

Eastern Oklahoma State College
A Component Unit of the State of Oklahoma

Financial Statements
with Independent Auditors' Reports

June 30, 2018



Eastern Oklahoma State College
A Component Unit of the State of Oklahoma
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June 30, 2018

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Business Advisors

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 the business-type activities and discretely presented component unit of Eastern Oklahoma State College (the College), a component unit of the state of Oklahoma, as of and for the year ended June 30, 2018, 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 this financial statement in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditors' Responsibility

Our responsibility is to express an opinion on this financial statement based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

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 auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the financial statement referred to above present fairly, in all material respects, the respective financial position of the Eastern Oklahoma State College as of June 30, 2018, and the respective changes in financial position, and, where applicable, cash flows thereof for the year then ended in accordance with accounting principles generally accepted in the United States of America.

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Other Matters
Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis on pages i through vii and pension information and other post-employment benefits as listed in the table of contents and on pages 58 through 63 will 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 of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the 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.

Emphasis of a Matter

As described in Note 2 to the financial statements, the beginning net position as of July 1, 2017, has been restated to reflect the implementation of Governmental Accounting Standards Board Statement No. 75, *Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions* (GASB 75). Accordingly, adjustments have been made to the beginning balance of net position as of July 1, 2017. Our opinion is not modified with respect to this matter

Other Information

Our audit was performed for the purpose of forming an opinion on the financial statements of the Eastern Oklahoma State College taken as a whole. The schedule of expenditures of federal awards is presented for purposes of additional analysis as required by Title 2 U.S. *Code of Federal Regulations* (CFR) Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards*, and is also not a required part of the basic financial statements

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated November 15, 2018 on our consideration of the Eastern Oklahoma State 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 solely to describe the scope of our testing of internal control over financial reporting and compliance and the result of that testing, and not to provide an opinion on the effectiveness of the College's 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 Eastern Oklahoma State College's internal control over financial reporting and compliance

Hill & Company, PC

Tulsa, Oklahoma
November 15, 2018





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, 2018, 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 inflow and outflow revenues. The net position reports investments in fixed assets net of accumulated depreciation, restricted net assets by restrictive covenants and the balance of net assets are reported as unrestricted net assets.

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 fixed assets. That evaluation serves as a basis for the cost and accumulated depreciation for fixed assets reported in the financial statements purchased prior to that year. The College records the cost of fixed 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 2018 were \$(260,548) and \$(2,273,257), respectively, a decrease of \$2,012,709.

Operating revenues increased by \$2.2 million from \$8.2 million to \$10.4 million. Tuition and fee revenues, a major component of operating revenues, which includes only tuition and fees paid directly by students increased by \$104,418 for fiscal year 2018. Federal grants and contracts revenue increased \$1,616,302 for the fiscal year 2018. This increase is due to additional funds for Pathways for Success and the addition of the Gear Up 3 grant. Other operating revenues increase \$137,269 due to the addition of the Gear Up 3 grant and the indirect cost revenue earned from this grant.

Operating expenses increased by \$920,747 from \$19.7 million to \$20.6 million for the fiscal year 2018. Contractual Services expense increased \$390,865 due to the addition of Gear Up 3 which included additional grant writing expenses, educational services expense and other operating expenses. Scholarships and Fellowship expense increased \$301,610 due to additional scholarships being processed for EOSC Development Foundation and OHLAP.

Non-operating revenues did see a decrease of \$609,180 or 6%. This was due to a decrease in state appropriations in the amount of \$195,814. Federal and State grants (Financial Aid Grants) decreased by \$444,391 from \$4.3 million to \$3.9 million. This is due to a decrease of \$367,375 for Pell grants processed along with the SEOG grants for 2017-2018 being processed after fiscal year 2018.

Financial Analysis of the College as a Whole

Statement of Net Position

| | 2018 | 2017 |
|---|----------------|--------------|
| Assets: | | |
| Current assets | \$ 2,660,400 | 3,139,456 |
| Capital assets, net | 23,170,053 | 24,246,539 |
| Other assets | 14,357 | 15,281 |
| Total assets | 25,844,810 | 27,401,276 |
| Deferred Outflow | 3,023,855 | 4,995,113 |
| Liabilities | | |
| Current liabilities | 2,248,129 | 2,432,408 |
| Noncurrent liabilities | 25,205,778 | 28,662,826 |
| Total liabilities | 27,453,907 | 31,095,234 |
| Deferred Inflows | 3,688,015 | 1,561,703 |
| Net assets | | |
| Invested in capital assets, net of debt | 11,748,676 | 12,323,164 |
| Restricted – expendable, debt service | 14,357 | 15,281 |
| Restricted – expendable, Grant funds | 835,612 | 968,836 |
| Unrestricted | (14,871,902) | (13,567,829) |
| Net Position, End of year | \$ (2,273,257) | \$ (260,548) |

Statement of Revenues, Expenses, and Changes in Net Assets

Graphic illustrations follow that report elements of the Statement of Revenues, Expenses, and Changes in Net Assets 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 2018 | Fiscal Year 2017 | Net Change |
|--|---------------------|---------------------|---------------|
| Tuition and fees | \$ 3,378,722 | \$ 3,274,303 | \$ 104,418 |
| Federal grants and contracts | \$ 4,050,418 | \$ 2,434,116 | \$ 1,616,302 |
| State grants and contracts | \$ 1,286,981 | \$ 1,164,266 | \$ 122,714 |
| Sales and services of Auxiliary Activities | \$ 1,324,864 | \$ 1,095,458 | \$ 229,405 |
| Other operating revenues | \$ 390,155 | \$ 252,885 | \$ 137,270 |

Operating Expenses by Natural Classifications

| Classification | Fiscal Year 2018 | Fiscal Year 2017 | Net Change |
|------------------------------|---------------------|---------------------|---------------|
| Compensation | \$ 10,754,202 | \$ 10,808,885 | \$ (54,683) |
| Contractual services | \$ 2,386,349 | \$ 1,995,484 | \$ 390,865 |
| Supplies and materials | \$ 2,619,900 | \$ 2,409,475 | \$ 209,903 |
| Communication | \$ 110,709 | \$ 120,765 | \$ (10,056) |
| Depreciation | \$ 1,262,265 | \$ 1,234,985 | \$ 27,802 |
| Utilities | \$ 669,112 | \$ 642,287 | \$ 26,824 |
| Scholarships and fellowships | \$ 1,665,628 | \$ 1,364,017 | \$ 301,610 |
| Other operating expense | \$ 1,225,366 | \$ 1,196,886 | \$ 28,479 |

Non-operating Revenues (Expenses)

| Revenues (Expenses) | Fiscal Year 2018 | Fiscal Year 2017 | Net Change |
|--|---------------------|---------------------|---------------|
| State appropriations | \$ 4,987,349 | \$ 5,183,163 | \$ (195,814) |
| State Payments - ARRA | \$ 0 | \$ 0 | \$ 0 |
| Federal and state grants | \$ 3,918,981 | \$ 4,363,373 | \$ (444,392) |
| On-behalf Teachers' Retirement System Contributions | \$ 602,778 | \$ 602,354 | \$ 424 |
| Investment income | \$ 11,471 | \$ 13,511 | \$ (2,040) |
| Interest expense | \$ (472,590) | \$ (505,231) | \$ 32,641 |

Statement of Cash Flows

Cash at June 30, 2018 was \$1,378,055 compared to \$1,947,941 at June 30, 2017, a decrease of \$569,886 as explained below.

Cash used in operating activities decreased \$994,685 from \$9,634,081 to \$8,639,396, for the years ended June 30, 2017 and 2018, 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 decrease in cash used in operating activities was the result of an increase in cash received in grants and contracts and auxiliary enterprises along with a decrease in payments made to employees.

Cash provided by non-capital financing activities decreased by \$640,206 from 9,546,536 in 2017 to 8,906,330 in 2018. This decrease was primarily due to a decrease 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, increased \$539,110. This was mainly due to an increase of OCIA payments that were paid on our behalf.

Cash provided by investing activities decreased by \$2,040, due to a decrease in the interest rate earned by our investments.

Capital Assets

As of June 30, 2018, the College had a net book value of fixed assets of \$23,170,052 compared to \$24,246,539 the previous year-end, a decrease of \$1,076,486. Investments for the current year included \$347,083 for the purchase of equipment, livestock, and library books. Depreciation recorded for 2018 and 2017, was \$1,263,264 and \$1,234,985 respectively.

Capital Financing

The College has secured financing for capital expenditures through three separate processes.

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 a lack of funding. The capital lease obligations at June 30, 2018 for the 1999 series were \$70,252 and the 2006 series were \$4,286,726 extending through the period ending 2030. For the year ended June 30, 2018, the Oklahoma State Regents for Higher Education made on-behalf payments of \$760,131 and \$241,391 for the total principal and interest due for the year. Accordingly, the College did not make any payments this year.

At this time the College has four 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 for the purpose of financing \$2,951,180 in equipment related to the conservation of energy on the campus. At June 30, 2018, the remaining principal obligation was \$1,224,666 and interest obligation was \$191,918, 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, 2018, the remaining principal obligation was \$207,750 and interest obligation was \$26,567. The 2011A Equipment Master Lease/Purchase was for the purpose of acquiring certain equipment items. The College obtained these funds for the purpose of financing \$550,000 to remodel two classroom buildings on campus and \$50,000 to purchase dorm furnishings. At June 30, 2018, the remaining principal obligation was \$331,833 and interest obligation was \$67,821, 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. This Master Lease/Purchase was for the purpose of remodeling the Administration building, Pratt Hall, Gunning Hall, Baker Hall, for the construction of the Regency Court Apartments, and for certain equipment and furnishings. At June 30, 2018, the remaining principal obligation was \$3,554,250 and the interest obligation was \$1,166,651, due through 2031. In 2017, the College refinanced its 2004 Revenue Bond with the 2016 Master Lease. At June 30, 2018, the remaining principal obligation was \$613,250 and the interest obligation was \$65,898, due through 2023.

The College has two Lease/Purchase Agreements 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, 2018, the remaining principal obligation was \$39,148 and the interest obligation was \$1,372, due through 2019. During the 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, 2018, the remaining principal obligation was \$54,419 and interest obligation was \$3,276, due through 2020.

In 2016 the College entered into an agreement with US Department of Education for repayment of \$593,853 for student financial aid. There was a down payment of \$148,463 that was financed through EOSC Foundation. At June 30, 2018, the remaining principal obligation was \$130,006 and the interest obligation was \$10,229, due through 2022. The remaining balance of \$445,390 was financed through US Department of Education. At June 30, 2018, the remaining principal obligation was \$225,705, due through 2021.

Net Assets

Investment in capital assets increased \$297,692 in 2018, to a balance of \$12.6 million. This increase is primarily a result of a decrease in current and noncurrent liabilities.

Restricted net assets for debt service decreased by \$924 for the year ended June 30, 2018. These net assets are comprised of cash and cash equivalents with restrictions for debt service funds. Restricted net assets for grant funds decreased by \$133,224 which is a result of a decrease in cash and grant receivables.

Unrestricted net assets include net assets other than restricted assets and capital assets. Unrestricted net assets increased by \$658,292 to \$15.7 million at June 30, 2018.

