Eastern Oklahoma State College

Financial Statements

June 30, 2017
(With Independent Auditors' Reports Thereon)

FINLEY & COOK
CERTIFIED PUBLIC ACCOUNTANTS

EASTERN OKLAHOMA STATE COLLEGE

FINANCIAL STATEMENTS

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INDEPENDENT AUDITORS' REPORT

Board of Regents
Eastern Oklahoma State College
Wilburton, Oklahoma

Report on the Financial Statements

We have audited the accompanying financial statements of Eastern 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 related notes to the financial statements, which collectively comprise the College's basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

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

Auditors' Responsibility

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

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditors' judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditors consider internal control relevant to the College's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the College's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

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

(Continued)

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INDEPENDENT AUDITORS' REPORT, CONTINUED

Opinions

In our opinion, based on our audit and the report of the other auditors, the financial statements referred to above present fairly, in all material respects, the financial position of the College and its discretely presented component unit, the Foundation, as of June 30, 2017, and the respective changes in financial position and, where applicable, cash flows for the year then ended in accordance with accounting principles generally accepted in the United States.

Emphasis of Matter

Adoption of New Accounting Pronouncement

As discussed in Note 2 to the financial statements, the beginning net position as of July 1, 2016, has been restated to reflect the implementation of Governmental Accounting Standards Board Statement No. 73, *Accounting and Financial Reporting for Pensions and Related Assets That Are Not within the Scope of GASB Statement 68, and Amendments to Certain Provisions of GASB Statements 67 and 68* (GASB 73). Accordingly, adjustments have been made to the beginning balance of net position as of July 1, 2016. Our opinion is not modified with respect to this matter.

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States require that the management's discussion and analysis on pages I-1 through I-8 and the schedule of the College's proportionate share of the net pension liability, the schedule of the College's contributions, and the schedule of changes in total pension liability on pages 60, 61, and 62, respectively, be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplemental information in accordance with auditing standards generally accepted in the United States, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

(Continued)

INDEPENDENT AUDITORS' REPORT, CONTINUED

Other Matters, Continued

Other Information

Our audit was performed for the purpose of forming an opinion on the financial statements that collectively comprise the College's basic financial statements. The accompanying schedule of expenditures of federal awards is presented for purposes of additional analysis as required by Title 2 U.S. *Code of Federal Regulations* (CFR) Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards*, and is not a required part of the basic financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the basic financial statements. The information has been subjected to the auditing procedures applied in the audit of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic financial statements or to the basic financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States. In our opinion, the schedule of expenditures of federal awards is fairly stated, in all material respects, in relation to the basic financial statements taken as a whole.

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated October 26, 2017, on our consideration of the College's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the College's internal control over financial reporting and compliance.

Finley + Cook, PLLC

Shawnee, Oklahoma
October 26, 2017

MANAGEMENT'S DISCUSSION AND ANALYSIS

Management's Discussion and Analysis of Significant Factors Affecting the Institution's Financial Statements

This discussion and analysis of Eastern Oklahoma State College's (College) financial statements provides an overview of the College's financial performance during the fiscal year ended June 30, 2017, with comparison to the previous year. Since the management's discussion and analysis is designed to focus on current activities, resulting change and current known facts, please read it in conjunction with the College's basic financial statements and the footnotes.

Using This Report

In June 1999, GASB released Statement No. 34 *Basic Financial Statements and Management's Discussion and Analysis for State and Local Governments*. Changes in Statement No. 34 require a comprehensive look at the entity as a whole, capitalization of assets, and recording depreciation. In November 1999, GASB issued Statement No. 35 *Basic Financial Statements and Management's Discussion and Analysis for Public Colleges and Universities,* which applies these standards to public colleges and universities. The State of Oklahoma elected to adopt all applicable standards to State governments for the fiscal year ended June 30, 2001. To comply with the State's decision, the College adopted these standards as well.

The College adopted GASB Statement No. 39, *Determining Whether Certain Organizations Are Component Units* in the fiscal year 2005. This Statement requires public institutions with fund-raising foundations or other affiliated organizations to include them as component units in the institution's financial statements, under certain circumstances. As a result, the College has concluded the Eastern Oklahoma State College Development Foundation is a component unit of the College and, accordingly, has included the Foundation's financial statements in this report. Refer to those financial statements for appropriate interpretation and analysis since management neither prepares nor oversees those financial results.

The purpose of the Statement of Net Position for the College is to report the financial position of the College at a point in time, the report date. The Statement of Net Position reports assets, liabilities, and net assets in a single column, separating current and noncurrent assets and current and noncurrent liabilities, as well as deferred outflows and inflows. Net position report investments in capital assets net of accumulated depreciation, restricted net position by restrictive covenants and the balance of net position are reported as unrestricted net position.

MANAGEMENT'S DISCUSSION AND ANALYSIS, CONTINUED

Using This Report, Continued

A primary purpose of the Statement of Revenues, Expenses, and Changes in Net Position is to show whether the College is better or worse off as a result of the year's activities. When revenues exceed expenses, the result is an increase in net position. The Statement of Cash Flows presents the sources and uses of cash and cash equivalents and a reconciliation of these flows to net operating revenues.

The College follows the accrual method of accounting, reporting revenues and expenses as they occur rather than when cash is received or expended. The College engaged a firm in fiscal year 2001 to inventory and value all capital assets. That evaluation serves as a basis for the cost and accumulated depreciation for capital assets reported in the financial statements purchased prior to that year. The College records the cost of capital assets when purchased and the disposed. Depreciation is recorded on all depreciable assets on a straight-line basis and according to the guidelines established by the College for depreciable lives. (See Note 1 for more information on these guidelines.)

Financial Highlights

The College's net position at June 30, 2017 and 2016, were $(260,548) and $825,218, respectively, a decrease of $1,085,766.

Operating revenues decreased by $1.1 million from $9.3 million to $8.2 million. Tuition and fee revenues, a major component of operating revenues, which includes only tuition and fees paid directly by students increased by $808,016 for fiscal year 2017. Other operating revenues decreased significantly from $1,526,615 in 2016 to $252,885. This is a decrease of $1,273,730. This is due to financial aid reimbursements being recorded in two separate years.

In 2017, operating expenses decreased in four areas due to the College cutting non-necessary spending to offset current year and expected future year cuts of state funding. The areas that decreased are Communications, Supplies and Materials, Depreciation and Other Operating Expenses. This is directly related to cost cutting by these departments. Four areas had increases: Compensation, Contractual Services, Utilities and Scholarships. The most significant increase was in Scholarships and this was due to higher Scholarship revenue.

Financial Highlights, Continued

In 2017, non-operating revenues did see a decrease of $373,540 or 4%. This was due to a decrease in state appropriations in the amount of $511,595. In 2015, The College accrued a $1,086,609 expense for the repayment of Title IV funds and related interest that was assessed by the Department of Education (DOE) Final Program Review Determination. The College was able to reach a settlement with DOE. The amount has been reduced to $593,853. This is a significant decrease and excellent news for the College. EOSC will repay this liability with payments through October of 2020.

Financial Analysis of the College as a Whole

Statement of Net Position

	2017	2016
Assets:		
Current assets	$ 3,139,456	4,092,596
Capital assets, net	24,246,539	25,208,612
Other assets	15,281	16,205
Total assets	27,401,276	29,317,413
Deferred Outflows of Resources	4,995,113	1,543,230
Liabilities:		
Current liabilities	2,432,408	2,620,974
Noncurrent liabilities	28,662,826	25,754,909
Total liabilities	31,095,234	28,375,883
Deferred Inflows of Resources	1,561,703	1,659,542
Net Position:		
Net investment in capital assets	12,323,164	12,214,921
Restricted—expendable, debit service	15,281	17,209
Restricted—expendable, grant funds	968,836	1,502,625
Unrestricted (deficit)	(13,567,829)	(12,909,537)
Net Position, end of year	$ (260,548)	825,218

*Prior year amounts not restated for MD&A purposes.

MANAGEMENT'S DISCUSSION AND ANALYSIS, CONTINUED

Statement of Revenues, Expenses, and Changes in Net Position

Graphic illustrations follow that report elements of the Statement of Revenues, Expenses, and Changes in Net Position including Operating Revenues by source, Operating Expenses by natural classifications, and Non-operating Revenues. Previous year amounts are also reported for comparative purposes. See the financial highlights section previously reported in this analysis and the financial statements for additional analysis of these figures.

Operating Revenues

Source of Revenue		Fiscal Year 2017	Fiscal Year 2016	Net Change
Tuition and fees	$	3,274,303	2,466,287	808,016
Federal grants and contracts		2,434,116	2,879,644	(445,528)
State grants and contracts		1,164,266	1,133,225	31,041
Sales and services of auxiliary activities		1,095,458	1,329,094	(233,636)
Other operating revenues		252,885	1,526,615	(1,273,730)

Operating Expenses by Natural Classifications

Classification		Fiscal Year 2017	Fiscal Year 2016	Net Change
Compensation	$	10,808,885	10,471,723	337,162
Contractual services		1,995,484	1,750,548	244,936
Supplies and materials		2,409,475	2,595,540	(186,065)
Communication		120,675	138,149	(17,474)
Depreciation		1,234,985	1,479,988	(245,003)
Utilities		642,287	579,851	62,436
Scholarship and fellowships		1,364,017	1,057,141	306,876
Other operating expense		1,196,886	2,029,944	(833,058)

MANAGEMENT'S DISCUSSION AND ANALYSIS, CONTINUED

Statement of Revenues, Expenses, and Changes in Net Assets, Continued

Non-operating Revenues (Expenses)

Revenues (Expenses)		Fiscal Year 2017	Fiscal Year 2016	Net Change
State appropriations	$	5,183,163	5,694,758	(511,595)
Federal and state grants		4,363,373	3,813,207	550,166
Reduction in DOE liability		-	491,354	(491,354)
On-behalf Teachers' Retirement System Contributions		602,354	702,455	(100,101)
Investment income		13,511	15,408	(1,897)
Interest expense		(505,231)	(686,472)	181,241

Statement of Cash Flows

Cash at June 30, 2017, was $1,947,941 compared to $2,331,156 at June 30, 2016, a decrease of $383,215 as explained below.

Cash used in operating activities increased $886,081 from $8,748,000 to $9,634,081 for the years ended June 30, 2016 and 2017, respectively. Inflows of cash included receipts from tuition and fees, grants and contracts, and auxiliary enterprise sales. Outflows of cash consisted of payments to employees and suppliers. This increase in cash used in operating activities was the result of an increase in cash received in grants and contracts and auxiliary enterprises.

Cash provided by non-capital financing activities increased by $38,571, primarily due to an increase in both appropriations and grants.

Cash used in capital and related financing activities, which includes receipts for the purchase of capital assets offset by the purchase of capital assets or payment of principal and interest, decreased by $1,494,750. This was mainly due to a decrease of capital appropriations.

Capital Assets

As of June 30, 2017, the College had a net book value of capital assets of $24,246,539 compared to $25,208,612 the previous year-end; a decrease of $962,073. Investments made to capital assets for the current year included land, buildings, major repair of buildings and infrastructure, and the purchase of equipment, livestock, and library books. Depreciation recorded for 2017 and 2016, was $1,234,985 and $1,479,988, respectively.

MANAGEMENT'S DISCUSSION AND ANALYSIS, CONTINUED

Capital Financing

The College has two capital lease obligations through the OCIA to finance capital expenditures—under the 1999 series and the 2005 series. Proceeds from the 1999 series debt were used to finance an addition to the library/administration building, while the 2005 series was used to fund construction of the new Student Center, construction of various ADA /infrastructure projects and to purchase a new integrated campus-wide ERP software system. The Oklahoma State Legislature appropriates revenues each year to fund the amount of principal and interest due for that year. The College is required to pay any principal and interest due and not appropriated by the Legislature because of lack of funding. These two obligations have been refinanced several times by the State. The capital lease obligations at June 30, 2017, for the 1999 series were $137,821 and the 2005 series were $4,979,152 extending through the period ending 2030. For the year ended June 30, 2017, the Oklahoma State Regents for Higher Education made on-behalf payments of $463,694 and $259,732 for the total principal and interest due for the year.

At this time the College has five Equipment Master Lease/Purchase agreements with the ODFA (Oklahoma Development Finance Authority, an agency of the State of Oklahoma). The College obtained funds through a Master Lease/Purchase agreement with the ODFA in 2005 (refinanced in 2015) for the purpose of financing $2,951,180 in equipment related to the conservation of energy on the campus. At June 30, 2017, the remaining principal obligation was $1,381,917 and interest obligation was $239,366, due through 2025. The 2010A Master Lease/Purchase was for the purpose of financing $401,000 to remodel the College's Apartments. At June 30, 2017, the remaining principal obligation was $234,750 and interest obligation was $33,478. The 2011A Equipment Master Lease/Purchase was for the purpose of financing $550,000 to remodel two classroom buildings on campus and $50,000 to purchase dorm furnishings. At June 30, 2017, the remaining principal obligation was $365,250 and interest obligation was $82,753, due through 2026. During fiscal year 2012, the College obtained funds through the Master Lease/Purchase agreement with the ODFA for a total amount of $4,900,000 for the purpose of remodeling the Administration for certain equipment and furnishings. At June 30, 2017, the remaining principal obligation was $3,761,750 and the interest obligation was $1,324,650, due through 2031. In 2017, the College refinanced its 2004 Revenue Bond with the 2016 Master Lease. At June 30, 2017, the remaining principal obligation was $726,583 and the interest obligation was $90,266 due through 2022.

