

Seminole State College
A Component Unit of the State of Oklahoma

Financial Statements

June 30, 2016
(With Independent Auditors' Reports Thereon)



SEMINOLE STATE COLLEGE

FINANCIAL STATEMENTS

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INDEPENDENT AUDITORS' REPORT

Board of Regents
Seminole State College
Seminole, Oklahoma

Report on the Financial Statements

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

Auditors' Responsibility

Our responsibility is to express opinions on these financial statements based on our audit. We have also audited the financial statements of the discretely presented component unit Seminole State College Educational Foundation, Inc. ("the Foundation"), a not-for-profit Oklahoma corporation organized to support the College, as of and for the year ended December 31, 2015. 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*. 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, Seminole State College Educational Foundation, Inc., 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 A 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 balances 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-7 and the schedule of the College's proportionate share of the net pension liability and the schedule of the College's contributions and schedule of funding progress for OPEB on pages 55 through 57 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

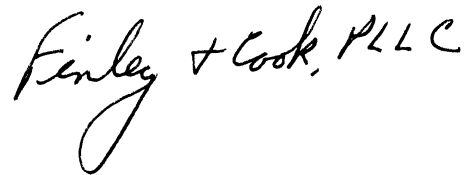
Other Matters, Continued

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 financial statements or to the financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States. In our opinion, the schedule of expenditures of federal awards is fairly stated, in all material respects, in relation to the basic financial statements taken as a whole.

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated October 14, 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.

A handwritten signature in black ink that reads "Finley + Cook, PLLC". The signature is written in a cursive, flowing style.

Shawnee, Oklahoma
October 14, 2016

The following *Management's Discussion and Analysis* (MD&A) provides the financial performance of Seminole State College (the "College") with an overview of the financial activities based on currently known facts, decisions and conditions for the fiscal years ended June 30, 2016 and 2015. This analysis is intended to provide you, the reader, an understanding of the accompanying financial statements.

OVERVIEW

The College presents its financial statements in accordance with the business-type activities format under The *Governmental Accounting Standards Board (GASB)*. Accordingly, the financial statements include management's discussion and analysis (as required supplementary information); the statements of net position; the statements of revenues, expenses, and changes in net position; the statements of cash flows; and explanatory notes to the financial statements.

These statements include all assets and all liabilities using the accrual basis of accounting, which is similar to the accounting method used by most private-sector companies. The accrual basis of accounting reports the current year's revenues and expenses regardless of when cash is actually received or disbursed.

STATEMENT OF NET POSITION

Statements of Net Position presents the financial position of the College at the end of the fiscal year. From the data presented, readers of the statement are able to determine the assets available to continue the operations of the College. They also are able to determine how much the College owes vendors, investors and lending

institutions. Finally, the Statement of Net Position provides a picture of the assets minus liabilities and their availability to pay expenses of the College or as one way to measure the College's financial health or financial situation.

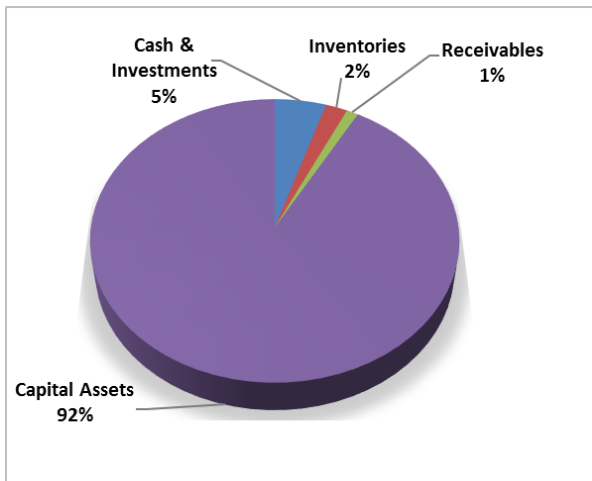
The June 30, 2015, financial statements presented in this Management Discussion and Analysis have been restated to reflect implementation of GASB 82. The effect of the restatements as follows:

	As Previously Reported	As Restated
Statement of net position:		
Total deferred outflows of resources	1,465,425	967,924
Total net position	(12,419,133)	(12,916,634)

Assets are what the College owns and are measured in current value, except for property and equipment, which are recorded at historical cost less accumulated depreciation. Consideration must be made in regards to non-financial factors, such as changes in the College's programs and degrees offered and accreditations status, enrollment levels, in addition to the condition of its physical facilities, to fully assess the overall health of the College.

In fiscal year 2016, total assets of the College decreased slightly at 0.23% or \$50,259 over fiscal year 2015. A review of the Statement of Net Position will reveal that there are many fluctuating variables, however the changes were primarily due to the increase in inventories and capital assets of \$1,292,529 offset by a decrease in cash, accounts receivable, and restricted investments of \$1,342,788.

ASSETS



Liabilities are what the College owes to others or what it has collected from others before it has provided the related services. Liabilities are also categorized as either current or noncurrent. Current liabilities are amounts becoming due and payable with the next year. While, noncurrent liabilities are those financial obligations that are not due within the present fiscal year. They include (1) principal amounts of revenue bonds payable, notes payable, and capital lease obligations, and (2) estimated amounts for accrued compensated absences.

In fiscal year 2016, total liabilities of the College for the year decreased by \$1,372,312 or 4.22%. There was a slight decrease in Current Liabilities of \$41,043, while the majority of the reduction is due to the savings in refinancing of one of our bond obligations giving noncurrent liabilities a total reduction of \$1,331,269.

Deferred Inflows and outflows are resources to the College that are not considered assets or liabilities. For fiscal year 2016, total deferred inflows decreased by \$1,273,778 and the majority of the decrease \$1,242,330

was related to our pension. The deferred outflows has a slight reduction of \$445,687.

Net position is divided into three categories. Invested in capital assets net of related debt represents the historical cost of capital assets reduced by the balance of related outstanding debt and accumulated depreciation. Restricted net position includes amounts that have been restricted for use by external parties for such things as debt service, student loans and capital projects.

Finally, unrestricted net position includes amounts institutionally designated or committed to support specific academic programs and for working capital requirements.

In the fiscal year 2016, an addition of a \$2,420,096 investment in capital assets and an overall net increase in restricted and unrestricted net position of \$621,422, caused a reduction of the negative net position to (\$9,875,116). In 2015 the net position was restated as (\$12,916,634).



Seminole State College 2016 In-service.

Condensed Statements of Net Position

	2016	2015	Difference
CURRENT ASSETS	1,773,510	1,919,351	(145,841)
NONCURRENT ASSETS			
Capital assets, net	19,986,723	18,807,414	1,179,309
Other	-	1,083,727	(1,083,727)
TOTAL ASSETS	21,760,233	21,810,492	(50,259)
TOTAL DEFERRED OUTFLOWS	1,413,611	967,924	445,687
CURRENT LIABILITIES	2,370,831	2,411,874	(41,043)
NONCURRENT LIABILITIES	28,814,467	30,145,736	(1,331,269)
TOTAL LIABILITIES	31,185,298	32,557,610	(1,372,312)
TOTAL DEFERRED INFLOWS	1,863,662	3,137,440	(1,273,778)
NET POSITION			
Net Investment	2,420,096	-	2,420,096
Restricted for debt service	-	857,785	(857,785)
Unrestricted	(12,295,212)	(13,774,419)	1,479,207
TOTAL NET POSITION	(9,875,116)	(12,916,634)	3,041,518



Peek Into Engineering (PIE) Summer Academy at SSC

The following table summarizes the College's revenues, expenses and changes in net position, for the years ended June 30:

STATEMENT OF REVENUES, EXPENSES & CHANGES IN NET POSITION

Statement of Revenues, Expenses and Changes in Net Position presents the revenues earned and the expenses incurred during the year. Activities are reported as either operating or non-operating. The *Governmental Accounting Standards Board (GASB)* requires state appropriations and certain grants to be classified as non-operating revenues.

Operating expenses are those expenses paid to acquire or produce the goods and services provided in return for the operating revenues, and to carry out the mission of the College. Non-operating revenues are revenues received for which goods and services are not provided. State capital appropriations are considered neither operating nor non-operating revenues and are reported under "Other Revenues, Expenses, Gains and Losses."

Condensed Statement of Revenues, Expenses and Changes in Net Position

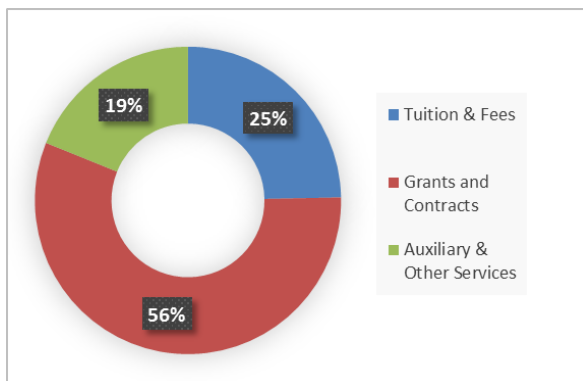
	2016	2015	Difference
Total Operating Revenues	8,106,897	7,564,564	542,333
Total Operating Expenses	17,053,468	17,576,885	(523,417)
Operating Loss	(8,946,571)	(10,012,321)	1,065,750
Net Nonoperating Revenues	9,279,505	10,254,570	(975,065)
Income (loss) before other revenues, expenses, gains and losses	332,934	242,249	90,685
State appropriations restricted for capital purposes	381,340	436,941	(55,601)
Contributed capital - donated capital asset	1,241,260	140,272	1,100,988
OCIA on-behalf state appropriations	1,090,041	929,800	160,241
Loss on disposal of capital assets	(4,057)	-	(4,057)
CHANGE IN NET POSITION	3,041,518	1,749,262	1,292,256
NET POSITION AT BEGINNING OF YEAR	(12,419,133)	(691,509)	(11,727,624)
Adjustment to net position for			
adoption of new accounting principle	(497,501.00)	(13,476,886)	12,979,385
NET POSITION AT BEGINNING OF YEAR	(12,916,634)	(14,168,395)	1,251,761
NET POSITION AT END OF YEAR	\$ (9,875,116)	\$ (12,419,133)	\$ 2,544,017

OPERATING REVENUES

Operating revenues of \$8.1 million in 2016 increased \$542,333 or 7.2% when compared to 2015. The increases came primarily from tuition and fees of \$427,959 and Auxiliary enterprises of \$138,823.

GASB Statement No. 35 categorizes revenues as either operating or non-operating. Operating revenues generally result from exchange transactions where each of the parties either give up or receive something of equal or similar value.

Operating Revenues Fiscal Year 2016



OPERATING EXPENSES

Expenses are categorized as operating or non-operating. The majority of the College's expenses are operating expenses as defined by GASB Statement No. 35. GASB gives financial reporting guidance for entities to report operating expenses in the functional classifications. The College reports the expenses in their functional classification on the statement of revenues, expenses, and changes in net assets.

Operating expenses of \$17.05 million in 2016 decreased \$523,417 when compared to the prior 2015 year. The decreases came primarily from Compensation of \$294,684

and Scholarships & Fellowships of \$179,621. With the efforts to reduce energy consumed in our facilities SSC also had a 16.9% reduction in utilities.



SSC annual finals eve student breakfast

The following table summarizes the operating expenses by classification, for the fiscal years ended June 30:

Operating Expenses

	2016	2015	Difference
Compensation	9,234,297	9,528,981	(294,684)
Contractual Services	1,009,857	948,340	61,517
Supplies & Materials	1,342,213	1,315,056	27,157
Utilities	428,231	515,181	(86,950)
Communications	168,155	165,122	3,033
Other Operating Expenses	1,749,734	1,777,856	(28,122)
Scholarships & Fellowships	2,078,542	2,258,163	(179,621)
Depreciation Expense	1,042,439	1,068,186	(25,747)
Total Operating Expenses	17,053,468	17,576,885	(523,417)

NON-OPERATING REVENUES AND EXPENSES

Certain revenue sources that the College relies on to maintain more affordable tuition rates and provide funding for operations, including State Appropriations, are defined under GASB as non-operating revenue.

Non-operating expenses include costs related to capital assets.

Non-operating Revenues

Non-operating revenues and expenses decreased \$975,065 in 2016 when compared to 2015. Due to state revenue shortfalls and cuts, SSC had a reduction of state appropriations of \$783,330. Other non-operating changes has decreases in Federal Grants of \$195,879 and state grants of \$30,736.

STATEMENT OF CASH FLOWS

Statement of Cash Flows provides additional information about the College's financial results by reporting the major sources and uses of cash. This statement will assist in evaluating the College's ability to generate net cash flows, its ability to meet obligations as they come due, and need for external financing.

The statement is divided into five parts. The **first** part deals with operating cash flows and shows the net cash used by the operating activities of the College. The **second** reflects cash flows from non-capital financing activities. This part reflects the cash received and spent for non-operating, non-investing, and non-capital financing purposes. The **third** deals with cash flows from capital and related financing activities. This part also deals with the cash used for the acquisition and construction of capital and related assets. The **fourth** reflects the cash flows from investing activities and shows the purchases, proceeds, and interest received from investing activities. The **fifth** reconciles the net cash used for the operating income or loss reflected on the

Statement of Revenues, Expenses and Changes in Net Position.

The following table summarizes the College's cash flow for the years ending June 30:

Condensed Statements of Cash Flows

	2016	2015	Difference
OPERATING ACTIVITIES	(8,377,701)	(9,250,914)	873,213
NONCAPITAL FINANCING ACTIVITIES	9,488,352	10,498,297	(1,009,945)
CAPITAL AND RELATED FINANCING ACTIVITIES	(2,338,553)	(692,466)	(1,646,087)
INVESTING ACTIVITIES	1,090,312	1,456	1,088,856
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	(137,590)	556,373	(693,963)
CASH AND CASH EQUIVALENTS, BEGINNING	1,213,132	656,759	556,373
CASH AND CASH EQUIVALENTS, END OF YEAR	1,075,542	1,213,132	(137,590)

CAPITAL ASSETS AND LONG-TERM LIABILITIES

As of June 30, 2016, the College has \$19.97 million in capital assets, net of accumulated depreciation. The following table summarizes the College's capital assets, net of accumulated depreciation:

	2016	2015	Difference
Land	618,869	618,869	-
Constuction in Process	2,998,013	944,836	2,053,177
Buildings	25,023,218	25,023,218	-
Improvements	9,178,849	9,164,328	14,521
Equipment	1,718,966	1,658,997	59,969
Vehicles	659,399	583,623	75,776
Library materials	1,466,939	1,451,677	15,262
Total Capital Assets	41,664,253	39,445,548	2,218,705
Total accumulated depreciation	(21,677,530)	(20,638,134)	(1,039,396)
Capital Assets, net	19,986,723	18,807,414	1,179,309

Additional details concerning the College's capital assets are in the Notes to the College's financial statements.