Net Position

| Net Position | Fiscal Year 2018 | Fiscal Year 2017 | Net Change |
|---------------------------------|---------------------|---------------------|---------------|
| Invested in capital assets, net | \$ 11,748,676 | \$ 12,323,164 | \$ 297,692 |
| Restricted for loans | \$ - | \$ - | \$ 0 |
| Restricted for capital projects | \$ - | \$ - | \$ 0 |
| Restricted for debt service | \$ 14,357 | \$ 15,281 | \$ (924) |
| Restricted for Grant funds | \$ 835,612 | \$ 968,836 | \$ (133,224) |
| Unrestricted | \$ (14,871,902) | \$ (13,567,829) | \$ (658,292) |

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 four 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 FY15 the budget was flat. In 2016 state appropriations were cut tremendously. The cuts began in January 2016 and continued throughout the remaining 2016 fiscal year with a total of \$991,284. In 2017 and 2018 there was a decrease of \$249,204 and \$322,865, respectively. Tuition and fee increases were approximately 6.8% in 2015, 5% in 2016, and 7% in 2018 which helped to offset this net decrease in state appropriations and the dramatic increase of mandatory expenses over the past several fiscal years.

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 no change in fiscal year 2018. 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 2019 enrollment will rebound so that our upward trend will start again. The economic forecast for 2019 is down at this time. The College is trying to safeguard its reserves so that it will be available in the upcoming years if needed. However, the College is continuing to look for ways to effectively allocate resources while supporting 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 West Main, Wilburton, OK 74578.

Eastern Oklahoma State College
A Component Unit of the State of Oklahoma
Statements of Net Position
June 30, 2018

| | 2018 | |
|---|---------------|-----------------------------------|
| | EOSC | EOSC Development Foundation |
| ASSETS | | |
| Current Assets | | |
| Cash and cash equivalents | \$ 880,802 | \$ 735,132 |
| Restricted cash and cash equivalents | 497,253 | - |
| Investments | - | 3,748,736 |
| Accounts receivable, net of allowance for doubtful accounts of \$2,401,700 | 930,787 | 132,731 |
| Federal and state grants receivable | 338,359 | - |
| Inventories | 13,199 | - |
| Total Current Assets | 2,660,400 | 4,616,599 |
| Noncurrent Assets | | |
| Perkins loans | 14,357 | |
| Capital assets, net of accumulated depreciation | 23,170,053 | 40,000 |
| Total noncurrent assets | 23,184,410 | 40,000 |
| Total Assets | 25,844,810 | 4,656,599 |
| Deferred Outflows of Resources | | |
| Deferred cost on OCIA lease restructuring | 4,811 | - |
| Deferred amounts related to pensions | 2,911,027 | - |
| Deferred amounts related to OPEB | 108,017 | - |
| Total Deferred Outflow of Resources | 3,023,855 | - |
| Total assets and deferred outflows of resources | \$ 28,868,665 | \$ 4,656,599 |

Eastern Oklahoma State College
A Component Unit of the State of Oklahoma
Statements of Net Position
June 30, 2018

| | 2018 | |
|--|---------------|-----------------------------------|
| | EOSC | EOSC Development Foundation |
| LIABILITIES | | |
| Current Liabilities | | |
| Accounts payable | \$ 45,670 | \$ 1,537 |
| Accrued compensated absenses | 174,099 | - |
| Accrued liabilities | 143,180 | - |
| Unearned revenue | 258,373 | - |
| Deposits held in custody for others | 96,956 | - |
| Current portion of noncurrent liabilities | 1,529,851 | - |
| Total Current Liabilities | 2,248,129 | 1,537 |
| Noncurrent Liabilities, net of current portion | | |
| Accrued compensated absenses | 152,339 | - |
| Obligations under capital leases and notes payable | 9,375,056 | - |
| Net OTRS pension liability | 14,215,802 | - |
| Total OPEB liability | 1,462,581 | - |
| Total Noncurrent Liabilities | 25,205,778 | - |
| Total Liabilities | 27,453,907 | 1,537 |
| Deferred Inflows of Resources | | |
| Deferred gain on lease restructure | 165,572 | - |
| Deferred amounts related to pensions | 2,557,420 | - |
| Deferred amounts related to OPEB | 965,023 | - |
| Total Deferred Inflows of Resources | 3,688,015 | - |
| Net Position | | |
| Net investments in capital assets | 11,748,676 | 40,000 |
| Restricted for: | | |
| Nonexpendable | - | 2,294,683 |
| Expendable | | |
| Instruction, scholarships and other | - | 2,253,640 |
| Grants | 835,612 | - |
| Debt service | 14,357 | - |
| Unrestricted | (14,871,902) | 66,739 |
| Total Net Position | (2,273,257) | 4,655,062 |
| Total liabilities, deferred inflows of resources and net position | \$ 28,868,665 | \$ 4,656,599 |

Eastern Oklahoma State College
A Component Unit of the State of Oklahoma
Statements of Revenues, Expenses and Changes in Net Position
For the Year Ended June 30, 2018

| | 2018 | |
|--|-----------------------|-----------------------------------|
| | EOSC | EOSC Development Foundation |
| Operating Revenues | | |
| Tuition and fees, net of scholarship allowances | \$ 3,378,722 | \$ - |
| Federal grants and contracts | 4,050,418 | - |
| State and local grants and contracts | 1,286,981 | - |
| Sales and services of auxiliary enterprises, net | 1,324,864 | - |
| Other operating revenues | 390,155 | 220,118 |
| Total Operating Revenues | <u>10,431,140</u> | <u>220,118</u> |
| Operating Expenses | | |
| Compensation | 10,754,202 | - |
| Contract services | 2,386,349 | - |
| Supplies and materials | 2,619,900 | - |
| Scholarships and fellowships | 1,665,628 | 327,414 |
| Communications | 110,709 | - |
| Depreciation | 1,262,265 | - |
| Utilities | 669,112 | - |
| Support to college | - | 229,643 |
| Other operating expenses | 1,225,366 | 81,161 |
| Total Operating Expenses | <u>20,693,531</u> | <u>638,218</u> |
| Operating (Loss) | <u>(10,262,391)</u> | <u>(418,100)</u> |
| Nonoperating Revenues (Expenses) | | |
| State appropriations | 4,987,349 | - |
| Federal grants and contracts | 3,918,981 | - |
| Contributions and other receipts | - | 263,890 |
| OTRS on-behalf contributions | 602,778 | - |
| Investment income | 11,471 | 279,625 |
| Interest on capital asset-related debt | (472,590) | - |
| Net Nonoperating Revenues | <u>9,047,989</u> | <u>543,515</u> |
| Income (loss) before revenues, expenses, gains, losses, and transfers | (1,214,402) | 125,415 |
| State appropriations restricted for capital purposes | 332,793 | - |
| OCIA on-behalf appropriations | 1,001,522 | - |
| Change in Net Position | 119,913 | 125,415 |
| Net Position, beginning of year, as restated (See Note 2) | <u>(2,393,170)</u> | <u>4,529,647</u> |
| Net Position, end of year | <u>\$ (2,273,257)</u> | <u>\$ 4,655,062</u> |

Eastern Oklahoma State College
A Component Unit of the State of Oklahoma
Statement of Cash Flows
For the Year Ended June 30, 2018

| | EOSC | EOSC Development Foundation |
|--|--------------|--|
| Cash Flows from Operating Activities | | |
| Tuition and fees | \$ 3,421,820 | \$ - |
| Grants and contracts | 3,581,983 | - |
| Contributions | - | 270,335 |
| Auxiliary enterprise sales and service | 1,327,523 | - |
| Payments to suppliers | (7,370,475) | - |
| Payments to employees for salaries and benefits, net on-behalf payments | (9,990,402) | - |
| Payments to scholarships | - | (327,414) |
| Other operating receipts | 390,155 | - |
| Net Cash provided by (used in) operating activities | (8,639,396) | (57,079) |
| Cash Flows from Noncapital Financing Activities | | |
| State appropriations | 4,987,349 | - |
| Non-operating grants | 3,918,981 | - |
| Net cash provided by noncapital financing activities | 8,906,330 | - |
| Cash Flows from Capital and Related Financing Activities | | |
| Cash paid for capital assets | (185,779) | - |
| Principle paid on capital leases and bonds | (1,504,459) | - |
| Interest paid on capital leases and bonds | (492,368) | - |
| OCIA on-behalf state appropriations | 1,001,522 | - |
| Contribution restricted from endowment | - | 46,645 |
| Capital appropriations-state | 332,793 | - |
| Net cash provided by (used in) capital and related financing activities | (848,291) | 46,645 |
| Cash Flows from Investing Activities | | |
| Interest received on investments | 11,471 | 2,089,818 |
| Net cash provided by investing activities | 11,471 | 2,089,818 |
| Net increase (decrease) in cash and cash equivalents | (569,886) | 2,079,384 |
| Cash and Cash Equivalents, Beginning of Year | 1,947,941 | 825,062 |
| Cash and Cash Equivalents, End of Year | \$ 1,378,055 | \$ 2,904,446 |

Eastern Oklahoma State College
A Component Unit of the State of Oklahoma
Statement of Cash Flows
For the Year Ended June 30, 2018
(Continued)

| | EOSC | EOSC Development Foundation |
|--|-----------------|--|
| Reconciliation of operating loss to cash provided by (used in) operating activities | | |
| Operating loss/change in net assets, Foundation | \$ (10,262,392) | \$ 125,415 |
| Adjustments to reconcile operating loss/change to net cash provided by (used in) operating activities | | |
| Appreciation in funds held by others and investment | - | (74,169) |
| Foundation contributions restricted for endowment | - | (46,645) |
| Depreciation expense | 1,262,265 | - |
| State of Oklahoma on-behalf contributions to OTRS | 602,778 | - |
| Changes in assets and liabilities | | |
| Student accounts receivable | (2,492) | - |
| Other receivables | (90,995) | 17,949 |
| Other assets | 924 | - |
| Inventories | 2,659 | - |
| Compensated absences | 36,055 | - |
| Accounts payable and accrued expenses | (297,567) | 946 |
| Unearned revenue and other | 46,799 | - |
| Net pension liability | (4,054,779) | - |
| Deferred outflows | 1,970,571 | - |
| Deferred inflows | 2,146,778 | - |
| Net Cash Provided by (Used In) Operating Activities | \$ (8,639,396) | \$ 23,496 |
| Noncash Investing, Noncapital Financing and Capital and Related Financing Activities | | |
| On-behalf principal and interest paid by OCIA | 1,001,522 | - |
| Reconciliation of Cash and Cash Equivalents to Statements of Net Position | | |
| Current Assets: | | |
| Cash and cash equivalents | 880,802 | 735,132 |
| Noncurrent Assets: | | |
| Restricted cash and cash equivalents | 497,253 | - |
| Net cash provided by capital and related financing activities | \$ 1,378,055 | \$ 735,132 |

Eastern Oklahoma State College
A Component Unit of the State of Oklahoma
Notes to Financial Statements
June 30, 2018

Note 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*, 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.

Eastern Oklahoma State College Foundation, Inc. (the “Foundation”) is a legally separate, tax-exempt component unit of the College. The Foundation is organized for the purpose of receiving and administering gifts intended for the College. Although the College does not control the timing or amount of receipts from the Foundation, the majority of resources, or income thereon, which the Foundation holds and invests, is restricted to the activities of the College by the donors. Because these restricted resources held by the Foundation can only be used by, or for the benefit of, the College, the Foundation is considered a component unit of the College and is discretely presented in the College’s financial statements. Separate financial statements of the Foundation can be requested from the Foundation’s controller.

The Foundation is a private nonprofit organization that reports under the Financial Accounting Standards Board (FASB) *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.

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).

