(b) "Returns of Title IV funds are required to be deposited or transferred into the SFA account or electronic fund transfers initiated to ED or the appropriate FFEL lender as soon as possible, but no later than 45 days after the date the institution determines that the student withdrew"

Cause:

The financial aid office did not perform the *Calculation of the Amount of Title IV Assistance Earned*, if a student had both "Withdrawal" and "Failing" system classifications.

Questioned Cost:

Pell	$	4,700
Loans		6,301
	$	11,001

SECTION III—FINDINGS AND QUESTIONED COSTS— MAJOR FEDERAL AWARD PROGRAMS AUDIT, CONTINUED

Finding 2014-01, Continued

Effect of Condition:

The College did not refund the unearned Title IV assistance to the Department of Education in a timely manner for certain students who were classified as both "Withdrawal" and "Failing" in the system.

Recommendation:

We recommend that the College perform the calculation for Unearned Title IV Assistance to all past students overlooked in the system who met the criteria. In addition, the system of internal control should be revised to insure procedures are in place to perform the calculation on all applicable students.

College Response:

Since this finding, Redlands Community College has changed the data sort method to locate these issues. All future calculations should be identified and funds returned in a timely manner.

FINDING FROM JUNE 30, 2013, AUDIT

SECTION II—FINDINGS—FINANCIAL STATEMENTS AUDIT

Finding 2013-01: DEPARTMENT OF EDUCATION

Condition: The College did not reconcile the clearing account on a monthly basis. Additionally, reconciling items on the College's bank reconciliation are not being cleared and proper adjustments made to the accounting records.

Criteria: The College should have policies and procedures in place that maintain accurate accounting records. This includes reconciling all bank accounts monthly and making necessary adjustments timely.

Cause: The reconciling items listed on the monthly bank reconciling are not being addressed timely and required adjustments are not being made timely. Additionally, the agency clearing account is not being reconciled monthly.

Management Comment: *Management agrees with the finding stated and that they will institute the necessary review procedures to ensure all accounts are reconciled and any necessary adjustments made on the accounting records timely.*

Recommendation: To have controls and staff in place to reconcile the bank accounts on a monthly basis and to make the necessary adjustments as needed to keep the books current.

2014 Follow-Up: The College has the controls and staff in place to reconcile the bank accounts on a monthly basis and to make the necessary adjustments as needed to keep the books current.