# Redlands Community College

*Financial Statements*

June 30, 2015
(With Independent Auditors' Report Thereon)

FINLEY & COOK
CERTIFIED PUBLIC ACCOUNTANTS

**REDLANDS COMMUNITY COLLEGE**

**FINANCIAL STATEMENTS**

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## 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 Redlands Community College (the "College"), a component unit of the State of Oklahoma, as of and for the year ended June 30, 2015, 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 statements in accordance with accounting principles generally accepted in the United States; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of 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.

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

(Continued)



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## ***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, 2015, 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***

*Adoption of New Accounting Pronouncements and Restatement of Previously Reported Balances*

As discussed in Note 2 to the financial statements, the beginning net position as of July 1, 2014, has been restated to reflect the implementation of Governmental Accounting Standards Board Statement No. 68, *Accounting and Financial Reporting for Pensions—an amendment of GASB Statement No. 27* (GASB 68), and GASB Statement No. 71, *Pension Transition for Contributions Made Subsequent to the Measurement Date—an amendment of GASB Statement No. 68* (GASB 71). Accordingly, adjustments have been made to the beginning balances of net position as of July 1, 2014. Our opinion is not modified with respect to this matter.

*Commitments and Contingencies*

As more fully discussed in Note 10 to the financial statements, the College has guaranteed certain debt of the Foundation in connection with Phase II of the Cougar Crossing Apartments 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 its impact on the financial statements of the College are not presently known. Our opinion is not modified with respect to this matter.

## ***Other Matters***

*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 and the schedule of the College's proportionate share of the net pension liability and the schedule of the College's contributions on pages 54 and 55, respectively, be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required 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.

(Continued)

## INDEPENDENT AUDITORS' REPORT, CONTINUED

*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. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the basic financial statements. 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 28, 2015, 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 28, 2015

## 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, 2015. 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, 2014, financial statements presented in this Management Discussion and Analysis have been restated to reflect implementation of GASB 68 and 71. The effect of the restatement is as follows:

| | As Previously Reported | As Restated |
|---|---|---|
| Statement of net position: | | |
| Total net position | $ 8,806,808 | (6,278,657) |

| | As Previously Reported | As Restated |
|---|---|---|
| Statement of revenues, expenses, and changes in net position: | | |
| Net position at end of year | $ 8,806,808 | (6,278,657) |

### FINANCIAL HIGHLIGHTS

At June 30, 2015, the College's net position was $(2,123,378), which reflects an increase of $4,155,279 over last year. Operating revenues including tuition and fees, federal and state grants and contracts, and auxiliary enterprises totaled $8,629,346. Net non-operating revenues totaled $8,496,523, which includes governmental appropriations, non-operating federal and state grants, interest earned, and interest and miscellaneous expense. Operating expenses totaled $14,681,097, 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—reflects 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.

## OVERVIEW OF THE FINANCIAL STATEMENTS, CONTINUED

### FINANCIAL ANALYSIS OF THE COLLEGE AS A WHOLE
**Comparison of Net Position**
**June 30, 2015 and 2014**

| | 2015 | 2014 * |
|---|---|---|
| **Assets** | | |
| Current assets | $ 3,054,812 | 1,995,693 |
| Noncurrent assets: | | |
| Capital assets, net of depreciation | 25,793,252 | 24,606,520 |
| Commissions receivable | 297,735 | 375,405 |
| Other | - | 185,000 |
| Total assets | 29,145,799 | 27,162,618 |
| **Deferred Outflows of Resources** | | |
| Deferred cost on OCIA lease restructure | 100,515 | 201,030 |
| Deferred outflow—pension contributions | 1,175,859 | - |
| Total deferred outflows of resources | 1,276,374 | 201,030 |
| **Liabilities** | | |
| Current liabilities | 1,891,562 | 2,260,359 |
| Noncurrent liabilities: | | |
| Capital lease obligations | 14,819,418 | 15,705,010 |
| Premium on ODFA master lease obligation | 12,144 | 13,519 |
| Net pension liability | 12,184,933 | - |
| Total liabilities | 28,908,057 | 17,978,888 |
| **Deferred Inflows of Resources** | | |
| Receipts from service concession arrangement | 297,735 | 375,405 |
| Deferred gain on OCIA lease restructure | 189,953 | 202,547 |
| Deferred inflow—pension experience | 200,844 | - |
| Deferred inflow—pension investment earnings | 2,948,962 | - |
| Total deferred inflows of resources | 3,637,494 | 577,952 |
| **Net Position** | | |
| Invested in capital assets, net | 10,371,131 | 7,657,013 |
| Restricted | 264,871 | 409,336 |
| Unrestricted | (12,759,380) | 740,459 |
| Total net position | $ (2,123,378) | 8,806,808 |

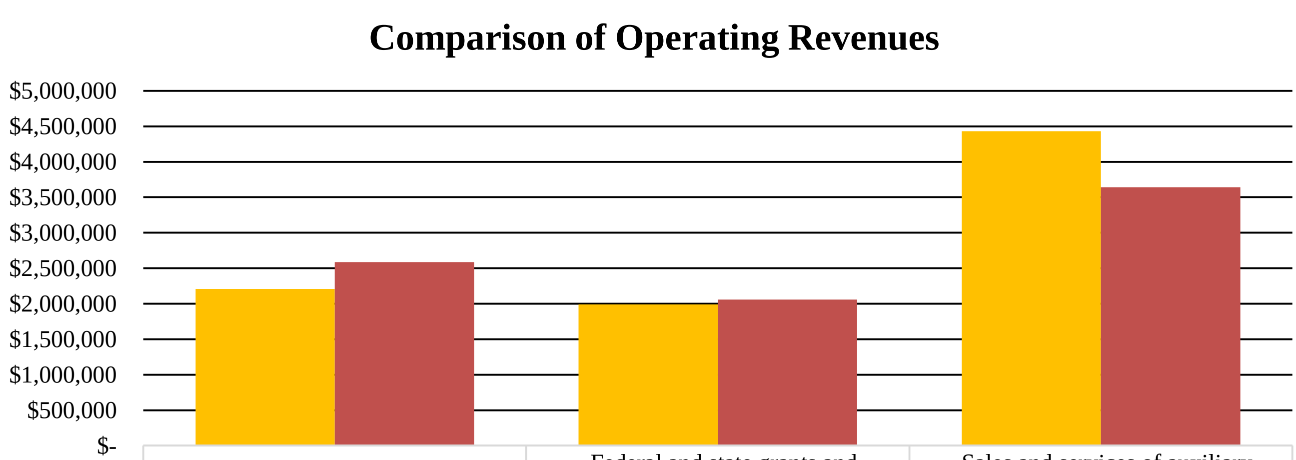
* Prior year amounts not restated for MD&A purposes

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

## OVERVIEW OF THE FINANCIAL STATEMENTS, CONTINUED

### Comparison of Operating Revenues
### Years Ended June 30, 2015 and 2014

| | | 2015 | 2014 * |
|---|---|---|---|
| Operating revenues: | | | |
| Tuition and fees | $ | 2,205,700 | 2,586,222 |
| Federal and state grants and contracts | | 1,991,162 | 2,060,147 |
| Sales and services of auxiliary revenues | | 4,432,484 | 3,643,060 |
| Total operating revenues | | 8,629,346 | 8,289,429 |
| Less operating expenses | | (14,681,097) | (16,598,764) |
| Net operating losses | | (6,051,751) | (8,309,335) |
| Non-operating revenues: | | | |
| State appropriations | | 5,967,867 | 5,967,867 |
| On-behalf payments for OTRS | | 669,972 | 413,000 |
| Federal and state grants—non-operating | | 2,491,498 | 2,537,368 |
| Investment income | | 14,163 | 7,609 |
| Interest on capital debt and miscellaneous expense | | (646,977) | (859,996) |
| Net non-operating revenues | | 8,496,523 | 8,065,848 |
| Other revenues | | 1,710,507 | 1,749,180 |
| Net position: | | | |
| Change in net position | | 4,155,279 | 1,505,693 |
| Net position at beginning of year | | (6,278,657) | 7,301,115 |
| Net position at end of year | $ | (2,123,378) | 8,806,808 |




| | Tuition and fees | Federal and state grants and contracts | Sales and services of auxiliary revenues |
|---|---|---|---|
| 2015 | $2,205,700 | 1,991,162 | 4,432,484 |
| 2014 | 2,586,222 | 2,060,147 | 3,643,060 |

