Murray State College

Financial Statements
with Independent Auditors' Reports

June 30, 2016

Murray State College
Table of Contents
June 30, 2016

Arledge & Associates, P.C.
CERTIFIED PUBLIC ACCOUNTANTS

INDEPENDENT AUDITOR'S REPORT

Board of Regents
Murray State College
Tishomingo, Oklahoma

Report on the Financial Statements

We have audited the accompanying financial statements of Murray State College (the College), a component unit of the State of Oklahoma, and its discretely presented component unit, as of and for the year ended June 30, 2016, and the related notes to the financial statements, which collectively comprise the College's basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

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

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

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

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Basis for Adverse Opinion on Discretely Presented Component Unit

The financial statements referred to above do not include the June 30, 2016, financial data for the College's legally separate component unit. Accounting principles generally accepted in the United States of America require financial data for those component units to be reported with the financial data of the College's primary government unless the College also issues financial statements for the financial reporting entity that include the financial data for its component unit. The College has not issued such reporting entity financial statements. Because of this departure from accounting principles generally accepted in the United States of America, the assets, liabilities, net position, revenues, and expenses of the discretely presented component unit would have been included at amounts different from the June 30, 2015, amounts presented.

Adverse Opinion

In our opinion, because of the significance of the matter discussed in the "Basis for Adverse Opinion on Discretely Presented Component Unit" paragraph, the financial statements referred to above do not present fairly the financial position of the discretely presented component unit of the College, as of June 30, 2016, or the changes in financial position thereof for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Unmodified Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the College as of June 30, 2016, and the respective changes in financial position and cash flows thereof for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Correction of Error

As discussed in Note 1 to the financial statements, certain errors resulting in overstatement of amounts previously reported for cash as of June 30, 2015, were discovered by management of the College during the current year. Accordingly, an adjustment has been made to net position as of June 30, 2015, to correct the error. Our opinion is not modified with respect to this matter.

Change in Accounting Principle

As discussed in Note 1 to the financial statements, in 2016 the College adopted new accounting guidance, GASB Statement No. 82, Pension Issues—an amendment of GASB Statements No. 67, 68, and 73. Our opinion is not modified with respect to this matter.

Prior Period Financial Statements

The financial statements of the Foundation as of June 30, 2015, were audited by other auditors whose report dated October 26, 2015, expressed an unmodified opinion on those statements.

Other Matters

Required Supplementary Information

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

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated October 21, 2016, on our consideration of the College's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the College's internal control over financial reporting and compliance.

Arledge & Associates, P.C.

October 21, 2016

Management's Discussion and Analysis
Murray State College
For Year Ended June 30, 2016

OVERVIEW

The discussion and analysis of Murray State College's financial statements provides an overview of the financial activities for the year ended June 30, 2016. Since the management's discussion and analysis is designed to focus on current activities, resulting change and current known fact, it should be read in conjunction with the basic financial statements and the notes to the financial statements. FY2015 financial data is provided in some cases along with FY2016 for comparison purposes.

As a whole, the financial position for Murray State College decreased from operations for fiscal year ended June 30, 2016.

USING THIS REPORT

In June 1999, the Government Accounting Standards Board (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 one-line look at the entity as a whole and capitalization of assets and 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 and its agencies adopted these standards early in preparation for the actual required date of fiscal year ending 2003. The GASB standards require several changes to the basic financial statements as well as the requirement for the recording of depreciation expense for fixed assets.

Report statements include all assets, deferred outflows, liabilities and deferred inflows using the accrual basis of accounting, which is consistent with the accounting used by private sector institutions. All of the current year's revenues and expenses are recognized when earned or incurred, regardless of when cash is received or paid.