Eastern Oklahoma State College
A Component Unit of the State of Oklahoma
Notes to Financial Statements
June 30, 2018

Note 1: Summary of Significant Accounting Policies (Continued)

Financial Statement Presentation

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 three months or less to be cash equivalents. Funds invested through the State Treasurer's Cash Management Program are considered 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.

Deposits and Investment

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.

Eastern Oklahoma State College
A Component Unit of the State of Oklahoma
Notes to Financial Statements
June 30, 2018

Note 1: Summary of Significant Accounting Policies (Continued)

Deposits and Investment (Continued)

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 hierarchical input levels:

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

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

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, 2018, the College had no investments.

Accounts Receivable and Other Receivables

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

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.

Eastern Oklahoma State College
A Component Unit of the State of Oklahoma
Notes to Financial Statements
June 30, 2018

Note 1: Summary of Significant Accounting Policies (Continued)

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.

Noncurrent Liabilities

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

Use of Estimates

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

Inventories

Inventories consist of fuel and meat products, which are valued at the lower of cost (first-in, first-out basis) or market.

Eastern Oklahoma State College
A Component Unit of the State of Oklahoma
Notes to Financial Statements
June 30, 2018

Note 1: Summary of Significant Accounting Policies (Continued)

Net Position

The College's net position is classified as follows:

Net investment in capital assets: This represents the College's total investment in capital assets, net of outstanding debt obligations related to those capital assets. To the extent debt has been incurred but not yet expended for capital assets, such amounts are not included as a component of invested in capital assets.

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

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

Unrestricted net position: Unrestricted net position represents resources derived from student tuition and fees, state appropriations, and sales and services of educational departments and auxiliary enterprises. These resources are used for transactions relating to the educational and general operations of the College, and may be used at the discretion of the governing board to meet current expenses for any purpose. These resources also include auxiliary enterprises, which are substantially self-supporting activities that provide services for students, faculty and staff.

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

Income Taxes

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

Eastern Oklahoma State College
A Component Unit of the State of Oklahoma
Notes to Financial Statements
June 30, 2018

Note 1: Summary of Significant Accounting Policies (Continued)

Classification of Revenues

The College has classified its revenues as either operating or nonoperating revenues according to the following criteria:

Operating revenues: Operating revenues include activities that have the characteristics of exchange transactions, such as (1) student tuition and fees, net of scholarship discounts and allowances, (2) sales and services of auxiliary enterprises, net of scholarship discounts and allowances, (3) federal, state and local grants and contracts, and (4) interest on institutional student loans.

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

Scholarship Discounts and Allowances

Student tuition and fee revenues, and certain other revenues from students, are reported net of scholarship discounts and allowances in the statement of revenues, expenses and changes in net position. Scholarship discounts and allowances are the difference between the stated charge for goods and services provided by the College, and the amount that is paid by students and/or third parties making payments on the students' behalf. Certain governmental grants, such as Pell grants, and other federal, state or nongovernmental programs, are recorded as either operating or non-operating revenues in the College's financial statements. To the extent that revenues from such programs are used to satisfy tuition and fees and other student charges, the College has recorded a scholarship discount and allowance.

Deferred Outflows of Resource

Deferred outflows are the consumption of net position by the College that are applicable to a future reporting period. For the year ended June 30, 2018, the College's deferred outflows of resources were comprised of deferred charges on an Oklahoma Capitol Improvement Authority (OCIA) lease restructure and on deferred contribution amounts related to pensions

Eastern Oklahoma State College
A Component Unit of the State of Oklahoma
Notes to Financial Statements
June 30, 2018

Note 1: Summary of Significant Accounting Policies (Continued)

Deferred Inflows of Resource

Deferred inflows are the acquisition of net position by the College that are applicable to a future reporting period. For the year ended June 30, 2018, the College's deferred inflows of resources were comprised of deferred gain on an OCIA lease restructure and on pension experience and investment earnings.

Pensions

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

Other Post-Employment Benefits (OPEB)

For purposes of measuring the net Other Post-Employment Benefits (OPEB) liability (asset), deferred outflows of resources and deferred inflows of resources related to OPEB and OPEB expense, information about the fiduciary net position of the Oklahoma Teachers Retirement System (OTRS) and the Oklahoma Public Employees Retirement System (OPERS) and additions to/deductions from the plans' fiduciary net position have been determined on the same basis as they are reported by the plans. For this purpose, benefit payments (including refunds of employee contributions) are recognized when due and payable in accordance with the benefit terms. Net OPEB liability or asset and plan deferrals are recognized as of the measurement date. Payments from the measurement date to the date of the statement of net position are reported as deferred outflows.

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.

Eastern Oklahoma State College
A Component Unit of the State of Oklahoma
Notes to Financial Statements
June 30, 2018

Note 1: Summary of Significant Accounting Policies (Continued)

New Accounting Pronouncements 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.

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 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.

Eastern Oklahoma State College
A Component Unit of the State of Oklahoma
Notes to Financial Statements
June 30, 2018

Note 1: Summary of Significant Accounting Policies (Continued)

New Accounting Pronouncements 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 decrease an existing debt. Guidance also addresses prepaid insurance related to extinguished debt and the financial valuation and disclosure of other assets used to decrease debt. The College will adopt GASB 86 effective July 1, 2017, for the June 30, 2018, reporting year. The College does not expect GASB 86 to have a significant impact on the financial statements.

New Accounting Pronouncements Not Yet Adopted

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.

Subsequent Events

Subsequent events have been evaluated through November 15, 2018, which is the date the financial statements were available to be issued. There are no subsequent events requiring recognition or disclosure in the November 15, 2018 financial statements.

Eastern Oklahoma State College
A Component Unit of the State of Oklahoma
Notes to Financial Statements
June 30, 2018

Note 2: Restatement

Prior Period Adjustment

The July 1, 2017 beginning net position has been restated to reflect the implementation of GASB 75. The effect of the restatement is as follows:

| | Fiscal Year 2018 |
|---|------------------|
| Beginning net position as previously reported | \$ (260,548) |
| Adoption of GASB 75 | (2,132,622) |
| Beginning net position, July 1, 2017 | \$ (2,393,170) |

Note 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 \$1,378,055. This amount consisted of deposits with the State Treasurer of \$1,499,962 at June 30, 2018.

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 \$487,118 at June 30, 2018.

Eastern Oklahoma State College
A Component Unit of the State of Oklahoma
Notes to Financial Statements
June 30, 2018

Note 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, 2018, the distribution of deposits in OK INVEST was as follows:

| <u>OK INVEST Portfolio</u> | <u>Cost</u> | <u>Market Value</u> |
|-----------------------------------|-------------------|---------------------|
| U.S. Agency Bonds | \$ 221,931 | \$ 220,851 |
| Money Market Mutual Funds | 47,546 | 47,546 |
| Certificates of deposits | 18,312 | 18,312 |
| Mortgage backed agency securities | 192,423 | 191,849 |
| Municipal bonds | 2,944 | 3,013 |
| Foreign bonds | 1,761 | 1,759 |
| U.S. Treasury obligations | 2,201 | 2,562 |
| Total | <u>\$ 487,118</u> | <u>\$ 485,892</u> |

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

Eastern Oklahoma State College
A Component Unit of the State of Oklahoma
Notes to Financial Statements
June 30, 2018

Note 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.

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.

Eastern Oklahoma State College
A Component Unit of the State of Oklahoma
Notes to Financial Statements
June 30, 2018

Note 3: Deposits and Investments (Continued)

Credit Risk (Continued)

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.

Note 4: Accounts Receivable

Accounts receivable consist of the following at June 30, 2018:

| | 2018 |
|--------------------------------------|--------------|
| Student tuition and fees | \$ 3,332,487 |
| Less allowance for doubtful accounts | (2,401,700) |
| | \$ 930,787 |

Note 5: Loans Receivable

Student loans made through the Federal Perkins Loan Program (the "Program") comprise all of the loan's receivable at June 30, 2018. There were no federal or institutional contributions to the program during 2018. 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, 2018, the Program has a loan receivable of \$14,357. No allowance for uncollectable loans is considered necessary by management.

Eastern Oklahoma State College
A Component Unit of the State of Oklahoma
Notes to Financial Statements
June 30, 2018

Note 6: Capital Assets

Capital asset activity for the year ended June 30, 2018, was as follows:

| | Year Ended June 30, 2018 | | | Ending Balance |
|---|--------------------------|---------------------|---------------------|----------------------|
| | Beginning Balances | Increases | Retirements | |
| Capital Assts not being depreciated: | | | | |
| Land | \$ 1,238,008 | \$ - | \$ - | \$ 1,238,008 |
| Livestock | 200,000 | 41,550 | (15,050) | 226,500 |
| Total capital assets not being depreciated | <u>\$ 1,438,008</u> | <u>\$ 41,550</u> | <u>\$ (15,050)</u> | <u>\$ 1,464,508</u> |
| Capital Assts being depreciated: | | | | |
| Land Improvements | 2,771,966 | - | (17,684) | 2,754,282 |
| Buildings and Building Improvements | 29,649,854 | - | (536,316) | 29,113,538 |
| Equipment | 12,479,919 | 298,760 | (4,315,486) | 8,463,193 |
| Library materials | 1,086,751 | 6,772 | (854,186) | 239,337 |
| Infrastructure | 787,789 | - | (70,974) | 716,815 |
| Total capital assets being depreciated: | <u>46,776,279</u> | <u>305,532</u> | <u>(5,794,646)</u> | <u>41,287,165</u> |
| Less Accumulated Depreciation for: | | | | |
| Land Improvements | (1,791,412) | (61,943) | (2,172) | (1,855,527) |
| Buildings and Building Improvements | (9,751,379) | (637,975) | 496,187 | (9,893,167) |
| Equipment | (10,764,916) | (545,191) | 4,257,174 | (7,052,933) |
| Library materials | (950,444) | (16,182) | 854,186 | (112,440) |
| Infrastructure | (709,597) | (1,974) | 44,018 | (667,553) |
| Total accumulated depreciation | <u>(23,967,748)</u> | <u>(1,263,265)</u> | <u>5,649,393</u> | <u>(19,581,620)</u> |
| Total capital assets being depreciated, net | 22,808,531 | (957,733) | (145,253) | 21,705,545 |
| Capital assets, net | <u>\$ 24,246,539</u> | <u>\$ (916,183)</u> | <u>\$ (160,303)</u> | <u>\$ 23,170,053</u> |
| Capital Asset Summary | | | | |
| Capital assets not being depreciated | 1,438,008 | 41,550 | (15,050) | 1,464,508 |
| Total Capital Assets being depreciated | <u>46,776,279</u> | <u>305,532</u> | <u>(5,794,646)</u> | <u>41,287,165</u> |
| Total Capital Assets | 48,214,287 | 347,082 | (5,809,696) | 42,751,673 |
| Less accumulated depreciation | <u>(23,967,748)</u> | <u>(1,263,265)</u> | <u>5,649,393</u> | <u>(19,581,620)</u> |
| Capital Assets, net | <u>\$ 24,246,539</u> | <u>\$ (916,183)</u> | <u>\$ (160,303)</u> | <u>\$ 23,170,053</u> |

Eastern Oklahoma State College
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Notes to Financial Statements
June 30, 2018