* Prior year amounts not restated for MD&A purposes

## OVERVIEW OF THE FINANCIAL STATEMENTS, CONTINUED

### Cash Flows
### Years Ended June 30, 2015 and 2014

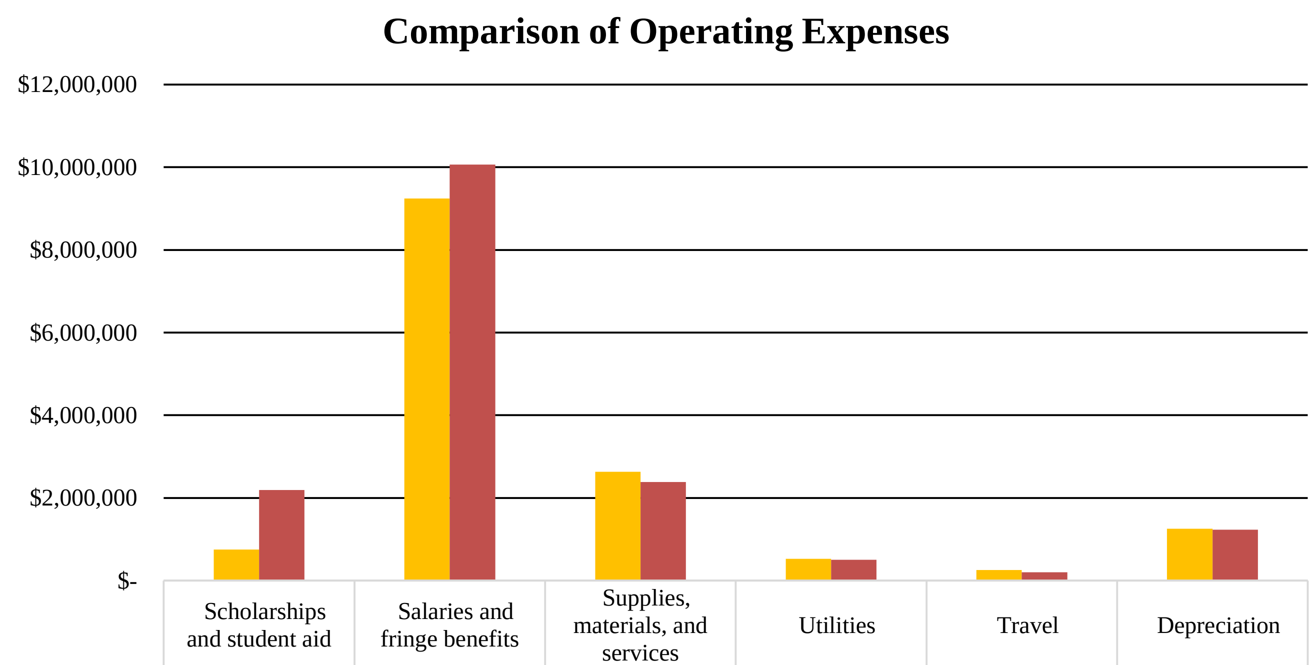
| | | 2015 | 2014 * |
|---|---|---|---|
| Cash (used in) provided by: | | | |
| Operating activities | $ | (4,902,178) | (7,231,865) |
| Noncapital financing activities | | 8,467,501 | 8,487,512 |
| Capital and related financing | | (2,535,792) | (1,363,608) |
| Investing activities | | 199,163 | 61,490 |
| Net increase (decrease) in cash | | 1,228,694 | (46,471) |
| Cash at beginning of year | | 339,951 | 386,422 |
| Cash at end of year | $ | 1,568,645 | 339,951 |

* Prior year amounts not restated for MD&A purposes

## OVERVIEW OF THE FINANCIAL STATEMENTS, CONTINUED

**Comparison of Operating Expenses**
**Years Ended June 30, 2015 and 2014**

| | 2015 | 2014 * |
|---|---|---|
| Operating expenses: | | |
| Scholarships and student aid | $ 756,184 | 2,195,320 |
| Salaries and fringe benefits | 9,246,194 | 10,066,574 |
| Supplies, materials, and services | 2,633,814 | 2,387,153 |
| Utilities | 525,441 | 507,548 |
| Travel | 259,934 | 205,885 |
| Depreciation | 1,259,530 | 1,236,284 |
| Total operating expenses | **$ 14,681,097** | **16,598,764** |



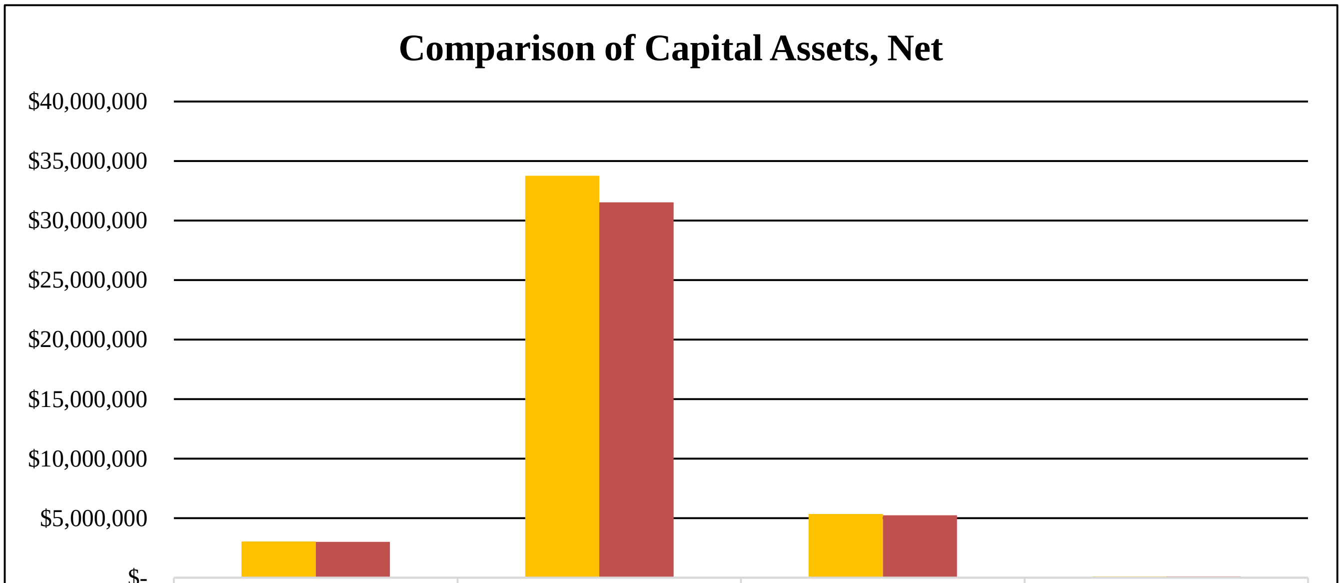

| | Scholarships and student aid | Salaries and fringe benefits | Supplies, materials, and services | Utilities | Travel | Depreciation |
|---|---|---|---|---|---|---|
| 2015 | $756,184 | 9,246,194 | 2,633,814 | 525,441 | 259,934 | 1,259,530 |
| 2014 | 2,195,320 | 10,066,574 | 2,387,153 | 507,548 | 205,885 | 1,236,284 |

* Prior year amounts not restated for MD&A purposes

## OVERVIEW OF THE FINANCIAL STATEMENTS, CONTINUED

**Comparison of Capital Assets, Net**
**Years Ended June 30, 2015 and 2014**

| | 2015 | 2014 * |
|---|---|---|
| **Capital Assets** | | |
| Land and improvements | $ 3,028,983 | 2,992,790 |
| Buildings and facilities | 33,752,763 | 31,518,536 |
| Equipment and vehicles | 5,342,589 | 5,246,180 |
| Library holdings | 102,076 | 102,076 |
| Total capital assets | 42,226,411 | 39,859,582 |
| Less accumulated depreciation | (16,433,159) | (15,253,062) |
| Capital assets, net | $ 25,793,252 | 24,606,520 |



