

Western Oklahoma State College

Financial Statements
and Independent Auditor's Report

June 30, 2017 and 2016

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Independent Auditor's Report

Board of Regents
Western Oklahoma State College
Altus, Oklahoma

We have audited the accompanying financial statements of Western Oklahoma State College (the "College"), a component unit of the State of Oklahoma, its fiduciary fund, and the discretely presented component unit as of and for the years ended June 30, 2017 and 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

The College's management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

Our responsibility is to express opinions on these financial statements based on our audits. We did not audit the financial statements of the College's discretely presented component unit, the Western Oklahoma State Foundation, Inc., which represents 19 percent of total assets at June 30, 2017 and 2016, 36 and 35 percent of net position at June 30, 2017 and 2016, and 2 and 6 percent of total revenues for the year ended June 30, 2017 and 2016. Those financial statements were audited by other auditors whose report thereon has been furnished to us, and our opinion, insofar as it relates to the amounts included for the Western Oklahoma State Foundation, Inc., is based solely on the report of the other auditors. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement. The financial statements of Western Oklahoma State Foundation, Inc. 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 auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

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

Opinions

In our opinion, based on our audits and the report of the other auditor, the financial statements referred to above present fairly, in all material respects, the respective financial positions of Western Oklahoma State College and the separately presented component unit as of June 30, 2017 and 2016, and the respective changes in financial position and cash flows, where applicable, thereof for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis on pages 6 to 19 and schedules related to pension obligation on pages 55 and 56 be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Other Supplementary Information

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the College's basic financial statements. The Schedule of Expenditures of Federal Awards, as required by 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) is presented for purposes of additional analysis and are not a required part of the basic financial statements.

The Schedule of Expenditures of Federal Awards is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic financial statements or to the basic financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the Schedule of Expenditures of Federal Awards is fairly stated in all material respects in relation to the basic financial statements as a whole.

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated October 6, 2017 on our consideration of Western Oklahoma State College's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements, and other matters. The purpose of that report is to 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 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 Western Oklahoma State College's internal control over financial reporting and compliance.

Stanfield + O'Dell, P.C.

Tulsa, Oklahoma
October 6, 2017

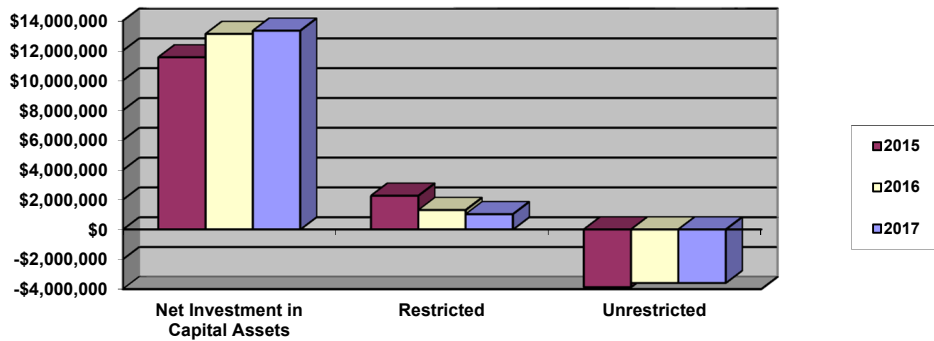
Management's Discussion and Analysis

WESTERN OKLAHOMA STATE COLLEGE
Management's Discussion and Analysis
Years Ended June 30, 2017, 2016 and 2015

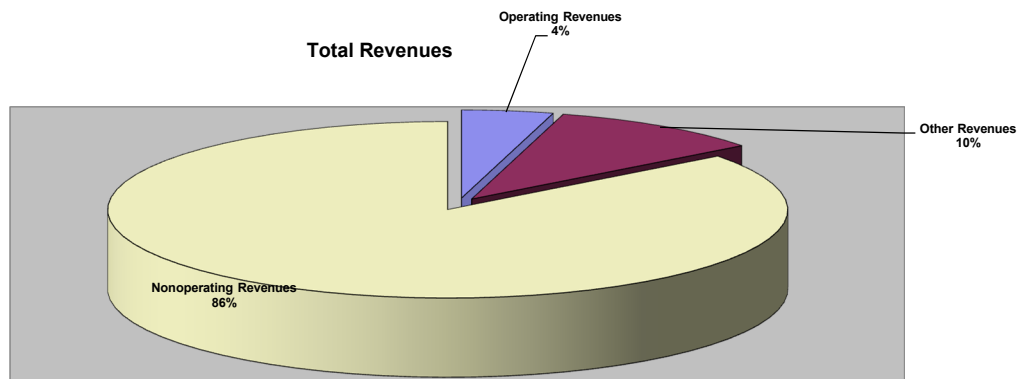
The discussion and analysis of Western Oklahoma State College's (the "College") financial statements provides an overview of the College's financial activities for the year ended June 30, 2017. Since this management's discussion and analysis is designed to focus on current activities and currently known facts, please read it in conjunction with the College's basic financial statements and related footnotes.

FINANCIAL HIGHLIGHTS

Net Position



The following chart provides a graphical breakdown of total revenues by category for the fiscal year ended June 30, 2017. The 2017 change in net position includes the effect of recognizing pension liabilities as discussed in Note F.



In fiscal year ended June 30, 2017, the College's expenses exceeded revenues, creating an decrease in total net position of \$54,454, which represents an 0.5% decrease in net position for 2017. In fiscal year ended June 30, 2016, the College's revenues exceeded expenses, creating an increase in total net position of \$887,785, which represents an 8.92% increase in net position for 2016.

WESTERN OKLAHOMA STATE COLLEGE
Management's Discussion and Analysis (Continued)
Years Ended June 30, 2017, 2016 and 2015

OVERVIEW OF THE FINANCIAL STATEMENTS AND FINANCIAL ANALYSIS

The annual report consists of three basic financial statements: the Statement of Net Position, the Statement of Revenues, Expenses, and Changes in Net Position, and the Statement of Cash Flows.

The Statement of Net Position and the Statement of Revenues, Expenses, and Changes in Net Position report information on the activities of the College as a whole. When revenues and other support exceed expenses, the result is an increase in total net position. When the reverse occurs, the result is a decrease in total net position. The relationship between revenues and expenses may be thought of as the College's operating results.

These two statements report the College's net position and changes in net position. You can think of the College's net position-the difference between assets and liabilities-as one way to measure the College's financial health, or financial position. Over time, increases or decreases in the College's net position are an indicator of whether the financial health is improving or deteriorating. You will need to consider many other non-financial factors, such as the trend and quality of student applicants, freshman class size, student retention, condition of the buildings and safety of the campus, to assess the overall health of the institution.

All assets and liabilities included in these two statements are presented using the accrual basis of accounting, which is similar to the accounting used by most private-sector institutions. All of the current year's revenues and expenses are taken into account, regardless of when cash is received or paid.

WESTERN OKLAHOMA STATE COLLEGE
Management's Discussion and Analysis (Continued)
Years Ended June 30, 2017, 2016 and 2015

FINANCIAL ANALYSIS OF THE COLLEGE AS A WHOLE

The following table of the College's net position summarizes the major changes between years:

Condensed Statement of Net Position

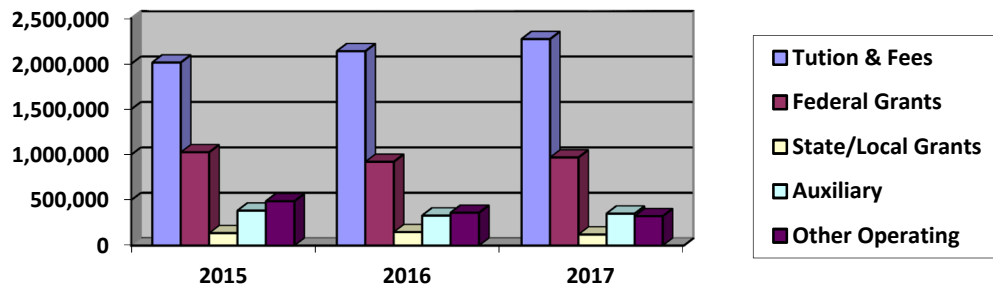
	June 30		Increase	Percent	June 30	Increase	Percent
	2017	2016	(Decrease)	Change	2015	(Decrease)	Change
Current assets	\$ 5,824,972	\$ 5,803,010	\$ 21,962	0.38%	\$ 5,999,779	\$ (196,769)	-3.28%
Noncurrent assets:							
Restricted Cash and							
Cash Equivalents	787,081	1,187,059	(399,978)	-33.69%	1,989,097	(802,038)	-40.32%
Capital assets, net	16,950,672	17,234,391	(283,719)	-1.65%	16,142,208	1,092,183	6.77%
Total assets	<u>23,562,725</u>	<u>24,224,460</u>	<u>(661,735)</u>	-2.73%	<u>24,131,084</u>	<u>93,376</u>	0.39%
Deferred outflows	<u>3,158,126</u>	<u>1,111,223</u>	<u>2,046,903</u>	184.20%	<u>667,406</u>	<u>443,817</u>	66.50%
Total Assets and deferred							
outflows of resources	<u>26,720,851</u>	<u>25,335,683</u>	<u>1,385,168</u>	5.47%	<u>24,798,490</u>	<u>537,193</u>	2.17%
Current liabilities	993,217	1,202,869	(209,652)	-17.43%	1,143,462	59,407	5.20%
Noncurrent liabilities:	13,730,253	12,275,626	1,454,627	11.85%	11,613,398	662,228	5.70%
Total liabilities	<u>14,723,470</u>	<u>13,478,495</u>	<u>1,244,975</u>	9.24%	<u>12,756,860</u>	<u>721,635</u>	5.66%
Deferred Inflows	<u>1,220,530</u>	<u>1,025,883</u>	<u>194,647</u>	18.97%	<u>2,098,110</u>	<u>(1,072,227)</u>	0.00%
Total liabilities and deferred							
inflows of resources	<u>15,944,000</u>	<u>14,504,378</u>	<u>1,439,622</u>	9.93%	<u>14,854,970</u>	<u>(350,592)</u>	-2.36%
Net Position							
Investment in							
capital assets	13,334,202	13,120,366	213,836	1.63%	11,551,574	1,568,792	13.58%
Restricted	1,028,281	1,304,430	(276,149)	-21.17%	2,263,362	(958,932)	-42.37%
Unrestricted	<u>(3,585,632)</u>	<u>(3,593,491)</u>	<u>7,859</u>	-0.22%	<u>(3,871,416)</u>	<u>277,925</u>	-7.18%
Total net position	<u>\$ 10,776,851</u>	<u>\$ 10,831,305</u>	<u>\$ (54,454)</u>	-0.50%	<u>\$ 9,943,520</u>	<u>\$ 887,785</u>	8.93%

WESTERN OKLAHOMA STATE COLLEGE
Management's Discussion and Analysis (Continued)
Years Ended June 30, 2017, 2016 and 2015

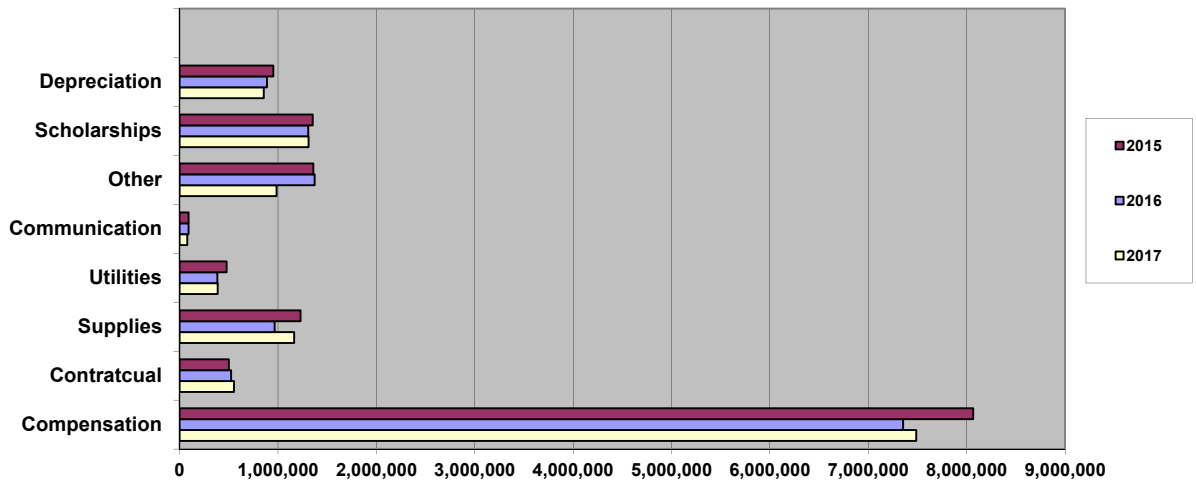
FINANCIAL ANALYSIS OF THE COLLEGE AS A WHOLE (Continued)

The breakdown of operating revenues and expenses for fiscal years ended June 30, 2017, 2016 and 2015 are as follows:

Operating Revenues



Operating Expenses



WESTERN OKLAHOMA STATE COLLEGE
Management's Discussion and Analysis (Continued)
Years Ended June 30, 2017, 2016 and 2015

FINANCIAL ANALYSIS OF THE COLLEGE AS A WHOLE (Continued)