Note 7: Long-Term Liabilities

Long-term liability activity for the year ended June 30, 2018, was as follows:

| | Balance at June 30, 2017 | Additions | Reductions | Balance at June 30, 2018 | Due Within One Year |
|------------------------------------|-----------------------------|-------------------|-----------------------|-----------------------------|------------------------|
| Capital leases obligations: | | | | | |
| OCIA 2010A Series | \$ 1,384,036 | \$ - | \$ (684,509) | \$ 699,527 | \$ 699,527 |
| OCIA 2014A Series | 3,595,116 | - | (7,918) | 3,587,198 | 4,353 |
| OCIA 2014B Series-Building | 137,821 | - | (67,569) | 70,252 | 70,252 |
| ODFA Master Lease 2010A | 234,750 | - | (27,000) | 207,750 | 27,083 |
| ODFA Master Lease 2011A | 4,127,000 | - | (240,917) | 3,886,083 | 251,417 |
| ODFA Master Lease 2015B | 1,381,917 | - | (157,250) | 1,224,667 | 160,417 |
| ODFA Master Lease 2016B | 726,583 | - | (113,333) | 613,250 | 117,251 |
| OC Total Capital Leases | <u>11,587,223</u> | <u>-</u> | <u>(1,298,496)</u> | <u>10,288,727</u> | <u>1,330,300</u> |
| Other long-term debt | | | | | |
| Other capital leases | 157,046 | - | (63,478) | 93,568 | 65,826 |
| Department of Education | 337,490 | - | (111,785) | 225,705 | 111,890 |
| EOSC Foundation | 148,500 | - | (18,494) | 130,006 | 21,835 |
| Bond Premium | 179,107 | - | (12,206) | 166,901 | - |
| Compensated absences | 290,382 | 148,252 | (112,196) | 326,438 | 174,099 |
| Total Other Liabilities | <u>1,112,525</u> | <u>148,252</u> | <u>(318,159)</u> | <u>942,618</u> | <u>373,650</u> |
| Total Long Term Liabilities | <u>\$ 12,699,748</u> | <u>\$ 148,252</u> | <u>\$ (1,616,655)</u> | <u>\$ 11,231,345</u> | <u>\$ 1,703,950</u> |

Capital Lease Obligations

Oklahoma Capital 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, 2018, was \$22,121. Lease principal and interest payments to OCIA totaling \$73,552 during the year ended June 30, 2018, 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.

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Notes to Financial Statements
June 30, 2018

Note 7: Long-Term Liabilities (Continued)

Capital Lease Obligations (Continued)

Oklahoma Capital Improvement Authority Lease Obligations (Continued)

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 \$749,024 during the year ended June 30, 2018, 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 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, 2018, was \$159,411. Lease principal and interest payments to OCIA totaling \$178,946 during the year ended June 30, 2018, 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.

Eastern Oklahoma State College
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Notes to Financial Statements
June 30, 2018

Note 7: Long-Term Liabilities (Continued)

Capital Lease Obligations (Continued)

Oklahoma Capital Improvement Authority Lease Obligations (Continued)

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

| | <u>Building</u> | <u>Equipment</u> | <u>Total</u> |
|-------------------------------|---------------------|------------------|---------------------|
| Cost | \$ 8,214,037 | \$ 831,818 | \$ 9,045,855 |
| Less accumulated depreciation | (1,666,263) | (831,818) | (2,498,081) |
| Total | <u>\$ 6,547,774</u> | <u>\$ -</u> | <u>\$ 6,547,774</u> |

Future minimum lease payments under the College's obligations to the OCIA for the year ended June 30, 2018, are as follows:

| <u>Year ending June 30,</u> | <u>Principal</u> | <u>Interest</u> | <u>Total</u> |
|-----------------------------|---------------------|---------------------|---------------------|
| 2019 | \$ 774,132 | \$ 206,836 | \$ 980,968 |
| 2020 | - | 170,645 | 170,645 |
| 2021 | - | 170,645 | 170,645 |
| 2022 | 333,984 | 170,645 | 504,629 |
| 2023 | 350,961 | 154,553 | 505,514 |
| 2024 - 2028 | 1,972,127 | 514,904 | 2,487,031 |
| 2029 - 2030 | 925,774 | 69,208 | 994,982 |
| Total | <u>\$ 4,356,978</u> | <u>\$ 1,457,436</u> | <u>\$ 5,814,414</u> |

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.

Eastern Oklahoma State College
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Notes to Financial Statements
June 30, 2018

Note 7: Long-Term Liabilities (Continued)

Capital Lease Obligations (Continued)

Oklahoma Development Finance Authority Lease Obligations (Continued)

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 \$204,698 during the year ended June 30, 2018.

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 \$33,913 during the year ended June 30, 2018.

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 \$48,348 during the year ended June 30, 2018.

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.

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 \$365,499 during the year ended June 30, 2018.

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Notes to Financial Statements
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Note 7: Long-Term Liabilities (Continued)

Capital Lease Obligations (Continued)

Oklahoma Development Finance Authority Lease Obligations (Continued)

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, 2018, was \$54,322.

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 \$ during the year ended June 30, 2018.

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

| | <u>Building</u> | <u>Equipment</u> | <u>Total</u> |
|-------------------------------|---------------------|------------------|---------------------|
| Cost | \$ 12,035,828 | \$ 29,851 | \$ 12,065,679 |
| Less accumulated depreciation | (3,817,545) | (17,884) | (3,835,429) |
| Total | <u>\$ 8,218,283</u> | <u>\$ 11,967</u> | <u>\$ 8,230,250</u> |

Eastern Oklahoma State College
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Notes to Financial Statements
June 30, 2018

Note 7: Long-Term Liabilities (Continued)

Capital Lease Obligations (Continued)

Oklahoma Development Finance Authority Lease Obligations (Continued)

Future minimum lease payments under the College's obligations to the ODFA for the year ended June 30, 2018, are as follows:

| <u>Year ending June 30,</u> | <u>Principal</u> | <u>Interest</u> | <u>Total</u> |
|-----------------------------|---------------------|---------------------|---------------------|
| 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 | 627,833 | 151,939 | 779,772 |
| 2024 - 2028 | 1,986,750 | 446,715 | 2,433,465 |
| 2029 - 2031 | 978,333 | 88,031 | 1,066,364 |
| Total | <u>\$ 5,931,749</u> | <u>\$ 1,518,855</u> | <u>\$ 7,450,604</u> |

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 2018, the College made \$37,823 and \$2,697 in principal and interest payments, respectively.

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 2018, the College made \$25,655 and \$3,193 in principal and interest payments, respectively. The College's property under the other capital leases is summarized as follows:

| | <u>Building</u> | <u>Equipment</u> | <u>Total</u> |
|-------------------------------|-------------------|-------------------|-------------------|
| Cost | \$ 303,750 | \$ 160,625 | \$ 464,375 |
| Less accumulated depreciation | (113,906) | (56,218) | (170,124) |
| Total | <u>\$ 189,844</u> | <u>\$ 104,407</u> | <u>\$ 294,251</u> |

Eastern Oklahoma State College
A Component Unit of the State of Oklahoma
Notes to Financial Statements
June 30, 2018

Note 7: Long-Term Liabilities (Continued)

Capital Lease Obligations (Continued)

Future minimum lease payments under the College's obligations with other capital leases as of June 30, 2018, are as follows:

| <u>Year ending June 30,</u> | <u>Principal</u> | <u>Interest</u> | <u>Total</u> |
|-----------------------------|------------------|-----------------|------------------|
| 2019 | \$ 65,826 | \$ 3,541 | \$ 69,367 |
| 2020 | 27,741 | 1,106 | 28,847 |
| Total | <u>\$ 93,567</u> | <u>\$ 4,647</u> | <u>\$ 98,214</u> |

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, 2018, the College made payments totaling \$114,735 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, 2018, are as follows:

| <u>Year ending June 30,</u> | <u>Principal</u> | <u>Interest</u> | <u>Total</u> |
|-----------------------------|-------------------|-----------------|-------------------|
| 2019 | \$ 111,890 | \$ 1,838 | \$ 113,728 |
| 2020 | 113,014 | 715 | 113,729 |
| 2021 | 801 | 2 | 803 |
| Total | <u>\$ 225,705</u> | <u>\$ 2,555</u> | <u>\$ 228,260</u> |

Eastern Oklahoma State College
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Notes to Financial Statements
June 30, 2018

Note 7: Long-Term Liabilities (Continued)

Capital Lease Obligations (Continued)

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, 2018, the College made payments totaling \$21,835 of principal and interest to the Foundation.

Future minimum payments required under the College's obligation to the Foundation as of June 30, 2018, are as follows:

| <u>Year ending June 30,</u> | <u>Principal</u> | <u>Interest</u> | <u>Total</u> |
|-----------------------------|-------------------|------------------|-------------------|
| 2019 | \$ 21,836 | \$ 3,900 | \$ 25,736 |
| 2020 | 18,473 | 3,362 | 21,835 |
| 2021 | 29,930 | 2,808 | 32,738 |
| 2022 | 59,767 | 159 | 59,926 |
| Total | <u>\$ 130,006</u> | <u>\$ 10,229</u> | <u>\$ 140,235</u> |

Note 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 Position Obligation

| | <u>Net Pension Obligation</u> | <u>Deferred Outflows</u> | <u>Deferred Inflows</u> | <u>Pension Expense</u> |
|---|-----------------------------------|------------------------------|-----------------------------|----------------------------|
| Supplemental Retirement Benefit Obligation | \$ 235,608 | \$ - | \$ - | \$ 4,734 |
| OTRS Pension | 13,980,194 | 2,911,027 | 2,557,420 | 1,347,315 |
| Total | <u>\$ 14,215,802</u> | <u>\$ 2,911,027</u> | <u>\$ 2,557,420</u> | <u>\$ 1,352,049</u> |

Eastern Oklahoma State College
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Notes to Financial Statements
June 30, 2018

Note 8: Retirement Plans (Continued)

Plan Description

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

Oklahoma Teachers' Retirement System

Benefits Provided

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

- Members become 100% vested in retirement benefits earned to date after five years of credited Oklahoma service. Members who joined the System on June 30, 1992 or prior are eligible to retire at maximum benefits when age and years of creditable service total 80. Members joining the System after June 30, 1992 are eligible for maximum benefits when their age and years of creditable service total 90. Members whose age and service do not equal the eligible limit may receive reduced benefits as early as age 55, and at age 62 receive unreduced benefits based on their years of service. The maximum retirement benefit is equal to 2% of final compensation for each year of credited service.
- Final compensation for members who joined the System prior to July 1, 1992 is defined as the average salary for the three highest years of compensation. Final compensation for members joining the System after June 30, 1992 is defined as the average of the highest five consecutive years of annual compensation in which contributions have been made. The final average compensation is limited for service credit accumulated prior to July 1, 1995 to \$40,000 or \$25,000, depending on the member's election. Monthly benefits are 1/12 of this amount. Service credits accumulated after June 30, 1995 are calculated based on each member's final average compensation, except for certain employees of the two comprehensive universities. Upon the death of a member who has not yet retired, the designated beneficiary shall receive the member's total contributions plus 100% of interest earned through the end of the fiscal year, with interest rates varying based on time of service. A surviving spouse of a qualified member may elect to receive, in lieu of the aforementioned benefits, the retirement benefits 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.

Eastern Oklahoma State College
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Notes to Financial Statements
June 30, 2018

Note 8: Retirement Plans (Continued)

Oklahoma Teachers' Retirement System (Continued)

Benefits Provided (Continued)

- A member is eligible for disability benefits after ten years of credited Oklahoma service. The disability benefit is equal to 2% of final average compensation for the applicable years of credited service. Upon separation from the System, members' contributions are refundable with interest based on certain restrictions provided in the plan, or by the IRC.
- Members may elect to make additional contributions to a tax-sheltered annuity program up to the exclusion allowance provided under the IRC under Code Section 403(b).