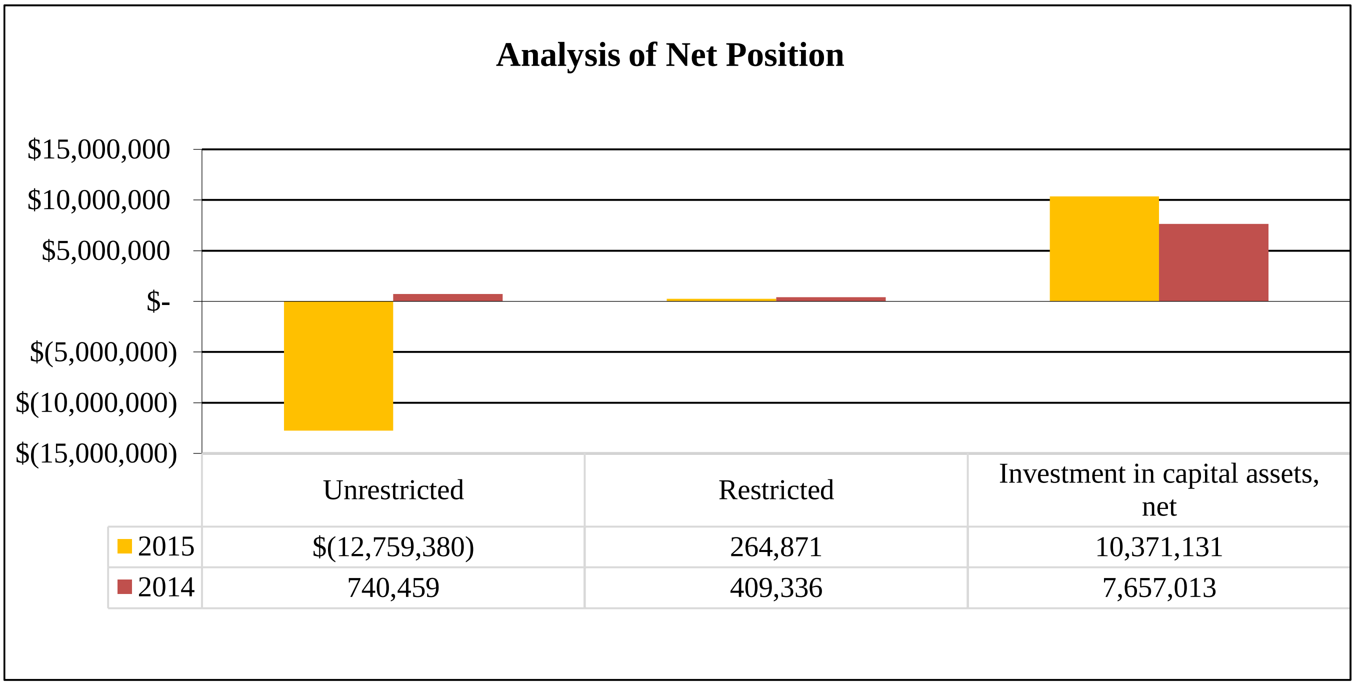

| | Land and improvements | Buildings and facilities | Equipment and vehicles | Library holdings |
|---|---|---|---|---|
| 2015 | $3,028,983 | 33,752,763 | 5,342,589 | 102,076 |
| 2014 | 2,992,790 | 31,518,536 | 5,246,180 | 102,076 |

* Prior year amounts not restated for MD&A purposes

## OVERVIEW OF THE FINANCIAL STATEMENTS, CONTINUED

**Analysis of Net Position**
**Years Ended June 30, 2015 and 2014**

| | 2015 | 2014 * |
|---|---|---|
| **Net Position** | | |
| Unrestricted | $ (12,759,380) | 740,459 |
| Restricted | 264,871 | 409,336 |
| Investment in capital assets, net | 10,371,131 | 7,657,013 |
| Net position | $ (2,123,378) | 8,806,808 |




* Prior year amounts not restated for MD&A purposes

**REDLANDS COMMUNITY COLLEGE**

**STATEMENTS OF NET POSITION**

| | | Redlands Community College | Redlands Community College Foundation |
|---|---|---|---|
| | | *June 30, 2015* | *January 31, 2015* |
| **Assets** | | | |
| Current assets: | | | |
| Cash and cash equivalents | $ | 1,568,645 | 171,247 |
| Certificate of deposit | | - | 3,504 |
| Accounts receivable, net of allowance for doubtful accounts of $415,761 as of June 30, 2015. | | 1,214,675 | - |
| Grants receivable | | 251,996 | - |
| Other receivables | | 19,496 | 60,000 |
| Total current assets | | 3,054,812 | 234,751 |
| Noncurrent assets: | | | |
| Restricted investments | | - | 3,854 |
| Beneficial interests in assets held by others | | - | 663,390 |
| Commissions receivable | | 297,735 | - |
| Other assets | | - | 80,914 |
| Capital assets, net of accumulated depreciation | | 25,793,252 | 3,063,250 |
| Total noncurrent assets | | 26,090,987 | 3,811,408 |
| Total assets | | 29,145,799 | 4,046,159 |
| Deferred outflows of resources: | | | |
| Deferred cost on OCIA lease restructure | | 100,515 | - |
| Deferred outflow—pension contributions | | 1,175,859 | - |
| Total deferred outflows of resources | | 1,276,374 | - |

(Continued)

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

**REDLANDS COMMUNITY COLLEGE**

**STATEMENTS OF NET POSITION, CONTINUED**

| | Redlands Community College<br>*June 30, 2015* | Redlands Community College Foundation<br>*January 31, 2015* |
|---|---|---|
| **Liabilities** | | |
| Current liabilities: | | |
| Accounts payable | 93,307 | - |
| Accrued expenses | 36,468 | - |
| Accrued interest | - | - |
| Accrued compensated absences | 225,727 | - |
| Unearned revenues | 342,101 | 56,312 |
| Long-term liabilities, current portion | 885,383 | - |
| Deposits held in custody for others | 308,576 | 80,914 |
| Total current liabilities | 1,891,562 | 137,226 |
| Noncurrent liabilities: | | |
| Long-term liabilities | 14,831,562 | 3,210,262 |
| Net pension liability | 12,184,933 | - |
| Total noncurrent liabilities | 27,016,495 | 3,210,262 |
| Total liabilities | 28,908,057 | 3,347,488 |
| Deferred inflows of resources: | | |
| Bookstore service concession arrangement | 297,735 | - |
| Deferred gain on OCIA lease restructure | 189,953 | - |
| Deferred inflow—pension experience | 200,844 | - |
| Deferred inflow—pension investment earnings | 2,948,962 | - |
| Total deferred inflows of resources | 3,637,494 | - |
| **Net Position** | | |
| Invested in capital assets | 10,371,131 | - |
| Restricted for: | | |
| Endowments | - | 667,244 |
| Donor restrictions | 264,871 | - |
| Scholarships | - | 119,658 |
| Unrestricted | (12,759,380) | (88,231) |
| Total net position | $ (2,123,378) | 698,671 |

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

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

| | Redlands Community College<br>*Year Ended June 30, 2015* | Redlands Community College Foundation<br>*Year Ended January 31, 2015* |
|---|---|---|
| Operating revenues: | | |
| Student tuition and fees, net of scholarship allowances of $2,972,000 as of June 30, 2015. | $ 2,205,700 | - |
| Federal and state grants and contracts | 1,991,162 | - |
| Sales and services of auxiliary activities. | 4,432,484 | - |
| Other operating revenues | - | 517,035 |
| Total operating revenues | 8,629,346 | 517,035 |
| Operating expenses: | | |
| Compensation | 9,246,194 | - |
| Supplies and materials | 2,633,814 | - |
| Depreciation | 1,259,530 | - |
| Utilities | 525,441 | - |
| Travel | 259,934 | - |
| Scholarships and fellowships | 756,184 | 39,602 |
| Other operating expenses | - | 588,609 |
| Total operating expenses | 14,681,097 | 628,211 |
| Operating loss | (6,051,751) | (111,176) |

(Continued)

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

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

| | Redlands Community College<br>*Year Ended June 30, 2015* | Redlands Community College Foundation<br>*Year Ended January 31, 2015* |
|---|---|---|
| Non-operating revenues (expenses): | | |
| State appropriations | 5,967,867 | - |
| Federal and state grants | 2,491,498 | - |
| On-behalf Teachers' Retirement System contributions | 669,972 | - |
| Investment income | 14,163 | 43,795 |
| Other operating revenues | 8,135 | - |
| Interest expense | (655,112) | - |
| Net non-operating revenues | 8,496,523 | 43,795 |
| Loss before other revenues, expenses, gains, and losses | 2,444,772 | (67,381) |
| Other revenues, expenses, gains, and losses: | | |
| On-behalf Oklahoma Capital Improvement Authority contributions | 806,016 | - |
| Capital appropriations | 904,491 | - |
| Other revenues and gains | 1,710,507 | - |
| Change in net position | 4,155,279 | (67,381) |
| Net position at beginning of year (restated) | (6,278,657) | 766,052 |
| Net position at end of year | $ (2,123,378) | 698,671 |