FINANCIAL HIGHLIGHTS

The report that follows consists mainly of three basic financial statements:

1. **Statement of Net Position**
2. **Statement of Revenues, Expenses, and Changes in Net Position**
3. **Statement of Cash Flows**

The Statement of Net Position, and, the Statement of Revenues, Expenses and Changes in Net Position report information on the College as a whole and will reflect whether the institution is better off or worse off as a result of the year's activities. When revenues and other support exceed expenses, the result is an increase in net position. When the reverse occurs, the result is a decrease in net position. The relationship between revenues and expenses reflect the College's operating results. These two statements report the College's net position and changes in it.

Current assets represent resources that are available to meet current operational needs. Non-current assets represent resources that are not available to meet current obligations. Cash and investments designated for construction or other capital projects are included in this category. The major component of this category is the College's investment in property, buildings and equipment. The financial statements contain a summary of capital asset activity.

Liabilities are also separated into current and non-current classifications. Current liabilities are those obligations that are due within the current year and will be paid from current resources. Non-current liabilities are primarily made up of long-term debt. The financial statements provide detail related to Long-term liabilities.

Net Position – the difference between assets, deferred outflows, liabilities and deferred inflows – reflect one way to measure the institution's financial health, or financial position. Over time, increases or decreases in the net position is one indicator of whether financial health is improving or deteriorating. Other non-financial factors including freshman class size, student retention, programmatic offerings, etc. must be considered as well to assess the **overall** health of the institution.

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

Statement of Net Position

Schedule A is prepared from the College's Statement of Net Position and summarizes the assets, deferred outflows, liabilities, deferred inflows and net position as of June 30. Comparative data for the preceding year is provided.

Schedule A
Condensed Statement of Net Position
As of June 30, 2016 and 2015

	2016	restated **2015**
Current Assets	$ 18,466,975	$ 22,980,847
Non Current Assets		
Capital Assets, Net of Depreciation	25,906,716	22,658,479
Other	137,881	821,351
Total Assets	44,511,572	46,460,677
Deferred Outflows	1,478,709	1,048,515
Current Liabilities	2,319,657	2,537,920
Noncurrent Liabilities		
Compensated Absences	160,735	23,523
Net Pension Obligation	12,549,259	11,452,416
Lease Payable	17,151,929	17,813,776
Total Liabilities	32,181,580	31,827,635
Deferred Inflows	1,778,345	3,120,410
Net Position		
Net Investment in Capital Assets	13,814,496	12,685,753
Restricted	4,404,740	4,529,820
Unrestricted	(6,188,880)	(4,654,426)
Total Net Position	$ 12,030,356	$ 12,561,147

Other non-current assets decreased by 83% due mainly to a decrease in pledges receivable from the receipt of the second payment of a three year pledge from the Chickasaw Nation for the Nursing and Allied Health Building. Deferred outflows increased 41%, deferred inflows decreased 43%, and Net Pension Obligation increased 10% all due to the reporting requirements of GASB No. 82 in regards to accounting for pensions.

Statement of Revenues, Expenses and Changes in Net Position

The Statement of Revenues, Expenses and Changes in Net Position presents the College's results of operations for the year and the effect on net position. Operating revenues and expenses are generated from exchange transactions that arise in the course of normal activity for the organization. Tuition and fees, sales of services and merchandise, and similar transactions are considered operating revenues and all of the expenses required to provide these services are considered operating expenses. Nonoperating revenue and expenses are characterized as non-exchange and include such items as gifts and contributions, investment income or expense, Federal Pell grants, and most significantly, state appropriations.

Schedule B is prepared from the College's Statement of Revenues, Expenses and Changes in Net Position.

