

Redlands Community College

Financial Statements

June 30, 2016

(With Independent Auditors' Report Thereon)



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, 2016, 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 financial statements in accordance with accounting principles generally accepted in the United States; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditors' Responsibility

Our responsibility is to express opinions on these financial statements based on our audit. We have also audited the financial statements of the discretely presented component unit Redlands Community College Foundation, Inc. (the "Foundation"), a not-for-profit Oklahoma corporation organized to support the College, as of and for the year ended January 31, 2016. We conducted our audit of the College in accordance with auditing standards generally accepted in the United States and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. 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 College'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 College'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)

INDEPENDENT AUDITORS' REPORT, CONTINUED

Opinions

In our opinion, based on our audits, the financial statements referred to above present fairly, in all material respects, the respective financial position of the College and its discretely presented component unit, Redlands Community College Foundation, as of June 30, 2016, and the respective changes in financial position and, cash flows thereof, for the year then ended in accordance with accounting principles generally accepted in the United States.

Emphasis of Matter

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, 2015, has been restated to reflect the implementation of Governmental Accounting Standards Board Statement No. 82, *Pension Issues* (GASB 82). Accordingly, adjustments have been made to the beginning balance of net position as of July 1, 2015. 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 60 and 61, 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 Matters, Continued

Other Information

Our audit was conducted 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 Title 2 U.S. Code of Federal Regulations (CFR) Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards*, and is also 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. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic financial statements or to the basic financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States. In our opinion, the schedule of expenditures of federal awards is fairly stated in all material respects in relation to the basic financial statements as a whole.

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated October 17, 2016, 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.

Handwritten signature in cursive script that reads "Finley & Cook, PLLC".

Shawnee, Oklahoma
October 17, 2016

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, 2016. 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, 2015, financial statements presented in this Management Discussion and Analysis have been restated to reflect implementation of GASB 82. The effect of the restatement is as follows:

	<u>As Previously Reported</u>	<u>As Restated</u>
Statement of net position:		
Total deferred outflows of resource	\$ 1,276,374	846,003
Total net position	(2,123,378)	(2,553,749)

FINANCIAL HIGHLIGHTS

At June 30, 2016, the College’s net position was \$(1,607,994), which reflects an increase of \$945,755 over last year. Operating revenues including tuition and fees, federal and state grants and contracts, and auxiliary enterprises totaled \$7,528,261. Net non-operating revenues totaled \$6,763,023, which includes governmental appropriations, non-operating federal and state grants, interest earned, and interest and miscellaneous expense. Operating expenses totaled \$14,497,844, 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.*

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.

MANAGEMENT'S DISCUSSION AND ANALYSIS, CONTINUED

OVERVIEW OF THE FINANCIAL STATEMENTS, CONTINUED

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 $\frac{1}{2}$ of 1% of the total budget appropriated to the OSRHE, but for the current year the College was funded at approximately $\frac{2}{3}$ of 1%. Although this is significant, it still leaves the College as one of the lowest funded colleges in the OSRHE system.

MANAGEMENT'S DISCUSSION AND ANALYSIS, CONTINUED

OVERVIEW OF THE FINANCIAL STATEMENTS, CONTINUED

FINANCIAL ANALYSIS OF THE COLLEGE AS A WHOLE

Comparison of Net Position

June 30, 2016 and 2015

	<u>2016</u>	<u>2015</u>
Assets		
Current assets	\$ 3,628,013	3,054,812
Noncurrent assets:		
Capital assets, net of depreciation	31,268,486	25,793,252
Commissions receivable	220,065	297,735
Other	-	-
Total assets	<u>35,116,564</u>	<u>29,145,799</u>
Deferred Outflows of Resources		
Deferred cost on OCIA lease restructure	-	100,515
Deferred outflow—pension contributions, restated	1,242,115	745,488
Total deferred outflows of resources, restated	<u>1,242,115</u>	<u>846,003</u>
Liabilities		
Current liabilities	2,591,682	1,891,562
Noncurrent liabilities:		
Long term liabilities	20,239,283	14,819,418
Premium on ODFA master lease obligation	65,986	12,144
Net pension liability	10,851,783	12,184,933
Total liabilities	<u>33,748,734</u>	<u>28,908,057</u>
Deferred Inflows of Resources		
Receipts from service concession arrangement	220,065	297,735
Deferred gain on OCIA lease restructure	177,360	189,953
Deferred inflow—related to pension	3,820,514	3,149,806
Total deferred inflows of resources	<u>4,217,939</u>	<u>3,637,494</u>
Net Position		
Invested in capital assets, net	9,620,368	10,371,131
Restricted	107,428	264,871
Unrestricted, restated	<u>(11,335,790)</u>	<u>(13,189,751)</u>
Total net position, restated	<u>\$ (1,607,994)</u>	<u>(2,553,749)</u>

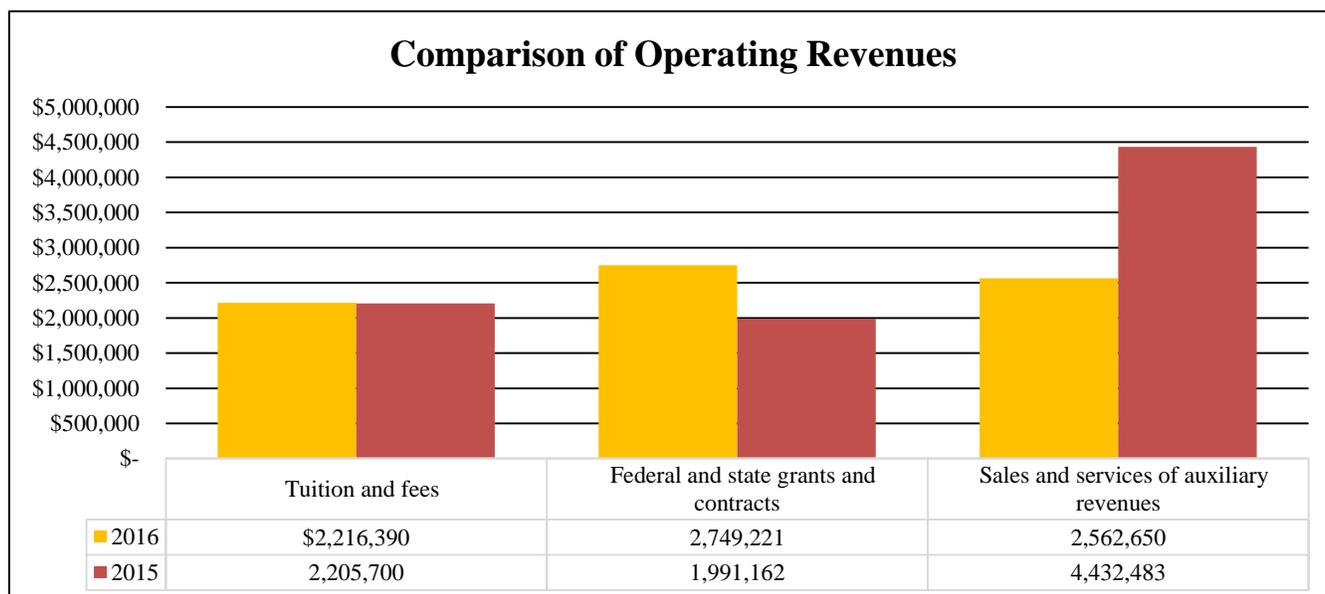
This schedule is prepared from the College's statements of net position (page 4), which is presented on an accrual basis of accounting.

MANAGEMENT'S DISCUSSION AND ANALYSIS, CONTINUED

OVERVIEW OF THE FINANCIAL STATEMENTS, CONTINUED

**Comparison of Operating Revenues
Years Ended June 30, 2016 and 2015**

	<u>2016</u>	<u>2015</u>
Operating revenues:		
Tuition and fees	\$ 2,216,390	2,205,700
Federal and state grants and contracts	2,749,221	1,991,162
Sales and services of auxiliary revenues	<u>2,562,650</u>	<u>4,432,483</u>
Total operating revenues	7,528,261	8,629,345
Less operating expenses, restated	<u>(14,497,844)</u>	<u>(14,905,719)</u>
Net operating losses, restated	<u>(6,969,583)</u>	<u>(6,276,374)</u>
Non-operating revenues:		
State appropriations	5,129,644	5,967,867
On-behalf payments for OTRS	557,434	669,972
Federal and state grants—non-operating	2,068,052	2,491,498
Investment income	9,685	14,163
Interest on capital debt and miscellaneous expense	<u>(1,001,792)</u>	<u>(646,977)</u>
Net non-operating revenues	<u>6,763,023</u>	<u>8,496,523</u>
Other revenues	<u>1,152,315</u>	<u>1,710,507</u>
Net position:		
Change in net position, restated	945,755	3,930,656
Net position at beginning of year, restated	<u>(2,553,749)</u>	<u>(6,484,405)</u>
Net position at end of year, restated	<u>\$ (1,607,994)</u>	<u>(2,553,749)</u>