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

**REDLANDS COMMUNITY COLLEGE**

**STATEMENT OF CASH FLOWS**

*Year Ended June 30, 2015*

| | Redlands Community College |
|---|---|
| **Cash flows from operating activities:** | |
| Tuition and fees | $ 2,238,372 |
| Grants and contracts | 2,142,497 |
| Payments to employees | (9,468,880) |
| Payments to vendors | (4,246,419) |
| Auxiliary enterprise | 4,432,252 |
| Net cash used in operating activities | (4,902,178) |
| **Cash flows from noncapital financing activities:** | |
| State appropriations | 5,967,867 |
| Federal and state grants | 2,491,498 |
| Federal Direct Student Loan receipts | 1,333,538 |
| Federal Direct Student Loan disbursements | (1,333,538) |
| Agency transactions, net | 8,136 |
| Net cash provided by noncapital financing activities | 8,467,501 |
| **Cash flows from capital and related financing activities:** | |
| Capital appropriations received | 904,491 |
| Interest paid on capital debt and leases | (434,854) |
| Payments on capital debt and leases | (559,166) |
| Purchases of capital assets, net | (2,446,263) |
| Net cash used in capital and related financing activities | (2,535,792) |
| **Cash flows from investing activities:** | |
| Sales and maturities of investments | 185,000 |
| Interest on investments | 14,163 |
| Net cash provided by investing activities | 199,163 |
| **Net change in cash and cash equivalents** | 1,228,694 |
| Cash and cash equivalents, beginning of year | 339,951 |
| Cash and cash equivalents, end of year | $ 1,568,645 |

(Continued)

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

**REDLANDS COMMUNITY COLLEGE**

**STATEMENT OF CASH FLOWS, CONTINUED**

*Year Ended June 30, 2015*

| | | Redlands Community College |
|---|---|---|
| **Reconciliation of net operating loss to net cash used in operating activities:** | | |
| Operating loss | $ | (6,051,751) |
| Adjustments to reconcile operating loss to net cash used in operating activities: | | |
| Depreciation and amortization expense | | 1,259,530 |
| On-behalf Teachers' Retirement System contributions | | 669,972 |
| Changes in assets and liabilities: | | |
| Receivables, net | | 169,575 |
| Deferred outflows—pension contributions | | (50,482) |
| Accounts payable | | (214,119) |
| Payables from custody accounts | | 143,072 |
| Accrued expenses | | (1,256) |
| Deferred inflows—pension experience | | 200,844 |
| Deferred inflows—pension investment earnings | | 2,948,962 |
| Compensated absences | | 35,182 |
| Net pension liability | | (4,025,909) |
| Unearned revenues | | 14,202 |
| Net cash used in operating activities | $ | (4,902,178) |
| **Supplemental cash flow information:** | | |
| Principal and interest paid by OCIA | $ | 806,016 |

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 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 31; as such, the most recent audit for the year ended January 31, 2015, is being used.

## (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* (GASB 34), and GASB Statement No. 35, *Basic Financial Statements—and Management's Discussion and Analysis—for Public Colleges and Universities* (GASB 35).

Under GASB 34 and GASB 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.

## (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* (GASB 40), the College has disclosed its deposit and investment policies related to the risks identified in GASB 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, (2) estimated amounts for accrued compensated absences that will not be paid within the next fiscal year, and (3) net pension liability.

### 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 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 2015, the College's deferred outflows of resources were comprised of deferred charges on an OCIA lease restructure and pension contributions.

### 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, 2015, the College's inflows related to a service concession agreement for the bookstore, a deferred gain on an Oklahoma Capital Improvement Authority lease restructure, and pension experience and investment earnings.

## (1) SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES, CONTINUED

### Pensions

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

### 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 28, 2015, the date which the financial statements were available to be issued, and determined that no subsequent events have occurred that require adjustment to or disclosure in the financial statements.

### New Accounting Pronouncements

*New Accounting Pronouncements Adopted*

GASB Statement No. 68, *Accounting and Financial Reporting for Pensions—an amendment of GASB Statement No. 27* (GASB 68), establishes standards for measuring and recognizing liabilities, deferred outflows of resources, deferred inflows of resources, and pension expenses. GASB 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 68 as single employer plans, agent employer plans, and cost-sharing plans, and recognition and disclosure requirements are addressed for each classification. GASB 68 was issued in June 2012, and the College adopted this statement effective July 1, 2014. The adoption had a significant impact on the financial statements of the College, and the July 1, 2014, beginning net position was restated.

## (1) SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES, CONTINUED

### New Accounting Pronouncements, Continued

*New Accounting Pronouncements Adopted, Continued*

GASB Statement No. 69, *Government Combinations and Disposals of Government Operations* (GASB 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 adopted this statement effective July 1, 2014. The adoption had no significant impact on the financial statements of the College.

In November 2013, GASB issued Statement No. 71, *Pension Transition for Contributions Made Subsequent to the Measurement Date—an amendment of GASB Statement No. 68* (GASB 71). GASB 71 amends GASB 68 by amending the transition provisions of GASB 68. At transition to GASB 68, employers that could not practically determine all of the deferred inflows and outflows related to pensions were provided guidance that no deferred inflows or outflows should be reported. GASB 71 amends this guidance to provide that a government recognize a beginning deferred outflow of resources for pension contributions made subsequent to the measurement date. GASB 71 will eliminate the source of a potential significant understatement of restated beginning net position and expense in the first year of implementation of GASB 68. The College adopted this statement on July 1, 2014, and the beginning net position was restated.

*New Accounting Pronouncements Not Yet Adopted*

In February 2015, GASB issued Statement No. 72, *Fair Value Measurement and Application* (GASB 72). GASB 72 addresses accounting and financial reporting issues related to fair value measurements. The definition of fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. GASB 72 provides guidance for determining a fair value measurement for financial reporting purposes. GASB 72 also provides guidance for applying fair value to certain investments and disclosures related to all fair value measurements. The requirements of GASB 72 will enhance comparability of financial statements among governments by requiring measurement of certain assets and liabilities at fair value using a consistent and more detailed definition of fair value and accepted valuation techniques. GASB 72 also will enhance fair value application guidance and related disclosures in order to provide information to financial statement users about the impact of fair value measurements on a government's financial position. GASB 72 is effective for financial statements for periods beginning after June 15, 2015. The College will adopt GASB 72 effective July 1, 2015, for the June 30, 2016, reporting year. GASB 72 will require additional and/or revised disclosures in the financial statements.

## (2) RESTATEMENT

The July 1, 2014, beginning net position has been restated to reflect the implementation of GASB 68 and GASB 71. The effect of the restatement is as follows:

| | Fiscal Year 2015 |
|---|---|
| Beginning net position, as previously reported | $ 8,806,808 |
| Implementation of GASB 68 and GASB 71 | (15,085,465) |
| Beginning net position, restated | $ (6,278,657) |

## (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, 2015, the carrying amount of the College's deposits was $1,568,645. This amount consisted of deposits with the State Treasurer of $1,568,645 at June 30, 2015.

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 U.S. 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* totaled $481,504 at June 30, 2015.

See Independent Auditors' Report.

## (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, 2015, the distribution of deposits in *OK INVEST* are as follows:

| *OK INVEST* Portfolio | | Cost | Market Value |
|---|---|---|---|
| U.S. agencies | $ | 193,314 | 193,106 |
| Money market mutual funds | | 60,448 | 60,448 |
| End of day commercial paper sweeps | | 9,742 | 9,742 |
| Certificates of deposit | | 13,147 | 13,147 |
| Mortgage-backed securities | | 188,896 | 191,310 |
| Municipal bonds | | 6,676 | 7,239 |
| Foreign bonds | | 3,708 | 3,708 |
| U.S. treasuries | | 5,573 | 6,690 |
| | $ | 481,504 | 485,390 |

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's daily cash flow requirements. Guidelines in the Investment Policy address credit quality requirements and diversification percentages and specify the types and maturities of allowable investments. 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 10 years. *OK INVEST* maintains an overall weighted average maturity of no more than 4 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 of Regents 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 of Regents 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.