Long-Term Liabilities

At June 30, 2016 the College has \$17.48 million in outstanding bonds, capital leases, and notes payable, representing a decrease of \$2,106,055.

The following summarizes the outstanding long-term liabilities as of June 30:

	2016	2015	Difference
Revenue bond payable	-	9,180,000	(9,180,000)
Capital lease obligation	16,643,720	9,953,224	6,690,496
Premium on Bonds	698,197	296,924	401,273
Compesated absences	142,253	160,077	(17,824)
Total long-term liabilities	17,484,170	19,590,225	(2,106,055)
Less: current portion	(1,467,450)	(1,258,033)	(209,417)
Net long-term liabilities	16,016,720	18,332,192	(2,315,472)

Additional information concerning the College's long-term liabilities can be found in the Notes to the financial statements.



2016 Seminole State College Commencement.

ECONOMIC FACTORS AND NEXT YEAR'S BUDGETS AND RATES

The State of Oklahoma provided approximately 46.9% of the College's operating resources for the FY2017 fiscal year. Looking forward to FY2018, State revenues are estimated not to increase and the current outlook is a flat change from 2017. This will reflect little change in the percentage of the College revenues from State funds. The College may have to manage mandatory cost increases by considering a slight increase to current tuition and fee rates for students or potential reduction in staff and operating budgets. A concern for the College is the uncertainty in state revenues. The declining state revenue collections in the past have prompted reductions in the state appropriations and there are no expectations that they will increase.

The Oklahoma State Legislature has authorized the Oklahoma State Regents for Higher Education to approve tuition increases according to House Bill No. 1748. The potential for a tuition increase, combined with possible enrollment growth, create a positive outlook for the College. The College will continue a conservative budgeting approach, which utilizes a contingency methodology to ensure the College's financial viability.

Historically, economic slow-downs have resulted in increased student enrollment and this has been considered in projecting potential enrollment growth for the coming fiscal year. The student enrollment for the upcoming year is projected to remain even or slightly increase.

The College will make every effort not to reduce any programs or services and will continue to monitor the state and national economic conditions as part of our financial decision making process. The College will strive to develop scenarios to reduce costs and increase operating revenues to protect critical academic programming, while being sensitive to our students. Efforts continue to improve external fund development as a resource.



Seminole State College supporters attend the Southeast Oklahoma Legislative Briefing

CONTACTING THE COLLEGE'S FINANCIAL MANAGEMENT

The financial report is designed to provide our citizens, taxpayers, customers, investors and creditors with a general overview of the College's finances and to show the College's accountability for the money it receives. If you have questions about this report or need additional financial information, contact the Vice President for Fiscal Affairs at Seminole State College, P. O. Box 351, Seminole, Oklahoma 74818.

Seminole State College Mission Statement:

"Seminole State College empowers people for academic success, personal development, and lifelong learning"

CORE VALUES – C.O.R.E.

COMPASSION

Celebrating a diverse campus, local and global community of people and displaying professionalism and compassion in all interactions

OPPORTUNITY

Presenting current trends and future possibilities for career, academic and personal enrichment

RESPECT

Building mutual respect, integrity and confidence for ourselves, for others and for the environment

EXCELLENCE

Continually striving to achieve the highest standards and exhibit excellence in our programs and relationships with all stakeholders

Seminole State College is accredited from the:



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312-263-0456 | 800-621-7440 | Fax: 312-263-7462 | ncahlc.org

SEMINOLE STATE COLLEGE

STATEMENTS OF NET POSITION

	Seminole State College June 30, 2016	Seminole State College Educational Foundation, Inc. Year Ended December 31, 2015
ASSETS		
CURRENT ASSETS		
Cash and cash equivalents	\$ 1,075,542	\$ 815,112
Investments	-	1,744,421
Accounts receivable, net of allowance for doubtful accounts	184,179	-
Other receivables	61,486	-
Inventories	452,303	-
Total Current Assets	<u>1,773,510</u>	<u>2,559,533</u>
NONCURRENT ASSETS		
Other assets	-	2,030
Other receivables	-	100,000
Beneficial interest in remainder trust	-	112,918
Capital assets, net of accumulated depreciation	19,986,723	1,235,811
Total Noncurrent Assets	<u>19,986,723</u>	<u>1,450,759</u>
TOTAL ASSETS	<u>\$ 21,760,233</u>	<u>\$ 4,010,292</u>
DEFERRED OUTFLOWS OF RESOURCES		
Deferred amounts related to pensions	<u>1,413,611</u>	
TOTAL DEFERRED OUTFLOWS	<u>\$ 1,413,611</u>	

(Continued)

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

SEMINOLE STATE COLLEGE

STATEMENTS OF NET POSITION, CONTINUED

	Seminole State College June 30, 2016	Seminole State College Educational Foundation, Inc. Year Ended December 31, 2015
LIABILITIES		
CURRENT LIABILITIES		
Accounts payable and accrued liabilities	\$ 491,927	\$ 137,911
Unearned Revenue	210,145	-
Due to student groups and organizations	201,309	-
Current portion of noncurrent liabilities	1,467,450	75,434
Total Current Liabilities	<u>2,370,831</u>	<u>213,345</u>
NONCURRENT LIABILITIES, net of current portion		
Accrued compensated absences	21,645	-
Net OPEB obligation	645,592	-
Net OTRS Pension Liability	12,152,155	-
Premium on capital lease obligation	656,657	-
Notes payable	-	284,982
Capital lease obligations	15,338,418	-
Total Noncurrent Liabilities	<u>28,814,467</u>	<u>284,982</u>
TOTAL LIABILITIES	\$ 31,185,298	\$ 498,327
DEFERRED INFLOWS OF RESOURCES		
Deferred gain on OCIA lease restructure	224,748	
Deferred amounts related to pensions	1,638,914	
TOTAL DEFERRED INFLOWS	\$ 1,863,662	
NET POSITION		
Net Investment in capital assets	2,420,096	875,395
Permanently restricted	-	1,292,871
Restricted for debt service	-	1,140,674
Unrestricted	(12,295,212)	203,025
TOTAL NET POSITION	\$ (9,875,116)	\$ 3,511,965

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

SEMINOLE STATE COLLEGE

STATEMENTS OF REVENUES, EXPENSES, AND CHANGES IN NET POSITION

	Seminole State College June 30, 2016	Seminole State College Educational Foundation, Inc. Year Ended December 31, 2015
REVENUES		
Operating revenues:		
Tuition and fees, net of scholarship allowances of \$3,587,000	\$ 2,001,740	\$ -
Federal grants and contracts	3,692,459	-
State and local grants and contracts	880,865	-
Auxiliary enterprise charges, net of scholarship allowances of \$2,251,000. Student housing system revenues of \$649,870, are pledged as security for the ODFA Series 2016B Master Lease Revenue Refunding Bonds of the Residential Center ODFA 2006 Revenue Bonds.	1,359,017	-
Other operating revenues	172,816	-
Total Operating Revenues	8,106,897	-
EXPENSES		
Operating expenses:		
Compensation	\$ 9,234,297	\$ -
Contractual services	1,009,857	-
Supplies and materials	1,342,213	-
Utilities	428,231	20,306
Communications	168,155	-
Other operating expenses	1,749,734	536,979
Scholarships and fellowships	2,078,542	78,126
Depreciation expense	1,042,439	43,129
Total Operating Expenses	17,053,468	678,540
Operating Loss	(8,946,571)	(678,540)

(Continued)

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

SEMINOLE STATE COLLEGE

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

	Seminole State College June 30, 2016	Seminole State College Educational Foundation, Inc. Year Ended December 31, 2015
NONOPERATING REVENUES (EXPENSES)		
State appropriations	\$ 5,242,865	\$ -
On-behalf contributions for Teachers' Retirement System	624,232	-
Federal grants - nonoperating	3,634,627	-
State grants - nonoperating	610,860	-
Investment income	6,470	78,106
Net unrealized and realized loss on investments	-	(100,385)
Contributions and other non-operating revenues	-	397,909
Interest expense	(839,549)	(15,940)
Net Nonoperating Revenues	<u>9,279,505</u>	<u>359,690</u>
Income (loss) before other revenues, expenses, gains and losses	332,934	(318,850)
State appropriations restricted for capital purposes		
Pledged Section 13 appropriations of \$238,809 is used as security for the Technology Center	\$ 381,340	\$ -
Contributed capital - donated capital asset	1,241,260	-
OCIA on-behalf state appropriations	1,090,041	-
Loss on disposal of capital assets	(4,057)	-
CHANGE IN NET POSITION	3,041,518	(318,850)
NET POSITION AT BEGINNING OF YEAR	<u>(12,419,133)</u>	<u>3,830,815</u>
Adjustment to net position for adoption of new account principle	(497,501)	-
NET POSITION AT BEGINNING OF YEAR - Restated	<u>(12,916,634)</u>	<u>3,830,815</u>
NET POSITION AT END OF YEAR	<u>\$ (9,875,116)</u>	<u>\$ 3,511,965</u>

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

SEMINOLE STATE COLLEGE

STATEMENTS OF CASH FLOWS

	Seminole State College June 30, 2016	Seminole State College Educational Foundation, Inc. Year Ended December 31, 2015
CASH FLOWS FROM OPERATING ACTIVITIES		
Tuition and fees	\$ 2,026,581	\$ -
Grants and contracts	4,639,782	-
Contributions	-	397,934
Auxiliary enterprise charges	1,285,376	-
Other operating receipts	172,862	-
Payments to employees for salaries and benefits, net of on-behalf payments	(9,494,126)	-
Payments for scholarships	-	(78,126)
Payments to suppliers	(7,008,176)	(451,941)
NET CASH USED IN OPERATING ACTIVITIES	(8,377,701)	(132,133)
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES		
State appropriations	5,242,865	-
Non-operating grants	4,245,487	-
NET CASH PROVIDED BY NONCAPITAL FINANCING ACTIVITIES	9,488,352	-
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES		
Cash paid for capital assets	(935,885)	(39,766)
Capital appropriations received	381,340	-
Proceeds of capital debt and leases	8,389,800	32,199
Repayments of capital debt and leases	(9,400,584)	(32,736)
Interest paid on capital debt and leases	(773,224)	-
NET CASH USED IN CAPITAL AND RELATED FINANCING ACTIVITIES	(2,338,553)	(40,303)

(Continued)

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

SEMINOLE STATE COLLEGE

STATEMENTS OF CASH FLOWS, CONTINUED

	Seminole State College June 30, 2016	Seminole State College Educational Foundation, Inc. Year Ended December 31, 2015
CASH FLOWS FROM INVESTING ACTIVITIES		
Purchases of investments	(1,072,486)	(267,150)
Proceeds from sales and maturities of investments	2,156,213	361,041
Interest received on investments	6,585	51,163
NET CASH PROVIDED BY INVESTING ACTIVITIES	<u>1,090,312</u>	<u>145,054</u>
NET DECREASE IN CASH AND CASH EQUIVALENTS	(137,590)	(27,382)
CASH AND CASH EQUIVALENTS AT BEGINNING OF YEAR	<u>1,213,132</u>	<u>842,494</u>
CASH AND CASH EQUIVALENTS AT END OF YEAR	<u>\$ 1,075,542</u>	<u>\$ 815,112</u>

(Continued)

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

SEMINOLE STATE COLLEGE

STATEMENTS OF CASH FLOWS, CONTINUED

	Seminole State College <u>June 30, 2016</u>	Seminole State College Educational Foundation, Inc. Year Ended <u>December 31, 2015</u>
RECONCILIATION OF OPERATING LOSS TO NET CASH USED IN OPERATING ACTIVITIES		
Operating loss/change in net asset (Foundation)	\$ (8,946,571)	\$ (318,850)
Adjustments to reconcile operating loss to net cash used in operating activities:		
Depreciation expense	1,042,439	43,129
Permanently restricted contributions	-	-
Appreciation on investments and interest income	-	14,859
State of Oklahoma on-behalf contributions to teachers' retirement system	624,232	-
Changes in net assets and liabilities:		
Accounts receivables	(53,525)	25
Other receivables	66,504	-
Inventories	(113,220)	-
Beneficial interest in remainder trust	-	7,420
Accounts payable and accrued expenses	(114,498)	121,284
Unearned revenue	4,724	-
Due to student groups and organizations	(33,047)	-
Compensated absences	(17,821)	-
Net OPEB obligation	(21,938)	-
Net pension liability	1,006,141	-
Deferred amounts related to Pensions	<u>(1,821,121)</u>	<u>-</u>
NET CASH USED IN OPERATING ACTIVITIES	<u>\$ (8,377,701)</u>	<u>\$ (132,133)</u>
NONCASH INVESTING, NONCAPITAL FINANCING AND CAPITAL AND RELATED FINANCING ACTIVITIES		
Principal and interest on capital debt paid by state agency on behalf of the College	<u>\$ 1,090,041</u>	<u>\$ -</u>

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

SEMINOLE STATE COLLEGE

NOTES TO FINANCIAL STATEMENTS

June 30, 2016

NOTE A—SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Nature of Operations: Seminole State College (the “College”), established in 1931 as Seminole Junior College, is a 2-year State supported college operating under the jurisdiction of the Board of Regents of Seminole State College (the “Board of Regents”). The College is part of the Oklahoma System of Higher Education, which is under the governance of the Oklahoma State Regents for Higher Education (the “State Regents”). The College is accredited by the North Central Association of Colleges and Schools. The designated service area of the College is Seminole County and the adjacent counties of Hughes, Lincoln, Okfuskee, and Pottawatomie.

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*, 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 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.