Revenues, Expenses and Changes in Net Position

	Years Ended June 30		Increase (Decrease)	Percent Change	Year Ended June 30		Increase (Decrease)	Percent Change
	2017	2016			2015			
Operating revenues:								
Tuition & Fees	\$ 2,272,890	\$ 2,139,742	\$ 133,148	6.22%	\$ 2,014,834	124,908	6.20%	
Federal and state grants	1,091,795	1,071,082	20,713	1.93%	1,164,325	(93,243)	-8.01%	
Auxillary enterprise charges	351,757	330,679	21,078	6.37%	384,890	(54,211)	-14.08%	
Other	323,663	361,689	(38,026)	-10.51%	488,239	(126,550)	-25.92%	
Total Operating Revenues	<u>4,040,105</u>	<u>3,903,192</u>	<u>136,913</u>	3.51%	<u>4,052,288</u>	<u>(149,096)</u>	-3.68%	
Less operating expenses	<u>12,812,587</u>	<u>12,879,985</u>	<u>(67,398)</u>	-0.52%	<u>14,023,570</u>	<u>(1,143,585)</u>	-8.15%	
Net loss from operations	<u>(8,772,482)</u>	<u>(8,976,793)</u>	<u>204,311</u>	-2.28%	<u>(9,971,282)</u>	<u>994,489</u>	-9.97%	
Nonoperating revenues								
(expenses):								
State appropriations	4,737,376	5,013,311	(275,935)	-5.50%	5,810,048	(796,737)	-13.71%	
Federal grants and contracts	2,410,034	2,231,612	178,422	8.00%	2,164,135	67,477	3.12%	
State & local grants and contracts	364,483	271,160	93,323	34.42%	296,451	(25,291)	-8.53%	
On-behalf								
appropriations for OTRS	372,847	450,529	(77,682)	-17.24%	418,940	31,589	7.54%	
State Regents								
Endowment Contributions	30,547	49,872	(19,325)	-38.75%	48,268	1,604	3.32%	
Interest Revenue	16,197	15,381	816	5.31%	20,619	(5,238)	-25.40%	
Interest Expense	(168,723)	(286,647)	117,924	-41.14%	(189,263)	(97,384)	51.45%	
Net Nonoperating revenues	<u>7,762,761</u>	<u>7,745,218</u>	<u>17,543</u>	0.23%	<u>8,569,198</u>	<u>(823,980)</u>	-9.62%	
Other revenues, expenses,								
and gains and losses								
Capital grants and gifts	10,575	28,852	(18,277)	-63.35%	15,100	13,752	91.07%	
Transfer of Dorm to College	-	976,833	(976,833)	-100.00%	-	976,833		
State appropriations restricted								
for capital purposes	349,641	421,648	(72,007)	-17.08%	436,941	(15,293)	-3.50%	
On-behalf OCIA capital leases	<u>595,051</u>	<u>692,027</u>	<u>(96,976)</u>	-14.01%	<u>577,570</u>	<u>114,457</u>	19.82%	
Total Other	<u>955,267</u>	<u>2,119,360</u>	<u>(1,164,093)</u>	-54.93%	<u>1,029,611</u>	<u>1,089,749</u>	105.84%	
Increase (decrease) in net assets	(54,454)	887,785	(942,239)	-106.13%	(372,473)	1,260,258	-338.35%	
Net assets, beginning	<u>10,831,305</u>	<u>9,943,520</u>	<u>887,785</u>	8.93%	<u>10,315,993</u>	<u>(372,473)</u>	-3.61%	
Net assets, ending	<u>\$ 10,776,851</u>	<u>\$ 10,831,305</u>	<u>\$ (54,454)</u>	-0.50%	<u>\$ 9,943,520</u>	<u>\$ 887,785</u>	8.93%	

WESTERN OKLAHOMA STATE COLLEGE
Management's Discussion and Analysis (Continued)
Years Ended June 30, 2017, 2016 and 2015

FINANCIAL ANALYSIS OF THE COLLEGE AS A WHOLE (Continued)

June 30, 2017 compared to June 30, 2016 resulted in the following revenue and expense changes:

- Tuition & fees revenues increased by 6.22%, or \$133,148. This increase is due mostly to a 12.5% increase in Western's tuition & mandatory fee rate along with a slight .63% increase in credit production hour enrollment for FY 2017. Auxiliary revenues increased by 6.37%, which represents a decrease of \$779 in Residence Hall and an increase in student store of \$21,857. Federal and State Grants & Contracts experienced a slight increase of 1.93%. The overall operating revenues increased by 3.51%, or \$136,913 over that of FY 16.
- Overall operating expenses decreased by .52% or \$67,398. Most of the expense categories remained relatively flat between FY 16 and FY 17.
- Net non-operating revenues and expenses increased slightly by 0.23%, or \$17,543. Included in this is a decrease in State Appropriations of \$275,935 or 5.5%. In contrast, there was an increase in interest expense for the OCIA Bond Issue Liability of \$117,924 or 41%. In 2010 the state legislature voted to defer the payments for the 2005 OCIA Bond Issue and again in 2014, a portion of the remaining debt was refinanced. Because of these refinance actions, the interest and principal payments have gone through two phases of deferral. FY 2016 and FY 2017, some of these deferred expenses have returned resulting in an increase in interest expenses. We will continue to see this increase in the near future.
- On-behalf capital lease payments decreased by 14.01% resulting in a decrease of \$96,976 from the prior year. This reduction is due to the full repayment of the OCIA 2005 and the OCIA 2010B capital lease obligations. Both of these leases had debt service payments of \$399,107 combined in 2016, which represented final payments. Please refer to Note E - Non-Current Liabilities in the Notes to the Financial Statements.

June 30, 2016 compared to June 30, 2015 resulted in the following revenue and expense changes:

- Tuition & fees revenues increased by 6.20%, or \$124,908. This increase is due mostly to a 8.15% increase in mandatory fees although there was a slight 2.39% decrease in credit production hour enrollment for FY 2016. Auxiliary revenues decreased by 14.08%, which represents a decrease of \$1,852 in Residence Hall and a decrease in student store of \$52,359. Federal and State Grants & Contracts experienced a decrease of 8.01%. The overall operating revenues decreased by 3.68%, or \$149,096 over that of FY 15.
- Overall operating expenses decreased by 8.15% or \$1,143,585. Compensation and Employee Benefits decreased by 8.83% or \$712,412 due reductions in force and vacant positions that were not filled. Scholarship and Fellowship expenses declined by 3.34% which is in close correlation with the decline in enrollment as stated above.
- Net non-operating revenues and expenses decreased by 9.62%, or \$823,980. Most of this decrease is due to a decrease in State Appropriations of \$796,737. In contrast, there was an increase in interest expense for the OCIA Bond Issue Liability of \$97,384. In 2010 the state legislature voted to defer the payments for the 2005 OCIA Bond Issue and again in 2014, a portion of the remaining debt was refinanced.

WESTERN OKLAHOMA STATE COLLEGE
Management's Discussion and Analysis (Continued)
Years Ended June 30, 2017, 2016 and 2015

- Because of these refinance actions, the interest and principal payments have gone through two phases of deferral. FY 2016, some of these deferred expenses have returned resulting in an increase in interest expenses. We will continue to see this increase in the near future.
- On-behalf capital lease payments increased by 19.82% resulting in an increase of \$114,457 from the prior year. Due to the 2005 OCIA bond restructuring, all principal payments were deferred in FY 11 to later years. There were no principal payments to the OCIA 2005 bond indebtedness for FY2011, but a small payment of \$55,980 was made in FY12, and a slightly larger payment in FY 13 of \$65,370. In FY 14, the bond principal and interest payments resumed resulting in a substantial increase for FY 14. In 2015 the 2005F and the 2010 obligations resumed payments resulting in an increase over the prior year's payments. Please refer to Note E - Non-Current Liabilities in the Notes to the Financial Statements.

June 30, 2015, Western adopted the Governmental Accounting Standards Board (GASB) Statement No. 68, *Accounting and Financial Reporting for Pensions*. The statement was effective for fiscal years beginning after June 15, 2014. This GASB statement requires that Western calculate its total pension liability using three essential steps:

1. Projecting future benefit payments for current and former employees and their beneficiaries
2. Discounting those payments to their present value
3. Allocating the present value over past, present, and future periods of employee service.

The effect on the 2015 net position is reflected below:

Beginning net position, as previously reported	\$19,877,738
Implementation of GASB Statements 68 & 71	<u>(9,561,745)</u>
Beginning net position, restated	<u>\$10,315,993</u>

The effect of the net pension liability has a direct effect on the Unrestricted Net Position. Below is an illustration of the effect GASB Statement 68 & 71 on the 2015 Unrestricted Net Position:

June 30, 2015 unrestricted net position	(\$ 3,871,416)
Deferred outflows related to pension	(587,022)
Net position liability June 30, 2014	7,619,358
Deferred inflows related to pension	<u>1,969,604</u>
Unrestricted net position prior to net pension liability	<u>\$ 5,130,524</u>

Below is an illustration of the effect GASB Statement 68 & 71 on the 2016 Unrestricted Net Position:

June 30, 2016 unrestricted net position	(\$ 3,593,491)
Deferred outflows related to pension	(1,111,223)
Net position liability June 30, 2015	8,770,623
Deferred inflows related to pension	<u>905,897</u>
Unrestricted net position prior to net pension liability	<u>\$ 4,971,806</u>

WESTERN OKLAHOMA STATE COLLEGE
Management's Discussion and Analysis (Continued)
Years Ended June 30, 2017, 2016 and 2015

Below is an illustration of the effect GASB Statement 68 & 71 on the 2016 Unrestricted Net Position:

June 30, 2017 unrestricted net position	(\$ 3,585,632)
Deferred outflows related to pension	(3,158,126)
Net position liability June 30, 2016	10,733,975
Deferred inflows related to pension	<u>1,109,063</u>
Unrestricted net position prior to net pension liability	<u>\$ 5,099,280</u>

Please refer to Note F – Retirement Plan in the Notes to the Financial Statements for further information regarding the implementation of GASB Statements 68 & 71.

FINANCIAL ANALYSIS OF THE COLLEGE AS A WHOLE (Continued)

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

Cash Flows

	Year Ended June 30		Increase	June 30	Increase
	<u>2017</u>	<u>2016</u>	<u>(Decrease)</u>	<u>2015</u>	<u>(Decrease)</u>
Cash provided (used) by:					
Operating activities	\$ (7,278,405)	\$ (7,844,241)	\$ 565,836	\$ (8,905,749)	\$ 1,061,508
Noncapital					
financing activities	7,528,090	7,565,955	(37,865)	8,318,902	(752,947)
Capital and related	(274,000)	(698,738)	424,738	179,258	(877,996)
financing activities					
Investing activities	<u>(168,723)</u>	<u>15,381</u>	<u>(184,104)</u>	<u>20,619</u>	<u>(5,238)</u>
Net increase (decrease) in cash					
and cash equivalents	(193,038)	(961,643)	768,605	(386,970)	(574,673)
Cash and cash equivalents,					
beginning	<u>6,122,394</u>	<u>7,084,037</u>	<u>(961,643)</u>	<u>7,471,007</u>	<u>(386,970)</u>
Cash and cash equivalents,					
ending	<u>\$ 5,929,356</u>	<u>\$ 6,122,394</u>	<u>\$ (193,038)</u>	<u>\$ 7,084,037</u>	<u>\$ (961,643)</u>

June 30, 2017 compared to June 30, 2016 resulted in the following cash flow changes:

WESTERN OKLAHOMA STATE COLLEGE
Management's Discussion and Analysis (Continued)
Years Ended June 30, 2017, 2016 and 2015

The College's liquidity decreased by \$193,038 in 2017. Cash used by operating activities decreased by \$565,836, likewise, cash provided by non-capital financing activities decreased by \$37,865 due mostly to a decrease in state appropriations. Cash used by capital and related financing activities decreased by \$424,738 due to the completion of construction projects in 2016. The net result of these items is a decrease in cash of 193,038.

June 30, 2016 compared to June 30, 2015 resulted in the following cash flow changes:

The College's liquidity decreased by \$961,643 in 2016. Cash used by operating activities decreased by approximately \$1,061,508, likewise, cash provided by non-capital financing activities decreased by \$752,947 due mostly to a decrease in state appropriations. Cash used by capital and related financing activities increased by \$877,996 due to an increase in construction projects in 2016. The net result of these items is a decrease in cash by approximately \$961,643.

FINANCIAL ANALYSIS OF THE COLLEGE AS A WHOLE (Continued)

Although the Statement of Revenues, Expenses, and Changes in Net Position shows a decrease in total net position of \$54,454, this is representative of all funds combined. Management feels that it is important to point out the net change in fund balances for each individual fund. This is displayed below.