## (4) ACCOUNTS RECEIVABLE, NET

Accounts receivable consisted of the following at June 30, 2015:

| | | |
|---|---|---|
| Student tuition and fees | $ | 1,630,436 |
| Less allowance for doubtful accounts | | (415,761) |
| | $ | 1,214,675 |

See Independent Auditors' Report.

## (5) CAPITAL ASSETS, NET

Following are the changes in capital assets for the year ended June 30, 2015:

| | Balance at June 30, 2014 | Additions | Transfers | Retirements | Balance at June 30, 2015 |
|---|---|---|---|---|---|
| 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 | 36,193 | - | - | 2,154,901 |
| Building and facilities | 31,518,536 | 2,234,227 | - | - | 33,752,763 |
| Equipment and vehicles | 5,246,180 | 183,992 | - | (87,583) | 5,342,589 |
| Total capital assets being depreciated | 38,883,424 | 2,454,412 | - | (87,583) | 41,250,253 |
| Less accumulated depreciation: | | | | | |
| Land improvements | (1,308,526) | (90,381) | - | - | (1,398,907) |
| Building and facilities | (9,437,773) | (837,543) | - | - | (10,275,316) |
| Equipment and vehicles | (4,506,763) | (331,606) | - | 79,433 | (4,758,936) |
| Total accumulated depreciation | (15,253,062) | (1,259,530) | - | 79,433 | (16,433,159) |
| Total capital assets being depreciated, net | 23,630,362 | 1,194,882 | - | (8,150) | 24,817,094 |
| Capital assets, net | $ 24,606,520 | 1,194,882 | - | (8,150) | 25,793,252 |

At June 30, 2015, 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 2015, total interest was $655,112. The College capitalizes interest as a component of capital assets constructed for its own use. There was no interest capitalized in 2015.

## (6) LONG-TERM LIABILITIES

Long-term liability activity for the year ended June 30, 2015, was as follows:

| | June 30, 2014 | Additions | Reductions | June 30, 2015 | Due Within 1 Year |
|---|---|---|---|---|---|
| Bonds and capital lease obligations, net of bond premium or discount: | | | | | |
| Revenue bond payable | $ 105,000 | - | (105,000) | - | - |
| OCIA capital lease obligations | 6,608,293 | - | (666,199) | 5,942,094 | 520,425 |
| ODFA master lease revenue bonds | 10,233,216 | - | (458,365) | 9,774,851 | 364,958 |
| Total bonds and capital lease obligations | 16,946,509 | - | (1,229,564) | 15,716,945 | 885,383 |
| Other liabilities: | | | | | |
| Accrued compensated absences | 190,545 | 225,727 | (190,545) | 225,727 | 225,727 |
| Net pension liability | 16,210,842 | 713,498 | (4,739,407) | 12,184,933 | - |
| Total other liabilities | 16,401,387 | 939,225 | (4,929,952) | 12,410,660 | 225,727 |
| Total long-term liabilities | $ 33,347,896 | 939,225 | (6,159,516) | 28,127,605 | 1,111,110 |

### 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 amounts totaling $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 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 2015, the College paid $105,000 in principal and the bonds were paid in full and all sinking fund monies were released.

## (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. This lease was paid off in 2015.

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 is being 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, 2015, OCIA made lease principal and interest payments totaling $806,016 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, 2015, 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 $100,515. The unamortized deferred cost is included in the deferred outflows of resources in the accompanying financial statements.

During the year ended June 30, 2015, the College recognized $12,594 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 $189,953. 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 |
|---|---|---|---|
| 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 | 4,187 | 164,228 | 168,415 |
| 2021–2025 | 1,005,133 | 773,312 | 1,778,445 |
| 2026–2030 | 1,985,249 | 407,123 | 2,392,372 |
| 2031–2035 | 455,984 | 22,526 | 478,510 |
| | $ 5,942,094 | 2,276,871 | 8,218,965 |

### 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. The lease was paid off in 2015.

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. The lease was paid off in 2015.

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 2015, the College paid $454,166 in principal and $431,573 in related interest on these bonds.

The schedule of maturities of the bonds is as follows:

| Year Ending June 30, | Principal | Interest | Total |
|---|---|---|---|
| 2016 | $ 364,958 | 417,049 | 782,007 |
| 2017 | 373,208 | 404,750 | 777,958 |
| 2018 | 388,208 | 391,617 | 779,825 |
| 2019 | 398,875 | 377,628 | 776,503 |
| 2020 | 417,458 | 362,882 | 780,340 |
| 2021–2025 | 1,896,120 | 1,572,798 | 3,468,918 |
| 2026–2030 | 1,892,869 | 1,195,572 | 3,088,441 |
| 2031–2035 | 2,317,276 | 726,506 | 3,043,782 |
| 2036–2040 | 1,725,879 | 200,253 | 1,926,132 |
| | $ 9,774,851 | 5,649,055 | 15,423,906 |

The ODFA Series 2008A bonds were issued at a premium. The College's pro rata portion of the premium was $17,768. During 2015, the College recognized $1,185 of amortization, leaving a balance of the unamortized bond premium of $9,674. 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 2015, the College recognized $95 of amortization. The premium was fully amortized in 2015.

The ODFA Series 2009C bonds were issued at a premium. The College's pro rata portion of the premium was $281. During 2015, the College recognized $11 of amortization, leaving a balance of the unamortized bond premium of $215. 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 2015, the College recognized $2,728 of amortization and the premium was fully amortized.

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 2015, the College recognized $179 of amortization, leaving a balance of the unamortized bond premium of $3,630. The unamortized bond premium is included in the ODFA capital lease obligation in the accompanying financial statements.

## (7) 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 $297,735 at June 30, 2015, pursuant to the service concession arrangement.

## (8) 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.

### ***Plan Description***

The College as the employer, participates in the Oklahoma Teachers Retirement Plan—a cost-sharing multiple-employer defined benefit pension plan administered by the Oklahoma Teachers Retirement System (OTRS). Title 70 O. S. Sec. 17-105 defines all retirement benefits. The authority to establish and amend benefit provisions rests with the State Legislature. OTRS issues a publicly available financial report that can be obtained at www.ok.gov/OTRS.

## (8) RETIREMENT PROGRAMS, CONTINUED

### Oklahoma Teachers' Retirement System

#### *Benefits Provided*

OTRS provides retirement, disability, and death benefits to members of the plan. Benefit provisions include:

- Members become 100% vested in retirement benefits earned to date after five years of credited Oklahoma service. Members who joined the System on June 30, 1992, or prior are eligible to retire at maximum benefits when age and years of creditable service total 80. Members joining the System after June 30, 1992, are eligible for maximum benefits when their age and years of creditable service total 90. Members whose age and service do not equal the eligible limit may receive reduced benefits as early as age 55, and at age 62 receive unreduced benefits based on their years of service. The maximum retirement benefit is equal

- Final compensation for members who joined the System prior to July 1, 1992, is defined as the average salary for the three highest years of compensation. Final compensation for members joining the System after June 30, 1992, is defined as the average of the highest five consecutive years of annual compensation in which contributions have been made. The final average compensation is limited for service credit accumulated prior to July 1, 1995, to $40,000 or $25,000, depending on the member's election. Monthly benefits are 1/12 of this amount. Service credits accumulated after June 30, 1995, are calculated based on each member's final average compensation, except for certain employees of the two comprehensive universities. Upon the death of a member who has not yet retired, the designated beneficiary shall receive the member's total contributions plus 100% of interest earned through the end of the fiscal year, with interest rates varying based on time of service. A surviving spouse of a qualified member may elect to receive, in lieu of the aforementioned benefits, the retirement benefit the member was entitled to at the time of death as provided under the Joint Survivor Benefit Option.

- Upon the death of a retired member, the System will pay $5,000 to the designated beneficiary, in addition to the benefits provided for the retirement option selected by the member.

- A member is eligible for disability benefits after ten years of credited Oklahoma service. The disability benefit is equal to 2% of final average compensation for the applicable years of credited service.