Seminole State College Educational Foundation, Inc. (the “Foundation”) is a legally separate, tax-exempt component unit of the College. The Foundation’s operating year is from January 1 to December 31. Its financial statements are prepared on a calendar year end. 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, or for the benefit of, the College, the Foundation is considered a component unit of the College and is discretely presented in the College’s financial statements. Separate financial statements of the Foundation can be requested from the Foundation’s controller.

The Foundation is a private nonprofit organization that reports under the Financial Accounting Standards Board (“FASB”) standards over accounting for Not-for-Profit Organizations. 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.

See Independent Auditors’ Report.

SEMINOLE STATE COLLEGE

NOTES TO FINANCIAL STATEMENTS, CONTINUED

NOTE A—SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES, CONTINUED

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. Funds invested through the State Treasurer's Cash Management Program are considered cash equivalents.

Deposits and Investments: The College accounts for its investments at fair value, as determined by quoted market prices, in accordance with GASB Statement No. 31, *Accounting and Financial Reporting for Certain Investments and for External Investment Pools*. In accordance with GASB Statement No. 40, *Deposit and Investment Risk Disclosures*, the College has disclosed its deposit and investment policies related to the risks identified in GASB Statement No. 40. Changes in unrealized gain (loss) on the carrying value of the investments are reported as a component of investment income in the statement of revenues, expenses, and changes in net position.

Inventories: Inventories consist of books and supplies held for resale at the bookstore, which are valued at the lower of cost (first-in, first-out basis) or market.

Accounts Receivable and Other Receivables: Accounts receivable consists of tuition and fee charges to students and to auxiliary enterprise services provided to students, faculty and staff, the majority of each residing in the State of Oklahoma. Student accounts receivable are carried at the unpaid balance of the original amount billed to students and student loans receivable are carried at the amount of unpaid principal. Both receivables are less an estimate made for doubtful accounts based on a review of all outstanding amounts. Management determines the allowance for doubtful accounts by identifying troubled accounts and by using historical experience applied to an aging of accounts. Student accounts are written off for financial reporting purposes when deemed uncollectible. Recoveries of student accounts receivable previously written off are recorded when received.

A student account receivable and student loan 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 not generally assessed and, if they are assessed, are not included in income until received.

See Independent Auditors' Report.

SEMINOLE STATE COLLEGE

NOTES TO FINANCIAL STATEMENTS, CONTINUED

NOTE A—SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES, CONTINUED

Accounts Receivable and Other Receivables, Continued: Other receivables include amounts due from federal, state and local governments, or private sources, in connection with reimbursement of allowable expenditures made pursuant to the College's grants and contracts. Other accounts receivable also include amounts due from the Oklahoma Development Finance Authority (ODFA) and Oklahoma Capital Improvement Authority (OCIA) for proceeds from the capital bond improvement program allocated to the College. An allowance for doubtful accounts is not considered necessary for other receivables.

Restricted Cash and Investments: Cash and investments that are externally restricted to make debt service payments, to maintain sinking or reserve funds, or to purchase capital or other noncurrent assets, are classified as restricted assets in the statement of net position.

Capital assets: Capital assets are stated at cost, or fair value if acquired by gift, less accumulated depreciation. Effective July 1, 2008, the College's capitalization policy for equipment was changed to include all items with a unit cost of \$5,000 or more and a useful life of greater than 1 year. Renovations to buildings, infrastructure, and land improvements that significantly increase the value or extend the useful life of the structure are capitalized. Depreciation is provided using the straight-line method over the estimates of useful lives of the assets, generally 30 years for buildings and improvements, 3-7 years for computers and other equipment, and 10 years for furniture, vehicles, and library materials. Routine repairs and maintenance are charged to operating expense in the year in which the expense occurs.

Costs incurred during construction of long-lived assets are recorded as construction in progress and are not depreciated until placed in service.

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.

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 compensated absences in the statement of net position, and as a component of compensation and benefit expense in the statement of revenues, expenses and changes in net position.

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

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

See Independent Auditors' Report.

SEMINOLE STATE COLLEGE

NOTES TO FINANCIAL STATEMENTS, CONTINUED

NOTE A—SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES, CONTINUED

Net Position: The College's net position is classified as follows:

Net Investment in capital assets: This represents the College's total investment in capital assets, net of 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, net of related debt.

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 towards unrestricted resources, and then towards restricted resources.

Income Taxes: The College, as a political subdivision of the State of Oklahoma, is exempt from all 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).

See Independent Auditors' Report.

SEMINOLE STATE COLLEGE

NOTES TO FINANCIAL STATEMENTS, CONTINUED

NOTE A—SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES, CONTINUED

Classification of Revenues: The College has classified its revenues as either operating or nonoperating 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 department and auxiliary enterprises, net of scholarship discounts and allowances, (3) certain federal, state and local grants and contracts, and (4) interest on institutional student loans.

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

Scholarship Discounts and Allowances: Student tuition and fee revenues, and certain other revenues from students, are reported net of scholarship discounts and allowances in the statement 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 nonoperating 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 related to pensions.

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 deferred inflows of resources were related to leases and pensions.

Subsequent Events:

Management has evaluated subsequent events through October 14, 2016, which is the date 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.

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.

See Independent Auditors' Report.

SEMINOLE STATE COLLEGE

NOTES TO FINANCIAL STATEMENTS, CONTINUED

NOTE A—SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES, CONTINUED

Prior Period Adjustment: The July 1, 2015, beginning net position was restated to reflect the implementation of GASB 82, as follows:

	Fiscal Year Ended <u>June 30, 2016</u>
Beginning net position, as previously reported	\$ (12,419,133)
Early Adoption of GASB Statement 82	<u>(497,501)</u>
Beginning net position, restated	<u>\$ (12,916,634)</u>

NOTE B—DEPOSITS AND INVESTMENTS

Custodial credit risk for deposits is the risk that in the event of a bank or other institution failure, the College's deposits may not be returned or the College will not be able to recover collateral securities in the possession of an outside party. The College deposits its funds with the Office of the State Treasurer. 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.

Of the \$1,109,771 in cash and cash equivalents on deposit with the State Treasurer as of June 30, 2016, \$434,848, represents the amount held within *OK INVEST* an internal investment pool. 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 that 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 State Treasurer's Investment Policy address credit quality requirements, diversification percentages and the types and maturities of allowable investments. The specifics regarding these policies can be found on the State Treasurer's website at <http://www.ok.gov/treasurer/>. An evaluation of the use and purpose of the Colleges participation in the internal investment pool the amount on deposit with *OK INVEST* are treated as demand accounts and reported as cash equivalents.

See Independent Auditors' Report.

SEMINOLE STATE COLLEGE

NOTES TO FINANCIAL STATEMENTS, CONTINUED

NOTE B—DEPOSITS AND INVESTMENTS

Investments: Investments are recorded at fair value, as determined by quoted market prices. In accordance with 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.

NOTE C—ACCOUNTS RECEIVABLE

Accounts receivable consist of the following at June 30, 2016:

	<u>2016</u>
Student tuition and fees	\$ 813,064
Auxiliary enterprises and other operating activities	<u>806,070</u>
	1,619,134
Less: Allowance for doubtful accounts	<u>(1,434,955)</u>
Net accounts receivable	<u>\$ 184,179</u>

NOTE D—OTHER RECEIVABLES

Other receivables consist of the following at June 30, 2016:

	<u>2016</u>
Due from State Agencies (ODFA)	\$ 38
Due from grantors	61,000
Other receivables	<u>448</u>
Total other receivables	<u>\$ 61,486</u>

See Independent Auditors' Report.

SEMINOLE STATE COLLEGE

NOTES TO FINANCIAL STATEMENTS, CONTINUED

NOTE E—CAPITAL ASSETS

Capital asset activity for the year ended June 30, 2016, was as follows:

	<u>Beginning Balance</u>	<u>Additions</u>	<u>Retirements</u>	<u>Ending Balance</u>
Capital assets not being depreciated				
Land	\$ 618,869	\$ -	\$ -	\$ 618,869
Construction in Process	944,836	2,053,177	-	2,998,013
Total not being depreciated	<u>\$ 1,563,705</u>	<u>\$ 2,053,177</u>	<u>\$ -</u>	<u>\$ 3,616,882</u>
Other capital assets				
Buildings and improvements	\$ 25,023,218	\$ -	\$ -	\$ 25,023,218
Nonstructural improvements	9,164,328	14,521	-	9,178,849
Equipment	1,658,997	67,069	(7,100)	1,718,966
Vehicles	583,623	75,776	-	659,399
Library materials	1,451,677	15,262	-	1,466,939
Total other capital assets	37,881,843	172,628	(7,100)	38,047,371
Less accumulated depreciation for				
Buildings and improvements	(11,981,944)	(652,636)	-	(12,634,580)
Nonstructural improvements	(5,380,784)	(269,352)	-	(5,650,136)
Equipment	(1,537,887)	(48,539)	3,043	(1,583,383)
Vehicles	(329,449)	(45,814)	-	(375,263)
Library materials	(1,408,070)	(26,098)	-	(1,434,168)
Total accumulated depreciation	<u>(20,638,134)</u>	<u>(1,042,439)</u>	<u>3,043</u>	<u>(21,677,530)</u>
Other capital assets, net	<u>\$ 17,243,709</u>	<u>\$ (869,811)</u>	<u>\$ (4,057)</u>	<u>\$ 16,369,841</u>
Capital Asset Summary:				
Capital assets not being depreciated	\$ 1,563,705	\$ 2,053,177	\$ -	\$ 3,616,882
Other capital assets, at cost	37,881,843	172,628	(7,100)	38,047,371
Total cost of capital assets	39,445,548	2,225,805	(7,100)	41,664,253
Less accumulated depreciation	<u>(20,638,134)</u>	<u>(1,042,439)</u>	<u>3,043</u>	<u>(21,677,530)</u>
Capital Assets, net	<u>\$ 18,807,414</u>	<u>\$ 1,183,366</u>	<u>\$ (4,057)</u>	<u>\$ 19,986,723</u>

The cost and related accumulated depreciation of assets held under capital lease obligations at June 30, 2016, was as follows:

	<u>Buildings</u>	<u>Equipment</u>	<u>Non-Structural Improvements</u>	<u>Total</u>
Cost	\$ 7,295,759	\$ 526,203	\$ 547,548	\$ 8,369,510
Less accumulated depreciation	<u>(3,287,481)</u>	<u>(341,003)</u>	<u>(325,127)</u>	<u>(3,953,611)</u>
	<u>\$ 4,008,278</u>	<u>\$ 185,200</u>	<u>\$ 222,421</u>	<u>\$ 4,415,899</u>

See Independent Auditors' Report.

SEMINOLE STATE COLLEGE

NOTES TO FINANCIAL STATEMENTS, CONTINUED

NOTE F—LONG-TERM LIABILITIES

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

	Interest Rates (In %)	Maturity Through	Beginning Balance	Additions	Deductions	Ending Balance	Current Portion
Revenue bonds payable and capital leases							
Revenue bonds payable							
ODFA Public Facility, Series 2006	4.15-5.30	9/1/2036	\$ 9,180,000	\$ -	\$ (9,180,000)	\$ -	\$ -
Total revenue bonds payable			9,180,000	-	(9,180,000)	-	-
Capital lease obligations							
OCIA 2005F Series		7/1/2015	236,307	-	(236,307)	-	-
OCIA 2010A Series		7/1/2018	1,714,268	-	(112,128)	1,602,140	358,335
OCIA 2010B Series		7/1/2015	263,133	-	(263,133)	-	-
OCIA 2014A Series		7/1/2030	3,463,155	-	-	3,463,155	232,174
OCIA 2014B Series		7/1/2019	797,695	-	(189,355)	608,340	194,877
ODFA master lease 2013A	2.00-4.00	5/15/2028	202,917	-	(13,000)	189,917	13,083
ODFA master lease 2013B	2.00-5.00	5/15/2027	2,208,083	-	(155,250)	2,052,833	158,583
ODFA master lease 2014A	3.00-5.00	5/15/2023	329,000	-	(36,250)	292,750	38,917
ODFA master lease 2014C	2.00-5.00	5/15/2043	738,666	-	(16,081)	722,585	17,000
ODFA master lease 2016B	3.00-4.00	5/15/2036	-	7,712,000	-	7,712,000	292,333
Total capital lease obligations			9,953,224	7,712,000	(1,021,504)	16,643,720	1,305,302
Total revenue bonds payable and capital lease obligations			19,133,224	7,712,000	(10,201,504)	16,643,720	1,305,302
Other liabilities							
Premium on bonds and capital leases			296,924	569,423	(168,150)	698,197	41,540
Accrued compensated absences			160,077	120,608	(138,432)	142,253	120,608
Total other liabilities			457,001	690,031	(306,582)	840,450	162,148
Total long-term liabilities			\$ 19,590,225	\$ 8,402,031	\$ (10,508,086)	\$ 17,484,170	\$ 1,467,450

See Independent Auditors' Report.

SEMINOLE STATE COLLEGE

NOTES TO FINANCIAL STATEMENTS, CONTINUED

NOTE F—LONG-TERM LIABILITIES, CONTINUED

Capital Lease Obligations

Oklahoma Capital Improvement Authority (OCIA) Capital Lease Obligations

In 1999, the OCIA issued its OCIA Bond Issues, 1999 Series A, B and C. Of the total bond indebtedness, the State Regents allocated \$3,003,672 to the College. Concurrently with the allocation, the College entered into a lease agreement with OCIA, for the project being funded by the OCIA bonds. The lease agreement provides for the College to make specified monthly payments to OCIA over the respective terms of the agreement, which is for approximately 20 years. The proceeds of the bonds and subsequent leases provided for the construction of the Learning Technology Center.

In 2004, the OCIA issued bond series 2004A that refunded a significant portion of the 1999A bonds. Consequently, the amortization of the 1999A bond issue ended in 2010. The lease agreement will no longer secure the 1999A bond issue but will now act as security for the 2004A bond issue over the term of the lease through the year 2020.