Schedule B
Condensed Statement of Revenues, Expenses and Changes in Net Position
Year Ended June 30, 2016 and 2015

	2016	restated 2015
Operating Revenue		
Tuition and Fees	$ 3,310,987	$ 3,178,275
Sales, service, and other revenue	1,624,935	1,551,668
Operating gifts, grants and contract	3,995,454	3,628,027
Total	8,931,376	8,357,970
Less Operating Expense	(22,433,829)	(21,090,239)
Net Operating Loss	(13,502,453)	(12,732,269)
Non Operating Revenue & Expense		
Governmental appropriations	5,719,160	6,550,004
On-behalf payment for OCIA Debt	1,327,908	1,069,448
On-behalf payment for OTRS	644,630	629,696
Interest Income	88,318	49,833
Interest Expense	(1,007,651)	(861,758)
Non Operating Grants	6,199,297	7,964,532
Total	12,971,662	15,401,755
Change in Net Assets	(530,791)	2,669,486
Net Assets, Beginning of Year	12,561,147	9,891,661
Net Assets, End of Year	$ 12,030,356	$ 12,561,147

Tuition and fees and sales and service revenue increased during FY16 due to increased tuition charges and increased sales at the MoM stores. On-behalf payments for OCIA debt increased 24% due to additional principal and interest payments made on the College's behalf in FY16.

Schedule C is prepared from the College's Statement of Revenues, Expenses and Changes in Net Position.

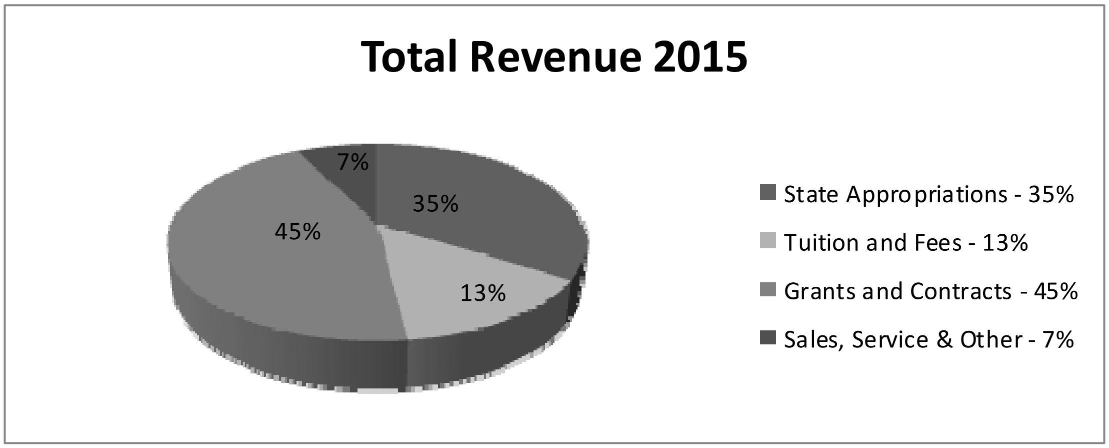
Schedule C
Operating Expenses Detail
As of June 30, 2016 and 2015

Operating Expense	2016	restated 2015
Salaries	$ 8,301,594	$ 8,439,397
Fringe Benefits	3,885,518	2,849,323
Professional Services	258,812	185,885
Contractual Services	1,200,381	1,109,635
Supplies & Materials	3,039,144	2,963,473
Travel	400,672	391,011
Miscellaneous	1,120,992	1,077,268
Communication	155,364	135,004
Scholarships & Student Aid	2,449,798	2,436,745
Utilities	373,792	394,984
Depreciation	1,247,762	1,107,514
Total	$ 22,433,829	$ 21,090,239