MANAGEMENT'S DISCUSSION AND ANALYSIS, CONTINUED

OVERVIEW OF THE FINANCIAL STATEMENTS, CONTINUED

Cash Flows
Years Ended June 30, 2016 and 2015

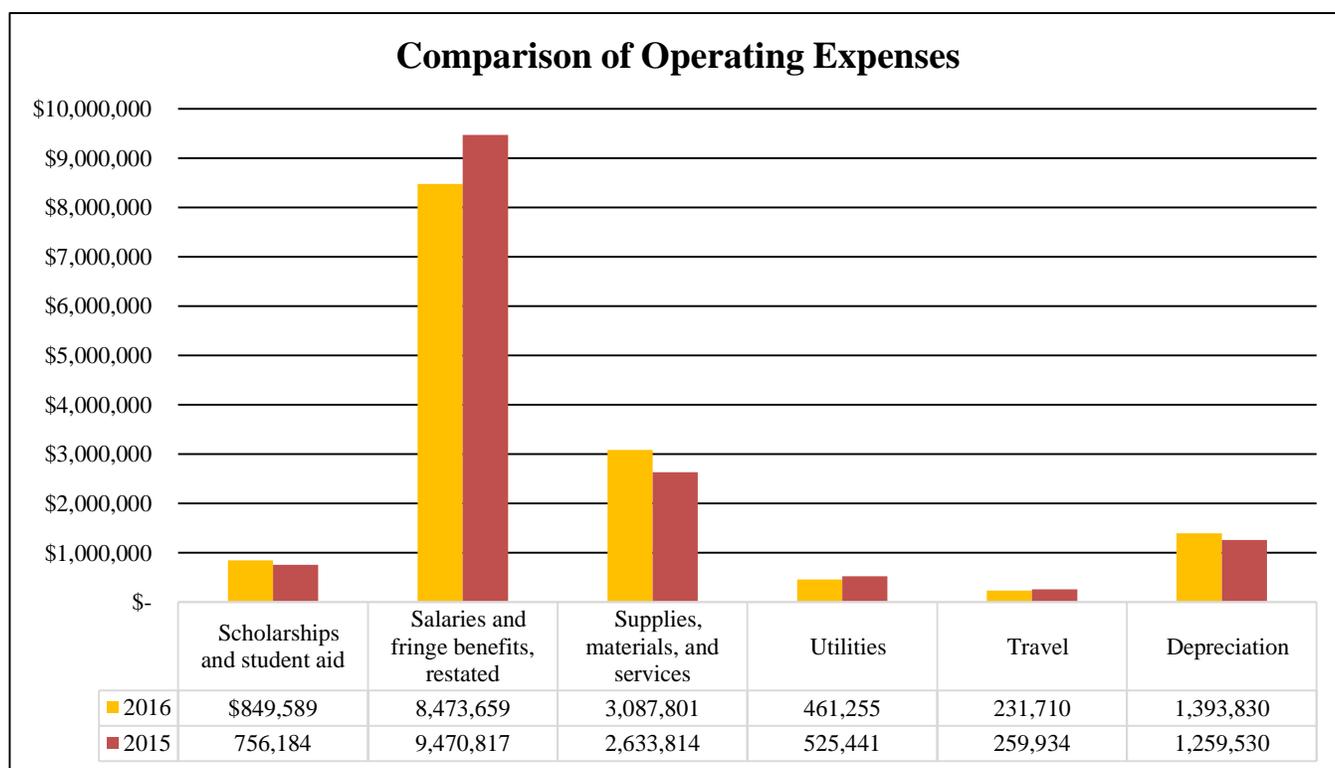
	<u>2016</u>	<u>2015</u>
Cash (used in) provided by:		
Operating activities	\$ (5,897,125)	(4,902,178)
Noncapital financing activities	7,116,668	8,467,501
Capital and related financing	(681,710)	(2,535,792)
Investing activities	9,685	199,163
Net increase in cash	<u>547,518</u>	<u>1,228,694</u>
Cash at beginning of year	<u>1,568,645</u>	<u>339,951</u>
Cash at end of year	<u><u>\$ 2,116,163</u></u>	<u><u>1,568,645</u></u>

MANAGEMENT'S DISCUSSION AND ANALYSIS, CONTINUED

OVERVIEW OF THE FINANCIAL STATEMENTS, CONTINUED

**Comparison of Operating Expenses
Years Ended June 30, 2016 and 2015**

	<u>2016</u>	<u>2015</u>
Operating expenses:		
Scholarships and student aid	\$ 849,589	756,184
Salaries and fringe benefits, restated	8,473,659	9,470,817
Supplies, materials, and services	3,087,801	2,633,814
Utilities	461,255	525,441
Travel	231,710	259,934
Depreciation	<u>1,393,830</u>	<u>1,259,530</u>
 Total operating expenses, restated	 <u>\$ 14,497,844</u>	 <u>14,905,720</u>

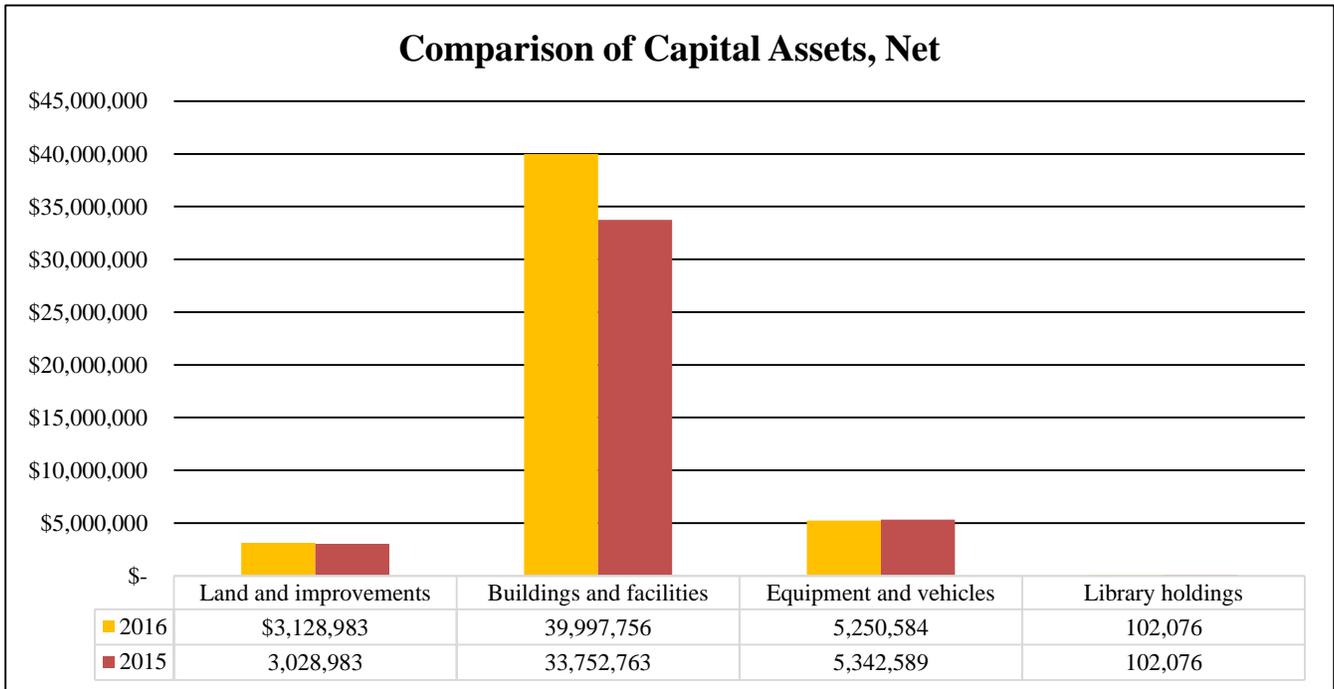


MANAGEMENT'S DISCUSSION AND ANALYSIS, CONTINUED

OVERVIEW OF THE FINANCIAL STATEMENTS, CONTINUED

**Comparison of Capital Assets, Net
Years Ended June 30, 2016 and 2015**

	<u>2016</u>	<u>2015</u>
Capital Assets		
Land and improvements	\$ 3,128,983	3,028,983
Buildings and facilities	39,997,756	33,752,763
Equipment and vehicles	5,250,584	5,342,589
Library holdings	<u>102,076</u>	<u>102,076</u>
Total capital assets	48,479,399	42,226,411
Less accumulated depreciation	<u>(17,210,913)</u>	<u>(16,433,159)</u>
Capital assets, net	<u>\$ 31,268,486</u>	<u>25,793,252</u>

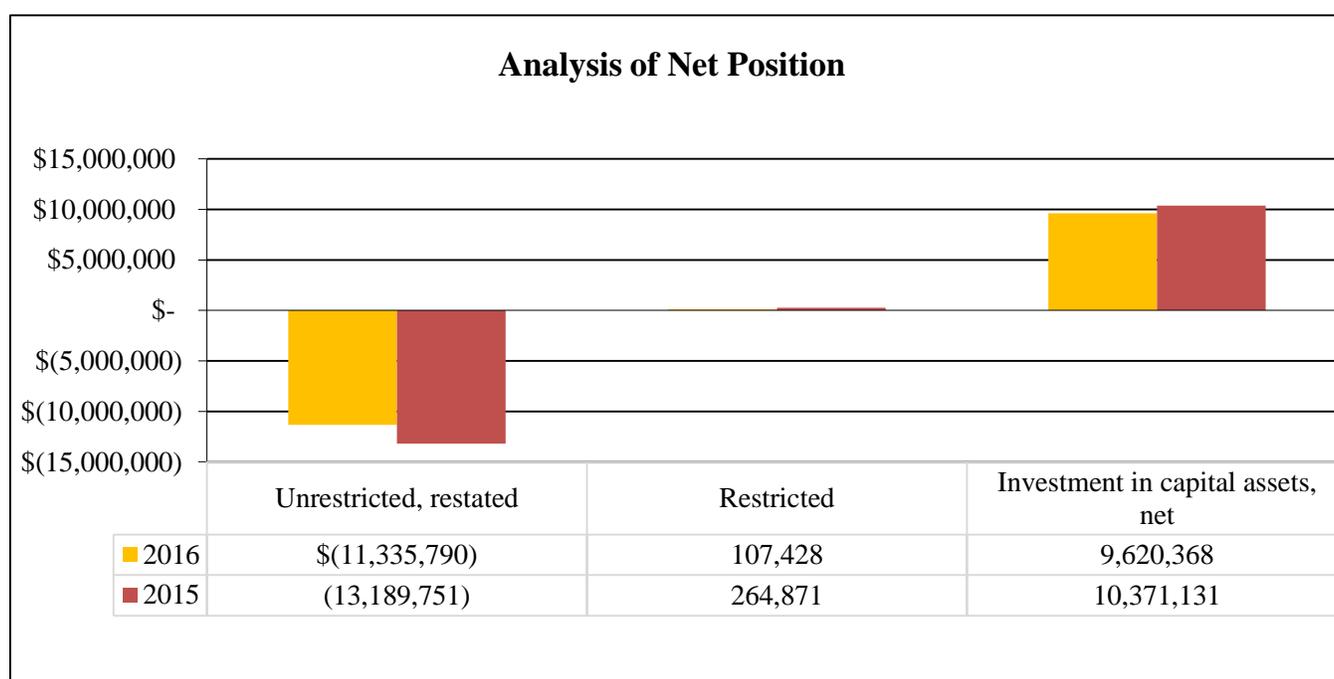


MANAGEMENT'S DISCUSSION AND ANALYSIS, CONTINUED

OVERVIEW OF THE FINANCIAL STATEMENTS, CONTINUED

**Analysis of Net Position
Years Ended June 30, 2016 and 2015**

	<u>2016</u>	<u>2015</u>
Net Position		
Unrestricted, restated	\$ (11,335,790)	(13,189,751)
Restricted	107,428	264,871
Investment in capital assets, net	<u>9,620,368</u>	<u>10,371,131</u>
 Net position, restated	 <u>\$ (1,607,994)</u>	 <u>(2,553,749)</u>