In 2015, the College's remaining 2004 lease agreement with OCIA was restructured through a complete refunding of the Series 2004A bonds. OCIA issued new bonds, Series 2014B, to accomplish the refunding. As a result, the total liability of the remaining 2004A bonds refunded and the amount of the 2014B bonds acquired was a gain on restructuring of \$95,130, which was recorded as a deferred inflow of resources that will be amortized over a period of 5 years. As of June 30, 2016, the unamortized gain totaled \$59,046. 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 \$156,034, which approximates the economic savings of the transaction.

Lease principal and interest payments to OCIA, totaling \$216,897 during the year ended June 30, 2016, were made by the State of Oklahoma on behalf of the College. These payments have been recorded as on-behalf payments for OCIA capital leases in the statements of revenues, expenses, and changes in net position.

In 2005, the OCIA issued its State Facilities Revenue Bonds (Higher Education Project) Series 2005F. Of the total bond indebtedness, the State Regents allocated approximately \$6,750,000 to the College. Total lease payments over the term of the agreement including principal and interest, beginning July 1, 2006 through July 1, 2030, will be \$11,564,753. Payments will be made annually ranging from \$185,056 to \$509,280, by the State of Oklahoma on behalf of the College.

See Independent Auditors' Report.

SEMINOLE STATE COLLEGE

NOTES TO FINANCIAL STATEMENTS, CONTINUED

NOTE F—LONG-TERM LIABILITIES, CONTINUED

Capital Lease Obligations, Continued

Oklahoma Capital Improvement Authority (OCIA) Capital Lease Obligations, Continued

Concurrently with the allocation, the College entered into a lease agreement with OCIA, for the projects being funded by the OCIA bonds. The proceeds of the bonds and subsequent leases are to provide for capital improvements at the College.

In 2011, the OCIA issued Bond Series 2010A and 2010B to partially refund the Series 2005F Revenue Bonds. The advance partial refunding was to provide budgetary relief for fiscal years 2011 and 2012 by extending and restructuring the debt service. As a result, the total liability of the remaining 2005F bonds combined with the new 2010A and 2010B bond issues will be more than the original outstanding liability for the 2005F bonds. Consequently, the lease agreement with OCIA was 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 that has been recorded as a charge of \$798,626 on restructuring as a deferred outflow of resources that will be amortized over a period of 6 years. As of June 30, 2016, the cost was fully amortized.

This restructuring resulted in an aggregate debt service difference for principal and interest between the original lease agreement and the restructured lease agreement of \$615,418, which also approximates the economic cost of the lease restructuring.

In 2014, the College's remaining 2005 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. 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 \$192,175, which was recorded as a deferred inflow of resources that will be amortized over a period of 18 years. As of June 30, 2016, the unamortized gain totaled \$165,702. 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 \$465,684, which approximates the economic savings of the transaction.

Lease principal and interest payments to OCIA, totaling \$873,145 during the year ended June 30, 2016, were made by the State of Oklahoma on behalf of the College. These payments have been recorded as on-behalf payments for OCIA capital leases in the statements of revenues, expenses, and changes in net position.

See Independent Auditors' Report.

SEMINOLE STATE COLLEGE

NOTES TO FINANCIAL STATEMENTS, CONTINUED

NOTE F—LONG-TERM LIABILITIES, CONTINUED

Capital Lease Obligations, Continued

Oklahoma Capital Improvement Authority (OCIA) Capital Lease Obligations, Continued

In 2003, the College entered into a capital lease obligation for the ODFA Master Lease Series 2003B in the amount of \$970,000. Total lease payments over the term of the agreement, beginning December 1, 2003 through June 1, 2023, will be \$1,462,644. Payments will be made semi-annually ranging from \$62,256 to \$76,365. Proceeds from the obligation were used for roof and HVAC repairs, along with the issuance costs of the obligation.

In 2014, the College entered into a capital lease obligation for the ODFA Master Equipment Lease Series 2014A in the amount of \$370,000, to refund the ODFA Master Lease Series 2003B. Total lease payments over the term of the agreement, beginning July 15, 2014 through May 15, 2023, will be \$436,920. Payments will be made monthly ranging from \$3,905 to \$4,642. The net present value of the savings for the refunding of the Series 2003B is \$203,982.

In 2013, the College entered into a capital lease obligation for the ODFA Master Equipment Lease Series 2013A in the amount of \$222,000. Total lease payments over the term of the agreement, beginning December 15, 2013 through May 15, 2028, will be \$286,913. Payments will be made monthly ranging from \$1,633 to \$1,708. Proceeds from the obligation were used for the purchase of a passenger bus.

In 2014, the College entered into a capital lease obligation for the ODFA Master Real Property Lease Series 2013B in the amount of \$2,402,000, to refund the ODFA Series 2002A Revenue Bonds. Total lease payments over the term of the agreement, beginning February 15, 2014 through May 15, 2027, will be \$3,135,430. Payments will be made monthly ranging from \$15,149 to \$20,060. The net present value of the savings for the refunding of the Series 2002A Revenue Bonds is \$460,484.

In 2014, the College entered into a capital lease obligation for the ODFA Master Real Property Lease Series 2014C in the amount of \$753,000. Total lease payments over the term of the agreement, beginning May 15, 2014 through May 15, 2043, will be \$1,271,118. Payments will be made monthly ranging from \$3,358 to \$3,851. Proceeds from the obligation are being used for the construction of the Dan and Andrea Boren Center.

In 2016, the College entered into a capital lease obligation for the ODFA Master Real Property Lease Series 2016B in the amount of \$7,712,000, to refund the ODFA Series 2006 Revenue Bonds. Total lease payments over the term of the agreement, beginning July 15, 2016 through May 15, 2036, will be \$10,871,520. Payments will be made monthly ranging from \$45,136 to \$49,120. The net present value of the savings for the refunding of the Series 2006 Revenue Bonds is \$2,483,157.

See Independent Auditors' Report.

SEMINOLE STATE COLLEGE

NOTES TO FINANCIAL STATEMENTS, CONTINUED

NOTE F—LONG-TERM LIABILITIES, CONTINUED

Future minimum lease payments under the College’s obligations to the OCIA and ODFA for the year ended June 30, 2016, are as follows:

	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
Years Ending June 30:			
2017	\$ 1,305,304	\$ 650,791	\$ 1,956,095
2018	1,333,027	605,558	1,938,585
2019	1,375,645	553,549	1,929,194
2020	545,912	497,600	1,043,512
2021	565,667	480,380	1,046,047
2022-2026	4,282,692	1,979,755	6,262,447
2027-2031	4,390,640	1,016,761	5,407,401
2032-2036	2,586,583	291,586	2,878,169
2037-2041	179,583	38,817	218,400
2042-2043	<u>78,667</u>	<u>4,833</u>	<u>83,500</u>
Total	<u>\$ 16,643,720</u>	<u>\$ 6,119,630</u>	<u>\$ 22,763,350</u>

Revenue Bonds

Oklahoma Development Finance Authority Revenue Bonds

In 2006, the ODFA Student Housing Revenue Bonds, Seminole State College Project, Series 2006 (the “ODFA 2006 Bonds”) were issued in the original amount of \$9,500,000. Principal payments ranging from \$30,000 to \$925,000 are due each September 1 beginning in 2009 and ending in 2036. Principal and interest payments are secured by a gross pledge of student housing system revenues, a portion of the proceeds of the sale of the bonds, and other monies held under the bond resolution. The ODFA 2006 Bonds are a special obligation of ODFA payable from the above pledged revenues of the College. Interest on the bonds is exempt from federal and state income taxes. Proceeds from the obligation were used for the construction, furnishing, and equipping of a new student housing facility and retired the 1998 Bonds Escrow Fund.

As noted above, in 2016, the College entered into a capital lease obligation for the ODFA Master Lease Series 2016B in the amount of \$7,712,000, to refund the ODFA Series 2006 Revenue Bonds.

See Independent Auditors’ Report.

SEMINOLE STATE COLLEGE

NOTES TO FINANCIAL STATEMENTS, CONTINUED

NOTE G—RETIREMENT PLANS

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

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 5 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 3 highest years of compensation. Final compensation for members joining the System after June 30, 1992, is defined as the average of the highest 5 consecutive years of annual compensation in which contributions have been made. The final average compensation is limited for service credit accumulated prior to July 1, 1995, to \$40,000 or \$25,000, depending on the member's election. Monthly benefits are 1/12 of this amount. Service credits accumulated after June 30, 1995, are calculated based on each member's final average compensation, except for certain employees of the two comprehensive universities. Upon the death of a member who has not yet retired, the designated beneficiary shall receive the member's total contributions plus 100% of interest earned through the end of the fiscal year, with interest rates varying based on time of service. A surviving spouse of a qualified member may elect to receive, in lieu of the aforementioned benefits, the retirement benefit the member was entitled to at the time of death as provided under the Joint Survivor Benefit Option.
- Upon the death of a retired member, the System will pay \$5,000 to the designated beneficiary, in addition to the benefits provided for the retirement option selected by the member.

See Independent Auditors' Report.

SEMINOLE STATE COLLEGE

NOTES TO FINANCIAL STATEMENTS, CONTINUED

NOTE G—RETIREMENT PLANS, CONTINUED

- A member is eligible for disability benefits after 10 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 2016.

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 \$831,727. The State of Oklahoma also made on-behalf contributions to OTRS, of which \$624,232 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 \$12,152,155 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 0.20011%.

See Independent Auditors' Report.

SEMINOLE STATE COLLEGE

NOTES TO FINANCIAL STATEMENTS, CONTINUED

NOTE G—RETIREMENT PLANS, 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 \$640,979. 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	\$ -	412,761
Changes of assumptions	581,884	-
Net difference between projected and actual earnings on pension plan investments	-	824,386
Changes in proportionate share of contributions and differences between College contributions and proportionate share of contributions.	-	401,767
College contributions subsequent to the measurement date	<u>831,727</u>	<u>-</u>
Total	<u>\$ 1,413,611</u>	<u>1,638,914</u>

The amount of \$831,727 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, 2016. Other amounts reported as deferred outflows of resources and deferred inflows of resources related to pensions will be recognized in pension expense as follows:

Year ended June 30:	
2017	\$ (419,257)
2018	(419,257)
2019	(419,257)
2020	232,109
2021	(27,637)
Thereafter	<u>(3,731)</u>
	<u>\$ (1,057,030)</u>

See Independent Auditors' Report.

SEMINOLE STATE COLLEGE

NOTES TO FINANCIAL STATEMENTS, CONTINUED

NOTE G—RETIREMENT PLANS, CONTINUED

Actuarial Assumptions- The total pension liability as of June 30, 2016, was determined based on an actuarial valuation prepared as if June 30, 2015, using the following actuarial assumptions:

- Actuarial Cost Method - Entry Age
- Inflation—3%
- 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 5-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%.

<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	7.0%	7.6%
Total	<u>100.00%</u>	

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

**The Real Estate total expected return is a combination of U.S. Direct Real Estate (unlevered) and U.S. Value added Real Estate (unlevered).

See Independent Auditors’ Report.

SEMINOLE STATE COLLEGE

NOTES TO FINANCIAL STATEMENTS, CONTINUED

NOTE G—RETIREMENT PLANS, CONTINUED

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 5 years of actual contributions.

Sensitivity of the Net Pension Liability to Changes in the Discount Rate-The following presents the net pension liability of the employers calculated using the discount rate of 8%, as well as what the Plan's net pension liability would be if it were calculated using a discount rate that is 1-percentage point lower (7%) or 1-percentage-point higher (9%) than the current rate:

	1% Decrease (7%)	Current Discount Rate (8%)	1% Increase (9%)
	<u> </u>	<u> </u>	<u> </u>
Employers' net pension liability	\$ 16,799,089	12,152,155	8,246,195
	<u> </u>	<u> </u>	<u> </u>

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) Annuity Plan

All eligible employees of the College can elect to participate in a 403(b) tax-deferred annuity plan (the “Plan”), a defined contribution pension plan administered by the College’s board of regents. Pension expense is recorded for the amount of the College’s required contributions determined in accordance with the terms of the Plan. Eligible employees who elect to participate are not required to make contributions to the Plan but may elect to do so. The Plan provides retirement benefits to participating employees and their beneficiaries. Benefit provisions and contribution requirements are contained in the Plan document and were established and can be amended by action of the College’s board of regents.

Funding Policy: The College’s contribution rate for the years ended June 30, 2016, 2015, and 2014, was 3.50% each year of an eligible employee’s annual base salary (as defined in the Plan document). Contributions made by the College during the years ended June 30, 2016, 2015, and 2014, were approximately \$271,000, \$280,000, and \$321,000, respectively.

See Independent Auditors’ Report.

SEMINOLE STATE COLLEGE

NOTES TO FINANCIAL STATEMENTS, CONTINUED

NOTE H—OTHER POST-EMPLOYMENT BENEFITS

Plan Description: In addition to the pension benefits as described above, the College covers, through a single-employer plan, the cost of health and dental insurance premiums for retired employees until the age of 65. A retiring employee must have been employed full-time in the Oklahoma State System of Higher Education for not less than 10 years immediately preceding the date of retirement, been a member of the Teachers' Retirement System of Oklahoma during this time, and elected to receive a vested benefit under the provisions of the Teachers' Retirement System of Oklahoma. The College's Board of Regents has the authority to modify or change plan benefits and contributions. The plan does not have a separate, audited financial report prepared.

Funding Policy: The Plan is unfunded and benefits are on a "pay-as-you-go" basis. The College funds 100% of the retirees' premium, with funding from current operations and a monthly allowance from the Teachers' Retirement System of Oklahoma. For the year ended June 30, 2016, the College's contributions for health insurance premiums for retired employees were approximately \$108,000.

Annual OPEB cost and net OPEB obligation: The College's annual other postemployment benefit (OPEB) cost (expense) is calculated based on the annual required contribution of the employer (ARC), an amount actuarially determined in accordance with the parameters of GASB Statement 45. The ARC represents a level of funding that, if paid on an ongoing basis, is projected to cover normal cost each year and amortize any unfunded actuarial liabilities (or funding excess) over a period not to exceed 30 years. The following table shows the components of the College's annual OPEB cost, the amount actually contributed to the plan, and changes in the College's net OPEB obligation for the year ended June 30, 2016:

	2016
Annual required contribution	\$ 118,992
Interest on net OPEB obligation	23,364
Adjustment to annual required contribution	<u>(55,999)</u>
Annual OPEB cost (expense)	86,357
Contributions made	<u>108,295</u>
Decrease in net OPEB obligation	21,938
Net OPEB obligation, beginning of year	<u>(667,530)</u>
Net OPEB obligation, end of year	<u><u>\$ (645,592)</u></u>

See Independent Auditors' Report.