The four capital financing process is Lease Purchase Agreements of which the College has two at this time. During the fiscal year 2012, the College entered into a lease purchase agreement with Government Capital Corporation/Security State Bank of Wewoka to provide lease purchase financing in the amount of $247,750 for the installation of baseball lights. At June 30, 2017, the remaining principal obligation was $76,972 and the interest obligation was $4,069 due through 2019. During fiscal year 2016, the College obtained funds through a Lease/Purchase agreement with Central Trust Bank for the purpose of financing $128,594 to obtain a 2015 Ford Activity Bus. At June 30, 2017, the remaining principal obligation was $80,074 and interest obligation was $6,468, due through 2020.

MANAGEMENT'S DISCUSSION AND ANALYSIS, CONTINUED

Net Position

Investment in capital assets increased $108,243 in 2017, to a balance of $12.3 million. This increase is primarily a result of decrease in long term debt.

Restricted net position for debt service decreased for the year ended June 30, 2017, as the College paid off and/or refinanced the related debt and these funds were applied to those transactions. Restricted net position for grant funds decreased by $509,833 due to a decrease in financial aid received because of lag time in reimbursement from DOE and a decrease in students.

Unrestricted net position include net position other than restricted assets and capital assets. Unrestricted net position decreased by $682,249 to a negative 13.5 million at June 30, 2017, due to the decrease in debt balances.

Net Position

Net Position		Fiscal Year 2017	Fiscal Year 2016	Net Change
Net investment in capital assets	$	12,323,164	12,214,921	108,243
Restricted for debit service		15,281	17,209	(1,928)
Restricted for grant funds		968,836	1,478,669	(509,833)
Unrestricted (deficit)		(13,567,829)	(12,885,580)	(682,249)

Economic Outlook

During fiscal year 2003, the College, as well as most state agencies of Oklahoma, began receiving reductions in state appropriations. During fiscal years 2003 through 2005, the College's reductions in state appropriations amounted to approximately $983,000. The declining trend reversed with the beginning of 2006, as the College received a 1.4 million increase in state appropriations over the next 4 years (2006 through 2009). In 2010-2012 the College received a reduction of $486,076 in state funding. In 2013 and 2014, the College received small increases totaling $153,507 and in fiscal year 2015 the budget was flat. Tuition and fee increases were approximately 5% per credit hour in both fiscal years 2006 and 2007, 7.8% in 2008, 9.9% in 2009, 0% in 2010, 5.5% in 2011, 7% in 2012, 5% in 2013–2014, and 6.8% in 2015. In 2016, state appropriations were cut tremendously. The cuts began in January of 2016 and continued throughout the remaining 2016 fiscal year. The total decrease was $991,284. In 2017, there was a decrease of $511,595.

MANAGEMENT'S DISCUSSION AND ANALYSIS, CONTINUED

Economic Outlook, Continued

Given the overall reductions in state appropriations and the related impact on the current budget base, the College continued to develop scenarios to hold down costs while preserving the ability to deliver quality instructional programs to its students. The College is anticipating a decrease in fiscal year 2018, however at this point. While the state appropriated dollars have declined the last several years, our student numbers rose but are now going down. The college has worked to minimize the impact of our budget cuts on departmental budgets. The college is hopeful that spring 2018 enrollment will rebound so that our upward trend will start again. The economic forecast for 2018 is down at this time. The College is trying to safeguard its reserves so that, if needed, it will be available in the upcoming years. However, the College is continuing to look for ways to effectively allocate resources and support the excellent programs offered at the College, while at the same time looking for areas that expenses can be reduced with a minimal impact on student programs and services.

Contacting the College's Financial Management

This financial report is designed to provide our citizens, taxpayers, customers, investors, and creditors with a general overview of the College's finances and to show the College's accountability for the money it receives. If you have questions about this report or need additional financial information, contact the Vice President for Business Affairs at Eastern Oklahoma State College, 1301 Main Street, Wilburton, Oklahoma, 74578.

EASTERN OKLAHOMA STATE COLLEGE

STATEMENTS OF NET POSITION

June 30, 2017

	Eastern Oklahoma State College	Eastern Oklahoma State College Development Foundation, Inc.
Assets and Deferred Outflows of Resources		
Current assets:		
Cash and cash equivalents	$ 1,226,469	825,062
Restricted cash	721,472	-
Investment	-	3,514,496
Accounts receivable, net of allowance for doubtful accounts of $2,226,586	928,293	150,680
Federal and state grants receivable	247,364	-
Inventories	15,858	-
Total current assets	3,139,456	4,490,238
Noncurrent assets:		
Perkins loans	15,281	-
Capital assets, net of accumulated depreciation	24,246,539	40,000
Total noncurrent assets	24,261,820	40,000
Total assets	27,401,276	4,530,238
Deferred outflows of resources:		
Deferred cost on OCIA lease restructuring	5,498	-
Deferred cost related to pensions	4,989,615	-
Total deferred outflows of resources	4,995,113	-

(Continued)

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

EASTERN OKLAHOMA STATE COLLEGE

STATEMENTS OF NET POSITION, CONTINUED

June 30, 2017

	Eastern Oklahoma State College	Eastern Oklahoma State College Development Foundation, Inc.
Liabilities and Deferred Inflows of Resources		
Current liabilities:		
Accounts payable	486,418	591
Accrued compensated absences	154,675	-
Unearned revenues	212,782	-
Deposits held in custody for others	95,748	-
Long-term debt, current portion	1,482,785	-
Total current liabilities	2,432,408	591
Noncurrent liabilities:		
Accrued compensated absences	135,707	-
Net OTRS pension liability	17,341,303	-
Net supplemental retirement benefit obligation	259,235	-
Long-term debt	10,926,581	-
Total noncurrent liabilities	28,662,826	-
Total liabilities	31,095,234	591
Deferred inflows of resources:		
Deferred gain on lease restructuring	186,038	-
Deferred amounts related to pension	1,375,665	-
Total deferred inflows of resources	1,561,703	-
Net Position		
Net investment in capital assets	12,323,164	40,000
Nonexpendable for scholarships	-	2,248,038
Restricted expendable for:		
Debt service	15,281	-
Scholarships	-	2,199,607
Grants	968,836	-
Unrestricted (deficit)	(13,567,829)	42,002
Total net position	$ (260,548)	4,529,647

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

EASTERN OKLAHOMA STATE COLLEGE

STATEMENTS OF REVENUES, EXPENSES, AND CHANGES IN NET POSITION

Year Ended June 30, 2017

	Eastern Oklahoma State College	Eastern Oklahoma State College Development Foundation, Inc.
Operating revenues:		
Student tuition and fees, net	$ 3,274,303	-
Federal grants and contracts	2,434,116	-
State and private grants and contracts	1,164,266	-
Sales and services of auxiliary enterprises, net	1,095,458	-
Other operating revenues	252,885	222,994
Total operating revenues	8,221,028	222,994
Operating expenses:		
Compensation and benefits	10,808,885	-
Contractual services	1,995,484	-
Supplies and materials	2,409,475	-
Scholarships and fellowships	1,364,017	288,136
Communications	120,765	-
Depreciation	1,234,985	-
Utilities	642,287	-
Support to College	-	168,060
Other operating expenses	1,196,886	66,872
Total operating expenses	19,772,784	523,068
Operating loss	(11,551,756)	(300,074)

(Continued)

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

EASTERN OKLAHOMA STATE COLLEGE

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

Year Ended June 30, 2017

	Eastern Oklahoma State College	Eastern Oklahoma State College Development Foundation, Inc.
Non-operating revenues (expenses):		
State appropriations	5,183,163	-
Federal and state grants	4,363,373	-
Contributions and other receipts	-	282,310
OTRS on-behalf contributions	602,354	-
Investment income	13,511	377,676
Interest on capital asset-related debt	(505,231)	-
Net non-operating revenues	9,657,170	659,986
(Loss) income before other revenues, expenses, gains, losses, and transfers	(1,894,586)	359,912
Other revenues, expenses, gains, losses, and transfers:		
State appropriations restricted for capital purposes	349,642	-
OCIA on-behalf state appropriations	723,426	-
Net other revenues, expenses, gains, losses, and transfers	1,073,068	-
Change in net position	(821,518)	359,912
Net position at beginning of year, as restated (See Note 2)	560,970	4,169,735
Net position at end of year	$ (260,548)	4,529,647

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

EASTERN OKLAHOMA STATE COLLEGE

STATEMENTS OF CASH FLOWS

Year Ended June 30, 2017

	Eastern Oklahoma State College	Eastern Oklahoma State College Development Foundation, Inc.
Cash flows from operating activities:		
Tuition and fees	$ 3,327,421	-
Grants and contracts	2,746,839	-
Auxiliary enterprise sales and services	1,093,672	-
Payments to suppliers	(7,035,695)	-
Payments to employees	(10,614,538)	-
Other operating receipts	848,220	115,275
Net cash (used in) provided by operating activities	(9,634,081)	115,275
Cash flows from noncapital financing activities:		
State appropriations	5,183,163	-
Non-operating grants	4,363,373	-
Net cash provided by noncapital financing activities	9,546,536	-
Cash flows from capital and related financing activities:		
Purchases of capital assets	(272,912)	-
Principal paid on capital leases and bonds	(584,326)	-
Proceeds from capital leases and bonds	(525,010)	-
Interest paid on capital leases and bonds	723,426	-
Purchase of investments	-	(374,440)
Proceeds from sale of investments	-	90,660
Capital appropriations—state	349,641	-
Net cash used in capital and related financing activities	(309,181)	(283,780)
Cash flows from investing activities:		
Interest received on investments	13,511	-
Net cash provided by investing activities	13,511	-
Net (decrease) increase in cash and cash equivalents	(383,215)	(168,505)
Cash and cash equivalents, beginning of year	2,331,156	993,567
Cash and cash equivalents, end of year	$ 1,947,941	825,062

(Continued)

See Independent Auditors' Report.

See accompanying notes to financial statements.

EASTERN OKLAHOMA STATE COLLEGE

STATEMENTS OF CASH FLOWS, CONTINUED

Year Ended June 30, 2017

	Eastern Oklahoma State College	Eastern Oklahoma State College Development Foundation, Inc.
Reconciliation of operating loss to net cash used in operating activities:		
Operating loss/change in net assets, Foundation	$ (11,551,756)	359,912
Adjustments to reconcile operating loss/change in net assets, Foundation, to net cash used in operating activities:		
Depreciation expense	1,234,985	-
Appreciation in funds held by others and investment provision for loan losses	-	(55,728)
In-kind contributions	-	(40,000)
State of Oklahoma OTRS on-behalf contributions	602,354	-
Changes in net assets and liabilities:		
Student accounts receivable	60,162	-
Other receivables	511,550	(149,255)
Other assets	924	-
Inventories	(1,787)	-
Compensated absences	(19,360)	-
Accounts payable and other accrued liabilities	(595,507)	346
Unearned revenues	(7,043)	-
Net pension liability	(3,452,570)	-
Deferred outflows related to pensions	3,661,340	-
Deferred inflows related to pensions	(77,373)	-
Net cash (used in) provided by in operating activities	$ (9,634,081)	115,275
Noncash investing, noncapital financing, and capital and related financing activities:		
Principal and interest on capital debt paid by state agency on behalf of the College	$ 723,426	-
Reconciliation of cash and cash equivalents to the statement of net position:		
Current assets:		
Cash and cash equivalents	$ 1,226,469	825,062
Restricted cash	721,472	-
	$ 1,947,941	825,062

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

(1) SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Nature of Operations

Eastern Oklahoma State College (the "College") is a 2-year, state supported College operating under the jurisdiction of the Board of Regents of Eastern Oklahoma State College (the "Board of Regents") and the Oklahoma State Regents for Higher Education. The College is a component unit of the State of Oklahoma and is included in the general-purpose financial statements of the State of Oklahoma as part of the higher education component unit. The College has two primarily campuses located in Wilburton and in McAlester.

Reporting Entity

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

The Eastern Oklahoma State College Development Foundation, Inc. (the "Foundation") is reported as legally separate, tax-exempt component unit of the College. The Foundation is organized for the purpose of receiving and administering gifts intended for the College. Although the College does not control the timing or amount of receipts from the Foundation, the majority of resources, or income thereon, which the Foundation holds and invests, is restricted to the activities of the College by the donors. Because these restricted resources held by the Foundation can only be used by, 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.

The Foundation is a private nonprofit organization that reports under the Financial Accounting Standards Board (FASB) *Accounting Standards Codification* (ASC) Topic 958, "Not-for-profit Entities." As such, certain revenue recognition criteria and presentation features are different from GASB revenue recognition criteria and presentation features. No modifications have been made to the Foundation's financial information in the College's financial reporting entity for these differences.

(1) SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES, CONTINUED

Financial Statement Presentation

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

Under GASB 34 and GASB 35, the College is required to present a statement of net position classified between current and noncurrent assets and liabilities; a statement of revenues, expenses, and changes in net position with separate presentation for operating and non-operating revenues and expenses; and a statement of cash flows using the direct method.

Basis of Accounting

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

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 to not apply FASB pronouncements issued after the applicable date.

Cash and Cash Equivalents

For purposes of the statements of cash flows, the College considers all highly liquid investments with an original maturity of 3 months or less to be cash and cash equivalents. Funds invested through the State Treasurer's Cash Management Program are considered cash and cash equivalents.

Restricted Cash

Restricted cash is externally restricted for federal, state, or non-governmental grants and contract payments are classified as restricted cash in the statement of net position.