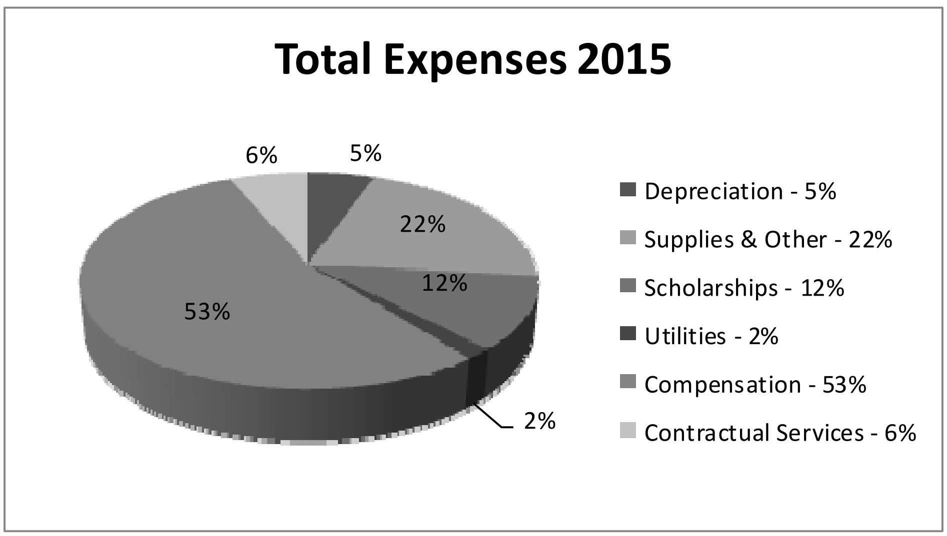
Revenues and Expenses

Revenues and Expenses impact total Net Position. Operating revenue which includes Tuition/Fees, Auxiliary operations, Gifts/Grants/Other Contracts plus non-operating revenue which includes state appropriations, on-behalf payments and interest less expenses will result in a change to total net position. As a result of decreased appropriations due to State budget shortfalls, Net position at the end of the year decreased by $530,791 from the previous year.

The following graph represents sources and percentages of revenue during the year.



The following graph represents sources and percentages of expenses during the year.



Statement of Cash Flows

The primary purpose of the Statement of Cash Flows is to provide information about the cash receipts and distributions of an entity during a period. This statement also aids in the assessment of an entity's ability to generate future net cash flows, ability to meet obligations as they come due, and needs for external financing.

Schedule D is a summary of the cash flows for the year compared to the previous year and is prepared from the Statement of Cash Flows.

Schedule D
Statement of Cash Flows
As of June 30, 2016 and 2015

Cash provided (used) by	**2016**	restated **2015**
Operating Activities	$ (13,500,989)	$ (12,612,508)
Non Capital Financing Activities	11,496,809	12,577,595
Capital and Related Financing	(867,700)	(1,005,738)
Investing Activities	90,058	50,003
Net Increase (Decrease) in Cash	(2,781,822)	(990,648)
Cash, Beginning of Year	9,021,063	10,011,711
Cash, End of Year	$ 6,239,241	$ 9,021,063

Capital Assets

At year end, the College had approximately $42.9 million invested in capital assets, net of accumulated depreciation of more than $17 million. Details of balances of capital assets are shown below in Schedule E.

Schedule E
Capital Assets, Net
As of June 30, 2016 and 2015

Capital Assets	**2015**	**2015**
Land	$ 119,860	$ 99,860
Land Improvements	92,544	84,344
Building	23,673,197	22,884,743
Equipment	9,017,080	8,658,217
Library Materials	244,784	244,367
Livestock	269,850	270,300
Infrastructure	2,152,861	1,353,959
Construction In Progress	7,310,707	4,789,093
Total	42,880,883	38,384,883
Less Accumulated Depreciation	(16,974,167)	(15,726,404)
Net Capital Assets	$ 25,906,716	$ 22,658,479

COMPONENT UNIT

The Murray State College Foundation is a nonprofit organization incorporated in the State of Oklahoma in 1979 to promote the education, scientific and benevolent purposes of Murray State College. It is considered a component unit of Murray State College and the financials are presented discretely in the audit of the college. The Murray State College Foundation Student Housing LLC is a nonprofit limited liability organization formed in 2003. The sole member of the LLC is the Murray State College Foundation. The LLC was formed for the purpose of constructing student housing on property owned by Murray State College. Due to staff and auditor turnover, as well as a restrictive State mandated filing deadline of October 31st, the Foundations 2016 financials are not included in the College's 2016 audit report. Therefore the previously issued 2015 financials are provided in this audit report. The Foundation's 2016 stand-alone audit report will be issued at a later date.