REDLANDS COMMUNITY COLLEGE

STATEMENTS OF NET POSITION

	Redlands Community College	Redlands Community College Foundation
	<u>June 30, 2016</u>	<u>January 31, 2016</u>
Assets		
Current assets:		
Cash and cash equivalents	\$ 2,116,163	187,104
Certificate of deposit	-	3,504
Accounts receivable, net of allowance for doubtful accounts of \$419,418 as of June 30, 2016.	1,049,670	-
Grants receivable	434,880	-
Other receivables	27,300	-
Total current assets	<u>3,628,013</u>	<u>190,608</u>
Noncurrent assets:		
Restricted investments	-	625,816
Beneficial interests in assets held by others	-	80,914
Commissions receivable	220,065	-
Other assets	-	-
Capital assets, net of accumulated depreciation	31,268,486	137,500
Total noncurrent assets	<u>31,488,551</u>	<u>844,230</u>
Total assets	<u>35,116,564</u>	<u>1,034,838</u>
Deferred outflows of resources:		
Deferred outflow—pension contributions	1,242,115	-
Total deferred outflows of resources	<u>1,242,115</u>	<u>-</u>

(Continued)

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

REDLANDS COMMUNITY COLLEGE

STATEMENTS OF NET POSITION, CONTINUED

	Redlands Community College	Redlands Community College Foundation
	<u>June 30, 2016</u>	<u>January 31, 2016</u>
Liabilities		
Current liabilities:		
Accounts payable	404,833	-
Accrued expenses	19,625	-
Accrued compensated absences	177,426	-
Unearned revenues	352,868	-
Long-term liabilities, current portion	1,289,016	-
Deposits held in custody for others	347,914	84,418
Total current liabilities	<u>2,591,682</u>	<u>84,418</u>
Noncurrent liabilities:		
Long-term liabilities	20,305,269	-
Net pension liability	10,851,783	-
Total noncurrent liabilities	<u>31,157,052</u>	<u>-</u>
Total liabilities	<u>33,748,734</u>	<u>84,418</u>
Deferred inflows of resources:		
Bookstore service concession arrangement	220,065	-
Deferred gain on OCIA lease restructure	177,360	-
Deferred inflow—related to pension	3,820,514	-
Total deferred inflows of resources	<u>4,217,939</u>	<u>-</u>
Net Position		
Invested in capital assets	9,620,368	137,500
Restricted for:		
Endowments	-	625,816
Donor restrictions	107,428	-
Scholarships	-	130,468
Unrestricted	<u>(11,335,790)</u>	<u>56,636</u>
Total net position	<u>\$ (1,607,994)</u>	<u>950,420</u>

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

REDLANDS COMMUNITY COLLEGE

STATEMENTS OF REVENUES, EXPENSES, AND CHANGES IN NET POSITION

	Redlands Community College	Redlands Community College Foundation
	<i>Year Ended</i> <u>June 30, 2016</u>	<i>Year Ended</i> <u>January 31, 2016</u>
Operating revenues:		
Student tuition and fees, net of scholarship allowances of \$3,168,000 as of June 30, 2016.	\$ 2,216,390	-
Federal and state grants and contracts	2,749,221	-
Sales and services of auxiliary activities.	2,562,650	-
Other operating revenues	-	441,768
Total operating revenues	<u>7,528,261</u>	<u>441,768</u>
Operating expenses:		
Compensation	8,473,659	-
Supplies and materials	3,087,801	-
Depreciation	1,393,830	-
Utilities	461,255	-
Travel	231,710	-
Scholarships and fellowships	849,589	31,936
Other operating expenses	-	753,327
Total operating expenses	<u>14,497,844</u>	<u>785,263</u>
Operating loss	<u>(6,969,583)</u>	<u>(343,495)</u>

(Continued)

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

REDLANDS COMMUNITY COLLEGE

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

	Redlands Community College	Redlands Community College Foundation
	<i>Year Ended June 30, 2016</i>	<i>Year Ended January 31, 2016</i>
Non-operating revenues (expenses):		
State appropriations	5,129,644	-
Federal and state grants	2,068,052	-
On-behalf Teachers' Retirement System contributions	557,434	-
Investment income	9,685	(21,568)
Other non-operating revenues	(81,028)	616,812
Interest expense	(920,764)	-
Net non-operating revenues	<u>6,763,023</u>	<u>595,244</u>
(Loss) earnings before other revenues, expenses, gains, and losses	<u>(206,560)</u>	<u>251,749</u>
Other revenues, expenses, gains, and losses:		
On-behalf Oklahoma Capitol Improvement Authority contributions	762,992	-
Capital appropriations	849,323	-
Litigation settlement	(460,000)	-
Other revenues and losses	<u>1,152,315</u>	<u>-</u>
Change in net position	945,755	251,749
Net position at beginning of year, restated	<u>(2,553,749)</u>	<u>698,671</u>
Net position at end of year	<u>\$ (1,607,994)</u>	<u>950,420</u>

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

REDLANDS COMMUNITY COLLEGE

STATEMENT OF CASH FLOWS

Year Ended June 30, 2016

	Redlands Community College	Redlands Community College Foundation
	<i>Year Ended June 30, 2016</i>	<i>Year Ended January 31, 2016</i>
Cash flows from operating activities:		
Tuition and fees	\$ 2,392,162	-
Grants and contracts	2,558,595	-
Contributions and fundraising	-	50,121
Payments to employees	(9,106,752)	-
Payments to vendors	(4,303,718)	(448,942)
Auxiliary enterprise	2,562,588	395,253
Net cash used in operating activities	<u>(5,897,125)</u>	<u>(3,568)</u>
Cash flows from noncapital financing activities:		
State appropriations	5,129,644	-
Federal and state grants	2,068,052	-
Federal Direct Student Loan receipts	1,109,366	-
Federal Direct Student Loan disbursements	(1,109,366)	-
Agency transactions, net	(81,028)	-
Net cash provided by noncapital financing activities	<u>7,116,668</u>	<u>-</u>
Cash flows from capital and related financing activities:		
Capital appropriations received	806,299	-
Interest paid on capital debt and leases	(550,091)	-
Payments on capital debt and leases	(514,356)	-
Purchases of capital assets, net	(423,562)	-
Net cash used in capital and related financing activities	<u>(681,710)</u>	<u>-</u>
Cash flows from investing activities:		
Distributions from OCCF, net	-	19,425
Interest on investments	9,685	-
Net cash provided by investing activities	<u>9,685</u>	<u>19,425</u>
Net change in cash and cash equivalents	547,518	15,857
Cash and cash equivalents, beginning of year	<u>1,568,645</u>	<u>171,247</u>
Cash and cash equivalents, end of year	<u>\$ 2,116,163</u>	<u>187,104</u>

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

(Continued)

REDLANDS COMMUNITY COLLEGE

STATEMENT OF CASH FLOWS, CONTINUED

Year Ended June 30, 2016

	Redlands Community College	Redlands Community College Foundation
	<i>Year Ended June 30, 2016</i>	<i>Year Ended January 31, 2016</i>
Reconciliation of net operating loss to net cash used in operating activities:		
Operating loss/change in net assets, Foundation	\$ (6,969,583)	251,749
Adjustments to reconcile operating loss to net cash used in operating activities:		
Depreciation and amortization expense	1,393,830	54,492
On-behalf Teachers' Retirement System contributions	557,434	-
Net loss on disposal of fixed assets	9,459	19,500
Changes in assets and liabilities:		
Receivables, net	(25,683)	-
Deferred outflows—pension contributions	(496,627)	-
Accounts payable	277,840	-
Payables from custody accounts	39,338	-
Accrued expenses	16,843	-
Deferred inflows—related to pension	670,708	-
Compensated absences	(48,301)	-
Net pension liability	(1,333,150)	-
Unearned revenues	10,767	-
Net unrealized and realized losses on investments	-	22,003
Gain on cancellation of capital lease	-	(351,312)
Net cash used in operating activities	<u>\$ (5,897,125)</u>	<u>(3,568)</u>
Supplemental cash flow information:		
Principal and interest paid by OCIA	\$ 762,992	-
Gain on cancellation of capital lease	<u>\$ -</u>	<u>\$ 351,312</u>
Transfer of property to the College fair value	<u>\$ 100,000</u>	<u>\$ 100,000</u>

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

REDLANDS COMMUNITY COLLEGE

NOTES TO FINANCIAL STATEMENTS

June 30, 2016

(1) SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Nature of Operations

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

Reporting Entity

The financial reporting entity, as defined by Governmental Accounting Standards Board (GASB) Statement No. 14, *The Financial Reporting Entity*, and as amended by GASB Statement No. 39, *Determining Whether Certain Organizations Are Component Units*, and GASB Statement No. 61, *The Financial Reporting Entity: Omnibus—an amendment of GASB Statements No. 14 and 34*, consists of the primary government, organizations for which the primary government is financially accountable, and other organizations for which the nature and significance of their relationship with the primary government are such that exclusion could cause the financial statements to be misleading or incomplete.

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

Redlands Community College Foundation, Inc. (the “Foundation”) is a legally separate, tax-exempt component unit of the College. The Foundation is organized for the purpose of receiving and administering gifts intended for the College. Although the College does not control the timing or amount of receipts from the Foundation, the majority of resources, or income thereon, which the Foundation holds and invests is restricted to the activities of the College by the donors. Because these restricted resources held by the Foundation can only be used by, and for the benefit of, the College, the Foundation is considered a discretely presented component unit of the College, and its financial statements are separately presented in the College’s financial statements. The Foundation is a private nonprofit organization that reports under the Financial Accounting Standards Board’s (FASB) *Accounting Standards Codification* (ASC) Topic 958, “Not-for-profit Entities.” As such, certain revenue recognition criteria and presentation features are different from GASB revenue recognition criteria and presentation features. No modifications have been made to the Foundation’s financial information in the College’s financial reporting entity for these differences. In addition, the Foundation’s fiscal year ends January 31; as such, the most recent audit for the year ended January 31, 2016, is being used.

See Independent Auditors’ Report.

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

Financial Statement Presentation

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

As noted above, investments are recorded at fair value, as determined by quoted market prices. In accordance with generally accepted accounting principles (GAAP) authoritative guidance on fair value measurements and disclosures, the College's investments measured and reported at fair value are classified according to the following hierarchal input levels:

1. Level 1—Unadjusted quoted prices in active markets for identical assets.
2. Level 2—Quoted prices for similar assets, or inputs that are observable or other forms of market corroborated inputs.
3. Level 3—Pricing based on best available information, including primarily unobservable inputs and assumptions market participants would use in pricing the asset.

In addition to the above three levels, if an investment does not have a readily determined fair value, the investment can be measured using net asset value (NAV) per share (or its equivalent). Investments valued at NAV are categorized as NAV and not listed as Level 1, 2, or 3. At June 30, 2016, the College had no investments.

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

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.

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.

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

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.

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.

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

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 2016, the College's deferred outflows of resources were comprised of 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, 2016, the College's inflows related to a service concession agreement for the bookstore, a deferred gain on an OCIA lease restructure, and pension experience and investment earnings.

See Independent Auditors' Report.

(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 17, 2016, 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

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 adopted GASB 72 effective July 1, 2015, for the June 30, 2016, reporting year. GASB 72 required revised disclosures in the financial statements.

See Independent Auditors' Report.