(1) SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES, CONTINUED

Deposits and Investments

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

In accordance with GAAP authoritative guidance on fair value measurements and disclosures, the College's investments measured and reported at fair value are classified according to the following hierarchal input levels:

1. Level 1—Unadjusted quoted prices in active markets for identical assets.

2. Level 2—Quoted prices for similar assets, or inputs that are observable or other forms of market corroborated inputs.

3. Level 3—Pricing based on best available information, including primarily unobservable inputs and assumptions market participants would use in pricing the asset.

In addition to the above three levels, if an investment does not have a readily determined fair value, the investment can be measured using net asset value (NAV) per share (or its equivalent). Investments valued at NAV are categorized as NAV and not listed as Level 1, 2, or 3. As of June 30, 2017, the College had no investments.

Accounts Receivable and Grant Receivables

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

(1) SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES, CONTINUED

Accounts Receivable and Grant Receivables, Continued

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

Capital Assets

Capital assets are stated at cost, or fair value if acquired by gifts, less accumulated depreciation. 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. Renovations to buildings, infrastructure, and land improvements that significantly increase the value or extend the useful life of the structure are capitalized. Routine repairs and maintenance are charged to operating expense in the year in which the expense occurs. Livestock is stated at fair market value. Land and livestock are not depreciated.

Depreciation is computed using the straight-line method over the estimated useful lives of the assets. The following estimated useful lives are utilized by the College:

Land improvements	20 years
Buildings	45 years
Furniture, fixtures, and equipment	5–20 years
Infrastructure	30–50 years
Library materials	15 years

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

Unearned Revenues

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

Compensated Absences

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

(1) SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES, CONTINUED

Noncurrent Liabilities

Noncurrent liabilities include (1) principal amounts of revenue bonds payable and capital lease obligations with contractual maturities greater than one year, (2) estimated amounts for accrued compensated absences and other liabilities that will not be paid within the next fiscal year, and (3) net pension liability.

Use of Estimates

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

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 accumulated depreciation and 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 net investment in capital assets.

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

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

Unrestricted: Unrestricted net position represent 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.

(1) SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES, CONTINUED

Net Position, Continued

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

Income Taxes

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

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, (2) sales and services of educational departments and of auxiliary enterprises, net of scholarship discounts and allowances, (3) certain federal, state and non-governmental grants and contracts.

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

Scholarship Discounts and Allowances

Student tuition and fee revenues, and certain other revenues from students, are reported net of scholarship discounts and allowances in the statement of revenues, expenses and changes in net position. Scholarship discounts and allowances are the difference between the stated charge for goods and services provided by the College, and the amount that is paid by students and/or third parties making payments on the students' behalf. Certain governmental grants, such as Pell grants, and other federal, state or nongovernmental programs, are recorded as either operating or 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.

(1) SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES, CONTINUED

Deferred Outflows of Resources

Deferred outflows are the consumption of net position by the College that are applicable to a future reporting period. At June 30, 2017, the College's deferred outflows of resources were comprised of deferred charges on an Oklahoma Capitol Improvement Authority (OCIA) lease restructure and pension contributions.

Deferred Inflows of Resources

Deferred inflows are the acquisition of net position by the College that are applicable to a future reporting period. At June 30, 2017, the College's inflows related to a deferred gain on an OCIA lease restructure, and pension experience and investment earnings.

Pensions

Oklahoma Teachers Retirement System

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 of OTRS are reported at fair value.

Supplemental Retirement Benefit Plan

In addition to OTRS, the College has a supplemental retirement benefit plan (SRB) for a former president. The SRB requires the College to pay approximately $30,000 per year to the former president until his death. During 2017, the College established a pension liability for the estimated benefits in accordance with GASB 73.

(1) SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES, CONTINUED

New Accounting Pronouncements

New Accounting Pronouncements Adopted

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

In June 2015, GASB issued Statement No. 74, *Financial Reporting for Postemployment Benefit Plans Other Than Pension Plans* (GASB 74). GASB 74 seeks to improve the usefulness of information about postemployment benefits other than pensions (other postemployment benefits or "OPEB"). This statement provides guidance for reporting and disclosure of defined benefit and defined contribution OPEB plans. GASB 74 is effective for financial statements for fiscal years beginning after June 15, 2016. The College adopted this statement on July 1, 2016. The adoption had no significant effect on the College's financial statements.

In August 2015, GASB issued Statement No. 77, *Tax Abatement Disclosures* (GASB 77). GASB 77 provides financial reporting and disclosure guidance to governments that have either entered into tax abatement agreements or that have revenues affected by tax abatements entered into by another government. Governments will generally use tax abatements to encourage specific economic development that benefit either the government or its citizens by forgoing certain taxes. The College adopted this statement on July 1, 2016. The College has no items to be reported and the adoption had no significant impact on the College's financial statements.

(1) SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES, CONTINUED

New Accounting Pronouncements, Continued

New Accounting Pronouncements Adopted, Continued

In December 2015, GASB issued Statement No. 78, *Pensions Provided through Certain Multiple-Employer Defined Benefit Pension Plans* (GASB 78). GASB 78 addresses an issue that arose as a result of the employer reporting for pension plans under GASB 68, *Accounting and Financial Reporting for Pensions*. Certain state and local governments participate in a cost-sharing multi-employer pension plan that (1) is not a state or local governmental plan, (2) provides defined benefits both to employees of state or local governmental employers and to employees of employers that are not state or local governmental employers, and (3) has no predominant state or local governmental employer. This Statement establishes the requirements for recognition, reporting, disclosures, and required supplementary information for governmental employers that provide pensions through pension plans with the above-mentioned characteristics. The College adopted this statement on July 1, 2016. The adoption had no significant impact on the College's financial statements.

In January 2016, GASB issued Statement No. 80, *Blending Requirements for Certain Component Units* (GASB 80). GASB 80 amends blending requirements for the financial statements of component units to include criteria requiring blending of a component unit organized as a not-for-profit corporation in which the primary government is the sole corporate member. The College adopted this statement on July 1, 2016. The adoption had no significant impact on the College's financial statements.

New Accounting Pronouncements Not Yet Adopted

In June 2015, GASB issued Statement No. 75, *Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions* (GASB 75). GASB 75 addresses employer and governmental non-employer contributing entities accounting and financial reporting when participating in an OPEB plan. This statement requires proper recognition of OPEB liabilities by employers and requires a more comprehensive measure of OPEB expense. More robust disclosures will also improve transparency and accountability. GASB 75 is effective for financial statements for the periods beginning after June 15, 2017. The College will adopt GASB 75 effective July 1, 2017, for the June 30, 2018, reporting year. The College does not expect GASB 75 to have a significant impact on the financial statements.

(1) SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES, CONTINUED

New Accounting Pronouncements, Continued

New Accounting Pronouncements Not Yet Adopted, Continued

In March 2016, GASB issued Statement No. 81, *Irrevocable Split-Interest Agreements* (GASB 81). GASB 81 provides recognition and measurement guidance for situations in which a government is one of the beneficiaries of an irrevocable split-interest agreement. Irrevocable split-interest agreements are a type of giving by a donor to provide resources to two or more beneficiaries, including governments. GASB 81 provides the recognition and reporting requirements applicable when a government is one of the parties to such an agreement. The College will adopt GASB 81 effective July 1, 2017, for the June 30, 2018, reporting year. The College does not expect GASB 81 to have a significant impact on the financial statements.

In November 2016, GASB issued Statement No. 83, *Certain Asset Retirement Obligations* (GASB 83). GASB 83 provides accounting and reporting requirements for certain asset retirement obligations (ARO) that arise from legally enforceable liabilities associated with the retirement of certain tangible capital assets. ARO's require an internal and external obligating event and the costs to be reasonable estimable for the incurrence of such a liability. The College will adopt GASB 83 effective July 1, 2018, for the June 30, 2019, reporting year. The College does not expect GASB 83 to have a significant impact on the financial statements.

In January 2017, GASB issued Statement No. 84, *Fiduciary Activities* (GASB 84). GASB 84 improves guidance regarding the recognition and reporting of fiduciary activities. GASB 84 identifies four types of reportable fiduciary fund types, including 1) pension (and other employee benefit) trust funds, 2) investment trust funds, 3) private-purpose trust funds, and 4) custodial funds. GASB 84 outlines the accounting and disclosure requirements for operating structures that qualify as a fiduciary activity. The College will adopt GASB 84 effective July 1, 2019, for the June 30, 2020, reporting year. The College does not expect GASB 84 to have a significant impact on the financial statements.

In March 2017, GASB issued Statement No. 85, *Omnibus 2017* (GASB 85). GASB 85 clarified several practice issues identified during the application of earlier GASB pronouncements. GASB 85 addresses topics including the blending of component units, goodwill and negative goodwill, fair value measurement and application, employer accounting and reporting for pensions and OPEB, and reporting by OPEB plans. The College will adopt GASB 85 effective July 1, 2017, for the June 30, 2018, reporting year. The College does not expect GASB 85 to have a significant impact on the financial statement.

(1) SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES, CONTINUED

New Accounting Pronouncements, Continued

New Accounting Pronouncements Not Yet Adopted, Continued

In May 2017, GASB issued Statement No. 86, *Certain Debt Extinguishment Issues* (GASB 86). GASB 86 provides guidance regarding the in-substance defeasance of debt. Normally, a government will issue new debt at favorable rates and place the proceeds in trust to eliminate the liability of an existing debt. GASB 86 provides accounting and reporting guidance for situations where a government irrevocably sets aside cash and other assets to defease an existing debt. Guidance also addresses prepaid insurance related to extinguished debt and the financial valuation and disclosure of other assets used to defease debt. The College will adopt GASB 86 effective July 1, 2017, for the June 20, 2018, reporting year. The College does not expect GASB 86 to have a significant impact on the financial statements.

In June 2017, GASB issued Statement No. 87, *Leases* (GASB 87). GASB 87 defines a lease as a contract that conveys control of the right to use another entity's nonfinancial asset (the underlying asset) as specified in the contract for a period of time in an exchange or exchange-like transaction. GASB 87 improves accounting and financial reporting for leases by governments by requiring recognition of certain lease assets and liabilities for leases that previously were classified as operating leases and recognized as inflows of resources or outflows of resources based on the payment provisions of the contract. It establishes a single model for lease accounting based on the foundational principle that leases are financings of the right to use an underlying asset. Under GASB 87, a lessee is required to recognize a lease liability and an intangible right-to-use lease asset, and a lessor is required to recognize a lease receivable and a deferred inflow of resources, thereby enhancing the relevance and consistency of information about governments' leasing activities. The requirements of this Statement are effective for reporting periods beginning after December 15, 2019. Earlier application is encouraged. The College has not determined the impact of GASB 87 on the financial statements.

Date of Management's Review of Subsequent Events

The College has evaluated subsequent events through October 26, 2017, the date which the financial statements were available to be issued, and determined that no subsequent events have occurred that require adjustment or disclosure in the financial statements.

(2) RESTATEMENT

Prior Period Adjustment

The July 1, 2016, beginning net position has been restated to reflect the implementation of GASB 73. The effect of the restatement is as follows:

	Fiscal Year 2017
Beginning net position, as previously reported	$ 825,218
Adoption of GASB 73	(264,248)
Beginning net position, July 1, 2016, restated	$ 560,970

(3) DEPOSITS AND INVESTMENTS

Custodial Credit Risk—Deposits

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

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

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

The carrying amount of the College's deposits was $1,947,941. This amount consisted of deposits with the State Treasurer of $1,932,036 at June 30, 2017.

Some deposits with the State Treasurer are placed in the State Treasurer's internal investment pool *OK INVEST*. *OK INVEST* pools the resources of all state funds and agencies and invests them in obligations of the U.S. government, its agencies and instrumentalities, including agency senior debt and mortgage-backed pass-through securities, tri-party repurchase agreements, money market mutual funds, collateralized certificates of deposit, commercial paper, obligations of state and local governments, and State of Israel Bonds. Various other investments, as allowed by law, may be added to the *OK INVEST* portfolio, as the State Treasurer determines, without formal revision to its policy statement. Of funds on deposit with the State Treasurer, amounts invested in *OK INVEST* totaled $256,609 at June 30, 2017.

See Independent Auditors' Report.

(3) DEPOSITS AND INVESTMENTS, CONTINUED

Custodial Credit Risk—Deposits, Continued

For financial reporting purposes, deposits with the State Treasurer that are invested in *OK INVEST* are classified as cash equivalents. At June 30, 2017, the distribution of deposits in *OK INVEST* was as follows:

OK INVEST Portfolio

		Cost	Market Value
U.S. agency securities	$	108,173	107,908
Money market mutual funds		26,544	26,544
Certificates of deposit		11,431	11,431
Mortgage-backed agency securities		102,800	102,894
Municipal bonds		4,018	4,131
Foreign bonds		2,459	2,458
U.S. Treasury obligations		1,184	1,416
	$	256,609	256,782

Agencies and funds that are considered to be part of the State's reporting entity in the State's Comprehensive Annual Financial Report are allowed to participate in *OK INVEST*. Oklahoma statutes and the State Treasurer establish the primary objectives and guidelines governing the investment of funds in *OK INVEST*. Safety, liquidity, and return on investment are the objectives which establish the framework for the day to day *OK INVEST* management with an emphasis on safety of the capital and the probable income to be derived and meeting the State's daily cash flow requirements. Guidelines in the Investment Policy address credit quality requirements, diversification percentages and specify the types and maturities of allowable investments, and the specifics regarding these policies can be found on the State Treasurer's website at *http://www.treasurer.state.ok.us*. The State Treasurer, at his discretion, may further limit or restrict such investments on a day to day basis. *OK INVEST* includes a substantial investment in securities with an overnight maturity as well as in U.S. government securities with a maturity of up to 10 years. *OK INVEST* maintains an overall weighted average maturity of no more than 4 years.