## (8) RETIREMENT PROGRAMS, CONTINUED

### Oklahoma Teachers' Retirement System, Continued

#### *Benefits Provided, Continued*

- Upon separation from the System, members' contributions are refundable with interest based on certain restrictions provided in the plan, or by the Internal Revenue Code (IRC).
- Members may elect to make additional contributions to a tax-sheltered annuity program up to the exclusion allowance provided under the IRC under Code Section 403(b).
- At the election of each eligible member initiating receipt of retirement benefits, the System remits between $100 and $105 per month per eligible retiree to the Employees Group Insurance Division (EGID), depending on the members' years of service during 2014.

#### *Contributions*

The contributions requirements of the Plan are at an established rate determine by Oklahoma Statute, amended by the Oklahoma Legislature, and are not based on actuarial calculations. Employees are required to contribute 7% of their annual pay. Participating employers are required to contribute 9.5% of the employees' annual pay and an additional 8.25% for any employees' salaries covered by federal funds. Contributions to the pension plan from the College were $1,175,859, which includes the employer "pick-up" of employee contributions. The State of Oklahoma also made on-behalf contributions to OTRS, of which $669,972 was recognized by the College; these on-behalf payments did not meet the criteria of a special funding situation.

#### *Pension Liabilities, Pension Expense, and Deferred Outflows of Resources and Deferred Inflows of Resources Related to Pensions*

At June 30, 2015, the College reported a liability of $12,184,933 for its proportionate share of the net pension liability. The net pension liability was measured as of June 30, 2014, and the total pension liability used to calculate the net pension liability was determined by an actuarial valuation as of July 1, 2014. The College's proportion of the net pension liability was based on the College's contributions received by the pension plan relative to the total contributions received by pension plan for all participating employers as of June 30, 2014. Based upon this information, the College's proportion was .2265 percent.

See Independent Auditors' Report.

## (8) RETIREMENT PROGRAMS, CONTINUED

### Oklahoma Teachers' Retirement System, Continued

***Pension Liabilities, Pension Expense, and Deferred Outflows of Resources and Deferred Inflows of Resources Related to Pensions, Continued***

For the year ended June 30, 2015, the College recognized pension expense of $919,246. At June 30, 2015, the College reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

| | Deferred Outflows of Resources | Deferred Inflows of Resources |
|---|---|---|
| Differences between expected and actual experience | $ - | 200,844 |
| Net difference between projected and actual earnings on pension plan investments | - | 2,948,962 |
| College contributions subsequent to the measurement date | 1,175,859 | - |
| | $ 1,175,859 | 3,149,806 |

There was $1,175,859 reported as deferred outflows of resources related to pensions resulting from College contributions subsequent to the measurement date that will be recognized as a reduction of the net pension liability in the year ended June 30, 2016. Other amounts reported as deferred outflows of resources and deferred inflows of resources related to pensions will be recognized in pension expense as follows:

| Year Ended June 30, | |
|---|---|
| 2016 | $ (774,994) |
| 2017 | (774,994) |
| 2018 | (774,994) |
| 2019 | (774,994) |
| 2020 | (37,753) |
| Thereafter | (12,077) |

## (8) RETIREMENT PROGRAMS, CONTINUED

### Oklahoma Teachers' Retirement System, Continued

***Actuarial Assumptions***

The total pension liability as of June 30, 2014, was determined based on an actuarial valuation prepared as of June 30, 2014, using the following actuarial assumptions:

- Actuarial Cost Method—Entry Age
- Amortization Method—Level Percentage of Payroll
- Inflation—3.00%
- Salary Increases—Composed of 3.00% inflation, plus 1.00% productivity increase rate, plus step-rate promotional increases for members with less than 25 years of service.
- Investment Rate of Return—8.00%
- Retirement Age—Experience-based table of rates based on age, service, and gender. Adopted by the Board in September 2010 in conjunction with the five year experience study for the period ending June 30, 2009.
- Mortality—RP-2000 Combined Mortality Table, projected to 2016 using Scale AA, multiplied by 90% for males and 80% for females.

The actuarial assumptions used in the July 1, 2014, valuation were based on the results of an actuarial experience study for the period July 2007 to June 2011.

## (8) RETIREMENT PROGRAMS, CONTINUED

### Oklahoma Teachers' Retirement System, Continued

#### *Actuarial Assumptions, Continued*

| Asset Class | Target Asset Allocation | Long-Term Expected Real Rate of Return |
|---|---|---|
| Domestic All Cap Equity* | 7.0% | 6.7% |
| Domestic Large Cap Equity | 10.0% | 6.2% |
| Domestic Mid Cap Equity | 13.0% | 6.9% |
| Domestic Small Cap Equity | 10.0% | 7.0% |
| International Large Cap Equity | 11.5% | 7.0% |
| International Small Cap Equity | 6.0% | 7.0% |
| Core Plus Fixed Income | 17.5% | 2.1% |
| High-yield Fixed Income | 6.0% | 4.5% |
| Private Equity | 5.0% | 7.9% |
| Real Estate** | 7.0% | 5.5% |
| Master Limited Partnerships | 7.0% | 7.9% |
| | 100.00% | |

* The domestic all cap equity total expected return is a combination of 3 rates—U.S. large cap, U.S. mid cap, and U.S. small cap.

**The real estate total expected return is a combination of U.S. direct real estate (unlevered) and U.S. value added real estate (unlevered).

See Independent Auditors' Report.

## (8) RETIREMENT PROGRAMS, CONTINUED

### Oklahoma Teachers' Retirement System, Continued

***Discount Rate***

A single discount rate of 8.0% was used to measure the total pension liability as of June 30, 2013, and June 30, 2014. This single discount rate was based solely on the expected rate of return on pension plan investments of 8.0%. Based on the stated assumptions and the projection of cash flows, the pension plan's fiduciary net position and future contributions were projected to be available to finance all projected future benefit payments of current plan members. Therefore, the long-term expected rate of return on pension plan investments was applied to all periods of projected benefit payments to determine the total pension liability. The projection of cash flows used to determine this single discount rate assumed that plan member and employer contributions will be made at the current statutory levels and remain a level percentage of payrolls. The projection of cash flows also assumed that the State's contribution plus the matching contributions will remain a constant percent of projected member payroll based on the past five years of actual contributions.

***Sensitivity of the Net Pension Liability to Changes in the Discount Rate***

The following presents the net pension liability of the employers calculated using the discount rate of 8%, as well as what the Plan's net pension liability would be if it were calculated using a discount rate that is 1 percentage point lower (7.0%) or 1 percentage point higher (9.0%) than the current rate:

| | 1% Decrease (7.0%) | Current Discount Rate (8.0%) | 1% Increase (9.0%) |
|---|---|---|---|
| Employers' net pension liability | $ 17,118,233 | 12,184,933 | 8,021,059 |

***Pension Plan Fiduciary Net Position***

Detailed information about the pension plan's fiduciary net position is available in the separately issued financial report of the OTRS, which can be located at www.ok.gov/OTRS.

### 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.

See Independent Auditors' Report.

## (8) RETIREMENT PROGRAMS, CONTINUED

### 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 four retirees as of June 30, 2015. No accrual for benefits has been made as the expense is not considered significant.

## (9) 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, 2015:

| | | |
|---|---|---|
| Scholarship funds awarded to the College | $ | 29,442 |
| Payment of services to the Foundation | $ | 6,501 |
| Rent collected and submitted to the Foundation | $ | 477,966 |

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, 2015, approximately $1,334,000 of Direct Loan Program loans were provided to College students.

## (10) COMMITMENTS AND CONTINGENCIES

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.

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

| | Estimates as of June 30, 2015 | | |
|---|---|---|---|
| | Current | Noncurrent | Total |
| Base rent | $ 372,383 | 32,469,318 | 32,841,701 |
| Management fee | 15,000 | 692,500 | 707,500 |
| | $ 387,383 | 33,161,818 | 33,549,201 |

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, 2015.

Attorney General Opinion—Cougar Crossing Transactions

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 a third-party promissory note and other agreements. The validity of the third-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 had 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.

## (10) COMMITMENTS AND CONTINGENCIES, CONTINUED

Litigation

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. The debt forgiveness occurred in 2014, in the amount of $369,148.

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, 2015, that management believes would result in a material loss to the College in the event of an adverse outcome.

## (11) 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.

## (12) SUBSEQUENT EVENT

Subsequent to June 30, 2015, the College entered into a 30-year lease agreement with ODFA, whereby ODFA issued bonds whose proceeds will be used by the College to finance the purchase of the Phase II Cougar Crossing Apartments (the "Apartments") for approximately $6,000,000. Presently, the apartments are operated by the Foundation under a capital lease. The acquisition by the College should eliminate any debt of the Foundation for the Apartments.