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

New Accounting Pronouncements, Continued

New Accounting Pronouncements Adopted, Continued

In June 2015, GASB issued Statement No. 73, *Accounting and Financial Reporting for Pensions and Related Assets That Are Not within the Scope of GASB Statement 68, and Amendments to Certain Provisions of GASB Statements 67 and 68* (GASB 73). GASB 73 addresses accounting and financial reporting for pensions that do not meet the criteria for applying GASB Statement No. 68, *Accounting and Financial Reporting for Pensions* (GASB 68), and amends certain disclosure requirements of GASB 67 and GASB 68. GASB 73 amendments include restricting additional disclosures related to 10-year schedules required by GASB 67 to be limited to factors over which the plan or government has influence, such as a change in investment policies. Amendments also address payables to a plan that are not separately financed specific liabilities, and the timing of employer recognition of revenue for the support of nonemployer contributing entities. Certain provisions of GASB 73 are applicable for fiscal years beginning after June 15, 2015, and those provisions were adopted by the College as of July 1, 2015, and did not have a significant impact on the College's financial statements. Other provisions of GASB 73 that are applicable for years beginning after June 15, 2016, are not expected to have a significant impact on the College's financial statements.

In June 2015, GASB issued Statement No. 76, *The Hierarchy of Generally Accepted Accounting Principles for State and Local Governments* (GASB 76). GASB 76 identifies accounting sources used to prepare state and local government financial statements in conformity with GAAP, and established a GAAP hierarchy of these resources. This Statement improves financial reporting by raising the category of GAAP Implementation Guides in the GAAP hierarchy, by emphasizing the importance of analogies to authoritative literature when an accounting event is not specified in authoritative GAAP, and by requiring the consideration of consistency with GASB Concept Statements when evaluating accounting treatments in non-authoritative GAAP. The College adopted GASB 76 as of July 1, 2015, and its adoption had no significant effects on the financial statements.

In December 2015, GASB issued Statement No. 79, *Certain Investment Pools and Pool Participants* (GASB 79). GASB 79 establishes criteria for an external investment pool to qualify for making the election to measure all of its investments at amortized cost for financial reporting purposes. Specific criteria address (1) the way the external investment pool transacts with participants; (2) requirements for portfolio maturity, quality, diversification, and liquidity; and (3) calculation and requirements of a shadow price. The College adopted the required provisions of GASB 79 on July 1, 2015. The adoption of the provisions had no significant effect on the financial statements.

See Independent Auditors' Report.

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

New Accounting Pronouncements, Continued

New Accounting Pronouncements Not Yet Adopted

In June 2015, GASB issued Statement No. 74, *Financial Reporting for Postemployment Benefit Plans Other Than Pension Plans* (GASB 74). GASB 74 seeks to improve the usefulness of information about postemployment benefits other than pensions (other postemployment benefits or “OPEB”). This statement provides guidance for reporting and disclosure of defined benefit and defined contribution OPEB plans. GASB 74 is effective for financial statements for fiscal years beginning after June 15, 2016. Implementation of GASB 74 is not expected to have a significant effect on the College’s financial statements.

In June 2015, GASB issued Statement No. 75, *Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions* (GASB 75). GASB 75 addresses employer and governmental non-employer contributing entities accounting and financial reporting when participating in an OPEB plan. This statement requires proper recognition of OPEB liabilities by employers and requires a more comprehensive measure of OPEB expense. More robust disclosures will also improve transparency and accountability. GASB 75 is effective for fiscal years beginning after June 15, 2017. Implementation of GASB 75 is not expected to have a significant effect on the College’s financial statements.

In August 2015, GASB issued Statement No. 77, *Tax Abatement Disclosures* (GASB 77). GASB 77 provides financial reporting and disclosure guidance to governments that have either entered into tax abatement agreements or that have revenues affected by tax abatements entered into by another government. Governments will generally use tax abatements to encourage specific economic development that benefit either the government or its citizens by forgoing certain taxes. GASB 77 is effective for financial statements for periods beginning after December 31, 2015. Implementation of GASB 77 is not expected to have a significant effect on the College’s financial statements.

In December 2015, GASB issued Statement No. 78, *Pensions Provided through Certain Multiple-Employer Defined Benefit Pension Plans* (GASB 78). GASB 78 addresses an issue that arose as a result of the employer reporting for pension plans under GASB 68. Certain state and local governments participate in a cost-sharing multi-employer pension plan that (1) is not a state or local government plan, (2) provides defined benefits to both state and local government employees, as well as to employers and employees that are not state and local governments, and (3) has no predominant state or local governmental employer. This Statement establishes the requirements for recognition, reporting, disclosures, and required supplementary information for governmental employers that provide pensions through pension plans with the above-mentioned characteristics. GASB 78 is effective for reporting periods beginning after December 15, 2015. The implementation of GASB 78 is not expected to have a significant effect on the College’s financial statements.

See Independent Auditors’ Report.

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

New Accounting Pronouncements, Continued

New Accounting Pronouncements Not Yet Adopted, Continued

In January 2016, GASB issued Statement No. 80, *Blending Requirements for Certain Component Units* (GASB 80). GASB 80 amends blending requirements for the financial statements of component units to include criteria requiring blending of a component unit organized as a not-for-profit corporation in which the primary government is the sole corporate member. GASB 80 is effective for reporting periods beginning after June 15, 2016. The implementation of GASB 80 is not expected to have a significant effect on the College's financial statements.

In March 2016, GASB issued Statement No. 81, *Irrevocable Split-Interest Agreements* (GASB 81). GASB 81 provides recognition and measurement guidance for situations in which a government is one of the beneficiaries of an irrevocable split-interest agreement. Irrevocable split-interest agreements are a type of giving by a donor to provide resources to two or more beneficiaries, including governments. GASB 81 provides the recognition and reporting requirements applicable when a government is one of the parties to such an agreement. GASB 81 is effective for financial statements for periods beginning after December 15, 2016, and should be applied retroactively. Implementation of GASB 81 is not expected to have a significant effect on the College's financial statements.

In March 2016, GASB issued Statement No. 82, *Pension Issues* (GASB 82). GASB 82 addresses issues that arose for pension plans and participating employers when implementing GASB 67 and GASB 68. Under GASB 82, "covered payroll" will be the metric used to prepare ratios and other measures in schedules included in required supplementary information. This change replaces "covered-employee payroll," the presentation required by GASB 67 and GASB 68, since this particular data element presented operational challenges to pension plans. GASB 82 also now clarifies that a deviation, as defined by the Actuarial Standards Board, when selecting the assumptions used to determine total pension and liability related measures, is not considered to be in conformity with GASB 67 and GASB 68. And lastly, in certain circumstances, employers may make a portion or the entire employee required contributions to a pension plan on behalf of the employee. Under GASB 82, these contributions are classified as plan member contributions for GASB 67. For purposes of GASB 68, including determining an employer's proportion, those amounts should also be considered employee contributions. The College adopted GASB 82 as of July 1, 2015, and restated its beginning net position as of July 1, 2015.

See Independent Auditors' Report.

REDLANDS COMMUNITY COLLEGE

NOTES TO FINANCIAL STATEMENTS, CONTINUED

(2) RESTATEMENT

Prior Period Adjustments

The July 1, 2015, beginning net position has been restated to reflect the implementation of GASB 82. The effect of the restatement is as follows:

	<u>Fiscal Year 2016</u>
Beginning net position, as previously reported	\$ (2,123,378)
Early adoption of GASB 82	<u>(430,371)</u>
Beginning net position, restated	<u>\$ (2,553,749)</u>

(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, 2016, the carrying amount of the College's deposits was \$2,116,163. This amount consisted of deposits with the State Treasurer of \$2,116,163 at June 30, 2016.

See Independent Auditors' Report.

REDLANDS COMMUNITY COLLEGE

NOTES TO FINANCIAL STATEMENTS, CONTINUED

(3) DEPOSITS AND INVESTMENTS, CONTINUED

Custodial Credit Risk—Deposits, Continued

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 \$518,985 at June 30, 2016. For financial reporting purposes, deposits with the State Treasurer that are invested in *OK INVEST* are classified as cash equivalents.

At June 30, 2016, the distribution of deposits in *OK INVEST* are as follows:

	<u>Cost</u>	<u>Market Value</u>
U.S. agencies	\$ 213,905	214,070
Money market mutual funds	57,256	57,256
Certificates of deposit	18,775	18,775
Mortgage-backed securities	208,746	213,996
Municipal bonds	9,009	9,540
Foreign bonds	4,534	4,534
U.S. treasuries	6,760	8,068
	<u>\$ 518,985</u>	<u>526,239</u>

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.

See Independent Auditors’ Report.

(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.

REDLANDS COMMUNITY COLLEGE

NOTES TO FINANCIAL STATEMENTS, CONTINUED

(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, 2016:

Student tuition and fees	\$	1,468,818
Less allowance for doubtful accounts		<u>(419,148)</u>
	\$	<u>1,049,670</u>

See Independent Auditors' Report.

REDLANDS COMMUNITY COLLEGE

NOTES TO FINANCIAL STATEMENTS, CONTINUED

(5) CAPITAL ASSETS, NET

Following are the changes in capital assets for the year ended June 30, 2016:

	<u>Balance at June 30, 2015</u>	<u>Additions</u>	<u>Transfers</u>	<u>Retirements</u>	<u>Balance at June 30, 2016</u>
Capital assets not being depreciated:					
Land	\$ 874,082	100,000	-	-	974,082
Library holdings	<u>102,076</u>	-	-	-	<u>102,076</u>
Total capital assets not being depreciated	<u>976,158</u>	<u>100,000</u>	-	-	<u>1,076,158</u>
Capital assets being depreciated:					
Land improvements	2,154,901	-	-	-	2,154,901
Building and facilities	33,752,763	6,244,993	-	-	39,997,756
Equipment and vehicles	<u>5,342,589</u>	<u>533,529</u>	-	<u>(625,534)</u>	<u>5,250,584</u>
Total capital assets being depreciated	<u>41,250,253</u>	<u>6,778,522</u>	-	<u>(625,534)</u>	<u>47,403,241</u>
Less accumulated depreciation:					
Land improvements	(1,398,907)	(87,882)	-	-	(1,486,789)
Building and facilities	(10,275,316)	(992,198)	-	-	(11,267,514)
Equipment and vehicles	<u>(4,758,936)</u>	<u>(313,750)</u>	-	<u>616,076</u>	<u>(4,456,610)</u>
Total accumulated depreciation	<u>(16,433,159)</u>	<u>(1,393,830)</u>	-	<u>616,076</u>	<u>(17,210,913)</u>
Total capital assets being depreciated, net	<u>24,817,094</u>	<u>5,384,692</u>	-	<u>(9,458)</u>	<u>30,192,328</u>
Capital assets, net	<u>\$ 25,793,252</u>	<u>5,484,692</u>	-	<u>(9,458)</u>	<u>31,268,486</u>

At June 30, 2016, the costs of assets held under capital lease obligations and included in capital assets were \$19,385,119.