(3) DEPOSITS AND INVESTMENTS, CONTINUED

Custodial Credit Risk—Deposits, Continued

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

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

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

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

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

Interest Rate Risk

The College does not have a formal policy that limits investment maturities as a means of managing its exposure to fair value losses arising from increasing interest rates.

(3) DEPOSITS AND INVESTMENTS, CONTINUED

Credit Risk

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

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

(4) ACCOUNTS RECEIVABLE

Accounts receivable consisted of the following at June 30, 2017:

Student tuition and fees	$ 3,154,879
Less allowance for doubtful accounts	(2,226,586)
	$ 928,293

(5) LOANS RECEIVABLE

Student loans made through the Federal Perkins Loan Program (the "Program") comprise all of the loans receivable at June 30, 2017. There were no federal or institutional contributions to the program during 2017. The program provides for cancellation of a note at rates of 15% to 30% per year up to a maximum of 100% if the participant complies with certain provisions. The federal government reimburses the College's loan funds for amounts cancelled under these provisions.

As the College determines loans are uncollectible and not eligible for reimbursement by the federal government, the loans are written off and assigned to the U.S. Department of Education. At June 30, 2017, the Program has a loan receivable of $15,281. No allowance for uncollectable loans is considered necessary by management.

(6) CAPITAL ASSETS, NET

Capital asset activity for the year ended June 30, 2017, was as follows:

	Balance at June 30, 2016	Additions	Transfers	Retirements	Balance at June 30, 2017
Capital assets not being depreciated:					
Land	$ 1,238,008	-	-	-	1,238,008
Livestock	257,700	-	-	(57,700)	200,000
Construction in progress	209,499	78,119	(285,518)	(2,100)	-
Total capital assets not being depreciated	1,705,207	78,119	(285,518)	(59,800)	1,438,008
Capital assets being depreciated:					
Land improvements, restated	2,767,394	4,572	-	-	2,771,966
Buildings and improvements	29,306,571	57,765	285,518	-	29,649,854
Equipment	12,297,338	182,581	-	-	12,479,919
Library materials	1,077,076	9,675	-	-	1,086,751
Infrastructure	787,789	-	-	-	787,789
Total capital assets being depreciated	46,236,168	254,593	285,518	-	46,776,279
Less accumulated depreciation:					
Land improvements	(1,728,695)	(62,717)	-	-	(1,791,412)
Buildings and improvements	(9,129,909)	(621,470)	-	-	(9,751,379)
Equipment	(10,236,133)	(528,783)	-	-	(10,764,916)
Library materials	(935,264)	(15,180)	-	-	(950,444)
Infrastructure	(702,762)	(6,835)	-	-	(709,597)
Total accumulated depreciation	(22,732,763)	(1,234,985)	-	-	(23,967,748)
Total capital assets being depreciated, net	23,503,405	(980,392)	285,518	-	22,808,531
Capital assets, net	$ 25,208,612	(902,273)	-	(59,800)	24,246,539

See Independent Auditors' Report.

(6) CAPITAL ASSETS, NET, CONTINUED

	Balance at June 30, 2016	Additions	Transfers	Retirements	Balance at June 30, 2017
Capital asset summary:					
Capital assets not being depreciated	$ 1,705,207	78,119	(285,518)	(59,800)	1,438,008
Capital assets being depreciated	46,236,168	254,593	285,518	-	46,776,279
Total capital assets	47,941,375	332,712	-	(59,800)	48,214,287
Less accumulated depreciation	(22,732,763)	(1,234,985)	-	-	(23,967,748)
Capital assets, net	$ 25,208,612	(902,273)	-	(59,800)	24,246,539

(7) LONG-TERM LIABILITIES

Long-term liability activity for the year ended June 30, 2017, was as follows:

	Balance at June 30, 2016	Additions	Reductions	Balance at June 30, 2017	Due Within 1 Year
Capital lease obligations:					
OCIA Series 2014B	$ 202,780	-	(64,959)	137,821	67,569
OCIA Series 2010A	1,782,771	-	(398,735)	1,384,036	684,509
OCIA Series 2014A	3,595,116	-	-	3,595,116	-
ODFA Master Lease 2015B	1,536,167	-	(154,250)	1,381,917	157,250
ODFA Master Lease 2010A	260,833	-	(26,083)	234,750	27,000
ODFA Master Lease 2011A	4,362,417	-	(235,417)	4,127,000	240,917
ODFA Master Lease 2016B	844,000	-	(117,417)	726,583	113,333
	12,584,084	-	(996,861)	11,587,223	1,290,578
Other long-term debt:					
Other capital leases	218,260	-	(61,214)	157,046	63,479
Department of Education	593,853 [(1)]	-	(256,363)	337,490	110,234
EOSC Foundation	-	148,500	-	148,500	18,494
Bond premium	191,348	-	(12,241)	179,107	-
Compensated absences	309,742	127,140	(146,500)	290,382	154,675
	1,313,203	275,640	(476,318)	1,112,525	346,882
Total long-term liabilities	$ 13,897,287	275,640	(1,473,179)	12,699,748	1,637,460

[(1)] Amount was reclassified from accounts payable to long-term debt in 2017.

See Independent Auditors' Report.

(7) LONG-TERM LIABILITIES, CONTINUED

Oklahoma Capitol Improvement Authority Lease Obligations

In September 1999, the Oklahoma Capitol Improvement Authority (OCIA) issued its OCIA Bond Issues, 1999 Series A, B, and C. Of the total bond indebtedness, the State Regents for Higher Education allocated $1,000,000 to the College. Concurrently with the allocation, the College entered into an individual lease agreement with OCIA, representing the project being funded by the OCIA bonds.

In 2015, the OCIA issued Bond Series 2014B that refunded the 1999A Bonds. This lease restructuring resulted in a gain in restructuring that was recorded as a gain of $36,868 on restructuring as a deferred outflow of resources that is being amortized over a period of 5 years. The unamortized amount of the deferred lease restructure gain at June 30, 2017, was $14,747. Lease principal and interest payments to OCIA totaling $72,526 during the year ended June 30, 2017, were made by the State of Oklahoma on behalf of the College. These on-behalf payments have been recorded as OCIA on-behalf state appropriations in the statement of revenues, expenses, and changes in net position.

In 2005, the OCIA issued its State Facilities Revenue Bonds (Higher Education Project) Series 2005F. Of the total bond indebtedness, the State Regents allocated approximately $7,671,000 to the College. Concurrently with the allocation, the College entered into a lease agreement with OCIA for capital improvements being funded by the OCIA bonds. The lease agreement provides for the College to make specified monthly payments to OCIA over the respective terms of the agreement, which is for approximately 25 years.

In 2011, the OCIA issued Bond Series 2010A and 2010B to partially refund the Series 2005F Revenue Bonds. The advance partial refunding was to provide budgetary relief for fiscal years 2011 and 2012 by extending and restructuring the debt service. As a result, the total liability of the remaining 2005F bonds combined with the new 2010A and 2010B bond issues will be more than the original outstanding liability for the 2005F bonds. Consequently, the lease agreement with OCIA was automatically restructured to secure the new bond issues. This lease restructuring has extended certain principal payments into the future, resulting in a charge or cost on restructuring that has been recorded as a charge of $471,086 on restructuring as a deferred cost that will be amortized over a period of 6 years, beginning in fiscal year 2012. The deferred lease restructuring cost was fully amortized at June 30, 2016. Lease principal and interest payments to OCIA totaling $480,007 during the year ended June 30, 2017, were made by the State of Oklahoma on behalf of the College. These on-behalf payments have been recorded as OCIA on-behalf state appropriations in the statement of revenues, expenses, and changes in net position.

(7) LONG-TERM LIABILITIES, CONTINUED

Oklahoma Capitol Improvement Authority Lease Obligations, Continued

In 2014, the OCIA issued Bond Series 2014A that refunded a significant portion of the 2005F bonds. Consequently, the amortization of the 2005F bond issue was fully amortized in 2016. The lease agreement will no longer secure the 2005F bond issue but will now act as security for the 2014A bond issue over the term of the lease through the year 2031. This lease restructuring has resulted in a gain on restructuring that has been recorded as a gain of $213,841 on restructuring as a deferred inflow of resources that will be amortized over a period of 18 years. The unamortized amount of the deferred lease restructuring gain at June 30, 2017, was $171,291. Lease principal and interest payments to OCIA totaling $170,893 during the year ended June 30, 2017, were made by the State of Oklahoma on behalf of the College. These on-behalf payments have been recorded as OCIA on-behalf state appropriations in the statement of revenues, expenses, and changes in net position.

College's property under the OCIA capital leases is summarized as follows:

	Building	Equipment	Total
Cost	$ 8,212,458	831,819	9,044,277
Less accumulated depreciation	(1,467,936)	(826,029)	(2,293,965)
	$ 6,744,522	5,790	6,750,312

Future minimum lease payments under the College's obligations to the OCIA for the year ended June 30, 2017, are as follows:

Year Ending June 30,	Principal	Interest	Total
2018	$ 760,131	241,391	1,001,522
2019	774,132	206,835	980,967
2020	-	170,645	170,645
2021	-	170,645	170,645
2022	333,984	170,645	504,629
2023–2027	1,891,379	603,844	2,495,223
2028–2031	1,357,347	134,821	1,492,168
	$ 5,116,973	1,698,826	6,815,799

(7) LONG-TERM LIABILITIES, CONTINUED

Oklahoma Development Finance Authority Lease Obligations

In May 2005, the College entered into a 20-year lease agreement with the Oklahoma Development Finance Authority (ODFA) and the State Regents as beneficiary of a portion of the proceeds from the Oklahoma Development Finance Authority State Regents for Higher Education Master Lease Revenue Bonds, Series 2005A. The College financed $3,005,000 to upgrade the College's energy management systems.

The lease agreement with ODFA provides for monthly payments to ODFA ranging from $17,187 to $17,292 for 20 years through May 15, 2025, or until the ODFA bonds and related interest are paid.

On June 17, 2015, the College entered into Master Equipment Lease Revenue Bonds, Series 2015B in the amount of $1,689,000 to refinance the Series 2005A Master Lease Revenue Bonds. The lease agreement with ODFA provides for monthly payments to ODFA ranging from $17,187 to $17,292 for 10 years through May 15, 2025. Lease principal and interest payments to ODFA totaled $204,783 during the year ended June 30, 2017.

In September 2010, the College entered into a 15-year lease agreement with the Oklahoma Development Finance Authority (ODFA) and the State Regents as beneficiary of a portion of the proceeds from the Oklahoma Development Finance Authority State Regents for Higher Education Real Property Master Lease Revenue Bonds, Series 2010A. The College financed $401,000 to remodel apartments on the College's campus.

The lease agreement with ODFA provides for monthly payments to ODFA ranging from $2,793 to $3,177 for 15 years through May 15, 2025, or until the ODFA bonds and related interest are paid. The monthly lease payments are funded through additional apartment rent realized after the project was completed. Lease principal and interest payments to ODFA totaled $33,597 during the year ended June 30, 2017.

In May 2011, the College entered into a 15-year lease agreement with the Oklahoma Development Finance Authority (ODFA) and the State Regents as a beneficiary of a portion of the proceeds from the Oklahoma Development Finance Authority State Regents for Higher Education Master Lease Revenue Bonds, Series 2011A. The College received a net amount of $550,000 of the proceeds for improvements to the College's equipment. Lease principal and interest payments to ODFA totaled $49,787 during the year ended June 30, 2017.

In 2011, the College entered into a 20-year lease agreement with the Oklahoma Development Finance Authority (ODFA) and the State Regents as a beneficiary of a portion of the proceeds from the ODFA State Regents for Higher Education Real Property Master Lease Revenue Bonds, Series 2011A. The College Financed $4,900,000, for the building of Regents Courts (apartment style dorms) and the remodeling of the first floor of the Library, Gunning, Baker, and a portion of Pratt.

(7) LONG-TERM LIABILITIES, CONTINUED

Oklahoma Development Finance Authority Lease Obligations, Continued

Lease payments made by the College are forwarded to the trustee bank by the State Regents for future principal and interest payments on the Master Lease bonds. The ODFA deposits the lease payments into an interest-bearing sinking fund and may use the interest earnings to reduce the College's future lease payments. Lease principal and interest payments to ODFA totaling $365,488 during the year ended June 30, 2017.

The Board of Regents authorized the College to issue the Student Facilities Revenue Bonds, Series 2004 (the "Series 2004 Bonds") dated May 1, 2004, in the amounts of $2,200,000. The Series 2004 Bonds mature June 1 of each year beginning June 1, 2005, through June 1, 2024, in annual amounts varying from $85,000 to $160,000, interest rates ranging from 2.40% to 4.45%. The Series 1997 Bonds are payable from pledged revenues derived from a student union fee and other ancillary services, and the reserve account held by the bond trustees.

On June 15, 2016, the College entered into capital lease obligation Series 2016B in the amount of $844,000 to refinance the 2004 Student Facilities Revenue Bonds. Lease payments over the term of the agreement, including interest, total $960,686. Payments began July 15, 2016, and go through May 15, 2023, and will range from $11,608 to $12,327, monthly. The net present value of the savings for the refinance is $122,505.

The issuance resulted in a premium for the bonds of $64,269 that is being amortized over 84 months. The unamortized balance of the premium at June 30, 2017, was $63,504.

Lease payments made by the College are forwarded to the trustee bank by the State Regents for future principal and interest payments on the Master Lease bonds. The ODFA deposits the lease payments into an interest-bearing sinking fund and may use the interest earnings to reduce the College's future lease payments. Lease principal and interest payments to ODFA totaling $143,837 during the year ended June 30, 2017.