SEMINOLE STATE COLLEGE

NOTES TO FINANCIAL STATEMENTS, CONTINUED

NOTE H—OTHER POST-EMPLOYMENT BENEFITS, CONTINUED

The College's annual OPEB cost, the percentage of annual OPEB cost contributed to the plan, and the net OPEB obligation for 2016 was as follows:

Year Ended June 30	Annual OPEB Cost	% of Annual OPEB Cost Contributed	Net OPEB Obligation
2014	\$ 63,513	103.94%	\$ 662,093
2015	\$ 86,623	93.72%	\$ 667,530
2016	\$ 86,357	125.40%	\$ 645,592

Funded Status and Funding Progress: The funded status of the plan as of June 30, 2016 was as follows:

	<u>2016</u>
Actuarial accrued liability (AAL)	\$ 776,475
Actuarial value of plan assets	-
Unfunded actuarial accrued liability (UAAL)	<u>776,475</u>
Funded ratio (actuarial value of plan assets/AAL)	0%
Covered payroll (active plan members)	\$ 5,533,000
UAAL as a percentage of covered payroll	14%

Actuarial valuations of an ongoing plan involve estimates of the value of reported amounts and assumptions about the probability of occurrence of events far into the future. Examples include assumptions about future employment, mortality, and the healthcare cost trend. Amounts determined regarding the funded status of the plan and the annual required contributions of the employer are subject to continual revision as actual results are compared with past expectations and new estimates are made about the future. The schedule of funding progress, presented as required supplementary information following the notes to the financial statements, presents multiyear trend information about whether the actuarial value of plan assets is increasing or decreasing over time relative to the actuarial accrued liabilities for benefits.

Actuarial Methods and Assumptions: Projections of benefits for financial reporting purposes are based on the substantive plan (the plan as understood by the employer and the plan members) and include the types of benefits provided at the time of each valuation and the historical pattern of sharing of benefit costs between the employer and plan members to that point. The actuarial methods and assumptions used include techniques that are designed to reduce the effects of short-term volatility in actuarial accrued liabilities and the actuarial value of assets, consistent with the long-term perspective of the calculations.

In the June 30, 2015, actuarial valuation, which was also used for the June 30, 2016, calculation, the projected unit credit cost method was used. The actuarial assumptions included (a) discount rate of 3.5% per year compounded annually, (b) retirement at the earlier of (1) attainment of age 63 and completion of 9 years of OTRS service, or (2) when age plus OTRS service total at least 80 (90 for members joining OTRS after June 30, 1992), and (c) an annual healthcare cost trend rate of 5.75% annually.

See Independent Auditors' Report.

SEMINOLE STATE COLLEGE

NOTES TO FINANCIAL STATEMENTS, CONTINUED

NOTE I—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 agrees to provide certain administrative services to the Foundation in exchange for scholarships to College students totaling approximately \$70,000 for the year ended June 30, 2016.

During 2016, the Foundation made \$1,223,260 of payments on the new Dan and Andrea Boren Center building on behalf of the College. The Foundation also contributed a used vehicle with a market value of \$18,000 to the College during 2016.

NOTE J—COMMITMENTS AND CONTINGENCIES

The College participates in a number of federally assisted grant and contract programs. These programs are subject to financial and compliance audits by the grantors or their representatives. Such audits could lead to requests for reimbursement to the grantor agency for expenditures disallowed under terms of the grant. The amount for expenditures that may be disallowed by the granting agencies cannot be determined at this time, although it is believed by the College that the amount, if any, would not be significant.

In July 2010, the College began participating in the Federal Direct Student Loan Program (Direct Lending Program) that replaced the FFEL Program. The Direct Lending Program requires the College to draw down cash from the U.S. Department of Education, as well as perform certain administrative functions under the Direct Lending Program. Failure to perform such functions may require the College to reimburse the U.S. Department of Education. For the year ended June 30, 2016, approximately \$2,630,000, of Direct Lending Program loans were provided to College students.

During the course of ordinary business, the College may be subjected to various lawsuits and civil action claims. There were no pending lawsuits to 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.

NOTE K—RISK MANAGEMENT

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

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

See Independent Auditors' Report.

SEMINOLE STATE COLLEGE

NOTES TO FINANCIAL STATEMENTS, CONTINUED

NOTE K—RISK MANAGEMENT, CONTINUED

The College is self-insured for unemployment liabilities. Payments are made to the State Employment Security Commission on a claims paid basis. No reserve for potential liability for unemployment claims has been established. Any such liability would be paid from current operations.

NOTE L—NEW ACCOUNTING PRONOUNCEMENTS

New Accounting Pronouncements Adopted in Fiscal Year 2016: The College adopted the following accounting pronouncement during the year ended June 30, 2016:

- *GASB Statement No. 72, Fair Value Measurement and Application*

GASB Statement No. 72 addresses accounting and financial reporting issues related to fair value measurements. This Statement provides guidance for determining a fair value measurement for financial reporting purposes. This Statement also provides guidance for applying fair value to certain investments and disclosures related to all fair value measurements.

- *GASB Statement No. 76, The Hierarchy of Generally Accepted Accounting Principles for State and Local Governments*

GASB Statement No. 76 identifies, in the context of the current governmental financial reporting environment, the hierarchy of generally accepted accounting principles (GAAP). The “GAAP hierarchy” consists of the sources of accounting principles used to prepare financial statements of state and local governmental entities in conformity with GAAP and the framework for selecting those principles. This Statement reduces the GAAP hierarchy to two categories of authoritative GAAP and addresses the use of authoritative and non-authoritative literature in the event that the accounting treatment for a transaction or other event is not specified within a source of authoritative GAAP.

- *GASB Statement No. 82, Pension Issues, Amendment of GASB Statements No. 67, No. 68, and No. 73*

GASB Statement No. 82 addresses certain issues that were raised with respect to the pension implementation of Statements No. 67, No. 68, and No. 73. The College elected to early implement Statement No. 82 which resulted in a restatement of beginning net position for fiscal year 2016.

See Independent Auditors’ Report.

SEMINOLE STATE COLLEGE

NOTES TO FINANCIAL STATEMENTS, CONTINUED

NOTE L—NEW ACCOUNTING PRONOUNCEMENTS, Continued

New Accounting Pronouncements Issued Not Yet Adopted: The GASB has also issued several new accounting pronouncements which will be effective to the College in subsequent years. A description of the new accounting pronouncements, the fiscal year in which they are effective, and the College's consideration of the impact of these pronouncements are described below:

- *GASB 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 Statement No. 73 was issued in June 2015 and establishes requirements for defined benefit pensions that are not within the scope of Statement No. 68, *Accounting and Financial Reporting for Pensions*, as well as for the assets accumulated for purposes of providing those pensions. In addition, it establishes requirements for defined contribution pensions that are not within the scope of Statement 68. It also amends certain provisions of Statement No. 67, *Financial Reporting for Pension Plans*, and Statement 68 for pension plans and pensions that are within their respective scopes. The requirements of this Statement that address accounting and financial reporting by employers and governmental non-employer contributing entities for pensions that are not within the scope of Statement 68 are effective for financial statements for fiscal years beginning after June 15, 2016, and the requirements of this Statement that address financial reporting for assets accumulated for purposes of providing those pensions are effective for fiscal years beginning after June 15, 2015. The requirements of this Statement is for pension plans that are within the scope of Statement 67 or for pensions that are within the scope of Statement 68 are effective for fiscal years beginning after June 15, 2015. The College has not yet determined the impact that implementation of GASB 73 will have on its net position.

- *GASB Statement No. 74, Financial Reporting for Postemployment Benefit Plans Other Than Pension Plans*

GASB Statement No. 74 was issued in June 2015, and replaces Statements No. 43, *Financial Reporting for Postemployment Benefit Plans Other Than Pension Plans, as amended*, and No. 57, *OPEB Measurements by Agent Employers and Agent Multiple-Employer Plans*. It also includes requirements for defined contribution OPEB plans that replace the requirements for those OPEB plans in Statement No. 25, *Financial Reporting for Defined Benefit Pension Plans and Note Disclosures for Defined Contribution Plans, as amended*, Statement 43, and *Statement No. 50, Pension Disclosures*. This Statement is effective for financial statements for fiscal years beginning after June 15, 2016. The College has not yet determined the impact that implementation of GASB 74 will have on its net position.

See Independent Auditors' Report.

SEMINOLE STATE COLLEGE

NOTES TO FINANCIAL STATEMENTS, CONTINUED

NOTE L—NEW ACCOUNTING PRONOUNCEMENTS, CONTINUED

New Accounting Pronouncements Issued Not Yet Adopted, Continued

- *GASB Statement No. 75, Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions*

GASB Statement No. 75 was issued in June 2015, and addresses accounting and financial reporting for OPEB that is provided to the employees of state and local governmental employers. This Statement establishes standards for recognizing and measuring liabilities, deferred outflows of resources, deferred inflows of resources, and expense/expenditures. For a defined benefit OPEB, this Statement identifies the methods and assumptions that are required to be used to project benefit payments, discount projected benefit payments to their actuarial present value, and attribute that present value to periods of employee service. Note disclosure and required supplementary information requirements about defined benefit OPEB also are addressed. This Statement is effective for fiscal years beginning after June 15, 2017. The College has not yet determined the impact that implementation of GASB 75 will have on its net position.

- *GASB Statement No. 77, Tax Abatement Disclosures*

GASB Statement No. 77 was issued in August 2015, and establishes financial reporting standards for tax abatement agreements entered into by state and local governments. The disclosures required by this Statement encompass tax abatements resulting from both (a) agreements that are entered into by the reporting government and (b) agreements that are entered into by other governments and that reduce the reporting government's tax revenues. The requirements of this Statement are effective for financial statements for periods beginning after December 15, 2015. The College has not yet determined the impact that implementation of GASB 77 will have on its net position.

- *GASB Statement No. 78, Pensions Provided Through Certain Multiple-Employer Defined Benefit Pension Plans*

GASB Statement No. 78 was issued in December 2015, and amends the scope and applicability of Statement 68 to exclude pensions provided to employees of state or local governmental employers through a cost-sharing multiple employer defined benefit pension plan that (1) is not a state or local governmental pension plan, (2) is used to provide defined benefit pensions both to employees of state or local governmental employers and to employees of employers that are not state or local governmental employers, and (3) has no predominant state or local governmental employer (either individually or collectively with other state or local governmental employers that provide pensions through the pension plan). This Statement establishes requirements for recognition and measurement of pension expense, expenditures, and liabilities; note disclosures; and required supplementary information for pensions that have the characteristics described above. The requirements of this Statement are effective for reporting periods beginning after December 15, 2015. The statement does not affect the College's financial statements.

See Independent Auditors' Report.

SEMINOLE STATE COLLEGE

NOTES TO FINANCIAL STATEMENTS, CONTINUED

NOTE L—NEW ACCOUNTING PRONOUNCEMENTS, CONTINUED

New Accounting Pronouncements Issued Not Yet Adopted, Continued

- *GASB Statement No. 79, Certain External Investment Pools and Pool Participants*

GASB Statement No. 79 was issued in December 2015, and addresses accounting and financial reporting for certain external investment pools and pool participants. Specifically, it 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. An external investment pool qualifies for that reporting if it meets all of the applicable criteria established in this Statement. The specific criteria address (1) how 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. Significant noncompliance prevents the external investment pool from measuring all of its investments at amortized cost for financial reporting purposes. Professional judgment is required to determine if instances of noncompliance with the criteria established by this Statement during the reporting period, individually or in the aggregate, were significant. The requirements of this Statement are effective for reporting periods beginning after June 15, 2015, except for certain provisions on portfolio quality, custodial credit risk, and shadow pricing. Those provisions are effective for reporting periods beginning after December 15, 2015. At this time, the impact to the College is unknown.

- *GASB Statement No. 80, Blending Requirements for Certain Component Units – An Amendment of GASB Statement No. 14*

GASB Statement No. 80 was issued in January 2016, and amends the blending requirements for the financial statement presentation of component units of all state and local governments. The additional criterion requires blending of a component unit incorporated as a not-for-profit corporation in which the primary government is the sole corporate member. The additional criterion does not apply to component units included in the financial reporting entity pursuant to the provisions of Statement No. 39, *Determining Whether Certain Organizations Are Component Units*. The requirements of this Statement are effective for reporting periods beginning after June 15, 2016. At this time, the impact to the College is unknown.

- *GASB Statement No. 81, Irrevocable Split-Interest Agreements*

GASB Statement No. 81 was issued in March 2016, to improve accounting and financial reporting for irrevocable split-interest agreements by providing recognition and measurement guidance for situations in which a government is a beneficiary of the agreement. The College does not believe that GASB No. 81 will have significant impact on its financial statements.

See Independent Auditors' Report.

SEMINOLE STATE COLLEGE

NOTES TO FINANCIAL STATEMENTS, CONTINUED

NOTE M—SEMINOLE STATE COLLEGE EDUCATIONAL FOUNDATION, INC.

The following are significant disclosures of the Foundation:

NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Nature of Operations: Seminole State College Educational Foundation, Inc. (the “Foundation”) was established in 1972 as a private nonprofit organization to promote the education, scientific, and benevolent purposes of Seminole State College (the “College”). The Foundation acts largely as a fundraising organization, soliciting and receiving contributions and pledges on behalf of the College. Assets received by the Foundation are used to benefit the College or provide financial aid for the College’s students. The Foundation is governed by a Board of Trustees, which is separate and distinct from the Board of Regents, the governing board of the College.

Accounting Standards Codification: The Foundation adopted the Financial Accounting Standards Board (“FASB”) *Accounting Standards Codification* (“ASC”). The ASC does not alter current accounting principles generally accepted in the United States of America (“GAAP”), but rather integrated existing accounting standards with other authoritative guidance. The ASC provides a single source of authoritative GAAP for nongovernmental entities and supersedes all other previously issued non-SEC accounting and reporting guidance. The adoption of the ASC did not have any effect on the Foundation’s financial statements.