Costs incurred during construction of long-lived assets are recorded as construction in progress and are not depreciated until placed in service. In 2016, total interest was \$920,764. The College capitalizes interest as a component of capital assets constructed for its own use. There was no interest capitalized in 2016.

See Independent Auditors' Report.

REDLANDS COMMUNITY COLLEGE

NOTES TO FINANCIAL STATEMENTS, CONTINUED

(6) LONG-TERM LIABILITIES

Long-term liability activity for the year ended June 30, 2016, was as follows:

	Balance at <u>June 30, 2015</u>	<u>Additions</u>	<u>Reductions</u>	Balance at <u>June 30, 2016</u>	Due Within <u>1 Year</u>
Bonds and capital lease obligations, net of bond premium or discount:					
OCIA capital lease obligations	\$ 5,942,094	-	(520,425)	5,421,669	632,055
ODFA master lease revenue bonds	<u>9,774,851</u>	<u>6,192,638</u>	<u>(472,174)</u>	<u>15,495,315</u>	<u>504,662</u>
Total bonds and capital lease obligations	<u>15,716,945</u>	<u>6,192,638</u>	<u>(992,599)</u>	<u>20,916,984</u>	<u>1,136,717</u>
Other liabilities:					
Dell Capital lease obligations	-	262,322	-	262,322	73,709
Settlement note	-	460,000	(45,022)	414,978	78,589
Accrued compensated absences	225,727	177,426	(225,727)	177,426	-
Net pension liability	<u>12,184,933</u>	<u>-</u>	<u>(1,333,150)</u>	<u>10,851,783</u>	<u>-</u>
Total other liabilities	<u>12,410,660</u>	<u>899,748</u>	<u>(1,603,899)</u>	<u>11,706,509</u>	<u>152,298</u>
Total long-term liabilities	<u>\$ 28,127,605</u>	<u>7,092,386</u>	<u>(2,596,498)</u>	<u>32,623,493</u>	<u>1,289,015</u>

Oklahoma Capitol Improvement Authority Lease Obligations

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.

See Independent Auditors' Report.

(6) **LONG-TERM LIABILITIES, CONTINUED**

Oklahoma Capitol Improvement Authority Lease Obligations, Continued

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.

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, 2016, OCIA made lease principal and interest payments totaling \$762,992 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, 2016, the College recognized \$100,515 of amortization on the deferred cost of lease restructuring on the OCIA Series 2005F lease obligation and it was fully amortized.

See Independent Auditors' Report.

REDLANDS COMMUNITY COLLEGE

NOTES TO FINANCIAL STATEMENTS, CONTINUED

(6) LONG-TERM LIABILITIES, CONTINUED

Oklahoma Capitol Improvement Authority Lease Obligations, Continued

During the year ended June 30, 2016, the College recognized \$12,593 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 \$177,360. The unamortized deferred gain is included in the deferred inflows of resources in the accompanying financial statements.

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

<u>Year Ending June 30,</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2017	\$ 632,055	247,529	879,584
2018	658,435	226,441	884,876
2019	680,627	195,986	876,613
2020	4,187	164,228	168,415
2021	-	164,145	164,145
2022–2026	1,366,068	726,755	2,092,823
2027–2031	<u>2,080,297</u>	<u>312,061</u>	<u>2,392,358</u>
	<u>\$ 5,421,669</u>	<u>2,037,145</u>	<u>7,458,814</u>

Oklahoma Development Finance Authority Master Lease

In December 2006, the College entered into a 15-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 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.

See Independent Auditors' Report.

(6) **LONG-TERM LIABILITIES, CONTINUED**

Oklahoma Development Finance Authority Master Lease, Continued

In December 2009, the College entered into a 25-year lease agreement with the ODFFA 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 ODFFA 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 September 2010, the College entered into a 25-year lease agreement with the ODFFA 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 ODFFA 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.

In September 2015, the College entered into a 30-year lease agreement with the ODFFA and the State Regents as beneficiary of a portion of the proceeds from the Oklahoma Development Finance Authority Master Real Property Lease Revenue Bonds, Series 2015D. The College financed \$6,134,000 (includes \$58,638 of bond premium) for the purchase of real estate, the Cougar Crossing student apartments.

REDLANDS COMMUNITY COLLEGE

NOTES TO FINANCIAL STATEMENTS, CONTINUED

(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 2016, the College paid \$469,333 in principal and \$584,449 in related interest on these bonds.

The schedule of maturities of the bonds is as follows:

<u>Year Ending June 30,</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2017	\$ 504,662	611,329	1,115,991
2018	525,580	595,493	1,121,073
2019	540,830	577,441	1,118,271
2020	559,913	558,495	1,118,408
2021	583,830	538,505	1,122,335
2022-2026	2,616,792	2,384,874	5,001,666
2027-2031	2,911,726	1,873,228	4,784,954
2032-2036	3,405,152	1,212,026	4,617,178
2037-2041	2,632,690	500,103	3,132,793
2042-2046	1,214,140	115,235	1,329,375
	<u>\$ 15,495,315</u>	<u>8,966,729</u>	<u>24,462,044</u>

The ODFA Series 2008A bonds were issued at a premium. The College's pro rata portion of the premium was \$17,768. During 2016, the College recognized \$1,185 of amortization, leaving a balance of the unamortized bond premium of \$8,489. The unamortized bond premium is included in the ODFA capital lease obligation in the accompanying financial statements.

The ODFA Series 2009C bonds were issued at a premium. The College's pro rata portion of the premium was \$281. During 2016, the College recognized \$11 of amortization, leaving a balance of the unamortized bond premium of \$204. The unamortized bond premium is included in the ODFA capital lease obligation in the accompanying financial statements.

See Independent Auditors' Report.

REDLANDS COMMUNITY COLLEGE

NOTES TO FINANCIAL STATEMENTS, CONTINUED

(6) LONG-TERM LIABILITIES, CONTINUED

Oklahoma Development Finance Authority Master Lease, Continued

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 2016, the College recognized \$179 of amortization, leaving a balance of the unamortized bond premium of \$3,451. The unamortized bond premium is included in the ODFA capital lease obligation in the accompanying financial statements.

The ODFA Master Real Property Lease Revenue Bonds, Series 2015D were issued at a premium. The College's pro rata portion of the premium was \$58,638. During 2016, the College recognized \$1,466 of amortization, leaving a balance of \$57,173. The unamortized bond premium is included in the ODFA capital lease obligation in the accompanying financial statements.

Dell Capital Lease

During April 2016, the College entered into a capital lease with Dell Financial Services. The lease terms require payments of \$9,032 for a period from September 1, 2016, to May 1, 2019. The maturities of the payments are as follows:

<u>Year Ending June 30,</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2017	\$ 73,709	16,614	90,323
2018	93,980	14,408	108,388
2019	94,633	4,723	99,356
2020	-	-	-
	<u>\$ 262,322</u>	<u>35,745</u>	<u>298,067</u>

Settlement Note

In September 2015, the College entered into a lease agreement with the ODFA to issue bonds to acquire property which was previously leased to the Foundation, known as Cougar Crossing. In connection with the purchase and to resolve all issues pertaining to Cougar Crossing, the College entered into a settlement agreement for \$460,000 with Madison Redlands, L.P. The College has agreed to pay the \$460,000, with an interest rate of 8%, commencing April 15, 2016, over a period of 60 months. The College has agreed to make five annual payments of \$35,000, commencing April 15, 2016. In addition, monthly payments of \$6,230 will also commence on April 15, 2016, with the balance due at maturity on March 15, 2021. The College has the right to make additional payments to reduce the principal without penalty.

See Independent Auditors' Report.

REDLANDS COMMUNITY COLLEGE

NOTES TO FINANCIAL STATEMENTS, CONTINUED

(6) LONG-TERM LIABILITIES, CONTINUED

Settlement Note, Continued

The amount of the settlement note is reflected as other expense in the College’s financial statements for 2016.

Based on the terms of the note, future payments of principal and interest are as follows:

<u>Year Ending June 30,</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2017	\$ 78,589	31,171	109,760
2018	85,112	24,648	109,760
2019	92,176	17,584	109,760
2020	99,826	9,934	109,760
2021	<u>59,275</u>	<u>2,134</u>	<u>61,409</u>
	<u>\$ 414,978</u>	<u>85,471</u>	<u>500,449</u>

During the year ended June 30, 2016, the College made payments totaling \$53,690, which included principal of \$45,022, and interest of \$8,668.

(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 \$220,065 at June 30, 2016, 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.

See Independent Auditors’ Report.

(8) **RETIREMENT PROGRAMS, CONTINUED**

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.

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 to 2% of final compensation for each year of credited service.
- 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.

See Independent Auditors' Report.

(8) **RETIREMENT PROGRAMS, CONTINUED**

Oklahoma Teachers' Retirement System, Continued

Benefits Provided, Continued

- 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.
- Upon separation from the System, members' contributions are refundable with interest based on certain restrictions provided in the plan, or by the 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 2015.

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% percent 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 \$722,497. The State of Oklahoma also made on-behalf contributions to OTRS, of which \$557,434 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, 2016, the College reported a liability of \$10,851,783 for its proportionate share of the net pension liability. The net pension liability was measured as of June 30, 2015, and the total pension liability used to calculate the net pension liability was determined by an actuarial valuation as of June 30, 2015. 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, 2015. Based upon this information, the College's proportion was 0.1787%.

See Independent Auditors' Report.

REDLANDS COMMUNITY COLLEGE

NOTES TO FINANCIAL STATEMENTS, CONTINUED

(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, 2016, the College recognized pension expense of \$120,862. At June 30, 2016, the College reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

	<u>Deferred Outflows of Resources</u>	<u>Deferred Inflows of Resources</u>
Differences between expected and actual experience	\$ -	368,593
Changes of assumptions	519,618	-
Net difference between projected and actual earnings on pension plan investments	-	736,171
Changes in proportion and differences between College contributions and proportionate share of contributions	-	2,715,750
College contributions subsequent to the measurement date	<u>722,497</u>	<u>-</u>
	<u>\$ 1,242,115</u>	<u>3,820,514</u>

There was \$722,497 reported as deferred outflows of resources related to pensions resulting from College contributions subsequent to the measurement date will be recognized as a reduction of the net pension liability in the year ended June 30, 2017. 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,	
2017	\$ (825,921)
2018	(825,921)
2019	(825,921)
2020	(244,257)
2021	(476,208)
Thereafter	<u>(102,668)</u>
	<u>\$ (3,300,896)</u>

See Independent Auditors' Report.