Summary of Changes in Net Position by Fund

	<u>2017</u>	<u>2016</u>	<u>2015</u>
Educational and General Fund	\$ 93,815	\$ (273,109)	\$ (1,737,354)
Auxiliary Fund	33,656	114,397	(348,552)
Restricted Fund	(28,846)	(5,358)	(62,583)
Unexpended Plant Fund	(247,303)	(953,576)	1,600,517
Capital Assets	213,837	1,568,790	(384,308)
Net Pension Revenue & Expense Recognition	<u>(119,613)</u>	<u>436,641</u>	<u>559,807</u>
Combined Total	<u>\$ (54,454)</u>	<u>\$ 887,785</u>	<u>\$ (372,473)</u>

WESTERN OKLAHOMA STATE COLLEGE
Management's Discussion and Analysis (Continued)
Years Ended June 30, 2017, 2016 and 2015

The College began participating, during fiscal year 2017, in the Oklahoma Higher Education Employee Interlocal Group Health Insurance Pool "OKHEEI". College employees are provided health insurance coverage through OKHEEI, which is an Interlocal Cooperative Act Agency organized as a public entity risk pool health insurance program for participating Colleges and Universities in the State. The governing agreement for OKHEEI specifies that the pool will be self-sustaining through premiums received and with additional stop-loss coverages obtained. If health care claims exceed reserves and reinsurance coverages, additional assessment may be made to participating Colleges and Universities. As of June 30, 2017 additional assessments did not occur.

The Statement of Fiduciary Net Position represents the agency fund for the Oklahoma Higher Education Employee Interlocal Group "OKHEEI". Agency Funds are used to report resources held by the College in a purely custodial capacity (assets equal liabilities). This statement is new for FY2017 due to the participation in the OKHEEI insurance pool as of January 1, 2017.

CAPITAL ASSETS AND DEBT ADMINISTRATION

CAPITAL ASSETS

At June 30, 2017, the College has \$16,950,672 invested in capital assets, net of accumulated depreciation of \$17,836,695. Depreciation charges totaled \$853,123 for the current fiscal year, compared to \$885,632 for the previous fiscal year. Details of these assets for the three years are shown below.

	Year Ended June 30		
	2017	2016	2015
Land	\$ 230,453	\$ 230,453	\$ 230,453
Infrastructure	3,701,893	3,664,827	3,757,018
Land Improvements	685,788	736,775	787,765
Buildings	10,332,155	10,349,488	8,823,450
Furniture, Fixtures, and Equipment	662,578	683,602	945,072
Library Materials	1,337,805	1,425,432	1,566,171
Construction in Progress	-	143,814	32,279
	<u>\$ 16,950,672</u>	<u>\$ 17,234,391</u>	<u>\$ 16,142,208</u>

Planned capital expenditures for fiscal year ending June 2018 will be budgeted and paid through a combination of E & G fund reserves, Auxiliary fund reserves, and from Section 13 appropriated capital funds. Throughout the year there will be expenditures from other grant programs like Title IV, TANF, and institutional reserve funds.

WESTERN OKLAHOMA STATE COLLEGE
Management's Discussion and Analysis (Continued)
Years Ended June 30, 2017, 2016 and 2015

Section 13 for fiscal year 2018 will expend approximately \$332,822 in new funds to include items WOSC Foundation promissory note payment requirements of \$40,000; campus-wide computer technology equipment and software of approximately \$90,000; new computer academic department requests of \$62,822; physical plant upgrades for HVAC and other projects of \$140,000.

In 2013 Western contracted with an energy service company to perform an energy performance contract for approximately \$1,300,000. These projects included the retrofitting of many different HVAC units on campus that are fully obsolete and inefficient, lighting retrofits and vending machine meter regulators. These projects are guaranteed to generate enough savings for the life of the project to completely fund the investment. Approximately \$800,000 of the project was paid from E & G and Auxiliary Fund reserves, with the remaining \$500,000 financed through the Western Oklahoma State College Foundation, Inc. This debt will be repaid over an eight year term at an interest rate of 3.0%.

At June 30, 2017, the College had \$3,505,003 in debt outstanding, compared to \$3,994,039 reported June 30, 2016 and \$4,542,512 reported June 30, 2015. The table below summarizes these amounts by type for the current year and the previous two years.

Outstanding Debt

	Year Ended June 30		
	2017	2016	2015
OCIA 2005 Capital Lease Obligations	-	-	188,876
OCIA 2010 A&B Capital Lease Obligations	900,653	1,160,127	1,460,070
OCIA 2014 Capital Lease Obligations	2,339,588	2,507,708	2,507,708
WOSC Foundation, Inc. Promissory Note	264,762	326,204	385,858
	<u>\$ 3,505,003</u>	<u>\$ 3,994,039</u>	<u>\$ 4,542,512</u>

In November 2005, the OCIA issued its OCIA Bond Issue 2005F Series. Of the total bond indebtedness, the State Regents for Higher Education allocated \$6,000,000 to the College. Concurrently with the allocation, the College entered into a lease agreement with OCIA for projects being funded by the OCIA bonds. This lease agreement provides for the College to make specified monthly payments to OCIA over 25 years. The proceeds of the bonds and subsequent leases are to provide for capital improvements at the College.

WESTERN OKLAHOMA STATE COLLEGE
Management's Discussion and Analysis (Continued)
Years Ended June 30, 2017, 2016 and 2015

CAPITAL ASSETS AND DEBT ADMINISTRATION (Continued)

DEBT (Continued)

In August 2010, the College's 2005F lease agreement with the OCIA was restructured through a partial refunding of OCIA's 2005 bond debt. OCIA issued two new bonds, Series 2010A and 2010B. The College's lease agreements with OCIA secure the OCIA bond debt and any future debt that might be issued to refund earlier bond issues. OCIA issued this new debt to provide budgetary relief for fiscal years 2011 and 2012 by extending and restructuring debt service. Consequently, the College's lease agreement with OCIA automatically restructured to secure the new bond issues. The College has recorded a charge of \$482,305 on restructuring as a deferred cost that will be amortized over a period of 6 years. This restructuring resulted in an aggregate debt service difference for principal and interest between the original lease agreement and the restructured lease agreement of \$2,757,544 which is approximately the economic cost of the lease restructuring.

On April 9, 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 \$139,156, which was recorded as a deferred inflow of resources that will be amortized over a period of 18 years. As of June 30, 2014, the unamortized gain totaled \$137,026. 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 \$343,469, which approximates the economic savings of the transaction.

During the years ended June 30, 2017, 2016 and 2015, OCIA made lease principal and interest payments on behalf of the College totaling \$595,051, \$692,027 and \$577,570 respectively.

More detailed information about the College's outstanding debt is presented in Note E to the financial statements.

WESTERN OKLAHOMA STATE COLLEGE FOUNDATION, INC.

Western Oklahoma State College Foundation, Inc. (the Foundation) is a legally separate tax-exempt component unit of the College. The Foundation acts primarily as a fund-raising organization to supplement the resources that are available to the College in support of its programs. Although the College does not control the timing and 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.

WESTERN OKLAHOMA STATE COLLEGE
Management's Discussion and Analysis (Continued)
Years Ended June 30, 2017, 2016 and 2015

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 for the College and is discretely presented in the College's financial statements.

The key components of the Foundation's Net Assets are as follows:

	<u>2017</u>	<u>2016</u>	<u>2015</u>
Unrestricted	\$ 784,044	\$ 739,817	\$ 1,536,551
Temporarily Restricted	14,622	38,208	212,625
Restricted	5,239,869	5,161,146	4,764,539

More detailed information on the Foundation can be found in the financial statements and in Note J to the financial statements.

ECONOMIC FACTORS THAT WILL AFFECT THE FUTURE

The most significant economic factor that Western is facing is the reduction in State Appropriations of 6.08% for fiscal year 2018 with current concerns of not only further cuts next fiscal year, but more mid-year appropriation adjustments. The economy in the state of Oklahoma is currently experiencing a decline in revenues due to a struggling oil and natural gas industry. The ultimate impact of a shrinking appropriation equates to pressure to raise tuition and reduce services to students.

Securing adequate funding to support the increasing number of college bound individuals, who subsequently become college graduates, is a major challenge for the state's colleges and universities. As Oklahoma annually ranks among the U.S. states with the lowest unemployment rate, legislative support of increased funding to help colleges meet their respective completion initiatives will become critically important. Quality, high paying jobs drive a robust economy. Colleges and universities produce graduates who fill these quality jobs. Given this dynamic, the level of legislative appropriation an institution receives is a significant factor, both short term and long term to Oklahoma's economy. Another way to express the potential impact of inadequate appropriations from the legislature is to recognize that inadequate funding is not only challenging to colleges and universities but poses a serious threat to the future expansion and improvement of Oklahoma's 21st century economy.

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Statements of Net Position

June 30,

	2017		2016 - Restated	
	WOSC	Component Unit WOSC Foundation, Inc.	WOSC	Component Unit WOSC Foundation, Inc.
Assets				
Current assets				
Cash and cash equivalents	\$ 5,142,275	\$ 113,831	\$ 4,935,335	\$ 180,615
Interest receivable	-	7,281	-	8,971
Accounts receivables, net of allowance for doubtful accounts	590,113	-	679,726	-
Receivable from WOSC Foundation, Inc.	-	-	69,509	-
Inventories	92,584	-	118,440	-
Notes receivable, current portion	-	63,285	-	61,442
Total current assets	<u>5,824,972</u>	<u>184,397</u>	<u>5,803,010</u>	<u>251,028</u>
Noncurrent assets				
Restricted cash and cash equivalents	787,081	-	1,187,059	-
Investments, net of allowance	-	5,712,305	-	5,506,913
Notes receivable, long-term	-	201,477	-	264,762
Other assets	-	85,000	-	85,000
Capital assets, net of accumulated depreciation	16,950,672	-	17,234,391	-
Total noncurrent assets	<u>17,737,753</u>	<u>5,998,782</u>	<u>18,421,450</u>	<u>5,856,675</u>
Total assets	<u>23,562,725</u>	<u>6,183,179</u>	<u>24,224,460</u>	<u>6,107,703</u>
Deferred outflows of resources				
Deferred amount related to Pension	3,158,126	-	1,111,223	-
Total deferred outflows of resources	<u>3,158,126</u>	<u>-</u>	<u>1,111,223</u>	<u>-</u>
Total assets and deferred outflows of resources	<u>\$ 26,720,851</u>	<u>\$ 6,183,179</u>	<u>\$ 25,335,683</u>	<u>\$ 6,107,703</u>
Liabilities and Net Position				
Current liabilities				
Accounts payable	\$ 119,942	\$ -	\$ 326,905	\$ -
Payable to Western Oklahoma State College	-	46,809	-	69,509
Deposits held in custody for others	197,323	97,835	234,000	99,023
Accrued payroll	94,846	-	86,260	-
Accrued compensated absences	72,381	-	66,668	-
Current portion of noncurrent liabilities	508,725	-	489,036	-
Total current liabilities	<u>993,217</u>	<u>144,644</u>	<u>1,202,869</u>	<u>168,532</u>
Noncurrent liabilities, net of current portion				
Obligations under capital leases and notes payable	2,996,278	-	3,505,003	-
Net pension liability	10,733,975	-	8,770,623	-
Total noncurrent liabilities	<u>13,730,253</u>	<u>-</u>	<u>12,275,626</u>	<u>-</u>
Total liabilities	<u>14,723,470</u>	<u>144,644</u>	<u>13,478,495</u>	<u>168,532</u>
Deferred inflows of resources				
Deferred gain on OCIA lease restructure	111,467	-	119,986	-
Deferred amount related to pension	1,109,063	-	905,897	-
Total deferred inflows	<u>1,220,530</u>	<u>-</u>	<u>1,025,883</u>	<u>-</u>
Net Position				
Net investment in capital assets	13,334,202	-	13,120,366	-
Restricted:				
Expendable				
Instruction, scholarships and other	241,200	14,622	270,046	38,208
Capital projects	787,081	-	1,034,384	-
Nonexpendable	-	5,239,869	-	5,161,146
Unrestricted	(3,585,632)	784,044	(3,593,491)	739,817
Total net position	<u>10,776,851</u>	<u>6,038,535</u>	<u>10,831,305</u>	<u>5,939,171</u>
Total liabilities, deferred inflows of resources, and net position	<u>\$ 26,720,851</u>	<u>\$ 6,183,179</u>	<u>\$ 25,335,683</u>	<u>\$ 6,107,703</u>

The accompanying notes are an integral part of the financial statements.