Basis of Accounting: The financial statements of the Foundation have been prepared on the accrual basis of accounting. Under this basis, revenues are recognized when earned rather than when received, and expenses are recognized when incurred rather than when the obligation is paid.

Financial Statement Presentation: Net assets, revenues, gains, expenses and losses are classified as unrestricted, temporarily restricted, or permanently restricted based on the existence or absence of donor-imposed restrictions. A description of the three net asset categories follows:

Unrestricted net assets: Net assets that are not subject to donor-imposed stipulations.

Temporarily restricted net assets: Net assets subject to donor-imposed stipulations that may or will be met, either by actions of the Foundation and/or the passage of time. When a restriction expires, temporarily restricted net assets are reclassified to unrestricted net assets and reported in the statements of activities as net assets released from restrictions.

Permanently restricted net assets: Net assets subject to donor-imposed stipulations that they be maintained permanently by the Foundation. Generally, the donors of these assets permit the Foundation to use all or part of the income earned on any related investment for general or specific purposes.

See Independent Auditors’ Report.

SEMINOLE STATE COLLEGE

NOTES TO FINANCIAL STATEMENTS, CONTINUED

NOTE M—SEMINOLE STATE COLLEGE EDUCATIONAL FOUNDATION, INC., CONTINUED

NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES, CONTINUED

Use of Estimates: Preparation of financial statements in conformity with accounting principles generally accepted in the United States of America includes the use of estimates that affect certain reported amounts and disclosures. Actual results could differ from those estimates.

Contributions: Contributions, including unconditional promises to give, are recognized as revenues in the period received by the Foundation. Conditional promises to give are not recognized until the conditions on which they depend are substantially met. Transfers of assets under conditional promises, which are received by the Foundation prior to fulfilling these conditions, are recorded as a liability until the conditions are substantially met. Contributions of assets other than cash are recorded at their estimated fair value at the date of gift. Contributions to be received after 1 year are recorded using a discount rate commensurate with the risk involved. Amortization of the discount is recorded as additional contribution revenue and used in accordance with donor-imposed restrictions, if any, on the contributions. Allowance is made for uncollectible contributions based upon management's judgment and analysis of the creditworthiness of the donors, past collection experience, and other relevant factors.

Contributions are reported as increases in the appropriate category of net assets. Expenses are reported as decreases in unrestricted net assets. Temporary restrictions on gifts to acquire long-lived assets are considered met in the period in which the assets are acquired or placed in service. Gifts of property and equipment are recorded as unrestricted support unless explicit donor stipulations specify how the assets must be used, in which case the gift is recorded as restricted support. Expirations of temporary restrictions (i.e., the donor-stipulated purpose has been fulfilled and/or the stipulated time period has elapsed) are reported as net assets released from restrictions. Contributions received from donors with general use restrictions for the College as a whole, or for specific departments within the College, are reflected as unrestricted to the extent that the College or departments have expended sufficient dollars which meet these general use restrictions. Contributions which are received and whose restrictions are met in the same period are recognized as unrestricted contributions.

Property and Equipment: Property and equipment are stated at cost, or fair value if acquired by gift, less accumulated depreciation. Effective January 1, 2012, the Foundation's capitalization policy for property and equipment was changed to include all items with a unit cost of \$5,000 or more and a useful life of greater than 1 year. Renovations to buildings, infrastructure and land improvements that significantly increase the value or extend the useful life of the structure are capitalized. Routine repairs and maintenance are charged to operating expense in the year in which the expense was incurred. Depreciation of property and equipment is provided for on the estimated useful lives using the straight-line method. The Foundation is depreciating buildings and improvements over 39 years and vehicles over 5 years.

See Independent Auditors' Report.

SEMINOLE STATE COLLEGE

NOTES TO FINANCIAL STATEMENTS, CONTINUED

NOTE M—SEMINOLE STATE COLLEGE EDUCATIONAL FOUNDATION, INC., CONTINUED

NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES, CONTINUED

Collections: The Foundation does not include either the cost or the value of its collections in the statements of financial position, nor does it recognize gifts of collection items as revenues in the statements of activities.

Fair Value Measurements: Fair value is defined as 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. A fair value hierarchy has been established that prioritizes the inputs to valuation techniques used to measure fair value into three broad levels. The following is a brief description of those three levels:

- Level 1: Quoted prices in active markets for identical assets or liabilities;
- Level 2: Inputs that are derived principally from or corroborated by observable market data;
- Level 3: Inputs that are unobservable and significant to the overall fair value measurement.

Financial assets carried at fair value on a recurring basis include investments (see Notes 2 and 11) and beneficial interest in remainder trust (see Notes 10 and 11).

Investments: Investments in marketable securities with readily determinable fair values and all investments in debt securities are valued at their fair value in the statements of financial position. Realized and unrealized investment gains and losses are computed on the average cost basis. These gains and losses and other investment income are reflected in the statements of activities. Investment income and realized and unrealized gains and losses on investments are classified as unrestricted in the statements of activities unless a donor or law temporarily restricts their use.

Recognition of Donor Restrictions: Revenues that are restricted by a donor are reported as an increase in unrestricted net assets if the restriction expires in the reporting period in which the revenues are received. All other donor restricted revenues are reported as an increase in temporarily or permanently restricted net assets, depending on the nature of the restriction. When a restriction expires, temporarily restricted net assets are reclassified to unrestricted net assets.

Cash and Cash Equivalents: For purposes of the statements of cash flows, the Foundation considers all highly liquid investments with an original maturity of 3 months or less to be cash equivalents. None of the Foundation's investments are considered to be cash equivalents.

See Independent Auditors' Report.

SEMINOLE STATE COLLEGE

NOTES TO FINANCIAL STATEMENTS, CONTINUED

NOTE M—SEMINOLE STATE COLLEGE EDUCATIONAL FOUNDATION, INC., CONTINUED

NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES, CONTINUED

Income Tax Status: The Internal Revenue Service has determined that the Foundation qualifies as an exempt organization under Section 501(c) (3) of the Internal Revenue Code. Accordingly, no provision for income taxes is reflected in the accompanying financial statements.

Accounting for Uncertain Tax Positions: The Financial Accounting Standards Board issued new guidance on accounting for uncertainty in income taxes. The Foundation adopted this new guidance for the year ended December 31, 2009. Management evaluated the Foundation's tax positions and concluded that the Foundation had taken no uncertain tax positions that require adjustment to the financial statements to comply with the provisions of this guidance. With few exceptions, the Foundation is no longer subject to income tax examinations by the U.S. federal, state or local tax authorities for years before 2012. Federal and state income tax statutes dictate that tax returns filed in any of the previous three reporting periods remain open to examination. Currently, the Foundation has no open examinations with either the Internal Revenue Service or the Oklahoma Tax Commission.

Transfers: During the year ended December 31, 2015, a transfer of \$50,467 was made from permanently restricted to temporarily restricted fund. The monies were used by the SSC fund to assist with the construction of the Dan and Andrea Boren Center.

Concentration of Credit Risk: At December 31, 2015, the Foundation had a concentration of credit risk with one local financial institution. The credit was in the form of a money market account and a checking account. The Foundation evaluates the stability of the financial institution it does business with in evaluating credit risk. The Foundation's exposure to credit loss in the event of nonperformance by the other party to the financial instrument noted above is represented by the contractual or notional amount of the account, less the amount covered by the Federal Deposit Insurance Corporation (FDIC) insurance (\$250,000 per institution), if applicable.

	Contractual or Notional Amount (Less FDIC <u>Insurance</u>)
BancFirst	\$ <u>506,000</u>

The Foundation maintains cash in its brokerage money market account which invests in U.S. government obligations. The fund is not federally insured or guaranteed by the U.S. government, the FDIC, or any other agency; however, management believes because of the high grade of instruments held by the fund that it is not exposed to any significant credit risk.

See Independent Auditors' Report.

SEMINOLE STATE COLLEGE

NOTES TO FINANCIAL STATEMENTS, CONTINUED

NOTE M—SEMINOLE STATE COLLEGE EDUCATIONAL FOUNDATION, INC., CONTINUED

NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES, CONTINUED

Significant Estimates: Estimates that are particularly susceptible to significant change include the valuation of investments, beneficial interest in trust, and contributions receivable. The Foundation's various investment instruments, including the beneficial interest are exposed to various risks, such as interest rate, credit, and overall market volatility. Due to the level of risk associated with these financial instruments, it is reasonably possible that changes in the values of the investments and beneficial interest will occur in the near term and that such changes could materially affect the amounts reported in the statements of financial position. Significant fluctuations in fair values could occur from year to year and the amounts the Foundation will ultimately realize could differ materially. Management's estimate of contributions receivable and evaluation for allowance is based on consideration of all relevant available information and an analysis of the collectability of individual contributions, which arise primarily from pledges receivable, at the financial statement date.

Simple IRA: The Foundation has an employment agreement with its one and only employee and the Foundation provides a SIMPLE IRA plan for the employee and will contribute 12% of the employee's annual salary to the SIMPLE IRA plan.

For years ended December 31, 2015 and 2014, the Foundation contributed \$9,350 each year to the SIMPLE IRA plan.

Subsequent Events: Management of the Foundation has evaluated subsequent events through June 8, 2016, the date the financial statements were available to be issued. There were no subsequent events requiring recognition or disclosure.

Recent Accounting Pronouncements: In May 2014, the Financial Accounting Standards Board (FASB) issued Accounting Standards Update No. 2014-09, *Revenue from Contracts with Customers* (ASU 2014-09). ASU 2014-09 clarifies the principles for recognizing revenue by providing a more robust framework that will give greater consistency and comparability in revenue recognition practices. In the new framework, an entity recognizes revenue in an amount that reflects the consideration to which the entity expects to be entitled in exchange for goods or services. The new model requires the identification of performance obligations included in contracts with customers, a determination of the transaction price, and an allocation of the price to those performance obligations. The entity recognizes revenue when performance obligations are satisfied. In August 2015, FASB issued ASU No. 2015-14, *Revenue from Contracts with Customers—Deferral of the Effective Date*, which defers the effective date of ASU 2014-09 by 1 year. ASU 2014-09 is effective for the Foundation's annual periods beginning after December 15, 2018. Currently, the Foundation has not evaluated the impact on the financial statements of adopting ASU 2014-09.

See Independent Auditors' Report.

SEMINOLE STATE COLLEGE

NOTES TO FINANCIAL STATEMENTS, CONTINUED

NOTE M—SEMINOLE STATE COLLEGE EDUCATIONAL FOUNDATION, INC., CONTINUED

NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES, CONTINUED

Recent Accounting Pronouncements, Continued:

In August 2014, FASB issued ASU No. 2014-15, *Disclosure of Uncertainties about an Entity's Ability to Continue as a Going Concern* (ASU 2014-15). ASU 2014-15 provides guidance on management's responsibility in evaluating whether there is substantial doubt about the Foundation's ability to continue as a going concern and related footnote disclosures. For each reporting period, management will be required to evaluate whether there are conditions or events that raise substantial doubt about the Foundation's ability to continue as a going concern within 1 year from the date the financial statements are issued. ASU 2014-15 is effective for annual periods ending after December 15, 2016. Adoption of ASU 2014-15 is not expected to have a significant effect on the Foundation's financial statements.

In May 2015, FASB issued ASU No. 2015-07, *Disclosure for Investments in Certain Entities That Calculate Net Assets Value per Share (or Its Equivalent)* (ASU 2015-07), which amends ASC 820. ASU 2015-07 removes the requirement to categorize within the fair value hierarchy all investments for which fair value is measured using the net asset value per share practical expedient. It also removes the requirement to make certain disclosures for all investments that are eligible to be measured at fair value using the net asset per share practical expedient. ASU 2015-07 is effective for public business entities for fiscal years beginning after December 15, 2015, and for fiscal years beginning after December 15, 2016, for all other entities. Adoption of ASU 2015-07 is not expected to have a significant effect on the Foundation's financial statements.

In June 2015, FASB issued ASU No. 2015-10, *Technical Corrections and Improvements* (ASU 2015-10). ASU 2015-10 covers a wide range of ASC topics and represents changes to clarify the codification, correct unintended application of guidance, or make minor improvements to the codification that are not expected to have a significant effect on current accounting practice. The amendments in ASU 2015-10 that are subject to transition guidance are effective for fiscal years beginning after December 15, 2015; all other amendments were effective upon issuance of the update. Adoption of ASU 2015-10 did not and is not expected to have a significant effect on the Foundation's financial statements.

See Independent Auditors' Report.

SEMINOLE STATE COLLEGE

NOTES TO FINANCIAL STATEMENTS, CONTINUED

NOTE M—SEMINOLE STATE COLLEGE EDUCATIONAL FOUNDATION, INC., CONTINUED

NOTE 2: INVESTMENTS

As of December 31, 2015 and 2014, the Foundation's investments were as follows:

	<u>2015</u>	<u>2014</u>
Corporate bonds	\$ 11,696	\$ 12,443
Mutual funds-fixed income	715,974	844,485
Mutual funds-equity	<u>1,016,751</u>	<u>1,047,406</u>
Total investments	<u>\$ 1,744,421</u>	<u>\$ 1,904,334</u>

NOTE 3: CONTRIBUTIONS RECEIVABLE

Contributions receivable at December 31, 2014, are expected to be collected as follows:

	<u>2014</u>
Less than 1 year	\$ 25
1 to 5 years	-
	<u>\$ 25</u>

There were no contributions receivable as of December 31, 2015.

No discount was applied to contributions receivable due to immateriality of such amounts. The Foundation considers contributions receivable to be fully collectible; accordingly, no allowance for uncollectible contributions is recorded.

NOTE 4: NOTE RECEIVABLE

In 2011, the Foundation advanced \$100,000 to a member of the Seminole State College Educational Foundation and the College as an investment. The note carries interest of 9%, payable monthly, is due on demand any time after February 16, 2017, and is unsecured.

See Independent Auditors' Report.