Contributions

The contributions requirements of the Plan are at an established rate determine by Oklahoma Statute, amended by the Oklahoma Legislature, and are not based on actuarial calculations. Employees are required to contribute 7% percent of their annual pay. Participating employers are required to contribute 9.5% of the employees' annual pay and an additional 7.70% for any employees' salaries covered by federal funds. A portion of the contributions received by OTRS are allocated to the Supplemental Health Insurance program; see Note (7). Contributions to the pension plan from the College were \$872,873. The State of Oklahoma also made on-behalf contributions to OTRS, of which \$588,918 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, 2018, the College reported a liability of \$13,980,193 for its proportionate share of the 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. 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, 2017. Based upon this information, the College's proportion was .2111% percent.

For the year ended June 30, 2018, the College recognized pension expense of \$1,347,315. At June 30, 2018, the College reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

Eastern Oklahoma State College
A Component Unit of the State of Oklahoma
Notes to Financial Statements
June 30, 2018

Note 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)

| | <u>Deferred Outflows of Resources</u> | <u>Deferred Inflows of Resources</u> |
|--|---|--|
| Differences between expected and actual experience | \$ - | \$ 954,463 |
| Changes of assumptions | 1,659,065 | 835,710 |
| Net difference between projected and actual earnings on pension plan investments | 198,723 | - |
| Changes in proportion and differences between City contributions and proportionate share of contributions | 180,366 | 760,359 |
| Changes in College's proportionate share of contributions | - | - |
| Differences between College Contributions and proportionate share of contributions | - | 6,888 |
| College contributions subsequent to the measurement date | 872,873 | - |
| Total | <u>\$ 2,911,027</u> | <u>\$ 2,557,420</u> |

\$872,873 reported as deferred outflows of resources related to pensions resulting from College contributions subsequent to the measurement date will be recognized as a reduction of the net pension liability in the year ended June 30, 2019. Other amounts reported as deferred outflows of resources and deferred inflows of resources related to pensions will be recognized in pension expense as follows:

| <u>Year ended June 30,</u> | |
|----------------------------|---------------------|
| 2019 | \$ (290,601) |
| 2020 | 396,668 |
| 2021 | 122,605 |
| 2022 | (580,119) |
| 2023 | (167,821) |
| Total | <u>\$ (519,268)</u> |

Eastern Oklahoma State College
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Notes to Financial Statements
June 30, 2018

Note 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 if June 30, 2017 using the following actuarial assumptions:

- Actuarial Cost Method - Entry Age
- Inflation - 2.50%
- Future Ad Hoc Cost-of-living Increases - None
- Salary Increases - Composed of 3.25% inflation, including 2.50% price inflation, plus a service-related component ranging from 0.00% to 8% based on years of service.
- Investment Rate of Return – 7.50%
- Retirement Age - Experience-based table of rates based on age, service, and gender. Adopted by the Board in May 2015 in conjunction with the five-year experience study for the period ending June 30, 2014.
- Mortality Rates after Retirement – Males: RP-2000 Combined Mortality Table for males with White Collar Adjustments. Generational mortality improvements in accordance with Scale BB from table's base year of 2000. Females: GRS Southwest Region Teacher Mortality Table, scaled at 105%. Generational mortality improvements in accordance with Scale BB from the table's base year of 2012.
- Mortality Rates for Active Members – RP – 2000 Employer Mortality tables, with male rates multiplied by 60% and female rates multiplied by 50%.

| <u>Asset Class</u> | <u>Target Asset Allocation</u> | <u>Long-Term Expected Real Rate of Return</u> |
|----------------------|--------------------------------|---|
| Domestic Equity | 38.5% | 7.5% |
| International Equity | 19.0% | 8.5% |
| Fixed Income | 23.5% | 2.5% |
| Real Estate* | 9.0% | 4.5% |
| Alternative Assets | 10.0% | 6.1% |
| Total | <u>100.0%</u> | |

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

Eastern Oklahoma State College
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Notes to Financial Statements
June 30, 2018

Note 8: Retirement Plans (Continued)

Discount Rate- A single discount rate of 7.50% was used to measure the total pension liability as of June 30, 2017. This single discount rate was based solely on the expected rate of return on pension plan investments of 7.50%. Based on the stated assumptions and the projection of cash flows, the pension plan's fiduciary net position and future contributions were projected to be available to finance all projected future benefit payments of current plan members. Therefore, the long-term expected rate of return on pension plan investments was applied to all periods of projected benefit payments to determine the total pension liability. The projection of cash flows used to determine this single discount rate assumed that plan member and employer contributions will be made at the current statutory levels and remain a level percentage of payrolls. The projection of cash flows also assumed that the State's contribution plus the matching contributions will remain a constant percent of projected member payroll based on the past five years of actual contributions.

Sensitivity of the Net Pension Liability to Changes in the Discount Rate-The following presents the net pension liability of the employers calculated using the discount rate of 7.5%, as well as what the Plan's net pension liability would be if it were calculated using a discount rate that is 1-percentage point lower (6.5%) or 1-percentage-point higher (8.5%) than the current rate:

| | 1% Decrease (6.5%) | Current Discount Rate (7.5%) | 1% Increase (8.5%) |
|----------------------------------|-----------------------|---------------------------------|-----------------------|
| Employers' net pension liability | \$ 19,889,081 | \$ 13,980,193 | \$ 9,564,479 |

Pension Plan Fiduciary Net Position

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

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.

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Notes to Financial Statements
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Note 8: Retirement Plans (Continued)

Supplemental Retirement Benefit Plan (SRB) (Continued)

Plan description

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, 2018, the College made benefit payments of \$28,361.

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

At June 30, 2018, the College reported a liability of \$235,608 for its net pension liability. The net pension liability was measured as of June 30, 2018, and the total pension liability used to calculate the net pension liability was determined by an actuarial valuation as of June 30, 2018. For the year ended June 30, 2017 the College recognized pension expense of \$4,734.

Schedule of Changes in Total Pension Liability

The College’s changes in total pension liability are as follows as of June 30, 2018

| | 2018 |
|---|------------|
| Beginning net pension liability | \$ 259,235 |
| Interest | 7,907 |
| Change of assumptions | (11,638) |
| Difference between actual and expected experience | 8,465 |
| Benefit payments | (28,361) |
| Ending net pension liability | \$ 235,608 |

Eastern Oklahoma State College
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Notes to Financial Statements
June 30, 2018

Note 8: Retirement Plans (Continued)

Supplemental Retirement Benefit Plan (SRB) (Continued)

Actuarial Assumptions

The total pension liability as of June 30, 2018, was determined based on an actuarial valuation prepared as if June 30, 2018 using the following actuarial assumptions:

- Actuarial Cost Method - Entry Age
- Amortization Method - Level Percentage of Payroll
- Discount Rate - 3.88% (Based on Bond Buyers General Municipal Bond Index)
- Mortality Rates after Retirement – RP-2000 Combined Mortality Table projected to 2020.

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 (2.88%) | Current Discount Rate (3.88%) | 1% Increase (4.88%) |
|----------------------------------|------------------------|----------------------------------|------------------------|
| Employers' net pension liability | \$ 19,889,081 | \$ 13,980,193 | \$ 9,564,479 |

Note 9: Post Retirement Plans: OTRS – OPEB

Supplemental Health Insurance Program

Plan Description

The College as the employer, participates in the Supplemental Health Insurance Program—a cost-sharing multiple-employer defined benefit OPEB plan administered by the Oklahoma Teachers Retirement System (OTRS). Title 74 O. S. Sec. 1316.3 defines the health insurance 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.

Eastern Oklahoma State College
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June 30, 2018

Note 9: Post Retirement Plans: OTRS – OPEB (Continued)

Supplemental Health Insurance Program (Continued)

Benefits Provided

OTRS pays a medical insurance supplement to eligible members who elect to continue their employer provided health insurance. The supplement payment is between \$100 and \$105 per month, remitted to OMES Employees Group Insurance Division (“EGID”), provided the member has ten (10) years of Oklahoma service prior to retirement.

Contributions

Employer and employee contributions are made based upon the TRS Plan provisions contained in Title 70, as amended. However, the statutes do not specify or identify any particular contribution source to pay the health insurance subsidy. Based on the contribution requirements of Title 70 employers and employees contribute a single amount based on a single contribution rate as described in Note (pension note number); from this amount OTRS allocates a portion of the contributions to the supplemental health insurance program. The cost of the supplemental health insurance program averages 0.15% of normal cost, as determined by an actuarial valuation. Contributions allocated to the OPEB plan from the College were \$13,860.

OPEB Liabilities (Assets), OPEB Expense and Deferred Outflows of Resources and Deferred Inflows of Resources Related to OPEB

At June 30, 2018, the College reported an asset of \$94,157 for its proportionate share of the net OPEB asset. The net OPEB asset was measured as of June 30, 2017, and the total OPEB asset used to calculate the net OPEB asset was determined by an actuarial valuation as of June 30, 2017. The College’s proportion of the net OPEB asset was based on the College’s contributions received by the OPEB plan relative to the total contributions received by the OPEB plan for all participating employers as of June 30, 2017. Based upon this information, the College’s proportion was .2111% percent.

For the year ended June 30, 2018, the College recognized OPEB expense of (\$3,493). At June 30, 2018, the College reported deferred outflows of resources and deferred inflows of resources related to OPEB from the following sources:

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June 30, 2018

Note 9: Post Retirement Plans: OTRS – OPEB (Continued)

Supplemental Health Insurance Program (Continued)

OPEB Liabilities (Assets), OPEB Expense and Deferred Outflows of Resources and Deferred Inflows of Resources Related to OPEB (Continued)

| | Deferred Outflows of Resources | Deferred Inflows of Resources |
|--|-----------------------------------|----------------------------------|
| Differences between expected and actual experience | - | \$ 25,273 |
| Net difference between projected and actual earnings on OPEB plan investments | - | 51,646 |
| Differences between College contributions and proportionate share of contributions | - | 36 |
| College contributions subsequent to the measurement date | 13,860 | - |
| Total | \$ 13,860 | \$ 76,955 |

The \$13,860 reported as deferred outflows of resources related to OPEB resulting from College contributions subsequent to the measurement date will be recognized as a reduction of the net OPEB liability (asset) in the year ended June 30, 2019. Other amounts reported as deferred outflows of resources and deferred inflows of resources related to OPEB will be recognized in OPEB expense as follows:

| <u>Year ended June 30,</u> | |
|----------------------------|-------------|
| 2019 | \$ (17,599) |
| 2020 | (17,599) |
| 2021 | (17,599) |
| 2022 | (17,599) |
| 2023 | (4,687) |
| Thereafter | (1,872) |
| Total | \$ (76,955) |

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Notes to Financial Statements
June 30, 2018

Note 9: Post Retirement Plans: OTRS – OPEB (Continued)

Supplemental Health Insurance Program (Continued)

Actuarial Assumptions

The total OPEB liability (asset) as of June 30, 2017, was determined based on an actuarial valuation prepared as if June 30, 2017 using the following actuarial assumptions:

- Actuarial Cost Method - Entry Age
- Inflation - 2.50%
- Future Ad Hoc Cost-of-living Increases - None
- Salary Increases - Composed of 3.25% inflation, including 2.50% price inflation, plus a service-related component ranging from 0.00% to 8% based on years of service.
- Investment Rate of Return – 7.50%
- Retirement Age - Experience-based table of rates based on age, service, and gender. Adopted by the Board in May 2015 in conjunction with the five-year experience study for the period ending June 30, 2014.
- Mortality Rates after Retirement – Males: RP-2000 Combined Mortality Table for males with White Collar Adjustments. Generational mortality improvements in accordance with Scale BB from table's base year of 2000. Females: GRS Southwest Region Teacher Mortality Table, scaled at 105%. Generational mortality improvements in accordance with Scale BB from the table's base year of 2012.
- Mortality Rates for Active Members – RP – 2000 Employer Mortality tables, with male rates multiplied by 60% and female rates multiplied by 50%.

| Asset Class | Target Asset Allocation | Long-Term Expected Real Rate of Return |
|----------------------|-------------------------|--|
| Domestic Equity | 38.5% | 7.5% |
| International Equity | 19.0% | 8.5% |
| Fixed Income | 23.5% | 2.5% |
| Real Estate* | 9.0% | 4.5% |
| Alternative Assets | 10.0% | 6.1% |
| Total | <u>100.0%</u> | |

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

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June 30, 2018

Note 9: Post Retirement Plans: OTRS – OPEB (Continued)

Supplemental Health Insurance Program (Continued)

Discount Rate

A single discount rate of 7.50% was used to measure the total OPRB liability (asset) as of June 30, 2017. This single discount rate was based solely on the expected rate of return on OPEB plan investments of 7.50%. Based on the stated assumptions and the projection of cash flows, the OPEB 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 OPEB plan investments was applied to all periods of projected benefit payments to determine the total OPEB liability (asset). The projection of cash flows used to determine this single discount rate assumed that plan member and employer contributions will be made at the current statutory levels and remain a level percentage of payrolls. The projection of cash flows also assumed that the State's contribution plus the matching contributions will remain a constant percent of projected member payroll based on the past five years of actual contributions.

Sensitivity of the Net OPEB Liability (Asset) to Changes in the Discount Rate

The following presents the net OPEB liability (asset) of the employer calculated using the discount rate of 7.5%, as well as what the Plan's net OPEB liability (asset) would be if it were calculated using a discount rate that is 1-percentage point lower (6.5%) or 1-percentage-point higher (8.5%) than the current rate:

| | 1% Decrease (6.5%) | Current Discount Rate (7.5%) | 1% Increase (8.5%) |
|---------------------------------------|-----------------------|---------------------------------|-----------------------|
| Employers' net OPEB liability (asset) | \$ 19,889,081 | \$ 13,980,193 | \$ 9,564,479 |

OPEB plan fiduciary net position

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

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Note 10: Post Retirement Plans – OPEB

Plan Description

The College's defined benefit OPEB plan, EOSC Retiree Benefits Plan, provides OPEB to eligible retirees and their dependents. The College's Board of Trustees has the authority to establish and amend benefit provisions. No assets are accumulated in a trust that meets the criteria in paragraph 4 of Statement 75.

Benefits Provided

The College provides medical, dental, and vision benefits to eligible retirees and their dependents through the State of Oklahoma Employees Group Insurance Division. The retiree pays the full contribution rate for the retiree's coverages and for any other elected dependent dental and vision coverages. The medical rates for pre-65 retirees are the same as the rates for active employees so the benefit being provided is an implicit rate subsidy. Retirees and dependents age 65 or older are provided a Medicare supplement that is not subsidized by the College.

Employees Covered by Benefit Terms

At June 30, 2018 the following employees were covered by the benefit terms:

| | |
|---|-------------------|
| Active employees | 159 |
| Inactive or beneficiaries currently receiving benefit | <u>11</u> |
| Total | <u><u>170</u></u> |

Total OPEB Liability

The College's total OPEB liability of \$1,462,581 was as of June 30, 2018, and was determined by an actuarial valuation as of that date.

Actuarial Assumptions

The total OPEB liability was determined based on an actuarial valuation prepared as of June 30, 2018 using the following actuarial assumptions:

- Actuarial Cost Method - Entry Age Normal
- Discount Rate – 3.88%, based on June 30, 2018 published Bond Pay Go-20 bond index
- Retirement Age: 63
- Healthcare cost trend rates - Level 5.00% per year
- Mortality Rates - RPA-2000 Mortality Table projected to 2020

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Notes to Financial Statements
June 30, 2018

Note 10: Post Retirement Plans – OPEB

Actuarial Assumptions (Continued)

- Pre-Retirement Termination – Table T-3 of the Actuary’s Pension Handbook.

| <u>Age</u> | <u>Annual Termination Rate</u> |
|------------|------------------------------------|
| 25 | 5.3% |
| 30 | 4.8% |
| 35 | 4.5% |
| 40 | 3.8% |
| 45 | 3.2% |
| 50 | 1.5% |
| 55 | 0.3% |
| 60 | 0.0% |

Changes in OPEB Liability

The following table reports the components of changes in total OPEB liability:

| | <u>Total OPEB Liability</u> |
|---|---------------------------------|
| Balance Beginning of Year | \$ 2,132,622 |
| Changes for the year | |
| Service cost | 284,427 |
| Interest expense | 65,045 |
| Changes of assumptions | (131,852) |
| Difference between expected and actual expenses | (833,844) |
| Benefits paid | (53,817) |
| Net Changes | (670,041) |
| Balance End of Year | \$ 1,462,581 |

Sensitivity of the Net OPEB Liability (Asset) to Changes in the Discount Rate

The following presents the total OPEB liability (asset) of the employer calculated using the discount rate of 3.88%, as well as what the Plan's total OPEB liability (asset) would be if it were calculated using a discount rate that is 1-percentage point lower (2.88%) or 1-percentage-point higher (4.88) than the current rate:

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Notes to Financial Statements
June 30, 2018

Note 10: Post Retirement Plans – OPEB

Sensitivity of the Net OPEB Liability (Asset) to Changes in the Discount Rate (Continued)

| | <u>1% Decrease 2.88%</u> | <u>Current Discount Rate 3.88%</u> | <u>1% Increase 4.88%</u> |
|---------------------------------------|------------------------------|--|------------------------------|
| Employers' net OPEB liability (asset) | \$ 1,817,046 | \$ 1,462,581 | \$ 1,178,647 |

Sensitivity of the Total OPEB Liability (Asset) to Changes in the Healthcare Cost Trend Rate

The following presents the total OPEB liability (asset) of the employer calculated using the healthcare cost trend rate of 5.50%, as well as what the Plan's total OPEB liability (asset) would be if it were calculated using a healthcare cost trend rate that is 1-percentage point lower (4.50%) or 1-percentage-point higher (6.50%) than the current rate:

| | <u>1% Decrease 4.00%</u> | <u>Healthcare Cost Trend Rates 5.00%</u> | <u>1% Increase 6.00%</u> |
|---------------------------------------|------------------------------|--|------------------------------|
| Employers' net OPEB liability (asset) | \$ 1,186,863 | \$ 1,462,581 | \$ 1,783,447 |

OPEB Expense

For the year ended June 30, 2018, the College recognized OPEB expense of \$271,844. The College also reported deferred inflows of resources related to OPEB from the following sources:

| | Deferred Outflows of Resources | Deferred Inflows of Resources |
|---|-----------------------------------|----------------------------------|
| Difference between expected and actual experience | \$ - | \$ 766,815 |
| Changes of assumptions | - | 121,253 |
| Total | <u>\$ -</u> | <u>\$ 888,068</u> |

Eastern Oklahoma State College
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Notes to Financial Statements
June 30, 2018

Note 10: Post Retirement Plans – OPEB

OPEB Expense (Continued)

Amounts reported as deferred inflows of resources related to OPEB will be recognized in OPEB expense as follows:

| Year ended June 30, | | |
|---------------------|----|-----------|
| 2019 | \$ | (77,628) |
| 2020 | | (77,628) |
| 2021 | | (77,628) |
| 2022 | | (77,628) |
| 2023 | | (77,628) |
| Thereafter | | (499,928) |
| Total | \$ | (888,068) |

Note 11: 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 \$0 to the College for the services received for the year ended June 30, 2018.

Note 12: 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, 2018, approximately \$2,576,801 of Direct Loan Program loans were provided to College students.

Eastern Oklahoma State College
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Notes to Financial Statements
June 30, 2018

Note 12: Commitments and Contingencies (Continued)

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.

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, 2018, that management believes would result in a material loss to the College in the event of an adverse outcome.

Note 13: Risk Management

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

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Notes to Financial Statements
June 30, 2018

Note 13: Risk Management (Continued)

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

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.

Note 14: 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

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.

Eastern Oklahoma State College
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June 30, 2018

Note 14: Eastern Oklahoma State College Development Foundation, Inc.
(Continued)

Note A: Summary of Significant Accounting Policies (Continued)

Net Asset Classifications

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.

Cash and Cash Equivalents

The Foundation defines cash and cash equivalents to be all cash and certificates of deposit with original maturities of three months or less. Cash equivalents of \$735,132 and \$825,062 as of June 30, 2018 and 2017, 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 three 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.

Eastern Oklahoma State College
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Note 14: Eastern Oklahoma State College Development Foundation, Inc.
(Continued)

Note A: Summary of Significant Accounting Policies (Continued)

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. Property and equipment represent non-depreciable land of \$40,000 as of June 30, 2018 and 2017.

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.

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.

Subsequent Events

Subsequent events have been evaluated through October 22, 2018, which is the date the financial statements were issued.

Eastern Oklahoma State College
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Notes to Financial Statements
June 30, 2018

Note 14: Eastern Oklahoma State College Development Foundation, Inc.
(Continued)

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, 2018 and 2017. 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.

| <u>Type of Deposits</u> | <u>Total Bank Balance</u> | <u>Custody (Category 1)</u> | <u>Credit Risk (Category 2)</u> | <u>Uninsured (Category 3)</u> |
|--------------------------------|---------------------------|-----------------------------|---------------------------------|-------------------------------|
| June 30, 2018 | | | | |
| <u>Demand Deposits</u> | | | | |
| BancFirst | \$ 209,625 | \$ 209,625 | \$ - | \$ - |
| The Community State Bank | 214,540 | 214,540 | - | - |
| First National Bank | 132,037 | 132,037 | - | - |
| <u>Certificates of Deposit</u> | | | | |
| Idabel National Bank | 211,671 | 211,671 | - | - |
| Total Deposits | <u>\$ 767,873</u> | <u>\$ 767,873</u> | <u>\$ -</u> | <u>\$ -</u> |
| June 30, 2017 | | | | |
| <u>Demand Deposits</u> | | | | |
| First National Bank | \$ 701,987 | \$ 250,000 | - | \$ 451,987 |
| <u>Certificates of Deposit</u> | | | | |
| The Bank, NA | 200,000 | 200,000 | - | - |
| Total Deposits | <u>\$ 901,987</u> | <u>\$ 450,000</u> | <u>\$ -</u> | <u>\$ 451,987</u> |

Eastern Oklahoma State College
A Component Unit of the State of Oklahoma
Notes to Financial Statements
June 30, 2018

Note 14: Eastern Oklahoma State College Development Foundation, Inc.
(Continued)

Note C: Investments

Investments consist of the following at June 30, 2018:

| Investments | <u>Cost</u> | <u>Fair Value</u> |
|--------------------|----------------------------|----------------------------|
| Equity funds | \$ 1,545,601 | \$ 1,713,699 |
| Fixed income funds | 844,723 | 832,077 |
| Money market funds | <u>1,202,960</u> | <u>1,202,960</u> |
| | <u><u>\$ 3,593,284</u></u> | <u><u>\$ 3,748,736</u></u> |

Investments consist of the following at June 30, 2017:

| Investments | <u>Cost</u> | <u>Fair Value</u> |
|--------------------|----------------------------|----------------------------|
| Equity funds | \$ 764,229 | \$ 872,460 |
| Fixed income funds | 430,857 | 426,989 |
| Money market funds | <u>125,229</u> | <u>125,229</u> |
| | <u><u>\$ 1,320,315</u></u> | <u><u>\$ 1,424,678</u></u> |

Investment income consists of the following:

| | <u>2018</u> | <u>2017</u> |
|------------------------------|--------------------------|--------------------------|
| Interest and dividend income | \$ 218,483 | 61,966 |
| Realized gains and losses | 79,074 | 18,513 |
| Unrealized gains and losses | <u>(17,932)</u> | <u>297,197</u> |
| | <u><u>\$ 279,625</u></u> | <u><u>\$ 377,676</u></u> |

Eastern Oklahoma State College
A Component Unit of the State of Oklahoma
Notes to Financial Statements
June 30, 2018

Note 14: 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. During 2018, the Foundation liquidated the funds from the community foundation organization to their investment account.