Statements of Revenues, Expenses and Changes in Net Position

Years ended June 30,

	2017		2016 - Restated	
	WOSC	Component Unit WOSC Foundation, Inc.	WOSC	Component Unit WOSC Foundation, Inc.
Operating Revenues				
Tuition and fees, net of scholarship discounts and allowance of \$2,179,000 and \$1,883,000 at June 30, 2017 and 2016, respectively.	\$ 2,272,890	\$ -	\$ 2,139,742	\$ -
Federal grants and contracts	969,889	-	922,235	-
State and local grants and contracts	121,906	-	148,847	-
Student store, net of scholarship discounts and allowances of \$250,000 and \$210,000 at June 30, 2017 and 2016, respectively.	249,045	-	227,188	-
Residence hall, net of scholarship discounts and allowances of \$98,000 and \$91,000 at June 30, 2017 and 2016, respectively.	102,712	-	103,491	-
Other operating revenues	323,663	4,435	361,689	221,000
Contributions and donations	-	192,543	-	449,697
Interest and dividend income	-	108,968	-	132,555
Net realized and unrealized investment gains (loss)	-	(5,046)	-	(5,426)
Total operating revenues	<u>4,040,105</u>	<u>300,900</u>	<u>3,903,192</u>	<u>797,826</u>
Operating Expenses				
Compensation and employee benefits	7,486,896	-	7,353,275	-
Contractual services	551,182	68,188	521,898	49,798
Supplies and materials	1,162,970	2,208	966,685	1,571
Utilities	385,555	-	382,754	-
Communication	77,950	-	91,431	-
Bond interest expense	-	-	-	23,798
Other operating expenses	985,995	-	1,372,449	-
Scholarships and fellowships	1,308,916	131,140	1,305,861	173,882
Depreciation expense	853,123	-	885,632	48,894
Total operating expenses	<u>12,812,587</u>	<u>201,536</u>	<u>12,879,985</u>	<u>297,943</u>
Operating income (loss)	<u>(8,772,482)</u>	<u>99,364</u>	<u>(8,976,793)</u>	<u>499,883</u>
Nonoperating Revenues and (Expenses)				
State appropriations	4,737,376	-	5,013,311	-
OTRS on-behalf contributions	372,847	-	450,529	-
Federal grants and contracts	2,410,034	-	2,231,612	-
State and local grants and contracts	364,483	-	271,160	-
Endowment contributions	30,547	-	49,872	-
Return on investments	16,197	-	15,381	-
Interest expense	(168,723)	-	(286,647)	-
Net nonoperating revenues	<u>7,762,761</u>	<u>-</u>	<u>7,745,218</u>	<u>-</u>
Income (loss) before revenues, expenses gains, or losses	(1,009,721)	99,364	(1,231,575)	499,883
Capital grants and gifts	10,575	-	28,852	-
Transfer of dorm to College	-	-	976,833	(976,833)
State appropriations restricted for capital purposes	349,641	-	421,648	-
On-behalf payments for OCIA capital leases	595,051	-	692,027	-
Change in net position	<u>(54,454)</u>	<u>99,364</u>	<u>887,785</u>	<u>(476,950)</u>
Net position, beginning of year	<u>10,831,305</u>	<u>5,939,171</u>	<u>9,943,520</u>	<u>6,416,121</u>
Net position, end of year	<u>\$ 10,776,851</u>	<u>\$ 6,038,535</u>	<u>\$ 10,831,305</u>	<u>\$ 5,939,171</u>

The accompanying notes are an integral part of these financial statements.

Western Oklahoma State College

Statements of Cash Flows

Years ended June 30,

	2017	2016
Cash flows from operating activities		
Tuition and fees	\$ 2,296,767	\$ 2,156,518
Grants and contracts	1,092,821	1,137,697
Student store	336,681	179,700
Residence hall	102,712	103,491
Other operating receipts	370,246	347,997
Payments to employees for salaries and benefits	(7,016,812)	(7,364,788)
Payments to suppliers	(4,460,820)	(4,404,856)
Net cash used in operating activities	<u>(7,278,405)</u>	<u>(7,844,241)</u>
Cash flows from noncapital financing activities		
State appropriations	4,737,376	5,013,311
Grants and contracts	2,774,517	2,502,772
Direct loans received	1,522,383	1,525,356
Direct loans disbursed	(1,522,383)	(1,525,356)
Gifts for other than capital purposes	16,197	49,872
Net cash provided by noncapital financing activities	<u>7,528,090</u>	<u>7,565,955</u>
Cash flows from capital and related financing activities		
Cash paid for capital assets	(776,022)	(1,049,158)
Cash received for sale of capital assets	24,338	-
Capital appropriations received	349,641	421,648
Interest paid on capital debt and leases	189,485	(11,576)
Repayments of capital debt and leases	(61,442)	(59,652)
Net cash provided by capital and related financing activities	<u>(274,000)</u>	<u>(698,738)</u>
Cash flows from investing activities		
Interest income	(168,723)	15,381
Net cash provided by investing activities	<u>(168,723)</u>	<u>15,381</u>
Net increase (decrease) in cash and cash equivalents	(193,038)	(961,643)
Cash and cash equivalents, beginning of year	<u>6,122,394</u>	<u>7,084,037</u>
Cash and cash equivalents, end of year	<u>\$ 5,929,356</u>	<u>\$ 6,122,394</u>

The accompanying notes are an integral part of these financial statements.

Western Oklahoma State College

Statements of Cash Flows - Continued

Years ended June 30,

	2017	2016
Reconciliation of operating loss to cash provided by (used in) operating activities		
Operating loss	\$ (8,772,482)	\$ (8,976,793)
Adjustments to reconcile operating loss to net cash provided by (used in) operating activities		
Depreciation expense	853,123	885,632
Loss on disposal of capital assets	73,816	201,002
On-behalf contributions to Oklahoma Teachers' Retirement System	372,847	450,529
Excess in pension expense over on-behalf payments	2,166,518	87,558
Deferred cost related to pension	(2,046,903)	(524,201)
Changes in assets and liabilities		
Accounts receivable	159,122	22,211
Inventories	25,856	14,953
Accounts payable and accrued expenses	(116,015)	1,036
Accrued compensated absences	5,713	(6,168)
Net cash used in operating activities	<u>\$ (7,278,405)</u>	<u>\$ (7,844,241)</u>
Noncash capital and related financing items		
On-behalf principal and interest paid by OCIA	\$ 595,051	\$ 692,027
Contribution of capital assets	10,575	1,005,685
Amortization of deferred cost	-	80,384
Amortization of lease premium	1,963,352	1,151,265
Amortization of deferred gain on OCIA lease restructure	(8,519)	(8,520)
Reconciliation of cash and cash equivalents to the Statements of Net Position		
Current assets:		
Cash and cash equivalents	\$ 5,142,275	\$ 4,935,335
Noncurrent assets:		
Restricted cash and cash equivalents	787,081	1,187,059
	<u>\$ 5,929,356</u>	<u>\$ 6,122,394</u>

The accompanying notes are an integral part of these financial statements.

Western Oklahoma State College

Statements of Fiduciary Net Position

June 30,

	<u>2017</u>
Assets	
Cash and cash equivalents	\$ 74,587
	<u>74,587</u>
Liabilities	
Due to OKHEEI	74,587
	<u>74,587</u>
Net Position	
Net position held in trust for self-insurance	<u>\$ -</u>

The accompanying notes are an integral part of these financial statements.

Notes to Financial Statements

June 30, 2017 and 2016

Note A - Summary of Significant Accounting Policies

Western Oklahoma State College (the “College”) is a two-year state supported college, located in Altus, Oklahoma, operating under the jurisdiction of the Board of Regents of Western Oklahoma State College and the Oklahoma State Regents for Higher Education. The College is accredited by the North Central Association of Colleges and Schools. The College is a component unit of the State of Oklahoma and is included in the general purpose financial statements of the State of Oklahoma.

1. *Reporting Entity* - The financial reporting entity, as defined by Governmental Accounting Standards Board (“GASB”) Statement No. 14, *The Financial Reporting Entity*, includes the accounts and funds of the College.

The Western Oklahoma State College Foundation, Inc. (the “Foundation”) is a legally separate tax-exempt component unit of the College. The Foundation acts primarily as a fund-raising organization to supplement the resources that are available to the College in support of its programs. The eleven member board of trustees of the Foundation is self-perpetuating and consists of nine rotating board members, one permanent trustee, and one non-voting ex officio board member. Although the College does not control the timing and amount of receipts from the Foundation, the majority of resources or income thereon that the Foundation holds and invests are 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 as required by GASB Statement No. 39, *Determining Whether Certain Organizations are Component Units*.

During the years ended June 30, 2017 and 2016, the Foundation distributed \$131,140 and \$173,882, respectively, in support to the College for both restricted and unrestricted purposes. Complete financial statements for the Foundation can be obtained from Western Oklahoma State College Foundation, Inc., 2801 North Main Street, Altus, Oklahoma 73521.

2. *Financial Statement Presentation and Basis of Accounting* - The College’s financial statements are presented in accordance with the requirements of GASB Statement No. 34, *Basic Financial Statements and Management’s Discussion and Analysis for State and Local Governments*, and GASB Statement No. 35, *Basic Financial Statements and Management’s Discussion and Analysis for Public Colleges and Universities*. Under GASB Statements No. 34 and 35, the College is required to present a statement of net position classified between current and noncurrent assets and liabilities, a statement of revenues, expenses and changes in net position, with separate presentation for operating and nonoperating revenues and expenses, and a statement of cash flows using the direct method.

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

Notes to Financial Statements

June 30, 2017 and 2016

Note A - Summary of Significant Accounting Policies - Continued

2. *Financial Statement Presentation and Basis of Accounting* - Continued

recorded when an obligation has been incurred. All significant intra-agency transactions have been eliminated.

The College has the option to apply all Financial Accounting Standards Board ("FASB") pronouncements issued after November 30, 1989, unless FASB conflicts with GASB. The College has elected not to apply FASB pronouncements issued after the applicable date.

3. *Cash Equivalents* - For purposes of the statements of cash flows, the College considers all highly liquid investments with an original maturity of three months or less to be cash equivalents. Funds invested through the State Treasurer's Cash Management Program are considered cash equivalents.
4. *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*, as amended by GASB Statement 72, *Fair Value Measurement and Application*, the College has disclosed its deposit and investment policies related to the risks identified in GASB Statement No. 40. Changes in unrealized gains (losses) on the carrying value of the investments are reported as a component of investment income in the statements of revenues, expenses and changes in net position.
5. *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.
6. *Accounts Receivable* - 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, 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 receivable are written off for financial reporting purposes when deemed uncollectible. Recoveries of student accounts receivable previously written off are credited to the allowance for doubtful accounts when received. A student account receivable is considered to be past due if any portion of the receivable balance is outstanding after the end of the semester.

Accounts receivable also includes 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, and distributable income from the State Regents for Higher Education. No allowance for doubtful accounts has been provided for other receivables.

Notes to Financial Statements

June 30, 2017 and 2016

Note A - Summary of Significant Accounting Policies - Continued

7. *Noncurrent Cash and Investments* - Cash and investments that are externally restricted to make debt service payments, maintain sinking or reserve funds, or to purchase capital or other noncurrent assets, are classified as noncurrent assets in the statements of net position.
8. *Capital Assets* - Capital assets are recorded at cost at the date of acquisition, or fair market value at the date of donation in the case of gifts. For equipment, the College's capitalization policy includes all items with a unit cost of \$500 or more, and an estimated useful life of greater than one year. Renovation 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 is computed using the straight-line method over the estimated useful lives of the assets, generally 50 years for buildings, 25-50 years for infrastructure and land improvements, and 7 to 20 years for library materials and equipment. Depreciation expense includes amortization of assets held under capital lease obligations.
9. *Compensated Absences* - Employee vacation pay is accrued when earned by employees. The liability and expense incurred are recorded at year-end as accrued expenses in the statements of net assets, and as a component of compensation expense in the statements of revenues, expenses and changes in net position.
10. *Noncurrent Liabilities* - Noncurrent liabilities include principal amounts of capital lease and promissory note obligations with contractual maturities greater than one year.
11. *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.
12. *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.

Notes to Financial StatementsJune 30, 2017 and 2016

Note A - Summary of Significant Accounting Policies - Continued*12. Net Position - Continued*

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.

The College has a deficit in unrestricted net position as a result of the net pension liability. See Note F. The College's unrestricted net position consists of the following at June 30:

	2017	2016
Educational and general operations	\$ (2,207,745)	\$ (2,201,506)
Auxiliary enterprises and other operating activities	(1,377,887)	(1,391,985)
Total unrestricted net position	<u>\$ (3,585,632)</u>	<u>\$ (3,593,491)</u>

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

13. 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 auxiliary enterprises, net of scholarship discounts and allowances, and (3) certain grants and contracts.

Nonoperating Revenues - Nonoperating revenues include activities that have the characteristics of nonexchange transactions, such as gifts and contributions, and other revenue sources that are defined as nonoperating revenues by GASB No. 9, *Reporting Cash Flows of Proprietary and Nonexpendable Trust Funds and Governmental Entities That Use Proprietary Fund Accounting*, and GASB No. 34, such as state appropriations, certain governmental and other pass-through grants, and investment income.

Notes to Financial Statements

June 30, 2017 and 2016

Note A - Summary of Significant Accounting Policies - Continued

14. *Scholarship Discounts and Allowances* - Student tuition and fee revenues, and certain other revenues from students, are reported net of scholarship discounts and allowances in the statements of revenues, expenses, and changes in net assets. 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 non-operating revenues in the College's financial statements. To the extent that revenues from such programs are used to satisfy tuition and fees and other student charges, the College has recorded a scholarship discount and allowance.
15. *Income Taxes* - The College, as a political subdivision of the State of Oklahoma, is exempt from federal income taxes under Section 115(1) of the Internal Revenue Code, as amended. However, the College may be subject to income taxes on unrelated business income under Internal Revenue Code Section 511(a)(2)(B).
16. *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 the reported amounts of assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.
17. *Subsequent Events* - Subsequent events were evaluated through October 6, 2017, which is the date the financial statements were available to be issued.

Note B - Deposits and Investments

1. *Deposits - Custodial credit risk* for deposits is the risk that in the event of a bank 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. Generally, the College deposits its funds with the Office of the State Treasurer ("OST") and those funds are pooled with funds of other state agencies and then, in accordance with statutory limitations, are placed in financial institutions or invested as the OST may determine, in the State's name. State statutes require the OST to ensure that all state funds are either insured by Federal Deposit Insurance, collateralized by securities held by the cognizant Federal Reserve Bank, or invested in U.S. government obligations. The OST's responsibilities include receiving and collateralizing the deposit of State funds, investing State funds in compliance with statutory requirements, and maintaining adequate liquidity to meet the cash flow needs of the State and all its funds and agencies. If the College deposits funds directly with financial institutions, those funds must be insured by Federal Deposit Insurance or collateralized by securities held by the cognizant Federal Reserve Bank in the College's name.