SEMINOLE STATE COLLEGE

NOTES TO FINANCIAL STATEMENTS, CONTINUED

NOTE M—SEMINOLE STATE COLLEGE EDUCATIONAL FOUNDATION, INC., CONTINUED

NOTE 5: PROPERTY AND EQUIPMENT

At December 31, 2015 and 2014, property and equipment consist of the following:

	<u>2015</u>	<u>2014</u>
Land	\$ 87,995	87,995
Land improvements	7,567	-
Buildings and improvements	1,430,644	1,430,644
Vehicles	<u>88,739</u>	<u>80,651</u>
	1,614,945	1,599,290
Less: Accumulated depreciation	<u>(379,134)</u>	<u>(360,116)</u>
Property and equipment, net	<u>\$ 1,235,811</u>	<u>\$ 1,239,174</u>

In 2004, the Foundation purchased property located at 229 North 2nd Street, Seminole, Oklahoma, for purposes of establishing a community service center with space rented to Workforce Oklahoma, Oklahoma Employment Security Commission, and the Seminole State College Employment Readiness Program. During the years ended December 31, 2015 and 2014, the Foundation recognized \$41,329, for each of the 2 years, in rental income.

In 2005, the Foundation purchased property located at 600 West Strothers, Seminole, Oklahoma, for the purpose of developing new and expanding businesses through the use of business incubators. Space was rented to Americontact, LLC, in 2014 and the Seminole Public School System in 2015. In October 2014, Americontact, LLC, vacated the space, and the space remained vacant until August 2015, when the Foundation and the Seminole Public School System entered into an initial 11 month lease agreement for the rental of said space. During the years ended December 31, 2015 and 2014, the Foundation recognized \$40,000 and \$20,000, respectively, in related rental income.

In 2012, the Foundation purchased the Aldridge property located just northeast across from the College campus at 2808 N. Highway 3, Seminole, Oklahoma, for the purpose of establishing future site development for anticipated campus growth.

In 2015 and 2014, the Foundation paid approximately \$224,000 and \$14,000, respectively, for construction costs and architectural drawings for the construction of the Dan and Andrea Boren Center to be located on the College campus. The project will be a joint venture of the Foundation and the College, with the College retaining title to and ownership of the building.

See Independent Auditors' Report.

SEMINOLE STATE COLLEGE

NOTES TO FINANCIAL STATEMENTS, CONTINUED

NOTE M—SEMINOLE STATE COLLEGE EDUCATIONAL FOUNDATION, INC., CONTINUED

NOTE 5: PROPERTY AND EQUIPMENT, CONTINUED

In 2014, the Foundation purchased the Schroeder property located just north of the College campus at 3009 N. Highway 3, Seminole, Oklahoma, for the purpose of establishing future site development for anticipated campus growth. During the years ended December 31, 2015 and 2014, the Foundation recognized \$8,350 and \$0, respectively, in related rental income.

NOTE 6: OTHER ASSETS

At December 31, 2015 and 2014, the Foundation had oil and gas royalty interests of \$2,030 and \$2,030, respectively, which is included in other assets in the statements of financial position.

NOTE 7: INCOME TAXES

Federal and State income taxes incurred on unrelated business income (rental income) for 2015 and 2014 were \$0 and \$0, respectively.

NOTE 8: LONG-TERM DEBT

The Foundation has a note payable with a financial institution dated October 21, 2010, with a principal amount of \$135,545, payable in monthly installments of \$1,953, including interest at 5.50%. The note is secured by real estate. At December 31, 2015 and 2014, the outstanding balance on the note was \$37,290 and \$57,208, respectively.

On March 28, 2008, the Foundation entered into an advancing line of credit agreement with a financial institution with a principal amount of \$351,284.

The advancing line of credit calls for monthly principal and interest payments of \$2,935, including interest at 5.75%, with a maturity date of April 1, 2023. During 2015, the Foundation made only interest payments on the note; therefore, at December 31, 2015 and 2014, the outstanding balance on the note was \$226,682 and \$226,682, respectively.

The Foundation has a note payable with a financial institution dated September 24, 2012, for an amount of \$30,262, payable in monthly installments of \$667 beginning October 15, 2012, an interest rate of 2.75%, and a maturity date of September 15, 2016. The note is secured by equipment. At December 31, 2015 and 2014, the outstanding balance on the note was \$12,925 and \$14,902, respectively.

See Independent Auditors' Report.

SEMINOLE STATE COLLEGE**NOTES TO FINANCIAL STATEMENTS, CONTINUED****NOTE M—SEMINOLE STATE COLLEGE EDUCATIONAL FOUNDATION, INC., CONTINUED****NOTE 8: LONG-TERM DEBT, CONTINUED**

The Foundation has a note payable with a financial institution dated March 12, 2014, for an amount of \$70,000, payable in monthly installments of \$1,097 beginning April 12, 2014, an interest rate of 4.00%, and a maturity date of March 12, 2020. The note is secured by real estate. At December 31, 2015 and 2014, the outstanding balance on the note was \$51,320 and \$62,161, respectively.

The Foundation has a note payable with a financial institution dated December 8, 2015, for an amount of \$32,199, payable in monthly installments of \$572 beginning January 8, 2016, an interest rate of 2.50%, and a maturity date of December 8, 2020. The note is secured by equipment. At December 31, 2015, the outstanding balance on the note was \$32,199.

At December 31, 2015, future aggregate maturities of principal and interest requirements on the Foundation's notes payable are as follows:

Years Ending December 31:	Principal	Interest	Total
2016	\$ 75,434	14,256	89,690
2017	56,503	11,276	67,779
2018	43,499	9,181	52,680
2019	45,353	7,328	52,681
2020	37,192	5,532	42,724
Thereafter	102,435	8,293	110,728
	<u>\$ 360,416</u>	<u>55,866</u>	<u>416,282</u>

At December 31, 2014, future aggregate maturities of principal and interest requirements on the Foundation's notes payable are as follows:

Years Ending December 31:	Principal	Interest	Total
2015	\$ 62,474	15,341	77,815
2016	64,635	12,437	77,072
2017	50,011	9,530	59,541
2018	38,251	7,565	45,816
2019	39,996	5,821	45,817
Thereafter	105,586	8,313	113,899
	<u>\$ 360,953</u>	<u>59,007</u>	<u>419,960</u>

See Independent Auditors' Report.

SEMINOLE STATE COLLEGE

NOTES TO FINANCIAL STATEMENTS, CONTINUED

NOTE M—SEMINOLE STATE COLLEGE EDUCATIONAL FOUNDATION, INC., CONTINUED

NOTE 9: NET ASSETS

At December 31, 2015 and 2014, temporarily restricted net assets were comprised of the following:

	<u>2015</u>	<u>2014</u>
Scholarships	\$ 1,112,469	1,116,890
Capital Campaign	818,213	999,117
Grants	100,809	113,907
Beneficial interest in remainder trust	112,918	120,338
Foreign Exchange Studies	10,976	13,149
Athletic Booster Club	9,680	12,176
President's Round Table	3,201	3,201
Total temporarily restricted net assets	<u>\$ 2,168,266</u>	<u>2,378,778</u>

See Independent Auditors' Report.

SEMINOLE STATE COLLEGE

NOTES TO FINANCIAL STATEMENTS, CONTINUED

NOTE M—SEMINOLE STATE COLLEGE EDUCATIONAL FOUNDATION, INC., CONTINUED

NOTE 9: NET ASSETS, CONTINUED

Permanently restricted net assets are restricted to investments in perpetuity, the income from which is expendable for scholarships to students and student staff, and for the support of specified academic programs of the College. At December 31, 2015 and 2014, permanently restricted net assets included the following funds:

	<u>2015</u>	<u>2014</u>
1. Galela Walkingstick Scholarship (New in 2010)	\$ 250,000	250,000
2. Austin Scholarship	172,480	172,480
3. Roesler Scholarship	81,230	81,230
4. W. P. Wood Trust II Scholarship	77,303	77,303
5. Medical Lab Tech Scholarship (New in 2008)	70,000	70,000
6. SSC 2000	-	50,467
7. Lynch Scholarship	50,000	50,000
8. Dan Wallace Scholarship	65,000	65,000
9. Moran Nursing Scholarship	32,618	32,618
10. Ida E. Harber Memorial Scholarship	30,000	30,000
11. Wayne & Hazel Reynolds Scholarship (New in 2010)	75,000	75,000
12. W. P. Wood Trust Scholarship	25,000	25,000
13. Kirk Scholarship	20,000	20,000
14. Tiger Trucks (New in 2007)	20,000	20,000
15. Dean & Lillie Stover Scholarship (New in 2010)	20,000	20,000
16. Calvin Scholarship	19,450	19,450
17. Eloise Wright Scholarship	16,120	16,120
18. Mt. View Alumni Scholarship	15,800	15,800
19. Kelton/Wantland Scholarship	12,600	12,600
20. Kinslow Scholarship	10,700	10,700
21. Mr. & Mrs. T. W. Harber Scholarship	10,000	10,000
22. Regents Scholarship	6,145	6,145
23. James S. Maxwell Scholarship	5,000	5,000
24. Arkla Scholarship	5,000	5,000
25. President's Round Table	478	478
26. Patterson Family Scholarship	20,500	20,500
27. Paula Rutledge Memorial Scholarship	10,250	10,250
28. Utterback Family Scholarship	20,000	20,000
Total permanently restricted net assets	<u>\$ 1,140,674</u>	<u>1,191,141</u>

See Independent Auditors' Report.

SEMINOLE STATE COLLEGE

NOTES TO FINANCIAL STATEMENTS, CONTINUED

NOTE M—SEMINOLE STATE COLLEGE EDUCATIONAL FOUNDATION, INC., CONTINUED

NOTE 10: BENEFICIAL INTEREST IN REMAINDER TRUST

The Foundation is the beneficiary of an irrevocable charitable remainder unitrust. Under the trust terms, the trust will pay 5% of the net fair market value of the trust assets to the lead beneficiary throughout their lifetime and then the trust will terminate. Upon termination of the trust, 35% of the assets remaining in the trust will be distributed to the Foundation.

The Foundation's beneficial interest in the trust is measured at fair value using the discount rate adjustment technique to determine the present value of future cash flows. The Foundation uses the current IRS Historical Discount Rate unless facts and circumstances indicate that such rate is inappropriate. In 2015, a calculated discount rate commensurate with the risk involved was used in calculating fair value. The discount rate applied at December 31, 2015, and 2014, was 7% and 7%, respectively.

In 2008, The Foundation recognized temporarily restricted contribution revenue of \$77,666 on the initial gift date. Changes in the fair value of the beneficial interest are reflected as a temporarily restricted change in value of split-interest agreements in the statements of activities. Upon termination of the trust and expiration of the implied time restriction the Foundation's beneficial interest will be reclassified from temporarily restricted net assets to unrestricted.

NOTE 11: FAIR VALUE OF FINANCIAL INSTRUMENTS

The Foundation uses quoted market prices to determine the fair value of an asset or liability when available. If quoted market prices are not available, the Foundation determines fair value using valuation techniques that use market-based or independently-sourced market data, such as interest rates.

Following is a description of methodologies used for instruments measured at fair value on a recurring basis:

Investment securities: When quoted prices are available in an active market, securities are classified within Level 1 of the hierarchy. Securities classified as Level 1 include mutual funds, domestic equities, and international equities. Other securities such as Corporate Bonds and U.S. Government Agency Securities (e.g., FFCB and FHLB) are classified within Level 2 of the hierarchy. Securities classified as Level 2 are independently valued by nationally recognized, and third-party pricing services.

Beneficial interest in remainder trust: The fair value of the beneficial interest in the trust is measured using the discount rate adjustment technique to determine the present value of future cash flows. Due to the significant unobservable inputs required to estimate the expected future cash receipts from the trust, the Foundation's beneficial interest is classified as Level 3 in the hierarchy.

See Independent Auditors' Report.

SEMINOLE STATE COLLEGE

NOTES TO FINANCIAL STATEMENTS, CONTINUED

NOTE M—SEMINOLE STATE COLLEGE EDUCATIONAL FOUNDATION, INC., CONTINUED

NOTE 11: FAIR VALUE OF FINANCIAL INSTRUMENTS, CONTINUED

Assets measured at fair value on a recurring basis are classified within the fair value hierarchy as follows (no liabilities measured at fair value):

	<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>	<u>Fair Value</u>
<u>December 31, 2015</u>				
Financial Assets:				
Corporate Bonds	\$ -	11,696	-	11,696
Fixed income	715,974	-	-	715,974
Domestic equities	887,479	-	-	887,479
International equities	129,272	-	-	129,272
Beneficial interest in remainder trust	-	-	112,918	112,918
	<u>\$ 1,732,725</u>	<u>11,696</u>	<u>112,918</u>	<u>1,857,339</u>
<u>December 31, 2014</u>				
Financial Assets:				
Corporate Bonds	\$ -	12,443	-	12,443
Fixed income	844,485	-	-	844,485
Domestic equities	943,349	-	-	943,349
International equities	104,057	-	-	104,057
Beneficial interest in remainder trust	-	-	120,338	120,338
	<u>\$ 1,891,891</u>	<u>12,443</u>	<u>120,338</u>	<u>2,024,672</u>

The following table summarizes the changes in the fair value of the Foundation's Level 3 financial assets and liabilities for the period ending December 31, 2015, and 2014:

	<u>Beneficial Interest in Charitable Remainder Trust</u>
Balance at January 1, 2015	\$ 120,338
Change in value of beneficial interest in charitable remainder trust	(7,420)
Distributions	-
Contributions	-
Balance at December 31, 2015	<u>\$ 112,918</u>

See Independent Auditors' Report.

SEMINOLE STATE COLLEGE

NOTES TO FINANCIAL STATEMENTS, CONTINUED

NOTE M—SEMINOLE STATE COLLEGE EDUCATIONAL FOUNDATION, INC., CONTINUED

NOTE 11: FAIR VALUE OF FINANCIAL INSTRUMENTS, CONTINUED

	<u>Beneficial Interest in Charitable Remainder Trust</u>
Balance at January 1, 2014	\$ 138,694
Change in value of beneficial interest in charitable remainder trust	(18,356)
Distributions	-
Contributions	-
	<hr/>
Balance at December 31, 2014	<u>\$ 120,338</u>

NOTE 12: COLLECTIONS

The Foundation maintains various collections of works of art, historical treasures, and similar assets. These collections are maintained for public exhibition, education, and research in furtherance of public service rather than for financial gain. These assets are protected, kept unencumbered, cared for, and preserved by the Foundation. As a matter of policy, the proceeds of items in collections that are sold are used to acquire other items for collections.