(7) LONG-TERM LIABILITIES, CONTINUED

Oklahoma Development Finance Authority Lease Obligations, Continued

The College's property under the ODFA capital leases is summarized as follows:

	Building	Equipment	Total
Cost	$ 12,035,829	29,851	12,065,680
Less accumulated depreciation	(2,243,956)	(15,107)	(2,259,063)
	$ 9,791,873	14,744	9,806,617

Future minimum lease payments under the College's obligations to the ODFA for the year ended June 30, 2017, are as follows:

Year Ending June 30,	Principal	Interest	Total
2018	$ 538,500	251,659	790,159
2019	556,167	237,717	793,884
2020	571,000	220,295	791,295
2021	594,833	198,881	793,714
2022	616,833	175,277	792,110
2023–2027	2,307,417	540,806	2,848,223
2028–2031	1,285,500	145,878	1,431,378
	$ 6,470,250	1,770,513	8,240,763

Other Capital Leases

During 2012, the College entered into a lease purchase agreement with Government Capital Corporation in the amount of $247,750. Government Capital Corporation later assigned its rights to Security State Bank of Wewoka. This agreement was entered into to provide lease purchase financing for lights in the baseball stadium. The lease agreement provides for yearly payments to Security State Bank of $40,520 for 7 years through March 15, 2019. During 2017, the College made $36,543 and $3,977 in principal and interest payments, respectively.

(7) LONG-TERM LIABILITIES, CONTINUED

Other Capital Leases, Continued

During 2015, the College entered into a lease purchase agreement with Government Capital Corporation in the amount of $128,594. Government Capital Corporation later assigned its rights to Central Trust Bank of Jefferson City, Missouri. This agreement was entered into to provide lease purchase financing for the student activity bus (2015 Ford F750/Glaval Concorde). The College uses this bus to transport students to and from college sponsored activities. The lease agreement provides for yearly payments to Central Trust Bank of $28,848 for 5 years through August 15, 2019. During 2017, the College made $24,671 and $4,176 in principal and interest payments, respectively. The College's property under the other capital leases is summarized as follows:

	Building	Equipment	Total
Cost	$ 303,750	161,594	465,344
Less accumulated depreciation	(98,719)	(40,156)	(138,875)
	$ 205,031	121,438	326,469

Future minimum lease payments under the College's obligations with other capital leases as of June 30, 2017, are as follows:

Year Ending June 30,	Principal	Interest	Total
2018	$ 63,478	5,890	69,368
2019	65,826	3,541	69,367
2020	27,742	1,106	28,848
	$ 157,046	10,537	167,583

(7) LONG-TERM LIABILITIES, CONTINUED

Department of Education

On March 24–28, 2014, the Department of Education (DOE) performed an onsite Title IV Program Review. On August 21, 2015, the College received the Final Program Review Determination Letter. It instructed the College to repay $1,086,609 of Title IV funds and related interest. The College filed an appeal of the Final Program Review Determination on October 12, 2015. The College had not way of estimating the result of the appeal, so the full amount of the final determination was accrued by the College as of June 30, 2015. In October 2016, a settlement was reached with DOE which reduced the liability to $595,255 or a reduction of $491,354. The College shall pay the remaining balance of $595,255 with a payment of $148,463 on October 1, 2016, then in 16 quarterly installments commencing January 1, 2017, and ending October 1, 2020, at the rate of 1% per annum. During the year ended June 30, 2017, the College made payments totaling $260,373 of principal and interest to the Department of Education.

Future minimum payment required under the College's obligation to the Department of Education as of June 30, 2017, are as follows:

Year Ending June 30,	Principal	Interest	Total
2018	$ 110,234	3,494	113,728
2019	111,341	2,387	113,728
2020	112,458	1,270	113,728
2021	3,457	213	3,670
	$ 337,490	7,364	344,854

Eastern Oklahoma State College Development Foundation, Inc.

During the year ended June 30, 2017, the College entered into an agreement dated October 26, 2016, whereby the Foundation advanced $148,463 to the College to pay a portion of the debt owed to the Department of Education. The agreement requires 3 payments of $21,835, 1 payment of $32,738, and 1 payment of $63,827, including interest at a rate of 3%. During the year ended June 30, 2017, the College made payments totaling $0 of principal and interest to the Foundation.

(7) LONG-TERM LIABILITIES, CONTINUED

Eastern Oklahoma State College Development Foundation, Inc., Continued

Future minimum payments required under the College's obligation to the Foundation as of June 30, 2017, are as follows:

Year Ending June 30,	Principal	Interest	Total
2018	$ 18,494	3,341	21,835
2019	17,935	3,900	21,835
2020	18,473	3,362	21,835
2021	93,598	2,967	96,565
	$ 148,500	13,570	162,070

(8) RETIREMENT PLANS

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

Summary of Net Pension Obligation

	Net Pension Obligation	Deferred Outflows	Deferred Inflows	Pension Expense
Supplemental Retirement Benefit Obligation	$ 259,235	-	-	23,348
OTRS Pension Obligation	17,341,303	4,989,615	1,375,665	1,615,885
	$ 17,600,538	4,989,615	1,375,665	1,639,233

Plan Description

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

(8) RETIREMENT PLANS, CONTINUED

Oklahoma Teachers' Retirement System

Benefits Provided

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

- Members become 100% vested in retirement benefits earned to date after 5 years of credited Oklahoma service. Members who joined the System on June 30, 1992, or prior are eligible to retire at maximum benefits when age and years of creditable service total 80. Members joining the System after June 30, 1992, are eligible for maximum benefits when their age and years of creditable service total 90. Members whose age and service do not equal the eligible limit may receive reduced benefits as early as age 55, and at age 62 receive unreduced benefits based on their years of service. The maximum retirement benefit is equal to 2% of final compensation for each year of credited service.

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

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

- A member is eligible for disability benefits after 10 years of credited Oklahoma service. The disability benefit is equal to 2% of final average compensation for the applicable years of credited service.

(8) RETIREMENT PLANS, CONTINUED

Oklahoma Teachers' Retirement System, Continued

Benefits Provided, Continued

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

The System makes payments to certain retiree health insurance providers that are subsidies to help pay for certain supplemental health benefits that are available to eligible retired members who elect such coverage. The subsidy payments are made to the Employees Group Insurance Division (EGID) of the Office of Management and Enterprise Services (OMES) for retirees who opt to continue their employer-provided insurance and are also made to employers who provide health insurance options through other insurers as long as the plans provide health insurance options to both the employers' active and retired employees.

All retirees are eligible except for special retirees (as defined) and spouses and beneficiaries as long as they have at least 10 years of service. Retirees who elect such coverage receive the smaller of (i) a Medicare supplement benefit, if eligible, or (ii) an amount between $100 and $105 per month, depending on service and final average compensation. Payments are made on their behalf monthly (i) to EGID as described above, if the member continues health coverage under that Plan, or (ii) to the member's former employer, if the member retains health coverage under a plan maintained by the former employer as described above. The System performs no administrative functions related to the payment of the benefit.

OTRS does not have a separate trust to finance the health insurance benefit, and does not have separate assets and investments to fund the benefit. The liability to pay for the monthly subsidy is part of the total pension liability to the OTRS plan. These liabilities are recognized on an accrual basis.

(8) RETIREMENT PLANS, CONTINUED

Oklahoma Teachers' Retirement System, Continued

Contributions

The contributions requirements of the plan are at an established rate determine by Oklahoma Statute, amended by the Oklahoma Legislature, and are not based on actuarial calculations. Employees are required to contribute 7.0% percent of their annual pay. Participating employers are required to contribute 9.5% of the employees' annual pay and an additional 7.7% for any employees' salaries covered by federal funds. Contributions to the pension plan from the College were $877,121 for 2017. The State of Oklahoma also made on-behalf contributions to OTRS, of which $602,354 was recognized by the College; these on-behalf payments did not meet the criteria of a special funding situation.

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

At June 30, 2017, the College reported a liability of $17,341,303 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 0.2078%.

(8) RETIREMENT PLANS, CONTINUED

Oklahoma Teachers' Retirement System, Continued

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

For the year ended June 30, 2017, the College recognized pension expense of $1,615,885. At June 30, 2017, the College reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

	Deferred Outflows of Resources	Deferred Inflows of Resources
Differences between expected and actual experience	$ -	402,593
Changes of assumptions	2,088,137	-
Net difference between projected and actual earnings on pension plan investments	2,024,357	-
Change in College proportionate share of contributions	-	966,825
Differences between College contributions and proportionate share of contributions	-	6,247
College contributions subsequent to the measurement date	877,121	-
	$ 4,989,615	1,375,665

There was $877,121 reported as deferred outflows of resources related to pensions resulting from College contributions subsequent to the measurement date that will be recognized as a reduction of the net pension liability in the year ended June 30, 2018. Other amounts reported as deferred outflows of resources and deferred inflows of resources related to pensions will be recognized in pension expense as follows:

Year ended June 30,	
2018	$ 387,537
2019	387,537
2020	1,063,906
2021	794,190
2022	103,659
	$ 2,736,829

See Independent Auditors' Report.

(8) RETIREMENT PLANS, CONTINUED

Oklahoma Teachers' Retirement System, Continued

Actuarial Assumptions

The total pension liability as of June 30, 2017, was determined based on an actuarial valuation prepared as of June 30, 2016, using the following actuarial assumptions:

- Actuarial cost method—Entry Age Normal
- Inflation—2.50%
- Future Ad Hoc cost-of-living increases—None
- Salary increases—Composed of 3.25% wage inflation, including 2.50% price inflation, plus a service-related component ranging from 0.00% to 8.00% 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 5-year experience study for the period ending June 30, 2014.
- Mortality rates after retirement—Males: RP-2000 Combined Healthy Mortality Table for Males with White Collar Adjustments. Generational mortality improvements in accordance with Scale BB from table's base year of 2000. Females: GRS Southwest Region Teacher Mortality Table, scaled at 105%. Generational mortality improvements in accordance with Scale BB from the table's base year of 2012.
- Mortality Rates for Active Members—RP-2000 Employee Mortality tables, with male rates multiplied by 60% and female rates multiplied by 50%.

The long-term expected rate of return on pension plan investments was determined using a building block method in which best estimate ranges of expected future real rates of return (expected returns, net of pension plan investment expense and inflation) are developed for each major asset class. These ranges are combined to produce the long-term expected rate of return by weighting the expected future real rates of return by the target asset allocation percentage and by adding expected inflation.

(8) RETIREMENT PLANS, CONTINUED

Oklahoma Teachers' Retirement System, Continued

Actuarial Assumptions, Continued

The target asset allocation and best estimates of arithmetic expected real rates of return for each major asset class as of June 30, 2016, are summarized in the following table:

Asset Class	Target Asset Allocation	Long-Term Expected Real Rate of Return
Domestic all cap equity*	7.00%	6.2%
Domestic large cap equity	10.00%	5.8%
Domestic mid cap equity	13.00%	6.3%
Domestic small cap equity	10.00%	7.0%
International large cap equity	11.50%	6.6%
International small cap equity	6.00%	6.6%
Core plus fixed income	17.50%	1.6%
High-yield fixed income	6.00%	4.9%
Private equity	5.00%	8.3%
Real estate**	7.00%	4.5%
Master limited partnerships	7.00%	7.7%
	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 (unleveraged) and US Value added Real Estate (unleveraged).

See Independent Auditors' Report.

(8) RETIREMENT PLANS, CONTINUED

Oklahoma Teachers' Retirement System, Continued

Discount Rate

A single discount rate of 7.50% was used to measure the total pension liability as of June 30, 2016. Previously, the System had used an 8.00% discount rate. 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 5 years of actual contributions.

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

The following presents the net pension liability of the employers calculated using the discount rate of 7.50%, 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 (6.50%) or 1-percentage-point higher (8.50%) than the current rate:

	1% Decrease (6.50%)	Current Discount Rate (7.50%)	1% Increase (8.50%)
Employers' net pension liability	$ 22,702,494	17,341,303	12,854,088

The net pension liability of OTRS has been determined based on current guidelines and reporting standards. With the implementation of GASB 75 as of July 1, 2017, the net pension liability is expected to change as well as a possible increase in an OPEB net liability for OTRS. The total impact of the implementation of GASB 75 on OTRS and the further impact on the College had not been determined as of the report date.

Pension Plan Fiduciary Net Position

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

(8) RETIREMENT PLANS, CONTINUED

Supplemental Retirement Benefit Plan (SRB)

Plan Description

In 1995 the College, through its board of regents, entered in to an agreement to provide supplemental retirement benefits to its then president. The agreement called for the College to establish an annuity for the former president which would be paid monthly from his retirement date until death, with up to 3.5% in annual cost of living increases allowable. The annuity account was opened in 1995 with a $154,000 first time payment, the amount projected as necessary to fund the supplemental retirement benefits over the former president's lifetime

In 2000 the former president retired and began to draw on the annuity established in 1995. In late 2009, the College was informed that the annuity account was near insolvency and that supplemental payments would be necessary to fulfill the commitment for the benefits of the former president. After determining it has a legal obligation to do so, the College began making supplemental payments to this account.

Funding Policy

Benefits are funded on a "pay as you go" basis, so there are no assets accumulated to pay these benefits. During the fiscal year ended June 30, 2017, the College made benefit payments of $28,361.

*Pension Liabilities, Pension E*xpense*, and Deferred Outflows of Resources and Deferred Inflows of Resources Related to Pensions*

At June 30, 2017, the College reported a liability of $259,235 for its net pension liability. The net pension liability was measured as of June 30, 2017, and the total pension liability used to calculate the net pension liability was determined by an actuarial valuation as of June 30, 2017. For the year ended June 30, 2017, the College recognized pension expense of $23,348.