Notes to Financial Statements

June 30, 2017 and 2016

Note B - Deposits and Investments - Continued*1. Deposits - Continued*

Some deposits with the OST are placed in the OST's internal investment pool *OK INVEST*. *OK INVEST* pools the resources of all state funds and agencies and invests them in (a) U.S. treasury securities which are explicitly backed by the full faith and credit of the U.S. government; (b) U.S. agency securities which carry an implicit guarantee of the full faith and credit of the U.S.

government; (c) money market mutual funds which participates in investments, either directly or indirectly, in securities issued by the U.S. treasury and/or agency and repurchase agreements relating to such securities; and (d) investments related to tri-party repurchase agreements which are collateralized at 102 percent and, whereby, the collateral is held by a third party in the name of OST; (e) collateralized certificates of deposits; (f) commercial paper; (g) obligations of state and local governments; and (h) foreign bonds.

Deposits with financial institutions primarily consist of money market funds that invest in U.S. Treasury bills, notes and securities backed by the full faith and credit of the U.S. Government, some of which may be subject to repurchase agreements. Repurchase agreements are collateralized with securities backed by the full faith and credit of the U.S. Government at 102 percent of maturity value. At June 30, 2017 and 2016, the bank balances of all College deposits with the OST and other financial institutions were \$5,929,678 and \$6,430,490, respectively. Of funds on deposit with the OST, amounts invested in *OK INVEST* totaled \$1,306,002 in 2017 and \$1,260,073 in 2016.

For financial reporting purposes, deposits with the OST that are invested in *OK INVEST* are classified as cash equivalents. The distribution of deposits in *OK INVEST* is as follows:

At June 30, 2017		
<u><i>OK INVEST</i> Portfolio</u>	<u>Cost</u>	<u>Market Value</u>
U.S. agency securities	\$ 550,543	\$ 549,192
Money market mutual fund	135,095	135,095
Certificates of deposit	58,179	58,179
Mortgage backed agency securities	523,196	523,673
Municipal bonds	20,452	21,025
Foreign bonds	12,512	12,511
U.S. Treasury obligations	6,025	7,207
Totals	<u>\$ 1,306,002</u>	<u>\$ 1,306,882</u>

Notes to Financial Statements

June 30, 2017 and 2016

Note B - Deposits and Investments - Continued*1. Deposits - Continued*

	At June 30, 2016	
<u>OK INVEST Portfolio</u>	<u>Cost</u>	<u>Market Value</u>
U.S. agency securities	\$ 519,353	\$ 519,753
Money market mutual fund	139,014	139,014
Certificates of deposit	45,585	45,585
Mortgage backed agency securities	506,826	519,572
Municipal bonds	21,874	23,163
Foreign bonds	11,008	11,009
U.S. Treasury obligations	16,413	19,589
Totals	<u>\$ 1,260,073</u>	<u>\$ 1,277,685</u>

Agencies and funds that are considered to be part of the State's reporting entity in the State's Comprehensive Annual Financial Report are allowed to participate in *OK INVEST*. Oklahoma statutes and the OST establish the primary objectives and guidelines governing the investment of funds in *OK INVEST*. Safety, liquidity, and return on investment are the objectives which establish the framework for the day to day *OK INVEST* management with an emphasis on safety of the capital and the probable income to be derived and meeting the State and its funds and agencies' daily cash flow requirements.

Guidelines in the Investment Policy address credit quality requirements, diversification percentages and specify the types and maturities of allowable investments, and the specifics regarding these policies can be found on the OST website at www.ok.gov/treasurer. The State Treasurer, at his discretion, may further limit or restrict such investments on a day to day basis. *OK INVEST* includes investments in securities with an overnight maturity as well as in U.S. government securities with a maturity of up to ten years. *OK INVEST* maintains an overall weighted average maturity of no more than four years. Participants in *OK INVEST* maintain an interest in its underlying investments and, accordingly, may be exposed to certain risks. As stated in the OST information statement, the main risks are interest rate risk, credit/default risk, liquidity risk, and U.S. government securities risk.

The College also began participating, during fiscal year 2017, in the Oklahoma Higher Education Employee Interlocal Group Health Insurance Pool (OKHEEI). College employees are provided health insurance coverage through OKHEEI. OKHEEI is an Interlocal Cooperative Act Agency organized as a public entity risk pool health insurance program for participating Colleges and Universities in the State. The College pays monthly health insurance premiums to OKHEEI for employee health insurance coverage based on the health coverage elected by the employee and the maximum benefit provided by the College for health coverage. Amounts of premiums exceeding benefits are payable by the employee. The governing agreement for

Notes to Financial Statements

June 30, 2017 and 2016

Note B - Deposits and Investments - Continued*1. Deposits - Continued*

OKHEEI specifies that the pool will be self-sustaining through premiums received and with additional stop-loss coverages obtained. If health care claims exceed reserves and reinsurance coverages, additional assessments may be made to participating Colleges and Universities. As of June 30, 2017 additional assessments did not occur.

Interest rate risk is the risk that during periods of rising interest rates, the yield and market value of the securities will tend to be lower than prevailing market rates; in periods of falling interest rates, the yield will tend to be higher. *Credit/default risk* is the risk that an issuer or guarantor of a security, or a bank or other financial institution that has entered into a repurchase agreement, may default on its payment obligations. *Liquidity risk* is the risk that *OK INVEST* will be unable to pay redemption proceeds within the stated time period because of unusual market conditions, an unusually high volume of redemption requests, or other reasons. *U.S. Government securities risk* is the risk that the U.S. government will not provide financial support to U.S. government agencies, instrumentalities or sponsored enterprises if it is not obligated to do so by law. Various investment restrictions and limitations are enumerated in the State Treasurer's Investment Policy to mitigate those risks; however, any interest in *OK INVEST* is not insured or guaranteed by the State of Oklahoma, the Federal Deposit Insurance Corporation or any other government agency.

2. *Interest Rate Risk* - At June 30, 2017, the College does not have any investments. The College does not have a formal policy that limits investment maturities as a means of managing its exposure to fair value losses arising from increasing interest rates.
3. *Concentration of Credit Risk* - The College places no limit on the amount the College may invest in any one issuer. However, the majority of the investments are in mutual funds and investments guaranteed by the U.S. Government.

Note C - Accounts Receivable

Accounts receivable consist of the following at June 30:

	2017	2016
Student tuition and fees	\$ 1,240,074	\$ 1,168,282
Auxiliary enterprises	39,643	127,279
Contributions, gifts and other operating activities	162,164	139,240
Federal, state, and private grants and contracts	187,651	188,677
	<u>1,629,532</u>	<u>1,623,478</u>
Less allowance for doubtful accounts	(1,039,419)	(943,752)
Accounts receivable, net of allowance for doubtful accounts	<u>\$ 590,113</u>	<u>\$ 679,726</u>

Notes to Financial Statements

June 30, 2017 and 2016

Note D - Capital Assets

Following are the changes in capital assets for the years ended June 30, 2017 and 2016:

	Year Ended June 30, 2017				Ending Balance
	Beginning Balance	Additions	Transfers	Retirements	
Capital assets not being depreciated					
Land	\$ 230,453	\$ -	\$ -	\$ -	\$ 230,453
Total capital assets not being depreciated	<u>\$ 230,453</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 230,453</u>
Other capital assets					
Non-major infrastructure networks	\$ 4,609,639	\$ 144,350	\$ -	\$ (14,189)	\$ 4,739,800
Land improvements	1,934,170	-	-	-	1,934,170
Buildings	18,475,020	228,500	143,813	-	18,847,333
Furniture, fixtures, and equipment	7,491,216	273,716	-	(465,889)	7,299,043
Library materials	1,824,237	20,993	-	(108,662)	1,736,568
Construction in progress	143,813	-	(143,813)	-	-
Total other capital assets	<u>34,478,095</u>	<u>667,559</u>	<u>-</u>	<u>(588,740)</u>	<u>34,556,914</u>
Less accumulated depreciation					
Non-major infrastructure networks	(944,813)	(94,797)	-	1,703	(1,037,907)
Land improvements	(1,197,393)	(50,989)	-	-	(1,248,382)
Buildings	(8,125,532)	(389,646)	-	-	(8,515,178)
Furniture, fixtures, and equipment	(6,807,615)	(283,448)	-	454,598	(6,636,465)
Library materials	(398,804)	(34,243)	-	34,284	(398,763)
Total accumulated depreciation	<u>(17,474,157)</u>	<u>(853,123)</u>	<u>-</u>	<u>490,585</u>	<u>(17,836,695)</u>
Other capital assets, net	17,003,938	(185,564)	-	(98,155)	16,720,219
Capital asset summary					
Capital assets not being depreciated	230,453	-	-	-	230,453
Other capital assets	<u>34,478,095</u>	<u>667,559</u>	<u>-</u>	<u>(588,740)</u>	<u>34,556,914</u>
Total capital assets	34,708,548	667,559	-	(588,740)	34,787,367
Less accumulated depreciation	<u>(17,474,157)</u>	<u>(853,123)</u>	<u>-</u>	<u>490,585</u>	<u>(17,836,695)</u>
Capital assets net	<u>\$ 17,234,391</u>	<u>\$ (185,564)</u>	<u>\$ -</u>	<u>\$ (98,155)</u>	<u>\$ 16,950,672</u>

Notes to Financial Statements

June 30, 2017 and 2016

Note D - Capital Assets - Continued

	Year Ended June 30, 2016				Ending Balance
	Beginning Balance	Additions	Transfers	Retirements	
Capital assets not being depreciated					
Land	\$ 230,453	\$ -	\$ -	\$ -	\$ 230,453
Total capital assets not being depreciated	<u>\$ 230,453</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 230,453</u>
Other capital assets					
Non-major infrastructure networks	\$ 4,609,639	\$ -	\$ -	\$ -	\$ 4,609,639
Land improvements	1,934,170	-	-	-	1,934,170
Buildings	15,806,359	-	2,761,777	(93,116)	18,475,020
Furniture, fixtures, and equipment	7,581,702	113,168	-	(203,654)	7,491,216
Library materials	1,963,497	22,689	-	(161,949)	1,824,237
Construction in progress	32,279	1,066,077	(954,543)	-	143,813
Total other capital assets	<u>31,927,646</u>	<u>1,201,934</u>	<u>1,807,234</u>	<u>(458,719)</u>	<u>34,478,095</u>
Less accumulated depreciation					
Non-major infrastructure networks	(852,621)	(92,192)	-	-	(944,813)
Land improvements	(1,146,405)	(50,988)	-	-	(1,197,393)
Buildings	(6,982,909)	(333,356)	(830,351)	21,084	(8,125,532)
Furniture, fixtures, and equipment	(6,636,630)	(373,026)	-	202,041	(6,807,615)
Library materials	(397,326)	(36,070)	-	34,592	(398,804)
Total accumulated depreciation	<u>(16,015,891)</u>	<u>(885,632)</u>	<u>(830,351)</u>	<u>257,717</u>	<u>(17,474,157)</u>
Other capital assets, net	15,911,755	316,302	976,883	(201,002)	17,003,938
Capital asset summary					
Capital assets not being depreciated	230,453	-	-	-	230,453
Other capital assets	<u>31,945,859</u>	<u>1,201,934</u>	<u>1,807,234</u>	<u>(458,719)</u>	<u>34,478,095</u>
Total capital assets	<u>32,176,312</u>	<u>1,201,934</u>	<u>1,807,234</u>	<u>(458,719)</u>	<u>34,708,548</u>
Less accumulated depreciation	<u>(16,015,891)</u>	<u>(885,632)</u>	<u>(830,351)</u>	<u>257,717</u>	<u>(17,474,157)</u>
Capital assets net	<u>\$ 16,160,421</u>	<u>\$ 316,302</u>	<u>\$ 976,883</u>	<u>\$ (201,002)</u>	<u>\$ 17,234,391</u>

Notes to Financial Statements

June 30, 2017 and 2016

Note D - Capital Assets - Continued

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

	2017				Total
	Buildings	Equipment	Infrastructure	Land Improvements	
Cost	\$ 3,524,754	\$ 1,167,520	\$ 1,692,189	\$ 761,047	\$ 7,145,510
Less accumulated depreciation	<u>(590,831)</u>	<u>(1,167,520)</u>	<u>(270,750)</u>	<u>(312,181)</u>	<u>(2,341,282)</u>
	<u>\$ 2,933,923</u>	<u>\$ -</u>	<u>\$ 1,421,439</u>	<u>\$ 448,866</u>	<u>\$ 4,804,228</u>

Note E - Noncurrent Liabilities

Noncurrent liability activity for the College was as follows for the years ended June 30:

	2017				
	Balance at June 30, 2016	Additions	Reductions	Balance at June 30, 2017	Amounts Due Within One Year
Capital lease obligations					
OCIA 2010 A&B capital lease obligations	\$ 1,160,127	\$ -	\$ (259,474)	\$ 900,653	\$ 445,440
OCIA 2014A capital lease obligation	2,507,708	-	(168,120)	2,339,588	-
Total capital lease obligations	<u>3,667,835</u>	<u>-</u>	<u>(427,594)</u>	<u>3,240,241</u>	<u>445,440</u>
Other noncurrent obligations					
Compensated absences	66,668	110,232	(104,519)	72,381	72,381
WOSC Foundation, Inc. promissory note	326,204	-	(61,442)	264,762	63,285
Total noncurrent liabilities	<u>\$ 4,060,707</u>	<u>\$ 110,232</u>	<u>\$ (593,555)</u>	<u>\$ 3,577,384</u>	<u>\$ 581,106</u>

Notes to Financial Statements

June 30, 2017 and 2016

Note E - Noncurrent Liabilities - Continued

	2016			Balance at June 30, 2016	Amounts Due Within One Year
	Balance at June 30, 2015	Additions	Reductions		
Capital lease obligations					
OCIA 2005F capital lease obligations	\$ 188,876	\$ -	\$ (188,876)	\$ -	\$ -
OCIA 2010 A&B capital lease obligations	1,460,070	-	(299,943)	1,160,127	259,474
OCIA 2014A capital lease obligation	2,507,708	-	-	2,507,708	168,120
Total capital lease obligations	4,156,654	-	(488,819)	3,667,835	427,594
Other noncurrent obligations					
Compensated absences	72,836	116,859	(123,027)	66,668	66,668
WOSC Foundation, Inc. promissory note	385,858	-	(59,654)	326,204	61,442
Total noncurrent liabilities	\$ 4,615,348	\$ 116,859	\$ (671,500)	\$ 4,060,707	\$ 555,704

Oklahoma Capital Improvement Authority Lease Obligations - In November 2005, the OCIA issued its OCIA Bond Issue 2005F Series. Of the total bond indebtedness, the State Regents for Higher Education allocated \$6,000,000 to the College. Concurrently with the allocation, the College entered into a lease agreement with OCIA for projects being funded by the OCIA bonds. Each of the agreements provides for the College to make specified monthly payments to OCIA over 10 years. The proceeds of the bonds and subsequent leases are to provide for capital improvements at the College.