(8) **RETIREMENT PROGRAMS, CONTINUED**

Oklahoma Teachers' Retirement System, Continued

Actuarial Assumptions

The total pension liability as of June 30, 2015, was determined based on an actuarial valuation prepared as of June 30, 2015, using the following actuarial assumptions:

- Actuarial cost method—Entry Age
- Inflation—3.00%
- Future Ad Hoc cost-of-living increases--None
- Salary increases—Composed of 3.75% inflation, including 3.00% price inflation, plus a service-related component ranging from 0.00% to 8% based on 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 May 2015 in conjunction with the five year experience study for the period ending June 30, 2014.
- Mortality rates after retirement—Males: RP-2000 Combined Healthy Mortality Table for Males with White Collar Adjustments. Generational mortality improvements in accordance with Scale BB from table's base year of 2000. Females: GRS Southwest Region Teacher Mortality Table, scaled at 105%. Generational mortality improvements in accordance with Scale BB from the table's base year of 2012.
- Mortality Rates for Active Members—RP-2000 Employee Mortality tables, with male rates multiplied by 60% and female rates multiplied by 50%.

See Independent Auditors' Report.

REDLANDS COMMUNITY COLLEGE

NOTES TO FINANCIAL STATEMENTS, CONTINUED

(8) RETIREMENT PROGRAMS, CONTINUED

Oklahoma Teachers' Retirement System, Continued

Actuarial Assumptions, Continued

<u>Asset Class</u>	<u>Target Asset Allocation</u>	<u>Long-Term Expected Real Rate of Return</u>
Domestic all cap equity*	7.0%	6.0%
Domestic large cap equity	10.0%	5.3%
Domestic mid cap equity	13.0%	6.1%
Domestic small cap equity	10.0%	6.6%
International large cap equity	11.5%	5.8%
International small cap equity	6.0%	5.8%
Core plus fixed income	17.5%	1.8%
High-yield fixed income	6.0%	4.1%
Private equity	5.0%	7.6%
Real estate**	7.0%	5.5%
Master limited partnerships	<u>7.0%</u>	7.6%
	<u>100.00%</u>	

* The Domestic all cap equity total expected return is a combination of 3 rates:
US large cap, US mid cap and US small cap

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

Discount Rate

A single discount rate of 8.00% was used to measure the total pension liability as of June 30, 2014 and June 30, 2015. This single discount rate was based solely on the expected rate of return on pension plan investments of 8.00%. 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.

See Independent Auditors' Report.

REDLANDS COMMUNITY COLLEGE

NOTES TO FINANCIAL STATEMENTS, CONTINUED

(8) RETIREMENT PROGRAMS, CONTINUED

Oklahoma Teachers' Retirement System, Continued

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%) or 1-percentage-point higher (9%) than the current rate:

	1% Decrease (7.0%)	Current Discount Rate (8.0%)	1% Increase (9.0%)
Employers' net pension liability	\$ 15,001,460	10,851,783	7,363,790

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.

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 has paid benefits until December 31, 2015. The amount paid for retiree insurance was \$9,502 during 2016.

See Independent Auditors' Report.

REDLANDS COMMUNITY COLLEGE

NOTES TO FINANCIAL STATEMENTS, CONTINUED

(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, 2016:

Scholarship funds awarded to the College	<u>\$ 24,258</u>
Payment of services to the Foundation	<u>\$ 3,501</u>
Rent collected and submitted to the Foundation	<u>\$ 156,931</u>
Transfer of property to the College	<u>\$ 100,000</u>

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, 2016, approximately \$1,109,000 of Direct Loan Program loans were provided to College students.

(10) COMMITMENTS AND CONTINGENCIES

Cougar Crossing Apartments and Related Entities

In prior years, the College had a guaranty agreement with Redlands/El Reno II, LLC to induce Redlands/El Reno II, LLC to enter into a sublease agreement with the Foundation. In addition, there were possible contingent liabilities associated with the various agreements surrounding the Cougar Crossing lease transaction. These issues are considered resolved because as noted elsewhere, the College entered into a 30-year lease agreement with ODFA to acquire funds to purchase the Cougar Crossing Apartments. That purchase combined with the settlement note discussed in Note 6, eliminated the guaranty agreement and other contingent liabilities associated with the Cougar Crossing lease transaction.

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, 2016, that management believes would result in a material loss to the College in the event of an adverse outcome.

See Independent Auditors’ Report.

(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.

REDLANDS COMMUNITY COLLEGE

NOTES TO FINANCIAL STATEMENTS, CONTINUED

(12) REDLANDS COMMUNITY COLLEGE FOUNDATION, INC.

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

NOTE (A)—NATURE OF OPERATIONS

Redlands Community College Foundation, Inc. (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 Redlands Community College (RCC). The primary purposes of the Foundation are to fund scholarships to students attending RCC 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 RCC. The Foundation shall ensure integrity to meet donor expectations.

NOTE (B)—SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Basis of Accounting

The financial statements are reported on a modified cash basis of accounting. The modified cash basis of accounting is based on the recording of cash and cash equivalents and changes therein, and only recognizes revenues, expenses, assets, and liabilities resulting from cash transactions, adjusted for modifications that have substantial support in accounting principles generally accepted in the United States. These modifications include adjustments for the following balances arising from the following transactions:

- Capital assets purchased or donated and the depreciation of those assets, where applicable
- Fair value adjustments recognized for investments and for capital assets transferred to RCC
- Lease income received in advance that had not been earned
- Obligations under capital leases and long-term debt
- Other cash-based payables

As a result of the use of the modified cash basis of accounting, certain assets and their related revenues (such as accounts receivable, accrued revenue and receivables, and revenue received from gifts-in-kind) and certain liabilities and their related expenses (such as accounts payable and expenses for goods or services received but not yet paid, and accrued expenses and liabilities) are not recorded in these financial statements.

See Independent Auditors' Report.

REDLANDS COMMUNITY COLLEGE

NOTES TO FINANCIAL STATEMENTS, CONTINUED

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

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

Fiscal Year

The financial statements of the Foundation are presented as of and for the year ending January 31, 2016.

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 highly liquid debt instruments with an original maturity of 3 months or less when purchased 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.

See Independent Auditors' Report.

(12) **REDLANDS COMMUNITY COLLEGE FOUNDATION, INC., CONTINUED**

NOTE (B)—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 three to ten years for equipment and furniture and fixtures and twenty 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 years ended January 31, 2016 or 2015.

Endowment Funds

The Foundation's endowments consist of 31 individual funds established for a variety of purposes. The endowment is comprised of donor-restricted endowment funds. 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 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.

See Independent Auditors' Report.

(12) **REDLANDS COMMUNITY COLLEGE FOUNDATION, INC., CONTINUED**

NOTE (B)—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 the OCCF. The Foundation believes the investment policies of the 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 the 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 the 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.

See Independent Auditors' Report.

REDLANDS COMMUNITY COLLEGE

NOTES TO FINANCIAL STATEMENTS, CONTINUED

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

NOTE (C)—ASSETS HELD FOR OTHERS

Assets held for others represents the monies from a grant being held for RCC, as well as funds which were part of the Crossings which are due to RCC. The Foundation has recorded an asset and an offsetting liability to record these funds. The asset consists of cash of \$80,914 and \$80,914 and certificates of deposit of \$3,504 and \$0 as of January 31, 2016 and 2015, respectively.

NOTE (D)—GROUND LEASE RECEIVABLE

On March 28, 2012, the Foundation entered into a Ground Lease Agreement with Redlands/El Reno II, LLC, in which the Foundation was to rent land to Redlands/El Reno II, LLC for the purpose of building additional student housing (Note J). The lease began 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/El Reno II, LLC as of the date of the agreement. As of January 31, 2015, the prepayment of the lease by Redlands/El 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 was 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 statement of assets, liabilities, and net assets—modified cash basis as of January 31, 2015. The building was purchased by RCC in September 2015. Therefore, the ground lease was cancelled and the balances related to the agreement have been written-off from the Foundation’s statement of assets, liabilities, and net assets—modified cash basis as of January 31, 2016.

See Independent Auditors’ Report.

REDLANDS COMMUNITY COLLEGE

NOTES TO FINANCIAL STATEMENTS, CONTINUED

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

NOTE (E)—PROPERTY AND EQUIPMENT

Property and equipment consists of the following as of January 31:

	<u>2016</u>	<u>2015</u>
Land	\$ 137,500	157,000
Building	118,753	3,218,753
Equipment	29,458	29,458
Furniture and fixtures	<u>17,844</u>	<u>17,844</u>
	303,555	3,423,055
Less accumulated depreciation	<u>(166,055)</u>	<u>(359,805)</u>
Total property and equipment, net	<u>\$ 137,500</u>	<u>3,063,250</u>

During 2016, the Foundation transferred property to RCC as follows:

Book value of property transferred to RCC prior to fair value adjustment	\$ 19,500
Fair value adjustment to increase property to appraisal fair value	<u>80,500</u>
	100,000
Fair value of property transferred to RCC	<u>(100,000)</u>
	<u>\$ -</u>

See Independent Auditors' Report.

REDLANDS COMMUNITY COLLEGE

NOTES TO FINANCIAL STATEMENTS, CONTINUED

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

NOTE (F)—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:

	<u>2016</u>	<u>2015</u>
Mutual funds	\$ <u>2,657</u>	<u>3,854</u>

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

Endowed funds are held at the Oklahoma City Community Foundation (OCCF). The OCCF is a nonprofit entity that provides for endowed contributions to be pooled to maximize return on investments for the benefit of area nonprofit 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 the OCCF's spending policy. The Foundation has authorized the OCCF to manage the endowment, effectively giving variance power to the 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 \$623,159 and \$663,390 as of January 31, 2016 and 2015, respectively. The endowed funds contributed by third-party donors held by the OCCF designated for the benefit of the Foundation were \$171,570 and \$185,041 as of January 31, 2016 and 2015, respectively, and are not reflected in the Foundation's statements of assets, liabilities, and net assets—modified cash basis.

See Independent Auditors' Report.

REDLANDS COMMUNITY COLLEGE**NOTES TO FINANCIAL STATEMENTS, CONTINUED**

(12) REDLANDS COMMUNITY COLLEGE FOUNDATION, INC., CONTINUED**NOTE (H)—INVESTMENT INCOME**

Investment income (loss), net, is as follows for the years ended January 31:

	2016			
	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Permanently Restricted</u>	<u>Total</u>
Interest and dividends:				
Cash and cash equivalents	\$ 244	-	-	244
Mutual funds: high yield bond funds	<u>-</u>	<u>191</u>	<u>-</u>	<u>191</u>
Total interest and dividends	<u>244</u>	<u>191</u>	<u>-</u>	<u>435</u>
Realized and unrealized (losses) gains, net:				
Mutual funds: high yield bond funds	-	-	(1,197)	(1,197)
Beneficial interest in assets held by others	<u>-</u>	<u>-</u>	<u>(20,806)</u>	<u>(20,806)</u>
Total realized and unrealized losses, net	<u>-</u>	<u>-</u>	<u>(22,003)</u>	<u>(22,003)</u>
Investment income (loss), net	<u>\$ 244</u>	<u>191</u>	<u>(22,003)</u>	<u>(21,568)</u>

See Independent Auditors' Report.