## (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.

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

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

#### 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.

#### 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

Investment purchases are recorded at cost, or if donated, at fair value on the date of donation. Thereafter, investments are reported at their fair values in the statement of assets, liabilities, and net assets—modified cash basis. Net investment return/(loss) is reported in the statement of revenues, expenses, and changes in net assets—modified cash basis, and consists of interest and dividend income, realized and unrealized capital gains and losses, less investment management and custodial fees.

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

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

#### 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.

The Foundation reviews the carrying values of property and equipment for impairment whenever events or circumstances indicate that the carrying value of an asset may not be recoverable from the estimated future cash flows expected to result from its use and eventual disposition. When considered impaired, an impairment loss is recognized to the extent the carrying value exceeds the fair value of the asset. There were no indicators of asset impairment during the year ended January 31, 2015.

#### Endowment Funds

As of January 31, 2015, the Foundation's endowments consisted of 31 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.

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.

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

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

#### Endowment Funds, Continued

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).

#### 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, 2015, the assets consisted of cash of $80,914 and certificates of deposit of $0 which are carried at fair value. The liability for assets held for others is equal to the fair value of the assets.

See Independent Auditors' Report.

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

### 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 10 and Note I). 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, 2015, 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. Therefore, the Foundation recognized lease income of $1,500 related to the ground lease for the year ended January 31, 2015, with the remaining $56,312 included in unearned lease income as a liability in the statements of assets, liabilities, and net assets—modified cash basis as of January 31, 2015.

### NOTE (D)—PROPERTY AND EQUIPMENT

Property and equipment consisted of the following as of January 31, 2015:

| | |
|---|---|
| Land | $ 157,000 |
| Building | 3,218,753 |
| Equipment | 29,458 |
| Furniture and fixtures | 17,844 |
| | 3,423,055 |
| Less accumulated depreciation | 359,805 |
| | $ 3,063,250 |

### 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, 2015:

| | |
|---|---|
| Mutual funds | $ 3,854 |

See Independent Auditors' Report.

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

### 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 $663,390 as of January 31, 2015. The endowed funds contributed by third-party donors held by OCCF designated for the benefit of the Foundation were $185,041 as of January 31, 2015, and are not reflected in the Foundation's statement of assets, liabilities, and net assets—modified cash basis.

### NOTE (G)—INVESTMENT INCOME

Investment income, net of investment expenses, is as follows for the year ended January 31, 2015:

| | Unrestricted | Temporarily Restricted | Permanently Restricted | Total |
|---|---|---|---|---|
| Interest and dividends: | | | | |
| Cash and cash equivalents | $ 270 | - | - | 270 |
| Certificate of deposit | 17 | - | - | 17 |
| Mutual funds: high yield bond funds | - | 344 | - | 344 |
| Total interest and dividends | 287 | 344 | - | 631 |
| Realized and unrealized gains, net: | | | | |
| Mutual funds: high yield bond funds | - | - | (703) | (703) |
| Beneficial interest in assets held by others | - | - | 43,867 | 43,867 |
| Total realized and unrealized gains, net | - | - | 43,164 | 43,164 |
| Investment income, net | $ 287 | 344 | 43,164 | 43,795 |

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.

Following is a description of the valuation methodologies used for assets measured at fair value:

The fair value of investments in mutual funds are based upon quoted market prices for identical assets and are classified within Level 1.

The fair value of beneficial interests in assets held by OCCF is based on the fair value of investments as reported by OCCF. These are considered to be Level 3 measurements.

Certain of the Foundation's assets are reported at fair value in the accompanying statement of position on a recurring basis. The Foundation's assets reported at fair value on a recurring basis are summarized as follows:

| | | Fair Value Measurements at Reporting Date Using | | |
|---|---|---|---|---|
| | Total | 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 | $ 3,854 | 3,854 | - | - |
| Beneficial interest in assets held by others (Note F) | 663,390 | - | - | 663,390 |
| | $ 667,244 | 3,854 | - | 663,390 |

See Independent Auditors' Report.

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

### NOTE (H)—FAIR VALUE MEASUREMENTS, CONTINUED

Below is a reconciliation of the beginning and ending balance of assets measured at fair value on a recurring basis using significant unobservable inputs (Level 3) for the year ended January 31, 2015.

| | Beneficial Interest in Assets Held by OCCF |
|---|---|
| Balance at January 31, 2014 | $ 575,319 |
| Purchases/Contributions of investments | 69,543 |
| Investment income, net | 43,866 |
| Distributions | (25,338) |
| Balance at January 31, 2015 | $ 663,390 |

### 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, 2015:

| | |
|---|---|
| Cougar Crossing Apartments, Phase II | $ 3,100,000 |
| Less accumulated depreciation | (193,750) |
| | $ 2,906,250 |

See Independent Auditors' Report.

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

### NOTE (I)—CAPITAL LEASES, CONTINUED

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

| | |
|---|---|
| 2016 | $ 429,102 |
| 2017 | 377,766 |
| 2018 | 387,210 |
| 2019 | 396,890 |
| 2020 | 396,890 |
| 2021 and thereafter | 31,448,977 |
| | 33,436,835 |
| Less amount representing interest | (30,226,573) |
| | $ 3,210,262 |

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.

### 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, 2015:

| | Unrestricted | Temporarily Restricted | Permanently Restricted | Total |
|---|---|---|---|---|
| Endowment assets by type of fund: | | | | |
| Donor-restricted endowment funds | $ - | - | 667,244 | 667,244 |

See Independent Auditors' Report.

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

### NOTE (J)—ENDOWMENT FUNDS, CONTINUED

Changes in endowment net assets are as follows for the years ended January 31, 2015:

| | Permanently Restricted |
|---|---|
| Endowment net assets at beginning of year | $ 583,187 |
| Investment return: | |
| Investment income | 344 |
| Net appreciation (realized and unrealized) | 43,164 |
| Total investment return | 43,508 |
| Appropriation of endowment assets: | |
| Contributions | 51,000 |
| Reinvestment of unused earnings | 18,543 |
| Distribution of earnings | (28,994) |
| Total appropriation of endowment assets | 40,549 |
| Endowment net assets at end of year | $ 667,244 |

## (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, 2015:

| | | |
|---|---|---|
| Unrestricted net assets: | | |
| Cougar Crossing Phase II | $ | (286,052) |
| Net investment in property and equipment | | 157,000 |
| Undesignated | | 40,821 |
| | | (88,231) |
| Temporarily restricted net assets: | | |
| Scholarships | | 119,658 |
| Permanently restricted net assets: | | |
| Program endowment fund—with income restricted for scholarships | | 667,244 |
| | $ | 698,671 |

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)—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, 2012

### NOTE (M)—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, 2015, 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 (N)—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, 2015.

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 (O)—COUGAR CROSSING PHASE II

The following is a summary of the activity relating to Cougar Crossing Phase II:

| | As of January 31, 2015 |
|---|---|
| Assets: | |
| Cash and cash equivalents | $ 3,608 |
| Ground lease receivable | 60,000 |
| Property and equipment, net | 2,906,250 |
| Total assets | $ 2,969,858 |
| Liabilities: | |
| Unearned lease income | $ 56,312 |
| Obligations under capital leases | 3,210,262 |
| Total liabilities | 3,266,574 |
| Net assets: | |
| Unrestricted—Cougar Crossing Phase II | (296,716) |
| Total net assets | (296,716) |
| Total liabilities and net assets | $ 2,969,858 |

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

### NOTE (O)—COUGAR CROSSING PHASE II, CONTINUED

| | Year Ended January 31, 2015 |
|---|---|
| Revenues, gains, and other support: | |
| Cougar Crossing Phase II lease income | $ 406,340 |
| Ground lease income | 1,500 |
| Total revenues, gains, and other support | 407,840 |
| Expenses: | |
| Utilities | 47,251 |
| Insurance | 10,663 |
| Repairs and maintenance | 25,518 |
| Miscellaneous | 300 |
| Management fees | 15,000 |
| Legal fees | 10,664 |
| Depreciation | 77,500 |
| Interest expense | 363,776 |
| Total expenses | 550,672 |
| Changes in net assets | $ (142,832) |

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.

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

### NOTE (P)—SUBSEQUENT EVENTS

The Foundation has evaluated subsequent events and transactions for potential recognition or disclosure in the financial statements through September 28, 2015, the date the financial statements were available to be issued.