Schedule of Changes in Total Pension Liability

The College's changes in total pension liability are as follows as of June 30, 2017.

Beginning net pension liability, restated	$	264,248
Interest		9,460
Change of assumptions		7,547
Difference between actual and expected		6,341
Benefit payments		(28,361)
Ending net pension liability	$	259,235

See Independent Auditors' Report.

(8) RETIREMENT PLANS, CONTINUED

Supplemental Retirement Benefit Plan (SRB), Continued

Actuarial Assumptions

The total pension liability as of June 30, 2017, was determined based on an actuarial valuation prepared as of June 30, 2017, using the following actuarial assumptions:

- Actuarial Cost Method—Entry Age
- Discount Rate—3.05% (Based on Bond Buyers General Municipal Bond Index)
- Mortality Rates after Retirement—RPA-2000 Combined Mortality Table projected to 2020 for males and females

Sensitivity of the Net Pension Liability to Change in the Discount Rate

The following presents the net pension liability of the employers calculated using the discount rate each year, 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 or 1 percentage point higher than the current rate:

	1% Decrease (2.05%)	Current Discount Rate (3.05%)	1% Increase (4.05%)
Employer's net pension liability	$ 274,680	259,235	245,334

(9) RELATED-PARTY TRANSACTIONS

The Foundation is a tax-exempt organization whose objective is the betterment of the College and its related activities. The College is the ultimate beneficiary of the Foundation. The College has entered into a written agreement with the Foundation whereby the College agrees to provide certain administrative services to the Foundation in carrying out its activities. The Foundation paid $1,200 to the College for the services received for the year ended June 30, 2017.

(10) COMMITMENTS AND CONTINGENCIES

Federal Awards

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

The College participates in the Federal Direct Student Loan Program ("Direct Loan Program"). The Direct Loan Program does not require the College to draw down cash; however, the College is required to perform certain administrative functions. Failure to perform such functions may require the College to reimburse the loan guarantee agencies. For the year ended June 30, 2017, approximately $2,891,000 of Direct Loan Program loans were provided to College students.

Payroll Taxes

During August and September 2017, the College received correspondence from the Internal Revenue Service (IRS) assessing penalties and interest for failure to file, failure to pay, and failure to make payroll tax deposits. The assessed interest was approximately $30,000 and the penalties approximately $429,000. The failures relate to the deposit of payroll taxes and the completion of IRS Form 941 for payroll taxes. In prior years, the State of Oklahoma had been making the deposits and filing the Form 941 on behalf of the College and other colleges. Effective January 1, 2016, this changed and the College assumed the responsibility of payment and reporting.

Due to a series of personnel issues, payment of the taxes and report filings did not occur commencing June 2016. However, in June 2017 immediately upon being notified of the payments not being made, the College identified the cause of the issue and because the monies had been properly set aside at the State by the College, payments were made and all Form 941s filed by June 27, 2017.

The accrued interest was paid by the College on August 31, 2017, and a formal request to waive the penalties was made as of August 24, 2017. During October 2017, the IRS reduced the penalties to approximately $20,000. An accrual for the penalties as of June 30, 2017, has not been provide for in these financial statements.

(10) COMMITMENTS AND CONTINGENCIES, CONTINUED

Other

During the course of ordinary business, the College may be subjected to various lawsuits and civil action claims. There were no pending lawsuits to claims against the College at June 30, 2017, that management believes would result in a material loss to the College in the event of an adverse outcome.

(11) RISK MANAGEMENT

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

The College, along with other state agencies and political subdivisions, participates in the State of Oklahoma Risk Management Program public entity risk pool currently operating as a common risk management and insurance program for its members. The College pays annual premiums to the pool for its tort, property, and liability insurance coverage. The Oklahoma Risk Management pool's 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.

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

(12) EASTERN OKLAHOMA STATE COLLEGE DEVELOPMENT FOUNDATION, INC.

The following are significant disclosures of the Eastern Oklahoma State College Development Foundation, Inc. (the "Foundation"):

NOTE (A)—SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Organization

The Eastern Oklahoma State College Development Foundation, Inc. (the "Foundation") is a nonprofit organization incorporated in the State of Oklahoma in 1973 and operated to receive and administer gifts for the sole benefit of Eastern Oklahoma State College (the "College").

Distribution of amounts is subject to the approval of the Board of Trustees or the appropriate fund sponsor and the availability of monies. Accordingly, the accompanying financial statements reflect only transactions for which appropriate approvals have been received by the Foundation as of the financial reporting date.

Contributions

The Foundation reports gifts of cash and other assets as restricted support if they are received with donor stipulations that limit the use of the donated assets. When a donor restriction expires, that is, when a stipulated time restriction ends or purpose restriction is accomplished, temporarily restricted net assets are reclassified to unrestricted net assets and reported in the statement of activities as net assets released from restrictions.

Net Assets

The financial statements of the Foundation have been prepared on the accrual basis in accordance with generally accepted accounting principles.

Net assets are classified based on the existence or absence of donor-imposed restrictions as follows:

Unrestricted—Net assets that are not subject to donor-imposed restrictions. Unrestricted net assets may be designated for specific purposes by action of the Board of Trustees.

Temporarily Restricted—Net assets whose use by the Foundation is subject to donor-imposed restrictions that can be fulfilled by actions of the Foundation pursuant to those restrictions or that expire by the passage of time.

Permanently Restricted—Net assets subject to donor-imposed restrictions that they be maintained permanently by the Foundation. Such assets primarily include the Foundation's permanent endowment funds and irrevocable trusts held by others for the beneficial interest of the Foundation.

(12) EASTERN OKLAHOMA STATE COLLEGE DEVELOPMENT FOUNDATION, INC., CONTINUED

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

Cash and Cash Equivalents

The Foundation defines cash and cash equivalents to be all cash and certificates of deposit with original maturities of 3 months or less. Cash equivalents of $825,062 and $993,567 as of June 30, 2017 and 2016, respectively, were held in financial institutions.

Investments

Investments consist of marketable debt and equity securities and certificates of deposit with original maturities of more than 3 months. Investments are carried at fair value based on the quoted market prices of the underlying securities.

Tax Status

The Foundation is a nonprofit corporation and is an exempt organization as defined in Internal Revenue Code Section 501(c)(3). The Foundation has been classified as an organization that is not a private foundation under Section 509(a) of the Internal Revenue Code and qualified for deductible contributions under Section 170(b)(1)(A)(vi). The Foundation receives limited income that is unrelated to its exempt purpose and is taxable under the Internal Revenue Code.

Property and Equipment

Property and equipment are stated at cost or at estimated fair value at date of donation. The Foundation provides for depreciation using the straight-line method over the estimated useful lives of the related assets. Repairs and maintenance are expensed as incurred, whereas major improvements in excess of $500 are capitalized.

Allocated Expenses

Expenses by function have been allocated among program and supporting services classifications on the basis of time records and on estimates made by the Foundation's management.

(12) EASTERN OKLAHOMA STATE COLLEGE DEVELOPMENT FOUNDATION, INC., CONTINUED

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

Concentrations of Credit Risk

Financial instruments, which potentially subject the Foundation to concentrations of credit risk, consist primarily of cash and cash equivalents, short-term investments and pledges receivable. The Foundation places its cash and certificates of deposit with high quality financial institutions. Pledges receivable consist of a large number of contributors throughout the state of Oklahoma. The Foundation provides an allowance for the estimated uncollectible portion of pledges receivable. The Foundation's management believes that the credit risk is adequately provided for to which it is exposed.

Management Estimates

The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the amounts reported in the financial statements and disclosures in the notes thereto. Actual results could differ from those estimates.

Date of Management's Review of Subsequent Events

Subsequent events for the Foundation have been evaluated through October 17, 2017, which is the date the financial statements were issued.

NOTE (B)—CASH AND CASH EQUIVALENTS

The Foundation maintains several bank accounts. The table below is designed to disclose the level of custody credit risk assumed by the Foundation based upon how its deposits were insured at June 30, 2017 and 2016. FDIC regulations state time and savings accounts are insured up to a $250,000 maximum.

Category 1—Insured by FDIC or collateralized with securities held by the Foundation or by its agent in its name.

Category 2—Uninsured but collateralized with securities held by the pledging financial institution's trust department or agent in the Foundation's name.

Category 3—Uninsured and uncollateralized.

(12) EASTERN OKLAHOMA STATE COLLEGE DEVELOPMENT FOUNDATION, INC., CONTINUED

NOTE (B)—CASH AND CASH EQUIVALENTS, CONTINUED

Type of Deposits June 30, 2017	Total Carrying Balance	Total Bank Balance	Custodial Credit Risk Category		
			1	2	3
Demand deposits:					
Wilburton State Bank	$ 625,062	701,987	250,000	-	451,987
Certificates of deposit:					
The Bank, NA	200,000	200,000	200,000	-	-
	$ 825,062	901,987	450,000	-	451,987

Type of Deposits June 30, 2016	Total Carrying Balance	Total Bank Balance	Custodial Credit Risk Category		
			1	2	3
Demand deposits:					
Wilburton State Bank	$ 575,877	610,573	250,000	-	360,573
First National Bank	217,690	223,981	223,981	-	-
Certificates of deposit:					
The Bank, NA	200,000	200,000	200,000	-	-
	$ 993,567	1,034,554	673,981	-	360,573

See Independent Auditors' Report.

(12) EASTERN OKLAHOMA STATE COLLEGE DEVELOPMENT FOUNDATION, INC., CONTINUED

NOTE (C)—INVESTMENTS

Investment income consisted of the following at June 30:

		2017	2016
Interest and dividend income	$	61,966	30,312
Realized gains and losses		18,513	(10,957)
Unrealized gains and losses		297,197	(7,327)
	$	377,676	12,028

Investments consisted of the following at June 30:

2017		Cost	Fair Value	Carrying Value
Investments:				
Equity funds	$	764,229	872,402	872,402
Fixed income funds		430,857	426,989	426,989
Money market funds		125,229	125,229	125,229
	$	1,320,315	1,424,620	1,424,620

2016		Cost	Fair Value	Carrying Value
Investments:				
Equity funds	$	716,333	700,200	700,200
Fixed income funds		417,728	423,134	423,134
Money market funds		81,306	81,306	81,306
	$	1,215,367	1,204,640	1,204,640

(12) EASTERN OKLAHOMA STATE COLLEGE DEVELOPMENT FOUNDATION, INC., CONTINUED

NOTE (D) —FUNDS HELD BY OTHERS

During the year ended 2009, the Foundation liquidated all investments and made an irrevocable gift to a community foundation organization. The community foundation organization maintains ownership and control over the invested assets and includes the Foundation's gift in a pooled investment fund. Funds placed with this organization cannot be returned to the Foundation without consent by a super majority of the community foundation organization's Board of Directors as well as a super majority of the Foundation's Board of Directors. Disbursements of the investment income generated from the gift can be made for designated purposes.

Investments consist of the following as of June 30:

	Cost	Fair Value	Carrying Value
2017			
Pooled investment fund	$ 1,910,608	2,089,818	2,089,818
2016			
Pooled investment fund	$ 1,939,670	1,970,348	1,970,348

In addition to the above, the community foundation organization maintains funds owned by the community foundation organization that are for the benefit of the Foundation. The Foundation receives the earnings from these funds and these funds are recorded as contributions when received in the accompanying financial statements. The amount held for the benefit of the foundation and not reflected in the accompanying financial statements for the year ended June 30, 2017 and 2016, are $119,470 and $33,820, respectively.

NOTE (E)—ENDOWMENTS

The Foundation endowments consist of approximately 140 individual funds established for a variety of purposes. As required by generally accepted accounting principles (GAAP), net assets associated with endowment funds, including funds designated by the Board of Directors to function as endowments, are classified and reported based upon the existence or absence of donor-imposed restrictions.

(12) EASTERN OKLAHOMA STATE COLLEGE DEVELOPMENT FOUNDATION, INC., CONTINUED

NOTE (E)—ENDOWMENTS, CONTINUED

Interpretation of Relevant Law

In accordance with the requirements of FAS 117-1, and the Oklahoma Uniform Prudent Management of Institutional Funds Act (OUPMIFA), the Foundation will report the market value of an endowment as perpetual in nature. As a result, the Foundation classifies as permanently restricted (1) the original value of gifts donated to the endowment, (2) the original value of subsequent gifts donated to the endowment, (3) all realized and unrealized gains and losses of the endowment, and (4) less any income distribution in accordance with the spending policy which will be classified as temporarily restricted. In accordance with OUPMIFA, the Foundation considers the following factors in making a determination to appropriate or accumulate donor-restricted endowment funds:

1) The duration and preservation of the fund;

2) The purpose of the Foundation and the donor-restricted endowment fund; General economic conditions;

3) The possible effect of inflation and deflation;

4) The expected total return from income and the appreciation of investments;

5) Other resources of the Foundation;

6) The investment policies of the Foundation.

Return Objectives and Risk Parameters

The Foundation has adopted investment and spending policies for endowment assets that attempt to provide a predictable stream of funding to programs supported by the endowment while seeking to maintain the purchasing power of the endowment assets. Under this policy, as approved by the Board of Directors, the endowment assets are invested in a manner that is intended to produce results which generate a dependable, increasing source of income and appreciation while assuming a moderate level of investment risk. The Foundation expects its endowment funds, over time, to provide an average rate of return of approximately 7% annually. Actual returns in any given year may vary from this amount.