In August 2010, the College's 2005F lease agreement with the OCIA was restructured through a partial refunding of OCIA's 2005F bond debt. OCIA issued two new bonds, Series 2010A and 2010B. The College's lease agreements with OCIA secure the OCIA bond debt and any future debt that might be issued to refund earlier bond issues. OCIA issued this new debt to provide budgetary relief for fiscal years 2011 and 2012 by extending and restructuring debt service. Consequently, the College's lease agreement with OCIA automatically restructured to secure the new bond issues. This lease restructuring has extended certain principal payments into the future, resulting in a charge or cost on restructuring. In FY 2011, the College recorded a deferred charge of \$482,305 on restructuring as a deferred cost that will be amortized over a period of 6 years. The deferred cost was fully amortized as of June 30, 2016.

On April 9, 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 \$139,156, which was recorded as a deferred inflow of resources that will be amortized over a period of 18 years. As of June 30, 2017, the unamortized gain totaled \$111,467. 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 \$343,469, which approximates the economic savings of the transaction.

Notes to Financial Statements

June 30, 2017 and 2016

Note E - Noncurrent Liabilities - Continued

During the years ended June 30, 2017 and 2016, OCIA made principal and interest payments totaling \$595,051 and \$692,027, respectively, on behalf of the College. These on-behalf payments have been recorded as restricted state appropriations in the College's statements of revenues, expenses and changes in net position.

Future minimum lease payments related to the College's obligations under its various capital lease obligations are as follows:

Year Ending June 30:	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2018	\$ 445,440	\$ 153,190	\$ 598,630
2019	460,453	132,587	593,040
2020	2,833	111,103	113,936
2021	-	111,046	111,046
2022	-	111,046	111,046
2023 - 2027	1,180,310	448,164	1,628,474
2028 - 2031	1,151,205	143,564	1,294,769
Total	<u>\$ 3,240,241</u>	<u>\$ 1,210,700</u>	<u>\$ 4,450,941</u>

Note F - Retirement Plan

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

Benefits provided - OTRS provides retirement, disability, and death benefits to members of the plan.

Benefit provisions include:

- Members become 100% vested in retirement benefits earned to date after five years of credited Oklahoma service. Members who joined the System on June 30, 1992 or prior are eligible to retire at maximum benefits when age and years of creditable service total 80. Members joining the System after June 30, 1992 are eligible for maximum benefits when their age and years of creditable service total 90. Members whose age and service do not equal the eligible limit may receive reduced benefits as early as age 55, and at age 62 receive unreduced benefits based on their years of service. The maximum retirement benefit is equal to 2% of final compensation for each year of credited service.

Notes to Financial Statements

June 30, 2017 and 2016

Note F - Retirement Plan - Continued

- Final compensation for members who joined the System prior to July 1, 1992 is defined as the average salary for the three highest years of compensation. Final compensation for members joining the System after June 30, 1992 is defined as the average of the highest five consecutive years of annual compensation in which contributions have been made. The final average compensation is limited for service credit accumulated prior to July 1, 1995 to \$40,000 or \$25,000, depending on the member's election. Monthly benefits are 1/12 of this amount. Service credits accumulated after June 30, 1995 are calculated based on each member's final average compensation, except for certain employees of the two comprehensive universities. Upon the death of a member who has not yet retired, the designated beneficiary shall receive the member's total contributions plus 100% of interest earned through the end of the fiscal year, with interest rates varying based on time of service. A surviving spouse of a qualified member may elect to receive, in lieu of the aforementioned benefits, the retirement benefit the member was entitled to at the time of death as provided under the Joint Survivor Benefit Option.
- Upon the death of a retired member, the System will pay \$5,000 to the designated beneficiary, in addition to the benefits provided for the retirement option selected by the member.
- A member is eligible for disability benefits after ten years of credited Oklahoma service. The disability benefit is equal to 2% of final average compensation for the applicable years of credited service.
- 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 determined 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 \$484,014. The State of Oklahoma also made on-behalf contributions to OTRS, of which \$372,847 was recognized by the College; these on-behalf payments did not meet the criteria of a special funding situation.

Notes to Financial Statements

June 30, 2017 and 2016

Note F - Retirement Plan - Continued

Pension Liabilities, Pension Expense, and Deferred Outflows of Resources and Deferred Inflows of Resources Related to Pensions - At June 30, 2017, the College reported a liability of \$10,733,975 for its proportionate share of the net pension liability. The net pension liability was measured as of June 30, 2016, and the total pension liability used to calculate the net pension liability was determined by an actuarial valuation as of June 30, 2016. The 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, 2016. Based upon this information, the College's proportion was 0.1286 percent.

For the year ended June 30, 2017, the College recognized pension expense of \$976,476. At June 30, 2017, 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	\$ -	\$ 249,198
Changes of assumptions	1,292,522	-
Net difference between projected and actual earnings on pension plan investments	1,253,043	-
Changes in College's proportionate share of contributions	128,547	834,488
Differences between College contributions and proportionate share of contributions	-	25,377
College contributions subsequent to the measurement date	484,014	-
Total	<u>\$ 3,158,126</u>	<u>\$ 1,109,063</u>

\$484,014 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, 2018. Amortization periods are five years for net difference between projected and actual earnings on pension plan investments and six years for net differences between expected and actual experience. Other amounts reported as deferred outflows of resources and deferred inflows of resources related to pensions will be:

Notes to Financial Statements

June 30, 2017 and 2016

Note F - Retirement Plan - Continued

Year ended June 30:

2018	\$	216,150
2019		216,150
2020		634,811
2021		467,861
2022		30,077
Total	\$	<u>1,565,049</u>

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

- Actuarial Cost Method - Entry Age
- Amortization Method - Level Percentage of Payroll
- Inflation - 2.50%
- Salary Increases - Composed of 3.25% inflation, including 2.50% price inflation, plus a service-related component ranging from 0.00% to 8% based on years of service.
- Investment Rate of Return - 7.50%
- Retirement Age - Experience-based table of rates based on age, service, and gender. Adopted by the Board in May 2015 in conjunction with the five year experience study for the period ending June 30, 2014.
- Mortality Rates after Retirement – Males: RP-2000 Combined 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 Employer Mortality tables, with male rates multiplied by 60% and female rates multiplied by 50%.

Notes to Financial Statements

June 30, 2017 and 2016

Note F - Retirement Plan – Continued

Asset Class	Target Asset Allocation	Long-Term Expected Real Rate of Return
Domestic All Cap Equity*	7.0%	6.2%
Domestic Large Cap Equity	10.0%	5.8%
Domestic Mid Cap Equity	13.0%	6.3%
Domestic Small Cap Equity	10.0%	7.0%
International Large Cap Equity	11.5%	6.6%
International Small Cap Equity	6.0%	6.6%
Core Plus Fixed Income	17.5%	1.6%
High-yield Fixed Income	6.0%	4.9%
Private Equity	5.0%	8.3%
Real Estate**	7.0%	4.5%
Master Limited Partnerships	7.0%	7.7%
Total	100.00%	

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

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

Discount Rate - A single discount rate of 7.50% was used to measure the total pension liability as of June 30, 2016 which was reduced from the discount rate used at June 30, 2015 of 8.00%. This single discount rate was based solely on the expected rate of return on pension plan investments of 7.50%. Based on the stated assumptions and the projection of cash flows, the pension plan's fiduciary net position and future contributions were projected to be available to finance all projected future benefit payments of current plan members. Therefore, the long-term expected rate of return on pension plan investments was applied to all periods of projected benefit payments to determine the total pension liability. The projection of cash flows used to determine this single discount rate assumed that plan member and employer contributions will be made at the current statutory levels and remain a level percentage of payrolls. The projection of cash flows also assumed that the State's contribution plus the matching contributions will remain a constant percent of projected member payroll based on the past five years of actual contributions.

Sensitivity of the Net Pension Liability to Changes in the Discount Rate - The following presents the net pension liability of the employers calculated using the discount rate of 7.5%, 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 (6.5%) or 1-percentage-point higher (8.5%) than the current rate:

	1% Decrease (6.5%)	Current Discount Rate (7.5%)	1% Increase (8.5%)
Employers' net pension liability	\$ 14,109,008	\$ 10,733,975	\$ 7,988,480

Notes to Financial Statements

June 30, 2017 and 2016

Note F - Retirement Plan - Continued

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.

Note G - Funds Held in Trust by Others

Oklahoma State Regents' Endowment Trust Funds

In connection with the Oklahoma State Regents' Endowment Program (the "Endowment Program"), funds are invested by the Oklahoma State Regents on behalf of the College. These funds are not recognized in the College's statement of net position. At June 30, 2017 and 2016, the funds totaled approximately \$616,000 and \$578,000, respectively. The College is entitled to receive an annual distribution of earnings on these funds. Distributions to be received totaled approximately \$27,000 and \$28,000 at June 30, 2017 and 2016, respectively.

Note H - Related Party Transactions

The College is the beneficiary of the Western Oklahoma State College Foundation, Inc. (the "Foundation"), which provides support for the College by way of scholarships and other direct resources. The College contracts with the Foundation to provide limited services and office space in exchange for the support the College receives. The College provides support to the Foundation through employee services and office space.

In July 1998, the Foundation issued revenue bonds through the Jackson County Public Finance Authority to construct a student housing facility (the "Housing Facility") on property owned by the College. Concurrently with the issuance of these bonds, the College entered into a Lease and Development Agreement (the "Lease Agreement") and an Operations and Maintenance Agreement (the "Operation Agreement"). In connection with the Lease Agreement, the College agreed to pay a development fee to the Foundation, and further agreed to rent the real property upon which the Housing Facility was to be constructed. The term of the lease agreement was for 50 years beginning July 1, 1998, and provided for the Foundation to pay the College \$100 per year in rent expense.

The Operation Agreement provided that the College would be responsible for the management and operations of the Housing Facility, and in exchange for the services provided by the College to the Foundation, the Foundation would pay the College the sum of \$925 per semester for each student residing in the Housing Facility. The Operations Agreement automatically renewed each fiscal year but could be terminated by the College or the Foundation. In connection with the Operations Agreement, the College's Board of Regents had verbally agreed to incur the expenses and debt service in excess of revenues collected. The agreement was reviewed annually by the College, and was subject to Board approval for future years. Effective July 1, 2002, the College entered into a Student Housing Facility Lease Agreement (the "Student Housing Lease Agreement") with the Foundation.

Notes to Financial Statements

June 30, 2017 and 2016

Note H - Related Party Transactions - Continued

The Operations Agreement was terminated as a result of this agreement. Under the Student Housing Lease Agreement, the Foundation and the College agreed that the College would lease all of the Foundation's rights and interest in the Housing Facility for \$205,000 per year. The initial lease term of the Student Housing Lease Agreement was from July 1, 2002 through June 30, 2003. The College and the Foundation agreed that this lease would not continue past June 30, 2016.

During 2013, the College entered into an agreement to borrow an amount not to exceed \$500,000 from the Foundation. The proceeds were used to finance certain campus energy efficient campus infrastructure improvements. The promissory note accrues interest at an interest rate of not more than three percent per annum. Interest and principal are payable in eight successive annual installments of \$71,228 with the final installment being due on August 1, 2020. Future principal payments as of June 30, 2017 are as follows: \$63,285 in 2018, \$65,184 in 2019, \$67,139 in 2020, and \$69,154 in 2021.