Based on an agreement to be finalized subsequent to the date of this report, The College is expected to purchase Cougar Crossing Phase II from Redlands/El Reno II, LLC, effectively eliminating the capital lease agreement with the Foundation. The completion of this transaction will result in a gain on the subsequent financial statement.

**REDLANDS COMMUNITY COLLEGE**

**SUPPLEMENTARY INFORMATION REQUIRED BY GOVERNMENTAL ACCOUNTING STANDARDS BOARD STATEMENT NO. 68**

**Exhibit I**

**REDLANDS COMMUNITY COLLEGE**

**SCHEDULE OF THE COLLEGE'S PROPORTIONATE SHARE OF THE NET PENSION LIABILITY**
**Oklahoma Teachers' Retirement System**

**Current Fiscal Year**

| | | 2015 |
|---|---|---|
| College's proportion of the net pension liability | | 0.2265% |
| College's proportionate share of the net pension liability | $ | 12,184,933 |
| College's covered-employee payroll | | 5,656,253 |
| College's proportionate share of the net pension liability as a percentage of its covered-employee payroll | | 215.42% |
| Plan fiduciary net position as a percentage of the total pension liability | | 72.43% |

* The amounts presented for each fiscal year were determined as of June 30th of the prior year.

**Note to the Schedule:**
Only the current fiscal year is presented because 10-year data is not yet available.

See Independent Auditors' Report.

**Exhibit II**

## REDLANDS COMMUNITY COLLEGE

## SCHEDULE OF THE COLLEGE'S CONTRIBUTIONS
### Oklahoma Teachers Retirement System

**Current Fiscal Year**

| | 2015 |
|---|---|
| Contractually required contribution | $ 1,175,859 |
| Contributions in relation to the contractually required contributions | 1,175,859 |
| Contribution deficiency (excess) | $ - |
| College's covered-employee payroll | $ 5,632,784 |
| Contributions as a percentage of covered-employee payroll | 21% |

**Note to the Schedule:**
Only the current fiscal year is presented because 10-year data is not yet available.

Contractually required contributions and contributions in relation to contractually required contributions include the employer contributions and employee contributions "picked-up" by the employer.

See Independent Auditors' Report.

**REDLANDS COMMUNITY COLLEGE**

**INFORMATION REQUIRED BY**
***GOVERNMENT AUDITING STANDARDS* AND**
**OMB CIRCULAR A-133**

FINLEY & COOK
CERTIFIED PUBLIC ACCOUNTANTS

**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 Redlands Community College (the "College"), a component unit of the State of Oklahoma, which comprise the statement of net position as of June 30, 2015, 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 28, 2015. 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, 2015, beginning net position for the implementation of GASB 68 and GASB 71. Also, our report includes an explanatory paragraph to emphasize certain commitments and contingencies. In addition, our report includes a paragraph disclaiming an opinion on required supplementary information.

**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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## 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. 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 28, 2015

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 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, 2015. 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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**INDEPENDENT AUDITORS' REPORT ON COMPLIANCE FOR EACH MAJOR PROGRAM AND ON INTERNAL CONTROL OVER COMPLIANCE REQUIRED BY OMB CIRCULAR A-133, CONTINUED**

***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, 2015.

**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 or significant deficiencies. We did not identify any deficiencies in internal control over compliance that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

The purpose of this report on internal control over compliance is solely to describe the scope of our testing of internal control over compliance and the results of that testing based on the requirements of OMB Circular A-133. Accordingly, this report is not suitable for any other purpose.

Finley & Cook, PLLC

Shawnee, Oklahoma
October 28, 2015

**REDLANDS COMMUNITY COLLEGE**

**SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS**

*Year Ended June 30, 2015*

| 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 | $ 2,078,690 |
| Federal Supplemental Educational Opportunity Grant | 84.007 | 41,655 |
| Federal Direct Student Loans Program | 84.268 | 1,333,538 |
| Federal Work Study Program | 84.033 | 24,206 |
| Total Student Financial Assistance Cluster | | 3,478,089 |
| TRIO Cluster: | | |
| Upward Bound | 84.047 | 297,334 |
| Veterans Upward Bound | 84.047 | 237,374 |
| Student Support Services | 84.042 | 262,961 |
| Total TRIO Cluster | | 797,669 |
| United States Department of Education—Other Programs: | | |
| Carl Perkins Vocational and Technical Education Funds | 84.048 | 55,354 |
| Strengthening Minority-Serving Institutions (NASNTI) | 84.382 | 315,323 |
| Total Other Programs | | 370,677 |
| **Total U.S. Department of Education** | | 4,646,435 |
| **U.S. Department of Health and Human Services:** | | |
| Passed through OSHRE: | | |
| Temporary Assistance to Need Families | 93.558 | 261,651 |
| AHEC—Scholars for Excellence in Child Care | 93.596 | 67,338 |
| Total OSHRE | | 328,989 |
| Passed through Area Agency on the Aging: | | |
| Title III-B | 93.044 | 84,352 |
| Title III-C | 93.045 | 254,532 |
| Title III-E | 93.052 | 4,415 |
| NSIP | 93.053 | 20,130 |
| Total Area Agency on the Aging | | 363,429 |
| **Total U.S. Department of Health and Human Services** | | 692,418 |

(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 Commerce:** | | |
| Oklahoma Manufacturing Alliance | 11.611 | 90,391 |
| **Total U.S. Department of Commerce** | | 90,391 |
| **National Science Foundation:** | | |
| Passed through Missouri State University: | | |
| VESTA | 47.076 | 28,181 |
| **Total National Science Foundation** | | 28,181 |
| **Department of Agriculture:** | | |
| Southern Plains Climate and Agriculture Initiative | 10.001 | 61,325 |
| Climate Hubs Communication Strategy | 10.902 | 60,525 |
| **Total Department of Agriculture** | | 121,850 |
| National Aeronautic and Space Administration Pass through University of Oklahoma | | |
| Project ur NASA | 43.008 | 28,043 |
| **Total expenditures of federal awards** | | $ 5,607,318 |

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, 2015, the College did not provide any federal awards to subrecipients.

## SCHEDULE OF FINDINGS AND QUESTIONED COSTS

*Year Ended June 30, 2015*

### 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? | **☐ Yes ☑ None Reported** |
| Noncompliance material to financial statements noted? | **☐ Yes ☑ No** |

#### Federal Awards

| | |
|---|---|
| Internal control over major programs: | |
| Material weakness(es) identified? | **☐ Yes ☑ No** |
| Significant deficiency(ies) identified? | **☐ Yes ☑ None Reported** |
| Type of auditors' report issued on compliance for the major federal programs: | **Unmodified** |
| Any audit findings disclosed that are required to be reported in accordance with Section 510(a) of OMB Circular A-133? | **☐ Yes ☑ No** |

Identification of major federal programs:

| Federal CFDA # | Name of Federal Program or Cluster |
|---|---|
| **84.007, 84.268, 84.033, and 84.063** | **Student Financial Assistance Cluster** |
| **93.044, 93.045, 93.052, and 93.053** | **Area Agency on the Aging** |

| | |
|---|---|
| Dollar threshold used to distinguish between type A and type B programs: | **$300,000** |
| Auditee qualified as low-risk auditee? | **☐ Yes ☑ No** |

## SECTION II—FINANCIAL STATEMENT FINDINGS

None noted.

## SECTION III—FEDERAL AWARD FINDINGS AND QUESTIONED COSTS

None noted

## FINDING FROM JUNE 30, 2014, AUDIT

## SECTION III—FEDERAL AWARD FINDINGS AND QUESTIONED COSTS

*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."

## FINDING FROM JUNE 30, 2014, AUDIT, CONTINUED

## SECTION III—FEDERAL AWARD FINDINGS AND QUESTIONED COSTS, CONTINUED

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

### Finding 2014-01, Continued

**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 |

**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 ensure 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, 2014, AUDIT, CONTINUED

## SECTION III—FEDERAL AWARD FINDINGS AND QUESTIONED COSTS, CONTINUED

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

### 2015 Auditor Follow-Up

We noted no issues regarding the calculation during the 2015 audit. In addition, during 2015 the questioned costs were clarified and the actual amount was determined to be:

| | | |
|---|---|---|
| Pell | $ | 4,377 |
| Loans | | 6,301 |
| | $ | 10,678 |

The College has repaid the monies to the U.S. Department of Education.