(12) EASTERN OKLAHOMA STATE COLLEGE DEVELOPMENT FOUNDATION, INC., CONTINUED

NOTE (E)—ENDOWMENTS, CONTINUED

Strategies Employed for Achieving Objectives

To satisfy its long-term rate of return objectives, the Foundation relies on a total return strategy in which investment returns are achieved through both capital appreciation (realized and unrealized) and current yield (interest and dividends). The Foundation targets a diversified asset allocation that places a greater emphasis on equity-based investments to achieve its long-term return objectives while reducing risk to acceptable levels.

Spending Policy and How the Investment Objectives Relate to Spending Policy

The Foundation has a policy of appropriating for distribution each year the equivalent of up to 5% of its endowment fund's fair value as of the immediately preceding July 1. In establishing this policy, the Foundation considered the long-term expected return on its endowment. Accordingly, over the long term, the Foundation expects the current spending policy to allow its endowment to grow at an average of 3% annually. This is consistent with the Foundation's objective to maintain the purchasing power of the endowment assets held in perpetuity or for a specified term as well as to provide additional real growth through new gifts and investment return.

Endowment net asset composition by type of fund as of June 30:

	2017		
	Unrestricted	Temporarily Restricted	Permanently Restricted
Donor-restricted endowment funds	$ -	2,199,697	2,248,038
Total endowment funds	$ -	2,199,697	2,248,038

See Independent Auditors' Report.

(12) EASTERN OKLAHOMA STATE COLLEGE DEVELOPMENT FOUNDATION, INC., CONTINUED

NOTE (E)—ENDOWMENTS, CONTINUED

Spending Policy and How the Investment Objectives Relate to Spending Policy, Continued

	2016		
	Unrestricted	Temporarily Restricted	Permanently Restricted
Donor-restricted endowment funds	$ -	1,963,045	2,201,861
Total endowment funds	$ -	1,963,045	2,201,861

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

	2017		
	Unrestricted	Temporarily Restricted	Permanently Restricted
Endowment net assets—beginning	$ -	1,963,045	2,201,861
Investment return	-	273,721	-
Other income	-	154,522	28,472
Contributions	-	264,605	17,705
Appropriations for expenditure	-	(456,196)	-
Total endowment funds	$ -	2,199,697	2,248,038

See Independent Auditors' Report.

(12) EASTERN OKLAHOMA STATE COLLEGE DEVELOPMENT FOUNDATION, INC., CONTINUED

NOTE (E)—ENDOWMENTS, CONTINUED

Spending Policy and How the Investment Objectives Relate to Spending Policy, Continued

	2016		
	Unrestricted	Temporarily Restricted	Permanently Restricted
Endowment net assets—beginning	$ -	1,867,131	2,029,926
Investment return	-	13,242	-
Other income	-	119,189	-
Contributions	-	270,960	171,935
Appropriations for expenditure	-	(307,477)	-
Total endowment funds	$ -	1,963,045	2,201,861

NOTE (F)—RELATED-PARTY TRANSACTIONS

Based upon an exchange of service agreement, the College provides the Foundation with the necessary staffing and office space at no cost to the Foundation. Thus, the Foundation has no employees. In exchange, the College received scholarships, funds for capital improvements, and other services from the Foundation. The value of such services has been recorded on the financial statements as in-kind contributions. During the year ended June 30, 2017, the Foundation made a loan to the College in the amount of $148,500 at an interest rate of 3%. The loan is to be repaid over the next 5 years.

NOTE (G)—FAIR VALUE MEASUREMENTS

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

(12) EASTERN OKLAHOMA STATE COLLEGE DEVELOPMENT FOUNDATION, INC., CONTINUED

NOTE (G)—FAIR VALUE MEASUREMENTS, CONTINUED

Fair Value Measured on a Recurring Basis

The following methods and assumptions were used to estimate the fair value of assets and liabilities in the financial statements.

Cash and Cash Equivalents

The carrying amounts approximate the fair value due to the short maturity of such amounts.

Investments

Investments in cash and cash equivalents, publicly traded securities, and mutual funds are stated at market value based on quoted market prices. Investments common trust funds, certificates of deposit, government agency bonds, and mortgage-backed securities are stated at market price as determined by the fund manager or quoted market prices in non-active markets. Other investments are stated at fair value based upon current market conditions and other factors deemed relevant to the valuation as provided by the independent valuation specialist and or Foundation management.

Pledges and Accounts Receivable

The carrying amounts of receivables are based on the discounted value of expected future cash flows, which approximate fair value.

Other Assets

Remaining financial instruments are carried at cost, which approximates fair value.

Accounts Payable and Other Liabilities

The carrying amounts approximate fair value due to the short maturity of those amounts.

(12) EASTERN OKLAHOMA STATE COLLEGE DEVELOPMENT FOUNDATION, INC., CONTINUED

NOTE (G)—FAIR VALUE MEASUREMENTS, CONTINUED

Fair Value Measured on a Recurring Basis, Continued

Fair value is defined as the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. The fair value hierarchy requires an entity to maximize the use of observable inputs and minimize the use of unobservable inputs when measuring fair value. The three levels of inputs that may be used to measure fair value are:

- Level 1—Quoted prices in active markets for identical assets or liabilities.

- Level 2—Observable inputs other the Level 1 prices, such as quoted prices for similar assets or liabilities; quoted prices in markets that are not active; or other inputs that are observable or can be corroborated by observable market date for substantially the full term of the asset or liabilities.

- Level 3—Unobservable inputs that are supported by little or no market activity and that are significant to the fair value of the assets or liabilities.

(12) EASTERN OKLAHOMA STATE COLLEGE DEVELOPMENT FOUNDATION, INC., CONTINUED

NOTE (G)—FAIR VALUE MEASUREMENTS, CONTINUED

Fair Value Measured on a Recurring Basis, Continued

The following table presents the fair value measurements of assets and liabilities recognized in the accompanying financial statements at fair value on a recurring basis and the level within the fair market value hierarchy in which the fair value measurements fall at June 30:

		Fair Value Measurements at Reporting Date Using		
	Estimated Fair Value	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
2017				
Investments:				
Equity funds	$ 872,402	872,402	-	-
Fixed income funds	426,989	426,989	-	-
Money market funds	125,229	125,229	-	-
Pooled investment funds	2,089,818	-	-	2,089,818
	$3,514,438	1,424,620	-	2,089,818
2016				
Investments:				
Equity funds	$ 700,200	700,200	-	-
Fixed income funds	423,134	423,134	-	-
Money market funds	81,306	81,306	-	-
Pooled investment funds	1,970,348	-	-	1,970,348
	$3,174,988	1,204,640	-	1,970,348

(12) EASTERN OKLAHOMA STATE COLLEGE DEVELOPMENT FOUNDATION, INC., CONTINUED

NOTE (G)—FAIR VALUE MEASUREMENTS, CONTINUED

Fair Value Measured on a Recurring Basis, Continued

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

Investments

Where quoted market prices are available in an active market, investments are classified within Level 1 of the valuation hierarchy. Level 1 investments include equity securities, mutual funds, and money market funds. If quoted market prices are not available, then fair values are estimated by using pricing models, quoted prices of securities with similar characteristics or discounted cash flows. Level 2 investments include equity securities with similar characteristics or discounted cash flows. Level 2 investments include equity securities, corporate and other bonds, U.S. government securities, marketable alternative assets, inflation hedging, and opportunistic and other investments. In certain cases where Level 1 or Level 2 inputs are not available, investments are classified within Level 3 of the hierarchy and include corporate and other bonds and marketable and nonmarketable alternative assets.

EASTERN OKLAHOMA STATE COLLEGE

REQUIRED SUPPLEMENTARY INFORMATION

Exhibit I

EASTERN OKLAHOMA STATE COLLEGE

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

Last 3 Fiscal Years *

	2017	2016	2015
College's proportion of the net pension liability	0.2078%	0.2252%	0.2262%
College's proportionate share of the net pension liability	$ 17,341,303	13,674,951	12,171,485
College's covered payroll	8,322,346	8,728,536	8,599,447
College's proportionate share of the net pension liability as a percentage of its covered payroll	208.37%	156.67%	141.54%
Plan fiduciary net position as a percentage of the total pension liability	62.24%	70.31%	72.43%

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

Note to the Schedule:
Only the prior 3 fiscal years are presented because 10-year data is not yet available.

See Independent Auditors' Report.

EASTERN OKLAHOMA STATE COLLEGE

SCHEDULE OF THE COLLEGE'S CONTRIBUTIONS
Oklahoma Teachers Retirement System

Last 3 Fiscal Years

	2017	2016	2015
Contractually required contributions	$ 877,121	882,245	938,423
Contributions in relation to the contractually required contributions	877,121	882,245	938,423
Contribution deficiency	$ -	-	-
College's covered payroll	$ 8,130,782	8,322,346	8,728,536
Contributions as a percentage of covered payroll	11%	11%	11%

Note to the Schedule:
Only the prior 3 fiscal years are presented because 10-year data is not yet available.

See Independent Auditors' Report.

Exhibit III

EASTERN OKLAHOMA STATE COLLEGE

SCHEDULE OF THE COLLEGE'S CHANGE IN TOTAL PENSION LIABILITY (SRB)
Supplemental Retirement Benefit Plan

Current Fiscal Year

	2017
Beginning total pension liability, restated	$ 264,248
Interest	9,460
Change of assumptions	7,547
Difference between actual and expected experience	6,341
Benefit payments	(28,361)
Ending total pension liability	$ 259,235

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

See Independent Auditors’ Report.

EASTERN OKLAHOMA STATE COLLEGE

INFORMATION REQUIRED BY
***GOVERNMENT AUDITING STANDARDS* AND**
THE UNIFORM GUIDANCE

FINLEY & COOK
CERTIFIED PUBLIC ACCOUNTANTS

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

Board of Regents
Eastern Oklahoma State College
Wilburton, Oklahoma

We have audited the financial statements of Eastern Oklahoma State College (the "College"), a component unit of the State of Oklahoma, which comprise the statement of net position as of June 30, 2017, and the related statements of revenues, expenses, and changes in net position and cash flows for the year then ended, and the related notes to the financial statements, and have issued our report thereon dated October 26, 2017. We conducted our audit in accordance with the auditing standards generally accepted in the United States and the standards applicable to financial audits contained in *Government Auditing Standards,* issued by the Comptroller General of the United States. Our report includes a reference to the financial statements of Eastern Oklahoma State College Development 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 audited by other auditors and were not audited in accordance with *Government Auditing Standards*, and accordingly, this report does not include reporting on internal control over financial reporting or instances of reportable noncompliance associated with the Foundation. Our report includes a paragraph disclaiming an opinion on required supplementary information. Our report also includes a paragraph noting the implementation of GASB 73 and the restatement of the beginning net position as a result of the implementation of GASB 73.

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.

(Continued)

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

Internal Control Over Financial Reporting, Continued

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies, and therefore, material weaknesses or significant deficiencies may exist that were not identified. We did identify certain deficiencies in internal control, described in the accompanying schedule of findings and questioned costs that we consider to be a material weakness (Finding 2017-001).

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.*

College's Response to Finding

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

Purpose of this Report

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the College's internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the College's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

Finley + Cook, PLLC

Shawnee, Oklahoma
October 26, 2017

FINLEY & COOK
CERTIFIED PUBLIC ACCOUNTANTS

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

Board of Regents
Eastern Oklahoma State College
Wilburton, Oklahoma

Report on Compliance for Each Major Federal Program

We have audited the Eastern Oklahoma State College's (the "College") compliance with the types of compliance requirements described in the *OMB Compliance Supplement* that could have a material effect on each of the College's major federal award programs for the year ended June 30, 2017. The College's major federal programs are identified in the summary of auditors' results section of the accompanying schedule of findings and questioned costs.

Management's Responsibility

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

Auditors' Responsibility

Our responsibility is to express an opinion on compliance for each of the College's major federal programs based on our audit of the types of compliance requirements referred to above. We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and 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* (the "Uniform Guidance"). Those standards and the Uniform Guidance require that we plan and perform the audit to obtain reasonable assurance about whether non-compliance with the types of compliance 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.

(Continued)

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INDEPENDENT AUDITORS' REPORT ON COMPLIANCE FOR EACH MAJOR PROGRAM AND ON INTERNAL CONTROL OVER COMPLIANCE <u>REQUIRED BY THE UNIFORM GUIDANCE, CONTINUED</u>

<u>Opinion on Each Major Federal Program</u>

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.

<u>Other Matters</u>

The results of our auditing procedures disclosed instances of noncompliance, which are required to be reported in accordance with the Uniform Guidance and which are described in the accompanying schedule of findings and questioned costs as item (Findings 2017-002 and 2017-003). Our opinion on each major federal program is not modified with respect to these matters.

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

<u>Report on Internal Control Over Compliance</u>

Management of the College is responsible for establishing and maintaining effective internal control over compliance with the types of compliance requirements referred to above. in planning and performing our audit of compliance, we considered the College's internal control over compliance with the types of requirements that could have a direct and material effect on each major federal program to determine the auditing procedures that are appropriate in the circumstances for the purpose of expressing an opinion on compliance for each major federal program and to test and report on internal control over compliance in accordance with the Uniform Guidance, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of the College's internal control over compliance.

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

(Continued)

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

Report on Internal Control Over Compliance, Continued

Our consideration of internal control over compliance was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over compliance that might be material weaknesses or significant deficiencies and therefore, material weaknesses or significant deficiencies may exist that were not identified. We did not identify any deficiencies in internal control over compliance that we consider to be material weaknesses. However, we identified a certain deficiency in internal control over compliance, as described in the accompanying schedule of findings and questioned costs as Finding 2017-003 that we consider to be a significant deficiency.