Note I - Commitments and Contingencies

The College is exposed to various risks of loss from torts; theft of, damage to, and destruction of assets; errors and omissions; employee injuries and illnesses; natural disasters; and employee health, life, and accident benefits. Commercial insurance coverage is purchased for claims arising from such matters other than torts, property, and workers' compensation. Settled claims have not exceeded this commercial coverage in any of the 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 entity risk pool 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 (the "Pool") governing agreement specifies that the Pool will be self-sustaining through member premiums and will reinsure through commercial carriers for claims in excess of specified stop-loss amounts.

Note J - Western Oklahoma State College Foundation, Inc.

The following are significant disclosures of the Foundation:

Description of the Entity and Summary of Significant Accounting Policies

Western Oklahoma State College Foundation, Inc., a nonprofit organization, was formed in 1974 for the benefit of Western Oklahoma State College (the College) in aid of charitable, benevolent educational, scientific and literary purposes. The purposes of the Foundation are strengthened by the worthy accomplishments that are a part of the history of the Foundation. The role of the Foundation is to provide the financial support that will enable the College to achieve expanded goals and fulfill higher purposes that otherwise are not possible on limited funding. The Foundation leaders recognize the potential for the Foundation and realize greater support can be attained for the College as it reaches

Notes to Financial Statements

June 30, 2017 and 2016

Note J - Western Oklahoma State College Foundation, Inc. – Continued

Description of the Entity and Summary of Significant Accounting Policies – Continued

increasingly significant levels of educational leadership. The Foundation seeks continuous support from individuals, business firms, corporations, civic groups, foundations, service organizations and bequests of wills. As the Foundation grows, the College educational programs grow. The Foundation provides a variety of opportunities to share in the future development of the College and its continuing *Commitment to Excellence*.

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

Financial Statement Presentation - The Foundation follows the Financial Accounting Standards Board (“FASB”) Accounting Standards Codification (“ASC”). The ASC is the single source of authoritative guidance for accounting principles generally accepted in the United States of America (“U.S. GAAP”) for nongovernmental entities. The Foundation’s financial statements have been prepared on the accrual basis of accounting and to ensure the observance of limitations and restrictions placed on the use of available resources, the Foundation maintains its accounts in accordance with the principles and practices of fund accounting. All inter-fund activities have been eliminated in the accompanying financial statements.

Net Asset Classifications - The Uniform Prudent Management of Institutional Funds Act of 2006 (“UPMIFA”) was enacted by the State of Oklahoma effective November 1, 2007 (“OK UPMIFA”). The Board of Trustees (the “Trustees”) of the Foundation has interpreted OK UPMIFA to require the Foundation to exercise prudence in determining whether to spend from or accumulate to donor-restricted endowment funds with a view toward the permanent nature and long-term continuing viability of such funds.

Net assets, revenues, gains and losses are classified based on the existence or absence of donor-imposed restrictions. The Foundation is required to report information regarding its financial position and activities according to three classes of net assets as follows:

Unrestricted - Net assets for which there are no donor-imposed restrictions that the assets be used for a specific purpose or held for a certain period of time.

Temporarily restricted - Net assets subject to donor-imposed stipulations that may or will be met by either 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 subject to donor-imposed stipulations that require 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 related investments for general or specific purposes.

Notes to Financial Statements

June 30, 2017 and 2016

Note J - Western Oklahoma State College Foundation, Inc. – Continued

Description of the Entity and Summary of Significant Accounting Policies – Continued

Contribution Revenue - 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 (i.e., unearned revenue) until the conditions are substantially met.

Contributions of assets other than cash are recorded at their estimated fair value on the gift date. Contributions to be received after one year are recorded at the present value of their estimated future cash flows using a discount rate which is commensurate with the risks involved. Amortization of the discount is recorded as additional contribution revenue in the same net asset class and fund as the original contribution. An allowance is made for uncollectable contributions based upon management's judgment and analysis of the creditworthiness of the donors, past collection experience, and other relevant factors. Contributions receivable previously deemed uncollectable are recognized if subsequently received. No discount has been recognized at June 30, 2017 as management has determined such amounts to be immaterial.

Contributions are reported as increases in the appropriate net asset category. 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 or how long the assets must be held, 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.

Contributed services are recognized when (1) they create or enhance a nonfinancial asset and/or (2) require specialized skills, are provided by individuals possessing those skills and would typically need to be purchased had they not been provided by contributions. Many individuals volunteer their time and perform a variety of tasks that assist the Foundation, but these services do not meet the criteria for recognition as contributed services. The Foundation received no significant contributed services meeting the specified criteria in 2017 or 2016.

Investment Income - Income and gains on investments are reported as increases in permanently restricted net assets if the terms of the gift that gave rise to the investment require such amounts be added to the permanent endowment. Income and gains are reported as increases in temporarily restricted net assets if the terms of the gift or applicable law impose restrictions on the use of the income and as increases in unrestricted net assets in all other cases, except in the case of income earned on donor-restricted endowment funds which is classified as temporarily or permanently restricted dependent upon the donor's restriction(s).

Notes to Financial Statements

June 30, 2017 and 2016

Note J - Western Oklahoma State College Foundation, Inc. – Continued

Description of the Entity and Summary of Significant Accounting Policies – Continued

Generally, losses on investments of endowments reduce temporarily restricted net assets to the extent donor-imposed temporary restrictions on the net appreciation of investments have not been met before the loss occurs. Any remaining losses reduce unrestricted net assets. Subsequent investment gains are applied first to unrestricted net assets to the extent that losses have previously been recognized, and then to temporarily restricted net assets.

Cash and Cash Equivalents - The Foundation considers all highly liquid investments with a maturity of three months or less when purchased, excluding cash and cash equivalent funds held in the Foundation's investment portfolio, to be cash equivalents.

Investments - Investments consist of cash and cash equivalent funds, certificates of deposit and mutual funds. Investments are stated at fair value as determined by the fund and/or investment manager. Realized gains and losses on sales of investments are computed utilizing either the first-in, first-out basis or the average cost.

Property and Equipment - Property and equipment are stated at cost, or, if donated, at the approximate fair value at the date of donation. Depreciation is computed on a straight-line basis over the estimated useful lives of the assets. Maintenance and repairs are charged to expense as incurred. At June 30, 2017 and 2016, the Foundation had no property and equipment. Depreciation expense included in the accompanying financial statements for the years ended June 30, 2017 and 2016 was \$0 and \$48,894 respectively.

Funds Held for Others - The Foundation maintains custody and services the funds of various student clubs and organizations of the College. Although these funds are administered by the Foundation, the Foundation does not exercise control over the funds. Accordingly, these amounts are presented as liabilities in the accompanying financial statements.

Office Facility and Staff Support - The Foundation and College operate under an agreement that the College will provide office space for the Foundation records, administrator and secretarial support, and various other operating costs. The Foundation also provides monies for scholarship support and other program needs of the College which is in excess of the benefits provided by the College. All costs incurred for College programs are included in program expenses. No additional accounting entries are made to record the benefits received from the College.

Concentration of Credit Risk - The Foundation has certain concentrations of credit risk with financial institutions in the form of uninsured cash and time deposits. For purposes of evaluating credit risk, the stability of financial institutions conducting business with the Foundation is periodically reviewed and management believes that credit risks related to such balances are minimal.

Notes to Financial Statements

June 30, 2017 and 2016

Note J - Western Oklahoma State College Foundation, Inc. – Continued

Description of the Entity and Summary of Significant Accounting Policies – Continued

Income Taxes - The Foundation is exempt from federal income tax under Section 501(c)(3) of the Internal Revenue Code and is classified by the Internal Revenue Service as other than a private foundation. Generally, all revenue earned outside the purpose for which the Foundation is created is taxable as earned income.

Income Taxes - Management has evaluated the Foundation's tax positions and concluded that the Foundation has taken no uncertain tax positions that require adjustment to or disclosure in 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 ending on or before June 30, 2013.

Fair Value Measurements - The Foundation follows ASC Topic 820, Fair Value Measurements, which provides the framework for measuring fair value. The framework provides a fair value hierarchy that prioritizes the inputs to valuation techniques used to measure fair value. The hierarchy gives highest priority to unadjusted quoted prices in active markets for identical assets or liabilities (Level 1 measurements) and the lowest priority to unobservable inputs (Level 3 measurements). The inputs to the three levels of the fair value hierarchy under Topic 820 are described as follows:

- Level 1: Unadjusted quoted prices for identical assets or liabilities in active markets that the Foundation has the ability to access.
- Level 2: Quoted prices for similar assets or liabilities in active markets; quoted prices for identical assets or liabilities in inactive markets; inputs other than quoted prices that are observable for the asset or liability; and inputs that are derived principally from, or corroborated by, observable market data by correlation to other means. If the asset or liability has a specified (contractual) term, the Level 2 input must be observable for substantially the full term of the asset or liability.
- Level 3: Unobservable and significant to the fair value measurement.

The fair value measurement level within the fair value hierarchy is based on the lowest level of any input that is significant to the fair value measurement. All transfers between fair value hierarchy levels are recognized by the Foundation at the beginning of each reporting period.

Financial assets and liabilities carried at fair value on a recurring basis include investments and funds held for others. There are no assets or liabilities carried at fair value on a non-recurring basis at June 30, 2017 or 2016.

Functional Allocation of Expenses - The costs of producing various programs and activities have been summarized on a functional basis in the statements of activities. Costs are allocated between the functional classifications based on evaluation of the related activity.

Notes to Financial Statements

June 30, 2017 and 2016

Note J - Western Oklahoma State College Foundation, Inc. – Continued

Description of the Entity and Summary of Significant Accounting Policies – Continued

General and administrative expenses are those expenses not directly identified with a specific program or activity which provide for the overall support and direction of the Foundation.

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 the reported amounts of assets and liabilities, disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

Significant Estimates - Estimates that are particularly susceptible to significant change include the estimated fair value of investments and contributions receivable. The Foundation’s investment portfolio is 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 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.

Restatement - In 2017 the Foundation discovered that funds held for others had not been included in its liabilities. As a result, the Foundation has restated its beginning net position to include those liabilities.

Net assets at June 30, 2015 as previously reported	\$ 6,513,714
Addition of liability	<u>(97,593)</u>
Net assets at June 30, 2015 as restated	<u><u>\$ 6,416,121</u></u>
Net assets at June 30, 2016 as previously reported	\$ 6,038,194
Addition of liability	<u>(99,023)</u>
Net assets at June 30, 2016 as restated	<u><u>\$ 5,939,171</u></u>

Fair Value Measurements

The methods and assumptions used to estimate the fair value of assets and liabilities in the financial statements, including a description of the methodologies used for the classifications within the fair value hierarchy for financial instruments carried at fair value, are as follows:

Cash and cash equivalents: The assets’ carrying amounts approximate fair value due to their short maturities.

Notes to Financial Statements

June 30, 2017 and 2016

Note J - Western Oklahoma State College Foundation, Inc. – ContinuedFair Value Measurements – Continued

Investments: Investments are carried at fair value and are based on quoted market prices, when available. Generally, quoted market prices are available for cash and common stocks, and exchange traded index and mutual funds and as such are classified as Level 1 in the fair value hierarchy. The fair values of certificates of deposit are determined using the income approach. The key inputs include interest rates, maturity dates, and yield curves and as such are classified as Level 1.

Accounts payable: The liability's carrying amount approximates fair value due to its short maturity.

Funds held for others: The assets' carrying amounts approximate fair value due to their short maturities.

Assets and liabilities measured at fair value are classified within the fair value hierarchy as follows:

	<u>2017</u>	<u>2016</u>
	Fair Value	Fair Value
	Level 1	Level 1
Certificates of deposits	\$ 4,579,732	\$ 4,379,574
Money market funds	25,042	23,430
Mutual funds	756,975	748,308
Annuities	251,000	251,000
Real estate investment trusts	169,846	169,845
Total investments	<u>5,782,595</u>	<u>5,572,157</u>
Allowance for market revaluation	<u>(70,290)</u>	<u>(65,244)</u>
Fair market value (carrying value)	<u>\$ 5,712,305</u>	<u>\$ 5,506,913</u>

Related Party Transactions

Substantially all expenditures are incurred for the benefit of the College. College management and faculty are very much involved in the operations of the Foundation and are considered related parties. During the year ended June 30, 2017 and 2016, the Foundation awarded scholarships totaling \$94,023 and \$93,734 respectively to students of the College.

The College employs three individuals who provide support for the Foundation. The executive secretary of the Foundation spends 100% of their time supporting Foundation activities.

Notes to Financial Statements

June 30, 2017 and 2016

Note J - Western Oklahoma State College Foundation, Inc. – ContinuedRelated Party Transactions – Continued

The Director of A & D and the Secretary spend 25% of their time supporting Foundation activities. The College pays the total salary and benefits of these individuals.

Effective August 1, 2012, the Foundation loaned Western Oklahoma State College (the College) \$500,000 as part of a performance-based efficiency contract pursuant to Section 312 of Title 62 of the Oklahoma Statutes for certain campus infrastructure improvements. The borrowing was made at an interest rate of 3% and a term of 8 years, and is paid back in successive annual installments of \$71,228 made August 1 of each year, with the final installment due in 2020. The note receivable is stated at \$264,762 in the statement of financial position for the year ended June 30, 2017 and \$326,204 for the year ended June 30, 2016. The current portion of the note receivable is recorded as a current asset.