REDLANDS COMMUNITY COLLEGE**NOTES TO FINANCIAL STATEMENTS, CONTINUED****(12) REDLANDS COMMUNITY COLLEGE FOUNDATION, INC., CONTINUED****NOTE (H)—INVESTMENT INCOME, CONTINUED**

	2015			<u>Total</u>
	<u>Unrestricted</u>	Temporarily <u>Restricted</u>	Permanently <u>Restricted</u>	
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	<u>287</u>	<u>344</u>	<u>-</u>	<u>631</u>
Realized and unrealized (losses) 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	<u>-</u>	<u>-</u>	<u>43,164</u>	<u>43,164</u>
Investment income, net	<u>\$ 287</u>	<u>344</u>	<u>43,164</u>	<u>43,795</u>

NOTE (I)—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.

See Independent Auditors' Report.

REDLANDS COMMUNITY COLLEGE

NOTES TO FINANCIAL STATEMENTS, CONTINUED

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

NOTE (I)—FAIR VALUE MEASUREMENTS, CONTINUED

The following is a description of the valuation methodologies used for assets measured at fair value;

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

The fair values of beneficial interests in assets held by the OCCF are based on the fair values of fund investments as reported by the 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 assets, liabilities, and net assets—modified cash basis 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			
	Assets Measured at <u>Fair Value</u>	Quoted Prices in Active Markets for Identical Assets <u>(Level 1)</u>	Significant Other Observable Inputs <u>(Level 2)</u>	Significant Unobservable Inputs <u>(Level 3)</u>
<u>2016</u>				
Mutual funds: high yield bond funds	\$ 2,657	2,657	-	-
Beneficial interest in assets held by the OCCF (Note G)	<u>623,159</u>	-	-	<u>623,159</u>
	<u>\$ 625,816</u>	<u>2,657</u>	<u>-</u>	<u>623,159</u>
<u>2015</u>				
Mutual funds: high yield bond funds	\$ 3,854	3,854	-	-
Beneficial interest in assets held by the OCCF (Note G)	<u>663,390</u>	-	-	<u>663,390</u>
	<u>\$ 667,244</u>	<u>3,854</u>	<u>-</u>	<u>663,390</u>

See Independent Auditors’ Report.

REDLANDS COMMUNITY COLLEGE

NOTES TO FINANCIAL STATEMENTS, CONTINUED

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

NOTE (I)—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 years ended January 31:

	Beneficial Interests in Assets Held by <u>the OCCF</u>
Balance at January 31, 2015	\$ 663,390
Purchases/contributions of investments	10,519
Investment loss, net	(20,806)
Distributions	<u>(29,944)</u>
Balance at January 31, 2016	<u>\$ 623,159</u>
Balance at January 31, 2014	\$ 575,319
Purchases/contributions of investments	69,543
Investment income, net	43,866
Distributions	<u>(25,338)</u>
Balance at January 31, 2015	<u>\$ 663,390</u>

See Independent Auditors' Report.

REDLANDS COMMUNITY COLLEGE

NOTES TO FINANCIAL STATEMENTS, CONTINUED

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

NOTE (J)—CAPITAL LEASES

The Foundation was the lessee of Cougar Crossing Apartments, Phase II (“Cougar Crossing Phase II”) under a capital lease dated March 28, 2012, and expiring January 2063. The assets and liabilities under the capital lease were recorded at the lower of the present value of the minimum lease payments or the fair value of the asset. The assets were 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 and equipment held under the capital lease as of January 31:

	<u>2016</u>	<u>2015</u>
Cougar Crossing Phase II	\$ -	3,100,000
Less accumulated depreciation	-	<u>(193,750)</u>
	<u>\$ -</u>	<u>2,906,250</u>

RCC purchased the building from Redlands/El Reno II, LLC in September 2015. As a result of the purchase, the ground lease was cancelled. As of January 31, 2016, the Cougar Crossing Phase II related balances were written-off from the Foundation’s statement of assets, liabilities, and net assets—modified cash basis, which resulted in a net gain of \$351,312, computed as follows:

Obligations under capital lease	\$ 3,210,262
Unearned rent income	56,312
Accumulated depreciation—building	248,242
Building capitalized under capital lease	(3,100,000)
Ground lease receivable	(60,000)
Transfer of ownership of certificates of deposit	<u>(3,504)</u>
Net gain on cancellation of capital lease	<u>\$ 351,312</u>

See Independent Auditors’ Report.

REDLANDS COMMUNITY COLLEGE

NOTES TO FINANCIAL STATEMENTS, CONTINUED

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

NOTE (K)—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:

	2016			
	<u>Unrestricted</u>	Temporarily <u>Restricted</u>	Permanently <u>Restricted</u>	<u>Total</u>
Endowment assets by type of fund:				
Donor-restricted endowment funds	\$ <u>-</u>	<u>-</u>	<u>625,816</u>	<u>625,816</u>
	2015			
	<u>Unrestricted</u>	Temporarily <u>Restricted</u>	Permanently <u>Restricted</u>	<u>Total</u>
Endowment assets by type of fund:				
Donor-restricted endowment funds	\$ <u>-</u>	<u>-</u>	<u>667,244</u>	<u>667,244</u>

See Independent Auditors' Report.

REDLANDS COMMUNITY COLLEGE

NOTES TO FINANCIAL STATEMENTS, CONTINUED

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

NOTE (K)—ENDOWMENT FUNDS, CONTINUED

Changes in endowment net assets are as follows for the year ended January 31:

	2016			<u>Total</u>
	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Permanently Restricted</u>	
Endowment net assets at beginning of year	\$ -	-	667,244	<u>667,244</u>
Investment return:				
Net depreciation (realized and unrealized)	-	-	(22,003)	<u>(22,003)</u>
Total investment return	-	-	(22,003)	<u>(22,003)</u>
Appropriation of endowment assets:				
Reinvestment of unused earnings	-	-	10,519	10,519
Distribution of earnings	-	-	(29,944)	<u>(29,944)</u>
Total appropriation of endowment assets	-	-	(19,425)	<u>(19,425)</u>
Endowment net assets at end of year	<u>\$ -</u>	<u>-</u>	<u>625,816</u>	<u>625,816</u>

See Independent Auditors' Report.

REDLANDS COMMUNITY COLLEGE

NOTES TO FINANCIAL STATEMENTS, CONTINUED

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

NOTE (K)—ENDOWMENT FUNDS, CONTINUED

	2015			<u>Total</u>
	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Permanently Restricted</u>	
Endowment net assets at beginning of year	\$ -	-	583,187	583,187
Investment return:				
Net appreciation (realized and unrealized)	-	-	43,164	43,164
Total investment return	-	-	43,164	43,164
Appropriation of endowment assets:				
Contributions	-	-	51,000	51,000
Reinvestment of unused earnings	-	-	18,887	18,887
Distribution of earnings	-	-	(28,994)	(28,994)
Total appropriation of endowment assets	-	-	40,893	40,893
Endowment net assets at end of year	\$ -	-	667,244	667,244

See Independent Auditors' Report.

REDLANDS COMMUNITY COLLEGE

NOTES TO FINANCIAL STATEMENTS, CONTINUED

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

NOTE (L)—NET ASSETS

Net assets are available to be used for the following purposes as of January 31:

	<u>2016</u>	<u>2015</u>
Unrestricted net assets:		
Cougar Crossing Phase II	\$ -	(286,052)
Net investment in property and equipment	137,500	157,000
Undesignated	<u>56,636</u>	<u>40,821</u>
Total unrestricted net assets	194,136	(88,231)
Temporarily restricted net assets:		
Scholarships	130,468	119,658
Permanently restricted net assets:		
Program endowment fund—with income restricted for scholarships	<u>625,816</u>	<u>667,244</u>
Total property and equipment, net	<u>\$ 950,420</u>	<u>698,671</u>

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 net assets as funds become available through annual distribution from the 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.

REDLANDS COMMUNITY COLLEGE

NOTES TO FINANCIAL STATEMENTS, CONTINUED

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

NOTE (M)—TAX-EXEMPT STATUS

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

Management has reviewed the Foundation's tax positions and concluded that there are no uncertain tax positions that require accrual in the financial statements or disclosure in the footnotes to be in compliance with authoritative literature. Generally, the Foundation is no longer subject to income tax examination by federal, state or local tax authorities for years prior to the fiscal year ended January 31, 2014.

NOTE (N)—CONCENTRATIONS OF CREDIT RISK

Financial instruments that potentially subject the Foundation to concentrations of credit risk consist principally of cash and cash equivalents. As of both January 31, 2016 and 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 (O)—RELATED-PARTY TRANSACTIONS

The Foundation leases certain properties to RCC on an annual basis. Lease income derived from these properties totaled \$3,501 and \$6,501 for the years ended January 31, 2016 and 2015, respectively.

The Foundation had an agreement with RCC, whereby RCC had agreed to manage and maintain the Cougar Crossing Apartments, Phase II. The agreement commenced on August 15, 2012, and was automatically renewed annually unless official action not to extend the agreement was taken by either party. Under the agreement, RCC was to collect all rent revenue from the tenants on behalf of the Foundation. As previously discussed, RCC purchased the building from Redlands/El Reno II, LLC and the Foundation wrote-off the related balances.

See Independent Auditors' Report.

REDLANDS COMMUNITY COLLEGE

NOTES TO FINANCIAL STATEMENTS, CONTINUED

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

NOTE (P)—COUGAR CROSSING PHASE II

The following is a summary of the activity relating to Cougar Crossing Phase II as of January 31:

**Statements of Assets, Liabilities, and Net Assets—
Modified Cash Basis**

	<u>2016</u>	<u>2015</u>
Assets:		
Cash and cash equivalents	\$ -	3,608
Ground lease receivable	-	60,000
Property and equipment, net	<u>-</u>	<u>2,906,250</u>
Total assets	<u>\$ -</u>	<u>2,969,858</u>
Liabilities:		
Unearned lease income	\$ -	56,312
Obligations under capital leases	<u>-</u>	<u>3,210,262</u>
Total liabilities	<u>-</u>	<u>3,266,574</u>
Net assets:		
Unrestricted—Cougar Crossing Phase II	<u>-</u>	<u>(296,716)</u>
Total net assets	<u>-</u>	<u>(296,716)</u>
Total liabilities and net assets	<u>\$ -</u>	<u>2,969,858</u>

As noted elsewhere, RCC purchased the building of Cougar Crossing Phase II in September 2015. As a result, all asset and liability accounts related to Cougar Crossing Phase II were eliminated and a gain on the settlement or cancellation of the capital lease recorded by the Foundation.