NOTE 13: ENDOWMENT DISCLOSURES

The Foundation's endowment consists of 27 individual donor-restricted funds established for scholarship purposes. As required by GAAP, net assets associated with endowment funds are classified and reported based on the existence or absence of donor-imposed restrictions.

Interpretation of Relevant Law

The Board of Directors of the Foundation has interpreted the Oklahoma Prudent Management of Institutional Funds Act ("OK UPMIFA") 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 the 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 OK UPMIFA.

See Independent Auditors' Report.

SEMINOLE STATE COLLEGE

NOTES TO FINANCIAL STATEMENTS, CONTINUED

NOTE M—SEMINOLE STATE COLLEGE EDUCATIONAL FOUNDATION, INC., CONTINUED

NOTE 13: ENDOWMENT DISCLOSURES, CONTINUED

Interpretation of Relevant Law, Continued

In accordance with OK UPMIFA, 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 of investments
- (6) Other resources of the Foundation
- (7) The investment policies of the Foundation

Endowment Net Assets

Endowment Net Asset Composition by Type of Fund as of December 31, 2015:

	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Permanently Restricted</u>	<u>Total</u>
Donor-restricted endowment funds	\$ (32,121)	389,773	1,140,674	1,498,326
Total Endowment Funds	<u>\$ (32,121)</u>	<u>389,773</u>	<u>1,140,674</u>	<u>1,498,326</u>

Endowment Net Asset Composition by Type of Fund as of December 31, 2014:

	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Permanently Restricted</u>	<u>Total</u>
Donor-restricted endowment funds	\$ (32,121)	449,312	1,191,141	1,608,332
Total Endowment Funds	<u>\$ (32,121)</u>	<u>449,312</u>	<u>1,191,141</u>	<u>1,608,332</u>

See Independent Auditors' Report.

SEMINOLE STATE COLLEGE

NOTES TO FINANCIAL STATEMENTS, CONTINUED

NOTE M—SEMINOLE STATE COLLEGE EDUCATIONAL FOUNDATION, INC., CONTINUED

NOTE 13: ENDOWMENT DISCLOSURES, CONTINUED

Endowment Net Assets, Continued

Changes in Endowment Net Assets for the Year Ended December 31, 2015:

	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Permanently Restricted</u>	<u>Total</u>
Endowment net assets, beginning of year	\$ (32,121)	449,312	1,191,141	1,608,332
Investment return:				
Investment income	-	47,884	-	47,884
Investment fees	-	(13,742)	-	(13,742)
Net appreciation (realized and unrealized)	-	(66,022)	-	(66,022)
Total investment return	(32,121)	417,432	1,191,141	1,576,452
Contributions	-	-	-	-
Transfers	-	50,467	(50,467)	-
Appropriation of endowment assets for expenditure	-	(78,126)	-	(78,126)
Endowment Net Assets	<u>\$ (32,121)</u>	<u>389,773</u>	<u>1,140,674</u>	<u>1,498,326</u>

Changes in Endowment Net Assets for the Year Ended December 31, 2014:

	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Permanently Restricted</u>	<u>Total</u>
Endowment net assets, beginning of year	\$ (32,121)	415,196	1,175,141	1,558,216
Investment return:				
Investment income	-	104,496	-	104,496
Investment fees	-	(13,882)	-	(13,882)
Net appreciation (realized and unrealized)	-	20,443	-	20,443
Total investment return	(32,121)	526,253	1,175,141	1,669,273
Contributions	-	-	16,000	16,000
Transfers	-	-	-	-
Appropriation of endowment assets for expenditure	-	(76,941)	-	(76,941)
Endowment Net Assets	<u>\$ (32,121)</u>	<u>449,312</u>	<u>1,191,141</u>	<u>1,608,332</u>

See Independent Auditors' Report.

SEMINOLE STATE COLLEGE

NOTES TO FINANCIAL STATEMENTS, CONTINUED

NOTE M—SEMINOLE STATE COLLEGE EDUCATIONAL FOUNDATION, INC., CONTINUED

NOTE 13: ENDOWMENT DISCLOSURES, CONTINUED

Funds with Deficiencies

From time to time, the fair value of assets associated with individual donor-restricted endowment funds may fall below the level that the donor or OK UPMIFA requires the Foundation to retain as a fund of perpetual duration. In accordance with GAAP, deficiencies of this nature that are reported in unrestricted net assets were \$(32,121) as of December 31, 2015 and 2014. These deficiencies resulted from unfavorable market fluctuations. As a result appropriations were limited to appropriations that were deemed prudent and necessary for the programs of the Foundation.

Return Objectives and Risk Parameters

The Foundation has adopted investment and spending policies for endowment assets that attempt to provide a predictable stream of funding to programs supported by its endowments while seeking to maintain the purchasing power of the endowment assets. Endowment assets include those assets of donor-restricted funds that the organization must hold in perpetuity or for a donor-specified period(s). The Foundation's investment objective for the Endowment Fund (the "Fund") is "Growth and Income". The intent of the objective is to provide both current income and future growth of the Fund sufficient to offset reasonable spending plus nominal inflation; thereby, preserving the constant dollar value and purchasing power of the endowment for future generations.

Investment performance will be judged over a 5-year horizon or market cycle. The goal for equity investment performance is to exceed the price and yield results of the Standard and Poor's 500 Common Stock Index while maintaining a risk level similar to that of the benchmark.

The goal for fixed income investment performance is to exceed the Corporate Bond Index while maintaining a risk level similar to that of the benchmark.

See Independent Auditors' Report.

SEMINOLE STATE COLLEGE

NOTES TO FINANCIAL STATEMENTS, CONTINUED

NOTE M—SEMINOLE STATE COLLEGE EDUCATIONAL FOUNDATION, INC., CONTINUED

NOTE 13: ENDOWMENT DISCLOSURES, CONTINUED

Strategies Employed for Achieving Objectives

To satisfy its long-term rate-of-return objectives, the Foundation relies on a total return strategy in which investment returns are achieved through both capital appreciation (realized and unrealized) and current yield (interest and dividends). The Foundation targets a diversified asset allocation that places an equal emphasis on equity and fixed income investments to achieve its long-term return objectives within prudent risk constraints.

Spending Policy and How the Investment Objectives Relate to Spending Policy

The Foundation has a policy of appropriating for distribution each year amounts up to, but not to exceed actual investment performance for that year. Since the Foundation has a policy of designating unrestricted funds each year for investment, it feels that this policy protects the purchasing power of the endowments as well as the original corpus of the donor-restricted investment. In light of current market fluctuations and the future needs of the Foundation, it will evaluate the spending policy to ensure that it remains in accordance with the long-term objectives of the Foundation.

NOTE 14: RELATED PARTY TRANSACTIONS

The College and Foundation have an agreement to provide the Foundation with services including office space and part-time service of College staff. In exchange, the College receives funds for scholarships, capital improvements, staff development, and other uses for the furtherance of its mission.

The Foundation awarded scholarships totaling approximately \$78,100 and \$76,900 for the year ending December 31, 2015 and 2014, respectively, to students and faculty members of the College.

The Foundation made \$223,834 of payments on the Dan and Andrea Boren Center building on behalf of the College during the year ended December 31, 2015.

See Independent Auditors' Report.

REQUIRED SUPPLEMENTARY INFORMATION

SEMINOLE STATE COLLEGE

**SCHEDULE OF COLLEGE'S PROPORTIONATE SHARE OF
THE NET PENSION LIABILITY
OKLAHOMA TEACHERS RETIREMENT SYSTEM**

Last 2 Fiscal Years*

	<u>2015</u>	<u>2016</u>
College's proportion of the net pension liability	0.2072%	0.2001%
College's proportionate share of the net pension liability	<u>\$ 11,146,014</u>	<u>\$ 12,152,155</u>
College's covered-employee payroll	<u>\$ 7,401,050</u>	<u>\$ 7,201,250</u>
College's proportionate share of the net pension liability as a percentage of its covered-employee payroll	151%	169%
Plan fiduciary net position as a percentage of the total pension liability	72.43%	70.31%

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

Notes to Schedule:

Only the current and prior fiscal year is presented because 10-year data is not yet available. Contribution and covered-employee payroll amounts restated for the early implementation of GASB Statement No. 82

See Independent Auditors' Report.

SEMINOLE STATE COLLEGE

SCHEDULE OF THE COLLEGE'S CONTRIBUTIONS
OKLAHOMA TEACHERS RETIREMENT SYSTEM

Last 2 Fiscal Years

	<u>2015</u>	<u>2016</u>
Contractually required contribution	\$ 834,820	\$ 831,727
Contributions in relation to the contractually required contribution	<u>834,820</u>	<u>831,727</u>
Contribution deficiency	<u>\$ -</u>	<u>\$ -</u>
College's covered-employee payroll	<u>\$ 7,201,250</u>	<u>\$ 7,079,713</u>
Contributions as a percentage of covered-employee payroll	11.59%	11.75%

Notes to Schedule:

Only the current and prior fiscal year is presented because 10-year data is not yet available.

See Independent Auditors' Report.

SEMINOLE STATE COLLEGE

SCHEDULE OF FUNDING PROGRESS FOR OPEB

June 30, 2016

<u>Actuarial Valuation Date</u>	<u>Actuarial Accrued Liability (AAL) (b)</u>	<u>Actuarial Value of Assets (a)</u>	<u>Unfunded AAL (UAAL) (b-a)</u>	<u>Funded Ratio (a/b)</u>	<u>Covered Payroll (c)</u>	<u>UAAL as a Percentage of Covered Payroll (b-a)/c</u>
06/30/15	776,475	-	776,475	0%	5,830,000	13%
06/30/16	776,475	-	776,475	0%	5,533,000	14%

The actuarial accrued liability is based on the projected unit credit method.

See Independent Auditors' Report.

**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
Seminole State College
Seminole, Oklahoma

We have audited the financial statements of Seminole State 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 14, 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 Seminole State College Educational Foundation, Inc. (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. In addition, our report includes a paragraph noting the adoption of GASB 82 and the restatement of beginning net position as a result of the adoption.

Internal Control Over Financial Reporting

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

(Continued)

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

Internal Control Over Financial Reporting, Continued

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

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies. 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 14, 2016



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

Board of Regents
Seminole State College
Seminole, Oklahoma

Report on Compliance for Each Major Federal Program

We have audited Seminole State 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.

Finley + Cook, PLLC

Shawnee, Oklahoma
October 14, 2016

SEMINOLE STATE 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)	Federal Expenditures
U.S. Department of Education:				
<i>Student Financial Aid Cluster:</i>				
Office of Postsecondary Education:				
Federal Pell Grant Program	84.063		\$	3,583,829
Federal Direct Student Loans Program	84.268			2,629,567
Federal Supplemental Education Opportunity	84.007			49,600
Federal Work Study Program	84.033			43,443
Total Student Financial Aid Cluster				<u>6,306,439</u>
 <i>TRIO Cluster:</i>				
Office of Postsecondary Education:				
Upward Bound	84.047	P047A121577-14/15 P047A121578-14/15 P047M120007-14/15 P047M120015-14/15		1,068,533
Talent Search	84.044	P044A120001-15/14 P044A110003-15/14		557,645
Student Support Services	84.042A	P042A100045-14/P042A150005		249,076
STEM Student Support Services	84.042A	P042A100220-14/P042A150255		229,733
Total Trio Cluster				<u>2,104,987</u>

(Continued)

See Independent Auditors' Report.
See Accompanying notes to Schedule of Expenditures of Federal Awards

SEMINOLE STATE 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)	Federal Expenditures
U.S. Department of Education:				
Gaining Early Awareness and Readiness for Undergraduate Programs:				
OK, GO COLLEGE Gear-Up	84.334A	P334A110203-14/15		586,046
				<u>586,046</u>
Strengthening Minority-Servicing Institutions:				
NASNTI	84.382C	P382C110002-14/15		380,255
				<u>380,255</u>
Higher Education Institutional Aid:				
Engaging Student in Science	84.301A	P031A150087		352,427
				<u>352,427</u>
Office of Vocational & Adult Education:				
Pass-Through Program:				
Oklahoma Career Tech				
Carl D. Perkins Career and Technical Education Grant	84.048			
				<u>9,148</u>
Total U.S. Department of Education				<u>\$ 9,739,302</u>

(Continued)

See Independent Auditors' Report.
See Accompanying notes to Schedule of Expenditures of Federal Awards

SEMINOLE STATE 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)	Federal Expenditures
U.S. Department of Health and Human Services				
Administration for Children and Families				
Pass-Through Program From:				
Oklahoma State Department of Human Services				
Temporary Assistance for Needy Families (TANF)				
	93.558	0310559		136,130
Administration for Children and Families				
Pass-Through Program From:				
Oklahoma State Regents for Higher Education				
Child Care Development Block Grant				
Scholars for Excellence in Child Care Program				
	93.576	1936002309		78,588
Total U. S. Department of Health and Human Services				<u>214,718</u>
U.S. Department of Homeland Security				
Pass-Through Program From:				
Federal Emergency Management Agency				
Oklahoma Department of Emergency Management				
Hazard Mitigation Grant				
	97.039			
Total U. S. Department of Homeland Security				<u>272,792</u>
Total Expenditures of Federal Awards				<u>\$ 10,226,812</u>

See Independent Auditors' Report.

See Accompanying notes to Schedule of Expenditures of Federal Awards

SEMINOLE STATE 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 Seminole State 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 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 22% negotiated indirect cost rate agreement with the Department of Health and Human Services effective to June 30, 2016. The College uses the negotiated indirect cost rate or the allowable indirect cost rate charged by the federal programs, whichever is lower.

See Independent Auditors’ Report.

SEMINOLE STATE 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, 84.044, and 84.042A	Trio Cluster

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

Auditee qualified as low-risk auditee? Yes No

SEMINOLE STATE 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.

SEMINOLE STATE COLLEGE

SUMMARY SCHEDULE OF PRIOR AUDIT FINDINGS

Year Ended June 30, 2016

None noted.