Investments consisted of the following at June 30, 2018:

| | <u>Cost</u> | <u>Fair Value</u> |
|------------------------|--------------|-------------------|
| Pooled investment fund | \$ 1,910,608 | \$ 2,089,818 |

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, 2018 is \$37,211.

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.

Eastern Oklahoma State College
A Component Unit of the State of Oklahoma
Notes to Financial Statements
June 30, 2018

Note 14: 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:

- The duration and preservation of the fund;
- The purpose of the foundation and the donor-restricted endowment fund;
- General economic conditions;
- The possible effect of inflation and deflation;
- The expected total return from income and the appreciation of investments;
- Other resources of the Foundation; and
- 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.

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.

Eastern Oklahoma State College
A Component Unit of the State of Oklahoma
Notes to Financial Statements
June 30, 2018

Note 14: Eastern Oklahoma State College Development Foundation, Inc.
(Continued)

Note E: Endowments (Continued)

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, 2018:

| | <u>Temporarily Restricted</u> | <u>Permanently Restricted</u> | <u>Total</u> |
|----------------------------------|-----------------------------------|-----------------------------------|--------------|
| Donor-restricted endowment funds | \$ 2,253,640 | \$ 2,294,683 | \$ 4,548,323 |

Changes in Endowment Net Assets for the year ending June 30, 2018:

| | <u>Temporarily Restricted</u> | <u>Permanently Restricted</u> | <u>Total</u> |
|---|-----------------------------------|-----------------------------------|---------------------|
| Endowment net assets, beginning of year | \$ 2,199,607 | \$ 2,248,038 | \$ 4,447,645 |
| Investment return | 180,172 | - | 180,172 |
| Other income | 167,028 | 500 | 157,528 |
| Contributions | 263,890 | 46,145 | 310,035 |
| Appropriation of endowment assets for expenditure | (557,057) | - | (557,057) |
| Endowment net assets, end of year | <u>\$ 2,253,640</u> | <u>\$ 2,294,683</u> | <u>\$ 4,548,323</u> |

Endowment Net Asset Composition by Type of Fund as of June 30, 2017:

| | <u>Temporarily Restricted</u> | <u>Permanently Restricted</u> | <u>Total</u> |
|----------------------------------|-----------------------------------|-----------------------------------|---------------------|
| Donor-restricted endowment funds | <u>\$ 2,199,607</u> | <u>\$ 2,248,038</u> | <u>\$ 4,447,645</u> |

Eastern Oklahoma State College
A Component Unit of the State of Oklahoma
Notes to Financial Statements
June 30, 2018

Note 14: Eastern Oklahoma State College Development Foundation, Inc.
(Continued)

Note E: Endowments (Continued)

Changes in Endowment Net Assets for the years ending June 30, 2017:

| | <u>Temporarily Restricted</u> | <u>Permanently Restricted</u> | <u>Total</u> |
|---|-----------------------------------|-----------------------------------|---------------------|
| Endowment net assets, beginning of year | \$ 1,963,045 | \$ 2,201,861 | \$ 4,164,906 |
| Investment return | 273,631 | - | 273,631 |
| Other income | 154,522 | - | 154,522 |
| Contributions | 264,605 | 46,177 | 310,782 |
| Appropriation of endowment assets for expenditure | (456,196) | - | (456,196) |
| Endowment net assets, end of year | <u>\$ 2,199,607</u> | <u>\$ 2,248,038</u> | <u>\$ 4,447,645</u> |

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 fiscal year ended June 30, 2017 the Foundation made a loan in the amount of \$148,500 at an interest rate of 3% with Eastern Oklahoma State College. At June 30, 2018 and 2017, the loan balance at year-end was \$130,006 and \$148,500, respectively. The future minimum payments are as follows:

| | |
|-------|-------------------|
| 2018 | \$ 17,935 |
| 2019 | 18,473 |
| 2020 | 29,930 |
| 2021 | <u>63,668</u> |
| Total | <u>\$ 130,006</u> |

Eastern Oklahoma State College
A Component Unit of the State of Oklahoma
Notes to Financial Statements
June 30, 2018

Note 14: Eastern Oklahoma State College Development Foundation, Inc.
(Continued)

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.

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 amount approximates 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 amount of receivables is 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 amount approximates fair value due to the short maturity of those amounts.

Eastern Oklahoma State College
A Component Unit of the State of Oklahoma
Notes to Financial Statements
June 30, 2018

Note 14: Eastern Oklahoma State College Development Foundation, Inc.
(Continued)

Note G: Fair Value Measurements (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 data 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.

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, 2018 and 2017.

| | 2018 | | | |
|--------------------|---------------------|----------------|----------------|---------------------|
| | Level 1 | Level 2 | Level 3 | Total |
| Investments | | | | |
| Equity funds | \$ 1,713,699 | \$ - | \$ - | \$ 1,713,699 |
| Fixed income funds | 832,077 | - | - | 832,077 |
| Money market funds | 1,202,960 | - | - | 1,202,960 |
| | <u>\$ 3,748,736</u> | <u>\$ -</u> | <u>\$ -</u> | <u>\$ 3,748,736</u> |

| | 2017 | | | |
|--------------------------------|---------------------|----------------|---------------------|---------------------|
| | Level 1 | Level 2 | Level 3 | Total |
| Investments | | | | |
| Equity funds | \$ 872,460 | \$ - | \$ - | \$ 872,460 |
| Fixed income funds | 426,989 | - | - | 426,989 |
| Money market funds | 125,229 | - | - | 125,229 |
| Pooled Investment Funds | - | - | 2,089,818 | 2,089,818 |
| | <u>\$ 1,424,678</u> | <u>\$ -</u> | <u>\$ 2,089,818</u> | <u>\$ 3,514,496</u> |

Eastern Oklahoma State College
A Component Unit of the State of Oklahoma
Notes to Financial Statements
June 30, 2018

Note 14: Eastern Oklahoma State College Development Foundation, Inc.
(Continued)

Note G: Fair Value Measurements (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.

Note H: Net Assets

Temporarily restricted net assets consist of the following at June 30:

| | <u>2018</u> | <u>2017</u> |
|------------------------------|---------------------|---------------------|
| Scholarships | \$ 889,465 | \$ 837,110 |
| Departmental support | 1,260,281 | 1,282,341 |
| Foundation support | 103,894 | 80,156 |
| Total temporarily restricted | <u>\$ 2,253,640</u> | <u>\$ 2,199,607</u> |

Permanently restricted net assets consist of the following at June 30:

| | <u>2018</u> | <u>2017</u> |
|-------------|---------------------|---------------------|
| Scholarship | <u>\$ 2,294,683</u> | <u>\$ 2,248,038</u> |

Net assets were released from restrictions for the following purposes during the year ended June 30:

| | <u>2018</u> | <u>2017</u> |
|--------------------|-------------------|-------------------|
| Scholarship | \$ 327,414 | \$ 288,136 |
| Department support | 229,643 | 168,060 |
| | <u>\$ 557,057</u> | <u>\$ 456,196</u> |

Required Supplementary Information

Eastern Oklahoma State College
A Component Unit of the State of Oklahoma
Schedules of Required Supplementary Information
Schedule of College's Proportionate Share of the Net Pension Liability
Oklahoma Teachers Retirement System
Last 10 Fiscal Years* (Dollar amounts in thousands)

| | <u>2015</u> | <u>2016</u> | <u>2017</u> | <u>2018</u> |
|---|--------------|--------------|--------------|--------------|
| College's proportion of the net pension liability | 0.2262% | 0.2252% | 0.2078% | 0.2111% |
| College's proportionate share of the net pension liability | \$12,171,485 | \$13,674,951 | \$17,341,303 | \$13,980,193 |
| College's covered payroll | \$8,599,447 | \$8,728,536 | \$8,322,346 | \$8,130,782 |
| College's proportionate share of the net pension liability as a percentage of its covered payroll | 142% | 157% | 208% | 172% |
| Plan fiduciary net position as a percentage of the total pension liability | 72.43% | 70.31% | 62.24% | 69.32% |

*The amounts present for each fiscal year were determined as of 6/30

Notes to Schedule:

Information to present a 10 year history is not readily available.

The Plan's net pension liability increased between 2015 and 2016 due to changes in assumptions adopted by the

Eastern Oklahoma State College
A Component Unit of the State of Oklahoma
Schedules of Required Supplementary Information
Schedule of the College's Pension Contributions
Oklahoma Teachers Retirement System
Last 10 Fiscal Years (Dollar amounts in thousands)

| | <u>2015</u> | <u>2016</u> | <u>2017</u> | <u>2018</u> |
|--|----------------|----------------|----------------|----------------|
| Contractually required contribution | \$ 938,423 | \$ 882,245 | \$ 877,121 | \$ 872,873 |
| Contributions in relation to the contractually required contribution | <u>938,423</u> | <u>882,245</u> | <u>877,121</u> | <u>872,873</u> |
| Contribution deficiency (excess) | <u>\$ -</u> | <u>\$ -</u> | <u>\$ -</u> | <u>\$ -</u> |
| College's covered payroll | \$ 8,728,536 | \$ 8,322,346 | \$ 8,130,782 | \$ 8,040,984 |
| Contributions as a percentage of covered payroll | 10.75% | 10.60% | 10.79% | 10.86% |

Notes to Schedule:

Information to present a 10 year history is not readily available.