See Independent Auditors' Report.

REDLANDS COMMUNITY COLLEGE

NOTES TO FINANCIAL STATEMENTS, CONTINUED

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

NOTE (P)—COUGAR CROSSING PHASE II, CONTINUED

Statements of Revenues, Expenses, and Changes in Net Assets—
Modified Cash Basis

	<u>2016</u>	<u>2015</u>
Revenues, gains, and other support:		
Cougar Crossing Phase II lease income	\$ 395,253	406,340
Ground lease income	-	1,500
Other	14,066	-
Net gain on cancellation of capital lease	<u>351,312</u>	<u>-</u>
Total revenues, gains, and other support	<u>760,631</u>	<u>407,840</u>
Expenses:		
Utilities	32,679	47,251
Insurance	9,527	10,663
Repairs and maintenance	6,617	25,518
Miscellaneous	44,199	300
Management fees	10,000	15,000
Legal fees	-	10,664
Depreciation	54,492	77,500
Interest expense	<u>306,401</u>	<u>363,776</u>
Total expenses	<u>463,915</u>	<u>550,672</u>
Changes in net assets	<u>\$ 296,716</u>	<u>(142,832)</u>

On August 15, 2013, RCC 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 D), the Sublease Agreement (Note J), and the Manage and Maintain Agreement (Note O). After further review of the Manage and Maintain Agreement, the Attorney General's office notified RCC that all rent and related expenses must be paid directly by the Foundation. Therefore, for subsequent periods, the Foundation was responsible for making all payments related to the property. As a result of the purchase of the building by RCC, the agreements noted above have all been cancelled and are no longer in effect.

See Independent Auditors' Report.

REDLANDS COMMUNITY COLLEGE

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

REDLANDS COMMUNITY COLLEGE

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

Last 2 Fiscal Years*

	<u>2016</u>	<u>2015</u>
College's proportion of the net pension liability	0.1787%	0.2265%
College's proportionate share of the net pension liability	\$ 10,851,783	12,184,933
College's covered-employee payroll	5,632,784	5,656,253
College's proportionate share of the net pension liability as a percentage of its covered-employee payroll	192.65%	215.42%
Plan fiduciary net position as a percentage of the total pension liability	70.31%	72.43%

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

Only the last 2 fiscal years are presented because 10-year data is not yet available.

See Independent Auditors' Report.

REDLANDS COMMUNITY COLLEGE

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

Last 2 Fiscal Years

	<u>2016</u>	<u>2015</u>
Contractually required contribution, restated	\$ 722,497	745,488
Contributions in relation to the contractually required contributions	<u>722,497</u>	<u>745,488</u>
Contribution deficiency (excess), restated	<u>\$ -</u>	<u>-</u>
College's covered-employee payroll	<u>\$ 5,431,289</u>	<u>5,632,784</u>
Contributions as a percentage of covered-employee payroll	13%	13%

Only the last 2 fiscal years are presented because 10-year data is not yet available.

See Independent Auditors' Report.

REDLANDS COMMUNITY COLLEGE

INFORMATION REQUIRED BY
GOVERNMENT AUDITING STANDARDS AND
THE UNIFORM GUIDANCE



**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, 2016, 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 17, 2016. We conducted our audit in accordance with the auditing standards generally accepted in the United States and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Our report includes a reference to 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 a paragraph disclaiming an opinion on required supplementary information. Our report also includes an explanatory paragraph discussing the College's adoption of GASB 82 and the restatement of beginning net position.

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.

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 College'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.

(Continued)

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

Internal Control Over Financial Reporting, Continued

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 17, 2016



**INDEPENDENT AUDITORS' REPORT ON
COMPLIANCE FOR EACH MAJOR PROGRAM AND
ON INTERNAL CONTROL OVER COMPLIANCE
REQUIRED BY THE UNIFORM GUIDANCE**

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 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, 2016. 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 federal statutes, regulations, and the terms and conditions of its federal awards 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 the audit requirements of Title 2 U.S. *Code of Federal Regulations* (CFR) Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* ("Uniform Guidance"). Those standards and the Uniform Guidance require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about the 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)

**INDEPENDENT AUDITORS' REPORT ON
COMPLIANCE FOR EACH MAJOR PROGRAM AND
ON INTERNAL CONTROL OVER COMPLIANCE
REQUIRED BY THE UNIFORM GUIDANCE, 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, 2016.

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 the Uniform Guidance, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of the 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.

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 the Uniform Guidance. Accordingly, this report is not suitable for any other purpose.



Shawnee, Oklahoma
October 17, 2016

REDLANDS COMMUNITY COLLEGE

SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS

Year Ended June 30, 2016

Federal Grantor/Pass-Through Grantor/Program or Cluster Title	Federal CFDA Number	Grant Number/Pass-Through Entity Identifying Number	Passed Through to Subrecipients (No Subrecipients)	Total Federal Expenditures
U.S. Department of Education:				
Student Financial Assistance Cluster:				
Federal Pell Grant Program	84.063			\$ 1,861,612
Federal Supplemental Educational Opportunity Grant	84.007			28,764
Federal Direct Student Loans Program	84.268			1,109,366
Federal Work Study Program	84.033			<u>22,736</u>
Total Student Financial Assistance Cluster				<u>3,022,478</u>
TRIO Cluster:				
Upward Bound	84.047A	P047A120394-14/15		284,154
Veterans Upward Bound	84.047V	P047V130007-14/15		251,780
Student Support Services	84.042A	P042A150619/P042A100128-14		<u>240,751</u>
Total TRIO Cluster				<u>776,685</u>
United States Department of Education—Other Programs:				
Carl Perkins Vocational and Technical Education Funds	84.048			59,127
Strengthening Minority-Serving Institutions (NASNTI)	84.382	P382C11008-14		493,086
New Program Development: Environmental Science Technology (NASNTI-STEM)	84.031	P031X150011		<u>169,535</u>
Total Other Programs				<u>721,748</u>
Total U.S. Department of Education				<u>4,520,911</u>

(Continued)

See Independent Auditors' Report.

See accompanying notes to schedule of expenditures of federal awards.

REDLANDS COMMUNITY COLLEGE

SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS, CONTINUED

Year Ended June 30, 2016

Federal Grantor/Pass-Through Grantor/Program or Cluster Title	Federal CFDA Number	Grant Number/Pass-Through Entity Identifying Number	Passed Through to Subrecipients (No Subrecipients)	Total Federal Expenditures
U.S. Department of Health and Human Services:				
Passed through OSHRE:				
Temporary Assistance to Need Families	93.558	0310559		249,300
AHEC—Scholars for Excellence in Child Care	93.596	1936002309		<u>63,826</u>
Total OSHRE				<u>313,126</u>
Passed through Area Agency on the Aging:				
Title III-B	93.044	34079136		83,963
Title III-C	93.045	34079136		240,317
Title III-E	93.052	34079136		4,129
NSIP	93.053	34079136		<u>19,456</u>
Total Area Agency on the Aging				<u>347,865</u>
Total U.S. Department of Health and Human Services				<u>660,991</u>

(Continued)

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

REDLANDS COMMUNITY COLLEGE

SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS, CONTINUED

Year Ended June 30, 2016

Federal Grantor/Pass-Through Grantor/Program or Cluster Title	Federal CFDA Number	Grant Number/Pass-Through Entity Identifying Number	Passed Through to Subrecipients (No Subrecipients)	Total Federal Expenditures
U.S. Department of Commerce:				
Oklahoma Manufacturing Alliance	11.611			94,141
Total U.S. Department of Commerce				<u>94,141</u>
National Science Foundation:				
Passed through Missouri State University: VESTA	47.076	1501974		28,745
Total National Science Foundation				<u>28,745</u>
Department of Agriculture:				
Rural Utilities Service Distance Learning & Telemedicine	10.885	OK 752-A16		217,555
Southern Plains Climate and Agriculture Initiative	10.001	58-6218-4-012		181,073
Climate Hubs Communication Strategy	10.902	68-3A75-14-301		39,475
Total Department of Agriculture				<u>438,103</u>
National Aeronautic and Space Administration Pass through University of Oklahoma Project ur NASA	43.008	NNX14AR51A		156,209
Total expenditures of federal awards				<u>\$ 5,899,100</u>

See Independent Auditors' Report.

See accompanying notes to schedule of expenditures of federal awards.

REDLANDS COMMUNITY COLLEGE

NOTES TO SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS

Year Ended June 30, 2016

(1) BASIS OF PRESENTATION

The accompanying schedule of expenditures of federal awards (the "Schedule") includes the federal awards activity of Redlands Community College (the "College") under programs of the federal government for the year ended June 30, 2016. The information in this Schedule is presented in accordance with the requirements of Title 2 U.S. *Code of Federal Regulations* (CFR) Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (Uniform Guidance). Because the Schedule presents only a selected portion of the operations of the College, it is not intended to and does not present the net position, changes in net position, or cash flows of the College.

(2) SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Expenditures reported on the Schedule are reported on the accrual basis of accounting. Such expenditures are recognized following the cost principles contained in the Uniform Guidance, wherein certain types of expenditures are not allowable or are limited as to reimbursement. Negative amounts, if any, shown on the Schedule represent adjustments or credits made in the normal course of business to amounts reported as expenditures in prior years.

(3) 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.

(4) SUBRECIPIENTS

During the year ended June 30, 2016, the College did not provide any federal awards to subrecipients.

(5) INDIRECT COST RATE

The College has a Negotiated Indirect Cost Rate Agreement issued by the U.S. Department of Health and Human Services issued as of April 24, 2013. The negotiated rates were applied in accordance with the Agreement for the year ended June 30, 2016, except that certain grants limited the rate charged.

See Independent Auditors' Report.

REDLANDS COMMUNITY COLLEGE

SCHEDULE OF FINDINGS AND QUESTIONED COSTS

Year Ended June 30, 2016

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 2 CFR 200.516(a)? Yes No

Identification of major federal programs:

<u>Federal CFDA #</u>	<u>Name of Federal Program or Cluster</u>
84.007, 84.268, 84.033, and 84.063	Student Financial Assistance Cluster
84.047, 84.042	Trio Cluster

Dollar threshold used to distinguish between type A and type B programs: **\$750,000**

Auditee qualified as low-risk auditee? Yes No

REDLANDS COMMUNITY COLLEGE

SCHEDULE OF FINDINGS AND QUESTIONED COSTS, CONTINUED

Year Ended June 30, 2016

SECTION II—FINANCIAL STATEMENT FINDINGS

None noted.

SECTION III—FEDERAL AWARD FINDINGS AND QUESTIONED COSTS

None noted.

REDLANDS COMMUNITY COLLEGE

SUMMARY SCHEDULE OF PRIOR AUDIT FINDINGS

Year Ended June 30, 2016

None noted.