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

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

Finley + Cook, PLLC

Shawnee, Oklahoma
October 26, 2017

EASTERN OKLAHOMA STATE COLLEGE

SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS

Year Ended June 30, 2017

Federal Grantor/ Pass-Through Grantor/Program or Cluster Title	Federal CFDA Number	Grant Number/Pass-Through Entity Identifying Number	Passed-Through to Subrecipients	Total Federal Expenditures
U.S. Department of Education:				
Student Financial Aid Cluster:				
Federal Supplemental Educational Opportunity Grants	84.007	N/A	$ -	114,210
Federal Work Study Program	84.033	N/A	-	89,691
Federal Pell Grant Program	84.063	N/A	-	3,188,953
Federal Direct Student Loans Program	84.268	N/A	-	2,890,711
Total Student Financial Aid Cluster			-	6,283,565
TRIO Program Cluster Student Support Services	84.042A	P042A150134	-	264,550
Gear Up for Success	84.334A	P334A110137	-	1,818,418
Pathways to Success (Title III)	84.031A	P031A150205	-	334,799
Pass-Through Oklahoma State Department of Vocational Education:				
Carl Perkins Vocational & Technical Funds	84.048	N/A	-	18,785
Total U.S. Department of Education			-	8,720,117
Department of Agriculture:				
Economic Development	10.351	N/A	-	43,794
Total Department of Agriculture			-	43,794
U.S. Department of Health and Human Services:				
Pass-Through Choctaw Nation of Oklahoma				
Tomorrows Hope	93.243	5H79SM062902-02	-	16,983
Total U.S. Department of Health and Human Services			-	16,983

(Continued)

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

SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS, CONTINUED

Year Ended June 30, 2017

Federal Grantor/ Pass-Through Grantor/Program or Cluster Title	Federal CFDA Number	Grant Number/Pass-Through Entity Identifying Number	Passed-Through to Subrecipients	Total Federal Expenditures
U.S. Department of Labor:				
Pass-Through Program from:				
State of Oklahoma Mine Health & Safety Administration:				
Mine Safety Grant	17.600	N/A	-	250,439
Total U.S. Department of Labor			-	250,439
U.S. Small Business Administration:				
Pass-Through Program from:				
Southeastern Oklahoma State University	59.037	N/A	-	50,708
Total U.S. Small Business Administration			-	50,708
Total Expenditures of Federal Awards			**$ -**	**9,082,041**

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

(1) BASIS OF PRESENTATION

The accompanying schedule of expenditures of federal awards (the "Schedule") includes the federal awards activity of Eastern Oklahoma State College (the "College") under programs of the federal government for the year ended June 30, 2017. The information in this Schedule is presented in accordance with the requirements of Title 2 U.S. *Code of Federal Regulations* (CFR) Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (Uniform Guidance). Because the Schedule presents only a selected portion of the operations of the College, it is not intended to and does not present the net position, changes in net position, or cash flows of the College.

(2) SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

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

(3) FEDERAL DIRECT STUDENT LOAN PROGRAM

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

(4) SUBRECIPIENTS

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

(5) INDIRECT COST RATE

The College has a Negotiated Indirect Cost Rate Agreement issued by the U.S. Department of Health and Human Services issued as of March 12, 2015. The negotiated rates were applied in accordance with the Agreement for the year ended June 30, 2017, except that certain grants limited the rate charged.

See Independent Auditors' Report.

SECTION I—SUMMARY OF AUDITORS' RESULTS

Financial Statements

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

Internal control over financial reporting:

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

Significant deficiency(ies) identified? ☐ **Yes** ☑ **None Reported**

Noncompliance material to financial statements noted? ☐ **Yes** ☑ **No**

Federal Awards

Internal control over major programs:

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

Significant deficiency(ies) identified? ☑ **Yes** ☐ **None Reported**

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

Any audit findings disclosed that are required to be reported in accordance with section 2 CFR 200.516(a)? ☑ **Yes** ☐ **No**

Identification of major federal programs:

Federal CFDA Number	Name of Federal Program or Cluster
84.007, 84.268, 84.033, and 84.063	**Student Financial Assistance Cluster**
84.042	**TRIO Program Cluster Student Support Services**

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

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

SECTION II—FINANCIAL STATEMENT FINDINGS

Finding 2017-001: Material Weakness Noted in Internal Control Over Financial Reporting

Finding: During August and September 2017, the College received notification from the IRS that payroll taxes for the periods June 2016 through June 2017 had not been paid and appropriate payroll forms not filed.

Criteria: The College is required by law to submit payroll taxes on a timely basis to the IRS and file certain payroll forms quarterly.

Condition: Until notified by the IRS, the College was unaware that the taxes had not been paid or that the quarterly reports had not been filed.

Context: The design of the College's review process for the tax payments and filing of payroll tax forms did not adequately ensure that payments and forms were paid and filed in a timely manner.

Effect: The College was assessed approximately $30,000 of interest, which has been paid. In addition, approximately $429,000 of penalties were assessed. During October 2017, the IRS reduced the penalties to approximately $20,000.

Cause: The College had a system in place but due to personnel changes and sickness of key employees, certain functions were not performed and not detected.

Recommendation: The College should have the financial personnel review monthly the tax transfers made by the human resources department. In addition, the quarterly payroll reports should also be reviewed by the financial personnel. The comptroller should also report monthly to the chief financial officer that these procedures as well as other procedures have been performed via a monthly checklist.

Responsible Officials and Planned Corrective Action: See attached Corrective Action Plan.

SECTION III—FEDERAL AWARD FINDINGS AND QUESTIONED COSTS

Finding 2017-002: Student Financial Assistance Cluster
CFDA Numbers: 84.007, 84.033, 84.063, 84.268
Department of Education

Compliance Requirement: Eligibility—Calculation of Federal Pell Grant

Type of Finding: Compliance finding

Criteria: Management is responsible for establishing and maintaining effective internal control over compliance requirement described in the OMB Compliance Supplement. Federal regulation, 34 CFR Section 690.62 Calculation of a Federal Pell Grant states that (a) the amount of a student's Pell Grant for an academic year is based upon the payment and disbursement schedules published by the Secretary for each award year. Uniform Guidance §200.508 states auditee responsibilities including preparing appropriate financial statements, including the schedule of expenditures of Federal awards in accordance with §200.510 financial statements.

Condition: During our student financial aid testing in a sample of 40 students, we noted that the College awarded a Pell grant to a three-quarter time student as a full-time student. The student was over awarded $1,141. The College also noted another student was over awarded during their review; a half-time student was awarded a Pell grant as a full-time student. The second student was over awarded $1,491.

Questioned Costs: $2,632 (Identified); Actual unknown.

Context: The design of the College's review process did not adequately ensure that Pell funds awarded to two students were properly calculated and reviewed.

Effect: One student from our sample of 40 was over awarded Pell funds, and another student that the College noted while reviewing the finding was over awarded Pell funds.

Cause: Appears to have been human error.

Recommendation: We recommend management of the College develop additional internal control procedures to review all grants awarded to the students, in particular Pell awards.

Responsible Officials and Planned Corrective Action: See attached Corrective Action Plan.

SECTION III—FEDERAL AWARD FINDINGS AND QUESTIONED COSTS, CONTINUED

Finding 2017-003: Student Financial Assistance Cluster
CFDA Numbers: 84.007, 84.033, 84.063, 84.268
Department of Education

Compliance Requirement: Return of Title IV Funds

Type of Finding: Compliance finding considered to be a significant deficiency in internal control over major program compliance

Criteria: Management is responsible for establishing and maintaining effective internal control over compliance requirement described in the OMB Compliance Supplement. 34 CFR Section §668.22 states the treatment of Title IV funds when a student withdraws.

(a) General. (1) When a recipient of Title IV grant or loan assistance withdraws from an institution during a payment period or period of enrollment in which the recipient began attendance, the institution must determine the amount of Title IV grant or loan assistance that the student earned as of the student's withdrawal date in accordance with paragraph (e) of this section.

(j) Timeframe for the return of Title IV funds. (1) An institution must return the amount of Title IV funds for which it is responsible under paragraph (g) of this section as soon as possible but no later than 45 days after the date of the institution's determination that the student withdrew as defined in paragraph (l)(3) of this section. The timeframe for returning funds is further described in §668.173(b).

Condition: The College did not have the appropriate controls in place to ensure compliance with federal requirements. During our audit procedures, we reviewed 11 students' accounts who withdrew from the College and we noted the College performed the return of Title IV funds calculations. However we noted 8 out of 11 students whose return of Title IV funds were not correctly calculated.

Questioned Costs: $997 (Identified); Actual unknown.

Context: The College did not have a review process to adequately ensure the calculation of the amount of Title IV fund earned were properly calculated. Due to the errors in the calculation, the adjustment to the return of Title IV funds were submitted subsequently to June 30, 2017 which were not in the required 45 days' timeframe.

Effect: Significant deficiency identified in the internal controls over compliance and material noncompliance requirement in the OMB Compliance Supplement occurred and was not prevented or detected and corrected in a timely manner.

SECTION III—FEDERAL AWARD FINDINGS AND QUESTIONED COSTS, CONTINUED

Finding 2017-003, Continued:

Cause: In discussing the finding with College personnel, the finding was due to human error in calculating the time frame of earned Title IV funds and a computer error that inadvertently added additional days to the student's withdrawal date.

Recommendation: We recommend the College develops additional internal control procedures relative to reviewing return of Title IV funds calculations and ensure the return to Department of Education in a timely manner.

Responsible Officials and Planned Corrective Action: See attached Corrective Action Plan.

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2805 N.E. Lincoln Rd
Idabel, OK 74745
580.286.9431

Antlers Site
405 SE "O" Street
Antlers, OK 74523
580.271.0471

EASTERN OKLAHOMA STATE COLLEGE

2017 COLLEGE CORRECTIVE ACTION PLAN

Year Ended June 30, 2017

Name of auditee: **Eastern Oklahoma State College**
Name of audit firm: **Finley & Cook, PLLC**
Period covered by the audit: **Award Year 2016-2017**
CAP prepared by: **LaDonna Howell, Vice President for Business Affairs, (918) 465-1753**

A. Current Findings on the Schedule of Findings, Questioned Costs, and Recommendations

1. **Finding 2017-001:**
Material weakness in internal controls over financial reporting—Payroll taxes

   a. **Comments on the Finding and Each Recommendation**

   Human Resources will prepare and file all tax related payments immediately following the completion of each payroll. The tax information will then be forwarded to the Business Office where the Accounting Assistant II / Accounts Receivable clerk will verify the wires has been made timely according to the payroll calendar. If notification of a wire is not sent the AR clerk will contact Human Resources before the tax payment is late.

   The Comptroller will verify that the tax payments reflect field and paid on the EFTPS and OTC websites. The comptroller will be filing the 941 Quarterly report.

2. **Finding 2017-002:**
Compliance Requirement: Eligibility—Calculation of Federal Pell Grant

   a. **Comments on the Finding and Each Recommendation**

   Eligibility – Calculation of Federal Pell Grant

   The Ellucian Colleague system is set to automatically adjust Pell Grant awards based on the enrollment level of each student. This happened in only 2 students in the 2016-17 academic year, to which over $3.2 million in Pell Grants were funded, and definitely is an oddity.

   The Financial Aid Office is having a Colleague consult on October 31, 2017, in which this issue will be addressed. Their expertise can help us determine how these two students may have bypassed all the checks set up in the system and allowed to be overfunded this way.

   In addition, as a precaution, the Financial Aid Office will work to manually inspect the awards and enrollment levels of students throughout the balancing process.

A. Current Findings on the Schedule of Findings, Questioned Costs, and Recommendations, Continued

3. Finding 2017-003:

Compliance Requirement: Return of Title IV Funds

a. Comments on the Finding and Each Recommendation

Return of Title IV Funds

The Financial Aid Office is having a Colleague consult on October 31, 2017, in which this issue will be addressed. The setup for completing the R2T4 process in Colleague will be reviewed and any necessary corrections can be made within the system.

The Financial Aid Office will also be completing the paper R2T4 forms as a double- check of the accuracy of the system in 2017-18. The reassessment of the calculations that are done within the system will show if there are any areas within the setup of the system.

LaDonna Howell CPA

LaDonna Howell, VP for Business Affairs.

FINDING FROM JUNE 30, 2016, AUDIT

SECTION III—FEDERAL AWARD FINDINGS AND QUESTIONED COSTS

Finding 2016-001

Compliance Requirement
Audit Report Submission

Type of Finding: Compliance item which is not considered to be a significant deficiency or material weakness.

Criteria: Uniform Guidance §200.512 states that the auditee must submit the required data collection form and reporting package within the earlier of 30 calendar days after receipt of the auditor's reports, or 9 months after the end of the audit period.

Condition: During the audit procedures, we noted that the College's FY 2015 data collection form and reporting package were submitted to the Federal Audit Clearinghouse on October 18, 2016, which is considered to be a late submission.

Questioned Costs: None.

Context: The College's FY 2015 audit reports were completed in October of 2015 and should have been submitted to the Federal Audit Clearinghouse prior to November 30, 2015.

Effect: Due to the late submission of the data collection form and reporting package, the College was not in compliance with the Uniform Guidance requirements.

Cause: The College's data collection form and reporting package submission procedures as well as review of procedures were not properly followed.

Recommendation: We recommend that the College have procedures in place to ensure submission of the data collection form and reporting package on time.

Responsible Officials and Planned Corrective Action: Management will update the College's procedures to ensure the Federal Audit Clearinghouse submission is done timely in the future.

Follow-Up by Auditors in 2017: This was not noted as a finding for 2017. The matter is considered resolved.