ECONOMIC OUTLOOK

Even though the current financial position of Murray State College is positive, the economic position of all state agencies is closely tied to that of the State of Oklahoma. State appropriated funds make up a large portion of the Murray State College operating budget. Appropriation cuts in FY 2003 totaled almost 10%; FY 2004 cuts totaled 3%; FY 2005 budget included the first increase in several years and allowed us to make some much overdue salary adjustments as well as fill a few critical positions that had been frozen for a period of time. The FY 2006 appropriation included an increase of 8% including a base increase of over $300,000 as a result of being in the lower percentile of budget needs funded. FY 2007 budget appropriations provided funding necessary to cover anticipated mandatory cost increases. FY 2008 and FY 2009 funding increased only slightly with differences in revenue and expense offset by increases in tuition and fees. Mid-year reductions were made to state appropriations with the expectation funds would be replaced in the next fiscal year.

FY 2010 funding decreased statewide by approximately 6% and was offset by allocation of federal stimulus funds. Stimulus funds allocated for FY 2010 totaled $462,132. No tuition and fee increases were implemented for FY 2010 as a compromise between the legislative and state regents staff to hold budget reductions to a minimum so that tuition would not have to be increased for the year. As a result of this decision and appropriation of stimulus funds, Murray State received a net increase of 4.47% for operational expenses.

FY 2011 funding was reduced 2% which was less than other state agencies budgets were cut. Along with decreases in funding, federal stimulus monies were no longer available. FY 2012, 2013, 2014 & 2015 funding remained virtually unchanged. FY 2016 funding was cut by over 10% through a series of reductions in monthly state appropriations. FY 2017 saw 2016 cuts remain intact and additional reductions added on top of those. Projections for FY 2018 and beyond are quite uncertain as the State's economy has seen both positive and

ECONOMIC OUTLOOK – Continued

negative years mostly dependent upon the energy industry. Recovery will continue to be slow and extended over a period of several years.

Projections for enrollment during the same period remain guarded. Historically, as the economy improves and the job market expands, community colleges suffer decreases in enrollment. The College continues to use all resources available to ensure those changes are minimalized.

Mandatory costs including utility costs and insurance for property, tort and medical are escalating dramatically and will continue to have a big impact on current budgets and in the years to come. In addition, unfunded mandates such as Title IX requirements and FLSA modifications continue to place pressure on the College budget.

The current budgetary climate is challenging and the College is relying on the experience of our management team and our team approach to problem solving to meet these challenges. We believe that many of the actions that have been taken in the recent past and those planned for the future will help us weather the current crisis and result in a stronger more efficient and effective organization. We realize that serving our students and maintaining quality academic programs is dependent on receiving an adequate level of state and federal appropriations in the future and we plan to work diligently toward that objective.