Eastern Oklahoma State College
A Component Unit of the State of Oklahoma
Schedules of Required Supplementary Information
Schedule of College's Change in Total Pension Liability
Supplemental Retirement Annuity
Last 10 Fiscal Years

| | 2017 | 2018 |
|---|----------|----------|
| Beginning net pension liability | 264,248 | 259,235 |
| Interest | 9,460 | 7,907 |
| Change of assumptions | 7,547 | (11,638) |
| Difference between actual and expected experience | 6,341 | 8,465 |
| Benefit payments | (28,361) | (28,361) |
| Ending net pension liability | 259,235 | 235,608 |

Notes to Schedule:

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

Eastern Oklahoma State College
A Component Unit of the State of Oklahoma
Schedules of Required Supplementary Information
Schedule of the College's Proportionate Share of the Net OPEB Liability (Asset)
Supplemental Health Insurance Program
Last 10 Fiscal Years* (Dollar amounts in thousands)

| | 2018 |
|---|--------------|
| College's proportion of the net OPEB liability (asset) | 0.2111 |
| College's proportionate share of the net OPEB liability (asset) | \$ (94,157) |
| College's covered payroll | \$ 8,130,782 |
| College's proportionate share of the net OPEB liability (asset) as a percentage of its covered-employee payroll | -1.16% |
| Plan fiduciary net position as a percentage of the total OPEB liability (asset) | 110.40% |

*The amounts present for each fiscal year were determined as of 6/30

Eastern Oklahoma State College
A Component Unit of the State of Oklahoma
Schedules of Required Supplementary Information
Schedule of the College's Contributions
Supplemental Health Insurance Program
Last 10 Fiscal Years* (Dollar amounts in thousands)

| | 2018 |
|--|--------------|
| Contractually required contribution | \$ 13,860 |
| Contributions in relation to the contractually required contribution | 13,860 |
| Contribution deficiency (excess) | \$ - |
| College's covered payroll | \$ 8,040,984 |
| Contributions as a percentage of covered payroll | 0.17% |

Notes to Schedule:

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

Eastern Oklahoma State College
A Component Unit of the State of Oklahoma
Schedules of Required Supplementary Information
Schedule of Changes in Net OPEB Liability and Related Ratios
Last 10 Fiscal Years

| | 2018 |
|---|---------------------|
| Total OPEB liability | |
| Service cost | \$ 284,427 |
| Interest | 65,045 |
| Changes in assumptions | (131,852) |
| Differences between expected and actual experience | (833,844) |
| Benefit payments, including refunds of member contributions | (53,817) |
| Net change in total OPEB liability | (670,041) |
| | |
| Total OPEB liability - beginning | 2,132,622 |
| Total OPEB liability - ending (a) | \$ 1,462,581 |
| | |
| Covered employee payroll | \$ 8,040,984 |
| | |
| Net OPEB liability (asset) as a percentage of covered-employee payroll | 18.19% |

Notes to Schedule:

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

The discount rate used for 2018 is 3.88%.



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Business Advisors

**Independent Auditors' Report on Internal Control over Financial Reporting
and on Compliance and Other Matters Based on an Audit of the Financial
Statements Performed in Accordance with
Government Auditing Standards**

Board of Regents
Eastern Oklahoma State College
Wilburton, Oklahoma

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of the Eastern Oklahoma State College, as of and for the year ended June 30, 2018, and the related notes to the financial statements, which collectively comprise Eastern Oklahoma State College's basic financial statements, and have issued our report thereon dated November 15, 2018.

Internal Control over Financial Reporting

In planning and performing our audit of the financial statements, we considered Eastern Oklahoma State 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 Eastern Oklahoma State College's internal control. Accordingly, we do not express an opinion on the effectiveness of Eastern Oklahoma State College's internal control.

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

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether Eastern Oklahoma State College's financial statements are free from material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

Purpose of this Report

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

Hill & Company, PC

Tulsa, Oklahoma
November 15, 2018





Independent Auditors' Report on Compliance for Each Major Federal Program; Report on Internal Control over Compliance; and Report on Schedule of Expenditures of Federal Awards 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 compliance with the types of compliance requirements described in the *OMB Compliance Supplement* that could have direct and material effect on each of the Eastern Oklahoma State College's major federal programs for the year ended June 30, 2018. The Eastern Oklahoma State College's major federal programs are identified in the summary of auditor's results section of the accompanying schedule of findings and questioned costs.

Management's Responsibility

Management is responsible for compliance with the requirements of federal statutes, regulations, and the terms and conditions of its federal awards applicable to its federal programs.

Auditor's Responsibility

Our responsibility is to express an opinion on compliance for each of the College's major federal programs based on our audit of the types of compliance requirements referred to above. We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the comptroller General of the United States; and the audit requirements of Title 2 U.S. *Code of Federal Regulations* Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (Uniform Guidance). Those standards and the Uniform Guidance require that we plan and perform the audit to obtain reasonable assurance about whether non-compliance with the types of compliance referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about the College's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances.

We believe that our audit provides a reasonable basis for our opinion on compliance for each major federal program. However, our audit does not provide a legal determination of the College's compliance.

Opinion on Each Major Federal Program

In our opinion, the Eastern Oklahoma State 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, 2018.

Report on Internal Control Over Compliance

Management of the Eastern Oklahoma State 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 Eastern Oklahoma State College's internal control over compliance.

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

Our consideration of internal control over compliance was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over compliance that might be material weaknesses or significant deficiencies. We did not identify any deficiencies in internal control over compliance that we considered to be material weaknesses. However, material weaknesses may exist that have not been identified.

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

Report on Schedule of Expenditures of Federal Awards Required by the Uniform Guidance

We have audited the financial statements of the Eastern Oklahoma State College as of and for the year ended June 30, 2018 and the related notes to the financial statements, which collectively comprise the College's basic financial statements. We issued our report thereon dated November 15, 2018, which contained an unmodified opinion on those financial statements. Our audit was conducted for the purpose of forming an opinion on the financial statements that collectively comprise the basic financial statements. The accompanying schedule of expenditures of federal awards is presented for purposes of additional analysis as required by the Uniform Guidance 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 financial statements and certain auditing procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the schedule of expenditure of federal awards is fairly stated in all material respects in relation to the basic financial statements as a whole.

Hill & Company, PC

Tulsa, Oklahoma
November 15, 2018



Eastern Oklahoma State College
A Component Unit of the State of Oklahoma
Schedule of Expenditures of Federal Awards
Period Ended June 30, 2018

| Federal Grantor/Pass through Grantor Program or Cluster Title | CFDA Number | Grant Number Pass-Through Identity Number | Federal Expenditures | Subrecipient Expenditures |
|--|----------------|---|-------------------------|------------------------------|
| Student Financial Aid Cluster: | | | | |
| U.S. Department of Education | | | | |
| Federal Pell Grant | 84.063 | NA | \$ 3,220,642 | - |
| Federal Supplemental Education Opportunity Grant | 84.007 | NA | 350 | - |
| Federal Work study | 84.033 | NA | 96,021 | - |
| Federal Direct Loans | 84.032 | NA | <u>2,576,801</u> | - |
| Total Student Financial Aid Cluster | | | <u>5,893,814</u> | |
| TRIO Cluster | | | | |
| U.S. Department of Education | | | | |
| TRIO - Student Support Services | 84.042 | P042A150134 | <u>331,580</u> | - |
| Total TRIO Programs Cluster | | | <u>331,580</u> | |
| Other Federal Award Programs | | | | |
| U.S. Department of Education | | | | |
| Title III - NASNTI - Pathways to Success | 84.031A | P031A150205 | <u>510,918</u> | - |
| U.S. Department of Education | | | | |
| Gear Up for Success | 84.334A | P334A110137 | <u>2,677,566</u> | - |
| U.S. Department of Agriculture | | | | |
| Distance Learning and Telemedicine | 10.855 | USDA OK 0748-B16 | <u>175,018</u> | - |
| Total U.S. Department of Agriculture | | | <u>175,018</u> | |
| U.S. Small Business Administration | | | | |
| Small Business Development | 59.037 | NA | <u>36,807</u> | - |
| U.S. Department of Labor Pass-Through Programs From: | | | | |
| Oklahoma Department of Mine Health and Safety Administration | 17.600 | NA | <u>276,729</u> | - |
| U.S. Department of Education Pass-Through Programs From: | | | | |
| Oklahoma Department of Vocational Education Carl Perkins - Post Secondary | 84.048 | NA | <u>20,734</u> | - |
| U.S. Department of Health and Human Services | | | | |
| Pass Through Programs From: | | | | |
| Oklahoma Department of Human Services Tomorrows Hope | 93.243 | NA | <u>22,192</u> | - |
| Total Other | | | <u>4,051,544</u> | |
| Total Expenditures of Federal Awards | | | <u>\$ 9,945,358</u> | |

Eastern Oklahoma State College
A Component Unit of the State of Oklahoma
Notes to Schedule of Expenditures of Federal Awards
Year Ended June 30, 2018

Note A: Basis of Presentation

The accompanying schedule of expenditures of federal awards (the Schedule) includes the federal awards activity of Eastern Oklahoma State College under programs for the federal government for the year ended June 30, 2018. The information in this Schedule is presented in accordance with the requirements of Title 2 U.S. *Code of Federal Regulations* 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 Eastern Oklahoma State College, it is not intended to and does not present the financial position, changes in net position, or cash flows of Eastern Oklahoma State College.

Note B: Summary of Significant Accounting Policies

1. 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.
2. Under the Federal Direct Student Loan Program ("Direct Loan Program"), the U.S. Department of Education makes loans to enable a student or parent to pay the costs of the student's attendance at a postsecondary school. The Direct Loan Program enables an eligible student or parent to obtain a loan to pay for the student's cost of attendance directly from the U.S. Department of Education rather than through private lenders. The College administers the origination and disbursement of the loans to eligible students or parents. The College is not responsible for the collection of these loans.
3. The College has elected to use the 10 percent de minimis indirect cost rate as allowed under the Uniform Guidance.

Eastern Oklahoma State College
A Component Unit of the State of Oklahoma
Schedule of Findings and Questioned Costs
Year Ended June 30, 2018

Section I--Summary of Auditors' Results

1. The opinion expressed in the independent accountants' report was:
 Unmodified Qualified Adverse Disclaimed

2. The independent accountants' report on internal control over financial reporting described:
Significant deficiencies Yes None reported
Material weaknesses? Yes No

3. Noncompliance considered material to the financial statements was disclosed by the audit? Yes No

4. The independent auditors' report on internal control over compliance for major federal awards programs disclosed:
Significant deficiencies? Yes None reported
Material weaknesses? Yes No

5. The opinion expressed in the independent auditors' report on compliance for major federal awards was:
 Unmodified Qualified Adverse Disclaimed

6. The audit disclosed findings required to be reported by the Uniform Guidance? Y No

Eastern Oklahoma State College
A Component Unit of the State of Oklahoma
Schedule of Findings and Questioned Costs
Year Ended June 30, 2018

Section I--Summary of Auditors' Results (Continued)

7. Identification of major programs:

| <u>Cluster/Program</u> | <u>CFDA Number</u> |
|---|--------------------|
| Student Financial Aid Cluster | |
| Federal Pell Grant | 84.063 |
| Federal Supplemental Education Opportunity Grants | 84.007 |
| Federal Work Study | 84.033 |
| Federal Direct Loans | 84.032 |
| Gear Up | 84.334A |

8. The threshold used to distinguish between Type A and Type B programs as those terms are defined in the Uniform Guidance was \$750,000.

9. Auditee qualified as a low-risk auditee as that term is defined in the Uniform Guidance? Yes No

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

None to report for the June 30, 2018 period.

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

None to report for the June 30, 2018 period.

Eastern Oklahoma State College
A Component Unit of the State of Oklahoma
Summary Schedule of Prior Audit Findings
Year Ended June 30, 2018

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.

Current year status: This finding has been corrected in the current period.

Eastern Oklahoma State College
A Component Unit of the State of Oklahoma
Summary Schedule of Prior Audit Findings
Year Ended June 30, 2018

Finding 2017-002: Student Financial Assistance Cluster

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.

Current year status: This finding has been corrected in the current period.

Eastern Oklahoma State College
A Component Unit of the State of Oklahoma
Summary Schedule of Prior Audit Findings
Year Ended June 30, 2018

Finding 2017-003: Student Financial Assistance Cluster

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.

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.

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.

Eastern Oklahoma State College
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Summary Schedule of Prior Audit Findings
Year Ended June 30, 2018

Finding 2017-003: Student Financial Assistance Cluster (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.

Current year status: This finding has been corrected in the current period.