Contributions and Donations

The following is a breakdown of the contributions and donations received in 2017 and 2016 and their respective categories by restriction:

	As of June 30, 2017			
	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Permanently Restricted</u>	<u>Total</u>
Contributions and Donations				
Endowments	\$ 9,667	\$ 64,006	\$ 76,097	\$ 149,770
Sustaining membership account	13,270	-	-	13,270
President's partners	29,503	-	-	29,503
Total contributions and donations	<u>\$ 52,440</u>	<u>\$ 64,006</u>	<u>\$ 76,097</u>	<u>\$ 192,543</u>
	As of June 30, 2016			
	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Permanently Restricted</u>	<u>Total</u>
Contributions and Donations				
Endowments	\$ 11,114	\$ 101,317	\$ 290,401	\$ 402,832
Sustaining membership account	11,960	-	-	11,960
President's partners	34,905	-	-	34,905
Total contributions and donations	<u>\$ 57,979</u>	<u>\$ 101,317</u>	<u>\$ 290,401</u>	<u>\$ 449,697</u>

Endowment Disclosure

The Foundation's endowment consists of 115 individual donor restricted funds which are managed and controlled by the Foundation and were established for scholarships and program support.

Notes to Financial Statements

June 30, 2017 and 2016

Note J - Western Oklahoma State College Foundation, Inc. – Continued

Endowment Disclosure - continued

Interpretation of Relevant Law

As required by generally accepted accounting principles, net assets associated with endowment funds are classified and reported based on the existence or absence of donor imposed restrictions. All of the endowment funds held by the Foundation are managed and controlled by the Foundation in accordance with the following policies:

The Board of Trustees of the Foundation have interpreted the State Prudent Management of Institutional Funds Act (“SPMIFA”) as requiring preservation of the original gift’s fair value 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 assets: (a) the original value of the gifts donated to the permanent endowment; (b) the original value of subsequent gifts to the permanent endowment; and (c) accumulation 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 as permanently restricted net assets is classified as temporarily restricted net assets until those amounts are appropriated for expenditure in a manner consistent with the standard of prudence prescribed by SPMIFA.

In accordance with the SPMIFA, 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 funds;
- (2) The purpose of the Foundation and donor restricted endowment fund;
- (3) General economic conditions;
- (4) Possible effect of inflation and deflation;
- (5) The expected total return from income and appreciation of investments;
- (6) Other resources of the Foundation;
- (7) The investment policies of the Foundation.

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 SPMIFA requires the Foundation to retain as a fund of perpetual duration. In accordance with generally accepted accounting principles, an allowance to adjust invested funds to their fair market value was recorded. At June 30, 2017, the allowance reported represented a decline in the fair market value of invested endowment funds totaling \$70,290 which is also the endowment funding deficiency for the year then ended. For the year ended June 30, 2016 the deficiency was \$65,244.

Notes to Financial Statements

June 30, 2017 and 2016

Note J - Western Oklahoma State College Foundation, Inc. – Continued

Endowment Disclosure – Continued

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 the donor restricted funds that the Foundation must hold in perpetuity or for a donor specified period as well as board designated funds.

Under this policy, as approved by the Board of Trustees, the endowment assets are invested with the primary objective of growth and a secondary objective of current income. The asset allocation policies reflect and are consistent with the investment objectives and risk tolerances expressed through the investment policy. These policies, developed after examining historical relationships of risk and return among asset classes, are designed to provide the highest probability of meeting or exceeding the return objectives at the lowest level of risk. Actual returns in any given year may vary from this amount.

Strategies for Achieving Objectives

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. In light of the current market fluctuations and the future needs of the Foundation, it evaluates the spending policy annually to ensure that it remains in accordance with the long-term objectives of the Foundation

Spending Policy

The Foundation has a policy of appropriating for distribution each year amounts up to, but not to exceed actual investment performance for the year.

Notes to Financial Statements

June 30, 2017 and 2016

Note J - Western Oklahoma State College Foundation, Inc. – ContinuedEndowment Disclosure – Continued

Changes in endowment net assets for the year ended June 30:

	Unrestricted Board Designated	Temporarily Restricted	Permanently Restricted	Total
Endowment net assets as of June 30, 2015	\$ 760,281	\$ 56,137	\$ 4,869,799	\$ 5,686,217
Investment return				
Investment income	49,004	82,601	946	132,551
Net realized and unrealized gain on investments	(5,426)	-	-	(5,426)
Total investment return	<u>43,578</u>	<u>82,601</u>	<u>946</u>	<u>127,125</u>
Contributions	57,979	101,136	290,401	449,516
Appropriation of endowment assets for expenditure	<u>(160,922)</u>	<u>(201,666)</u>	<u>-</u>	<u>(362,588)</u>
Endowment net assets as of June 30, 2016	<u>700,916</u>	<u>38,208</u>	<u>5,161,146</u>	<u>5,900,270</u>
Investment return				
Investment income	65,357	41,185	1,776	108,318
Other income	-	3,190	850	4,040
Net realized and unrealized gain on investments	-	(5,046)	-	(5,046)
Total investment return	<u>65,357</u>	<u>39,329</u>	<u>2,626</u>	<u>107,312</u>
Contributions	14,042	64,006	76,097	154,145
Appropriation of endowment assets for expenditure	<u>(49,199)</u>	<u>(126,921)</u>	<u>-</u>	<u>(176,120)</u>
Endowment net assets as of June 30, 2017	<u>\$ 731,116</u>	<u>\$ 14,622</u>	<u>\$ 5,239,869</u>	<u>\$ 5,985,607</u>

Endowment net asset composition by type of funds as of June 30, 2017 is as follows:

Endowments	2017			
	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Donor restricted endowments	\$ -	\$ 14,622	\$ 5,239,869	\$ 5,254,491
Board designated endowments	<u>731,116</u>	<u>-</u>	<u>-</u>	<u>731,116</u>
Total funds invested	<u>\$ 731,116</u>	<u>\$ 14,622</u>	<u>\$ 5,239,869</u>	<u>\$ 5,985,607</u>
	2016			
Donor restricted endowments	\$ -	\$ 38,208	\$ 5,161,146	\$ 5,199,354
Board designated endowments	<u>700,916</u>	<u>-</u>	<u>-</u>	<u>700,916</u>
Total funds invested	<u>\$ 700,916</u>	<u>\$ 38,208</u>	<u>\$ 5,161,146</u>	<u>\$ 5,900,270</u>

Notes to Financial Statements

June 30, 2017 and 2016

Silver Statues

The Foundation maintains various silver statues. These statues are maintained for public exhibition rather than financial gain. On June 30, 2017 and 2016, these statues had a value of approximately \$85,000. These statues are protected, kept unencumbered, cared for, and preserved.

Required Supplementary Information

Western Oklahoma State College

Schedule of Proportionate Share of the Net Pension Liability - last 10 fiscal years*

As of plan year-end of June 30,

Oklahoma Teachers Retirement System	<u>2017</u>	<u>2016</u>	<u>2015</u>
Center's proportion of the net pension liability	0.1286%	0.1444%	0.1416%
Center's proportionate share of the net pension liability	\$ 10,733,975	\$ 8,770,623	\$ 7,619,358
Center's covered-employee payroll	\$ 5,245,215	\$ 5,788,613	\$ 5,487,910
Center's proportionate share of the net pension liability as a percentage of its covered-employee payroll	205%	152%	139%
Plan fiduciary net position as a percentage of the total pension liability	62.24%	70.31%	72.43%

* Note - Only the listed fiscal years are presented because 10-year data is not available

Western Oklahoma State College

Schedule of Contributions - last 10 fiscal years*

As of plan year end of June 30,

Oklahoma Teachers Retirement System	2017	2016	2015
Contractually required contribution	\$ 484,014	\$ 532,250	\$ 587,022
Contributions in relation to the contractually required contribution	\$ 484,014	\$ 532,250	587,022
Contribution deficiency (excess)	\$ -	\$ -	\$ -
College/University's covered-employee payroll	\$ 4,775,626	\$ 5,245,215	\$ 5,788,613
Contributions as a percentage of covered-employee payroll	10.14%	10.15%	10.14%

* Note - Only the listed fiscal years are presented because 10-year data is not available

Internal Control and Compliance Reports



**Independent Auditor's 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
Western Oklahoma State College
Altus, Oklahoma

We have audited in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States, the financial statements and the discretely presented component unit of Western Oklahoma State College (the "College"), a component unit of the State of Oklahoma, as of and for the year ended June 30, 2017, and the remaining related notes to the financial statements, which collectively comprise the College's basic financial statements, and have issued our report thereon dated October 6, 2017. Our report includes a reference to other auditors who audited the financial statements of the Western Oklahoma State College 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*.

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 opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the College's internal control. Accordingly, we do not express an opinion on the effectiveness of the College's internal control.

A deficiency in internal control exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct misstatements on a timely basis. A *material weakness* is a deficiency, or a combination of deficiencies, in internal control, such that there is a reasonable possibility that a material misstatement of the 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 over financial reporting 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 financial reporting that might be material weaknesses or significant deficiencies. Given these limitations during our audit, we did not identify any deficiencies in internal control over financial reporting 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 entity'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 entity's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

Stanfield + O'Dell, P.C.

Tulsa, Oklahoma
October 6, 2017



**Independent Auditor's Report on Compliance
with Requirements Applicable to
Each Major Program and on Internal Control Over Compliance in Accordance
with OMB Uniform Guidance**

Board of Regents
Western Oklahoma State College
Altus, Oklahoma

Report on Compliance for Each Major Federal Program

We have audited Western Oklahoma State College's (the "College") compliance with the types of compliance requirements described in the U.S. Office of Management and Budget (OMB) Uniform Guidance *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, 2017. The College's major federal programs are identified in the summary of auditor's results section of the accompanying schedule of findings and questioned costs.

Management's Responsibility

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

Auditor's 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 of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and the audit requirements of Title 2 U.S. *Code of Federal Regulations* (CFR) Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Award* (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 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.

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, 2017.

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 as a basis for designing 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.

Stanfield + O'Dell, P.C.

Tulsa, Oklahoma
October 6, 2017

Western Oklahoma State College

Schedule of Expenditures of Federal Awards

For the Year Ended June 30, 2017

Federal Grantor/Pass-through Grantor/ Program Title	Federal CFDA Number	Pass Through Entity Identification Number	Federal Expenditures
U.S. Department of Education			
Student Financial Aid Cluster			
Federal Pell Grant Program	84.063	N/A	\$ 2,377,222
Federal Supplemental Educational Opportunity Grants	84.007	N/A	32,811
Federal Work Study Program	84.033	N/A	76,111
Federal Direct Student Loan Program	84.268	N/A	1,522,383
Total Student Financial Aid Cluster			<u>4,008,527</u>
TRIO Program Cluster			
Upward Bound	84.047	N/A	338,774
Student Support Services	84.042A	N/A	240,175
Total TRIO Program Cluster			<u>578,949</u>
Passed through the Oklahoma State Regents for Higher Education:			
OK Gaining Early Awareness and Readiness for Undergraduate Programs (GEAR UP)	84.334	N/A	45,543
Passed through the Oklahoma State Department of Education:			
Carl Perkins Program	84.051	N/A	59,574
Total U.S. Department of Education			<u>4,692,593</u>
U.S. Department of Health and Human Services			
Passed through the Oklahoma State Regents for Higher Education:			
Temporary Assistance for Needy Families	93.558	N/A	118,880
Child Development Associative Initiative	93.596	N/A	75,343
Total U.S. Department of Health and Human Services			<u>194,223</u>
Total Federal Awards Expended			<u><u>\$ 4,886,816</u></u>

See Notes to Schedule of Expenditures of Federal Awards.

Notes to Schedule of Expenditures of Federal Awards

Year Ended June 30, 2017

Note A - Summary Of Significant Accounting Policies

The Schedule of Expenditures of Federal Awards is presented on the accrual basis of accounting, which is the basis used by Western Oklahoma State College to present the basic financial statements. Under the accrual basis, expenditures are recognized when the related liability is incurred.

Note B - 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 began participation in the Direct Loan Program on July 1, 2010. 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.

Note C - Subrecipients

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

Note D – De Minimis Cost Rate

During the year ended June 30, 2017 the College did not use the 10 percent de minimis cost rate.

Schedule of Findings and Questioned Costs

For the Year Ended June 30, 2017

Section I – Summary of Auditor's Results

Financial Statements

Type of auditor's report issued: Unmodified

Internal control over financial reporting:
Material weakness(es) identified? ___ yes X no
Significant deficiency(ies) identified not
considered to be a material weakness? ___ yes X none reported
Noncompliance material to financial
statements noted? ___ yes X no

Federal Awards

Internal control over major programs:
Material weakness(es) identified? ___ yes X no
Significant deficiency(ies) identified not
considered to be a material weakness? ___yes X none reported

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

Any audit findings disclosed that are required
to be reported in accordance with 2 CFR
200.516(a)? ___ yes X no

Identification of major program:
CFDA Number(s) Name of Federal Program or Cluster
Student Financial Aid Cluster *

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

Auditee qualified as low-risk auditee? X yes ___ no

Western Oklahoma State College

Summary Schedule of Prior Year Audit Findings

For the Year Ended June 30, 2017

Section II - Findings Required to be Reported in Accordance with *Government Auditing Standards*:

None to report for the June 30, 2017 period.

Section III - Findings Required to be Reported in Accordance with the Uniform Guidance:

None to report for the June 30, 2017 period.