Murray State College
Statement of Net Position
June 30, 2016

	Murray State College 2016	Murray State College Foundation 2015
Assets		
Current Assets		
Cash and cash equivalents	$ 6,126,502	$ 158,782
Accounts receivable, net	645,349	1,500,000
Federal and state grants receivable	3,729,561	-
Pledges receivable	500,000	-
Other asset	124,155	865
Receivable from ODFA	6,118,399	-
Certificates of deposit	-	1,969,749
Investments	-	2,007,331
Inventory	1,223,009	-
Total current assets	18,466,975	5,636,727
Noncurrent Assets		
Restricted cash and cash equivalents	112,739	-
Certificates of deposit	25,142	-
Capital assets, net	25,906,716	3,017,952
Total noncurrent assets	26,044,597	3,017,952
Total assets	44,511,572	8,654,679
Deferred Outflows		
Related to pensions	1,478,709	-
Liabilities		
Current Liabilities		
Accounts payable and accrued liabilities	845,291	-
Accrued compensated absences	232,891	-
Unearned revenue	329,730	-
Deposits payable	-	1,175
Current maturities of long-term debt	911,745	57,659
Total current liabilities	2,319,657	58,834
Noncurrent Liabilities		
Accrued compensated absences	160,735	-
Net pension obligation	12,549,259	-
Long-term debt	17,151,929	3,593,738
Total noncurrent liabilities	29,861,923	3,593,738
Total liabilities	32,181,580	3,652,572
Deferred Inflows		
Deferred gain on lease restructuring	146,945	-
Related to pensions	1,631,400	-
Total deferred inflows	1,778,345	-
Net Position		
Net investment in capital assets	13,814,496	(637,764)
Restricted for:		
Nonexpendable for scholarships	-	1,723,863
Expendable:		
Scholarships	3,792,001	3,613,646
Capital projects	612,739	-
Unrestricted	(6,188,880)	302,362
Total net position	$ 12,030,356	$ 5,002,107

See Notes to Financial Statements

Murray State College
Statement of Revenues, Expenses, and Changes in Net Position
Year Ended June 30, 2016

	Murray State College 2016	Murray State College Foundation 2015
Operating Revenues		
Tuition and fees, net	$ 3,310,987	$ -
Federal grants and contracts	2,160,777	-
State and private grants and contracts	1,057,100	-
Sales and services of auxiliary enterprises, net	1,624,935	-
Other operating revenues	777,577	15,019
Total operating revenues	8,931,376	15,019
Operating Expenses		
Compensation and benefits	12,187,112	-
Contractual services	1,459,193	-
Supplies and materials	3,039,144	-
Scholarships and fellowships	2,449,798	181,856
Communications	155,364	-
Depreciation	1,247,762	109,268
Utilities	373,792	-
Travel	400,672	-
Other	1,120,992	69,365
Total operating expenses	22,433,829	360,489
Operating Loss	(13,502,453)	(345,470)
Nonoperating Revenues (Expenses)		
State appropriations	5,297,512	-
Federal grants - non-operating	4,420,872	-
State grants -non-operating	1,778,425	-
Contributions and other receipts	-	387,344
OTRS on-behalf contributions	644,630	-
Investment income	88,318	143,152
Interest on capital asset-related debt	(1,007,651)	(162,165)
Net nonoperating revenues	11,222,106	368,331
Income (Loss) Before Other Revenues, Expenses, Gains, Losses and Transfers	(2,280,347)	22,861
Capital Appropriations – State	421,648	-
OCIA Debt Service On-Behalf Payments	1,327,908	-
Increase in Net Position	(530,791)	22,861
Net Position, Beginning of Year (restated)	12,561,147	4,979,246
Net Position, End of Year	$ 12,030,356	$ 5,002,107

Murray State College
Statement of Cash Flows
Year Ended June 30, 2016

	Murray State College 2016
Cash Flows from Operating Activities	
Tuition and fees	$ 3,307,446
Grants and contracts	2,639,516
Auxiliary enterprises sales and services	1,513,733
Payments to suppliers	(9,356,757)
Payments to employees	(12,379,097)
Other operating receipts	774,170
Net cash used in operating activities	(13,500,989)
Cash Flows from Noncapital Financing Activities	
State appropriations	5,297,512
Non-operating grants	6,199,297
Net cash provided by noncapital financing activities	11,496,809
Cash Flows from Capital and Related Financing Activities	
Purchases of capital assets	(4,229,099)
Receipts from OCIA & ODFA for capital purchases	3,268,229
Principal paid on capital leases and bonds	(339,833)
Interest paid on capital leases and bonds	(488,645)
Capital contributions	500,000
Capital appropriations – state	421,648
Net cash provided by (used in) capital and related financing activities	(867,700)
Cash Flows from Investing Activities	
Investment income received	90,058
Net cash provided by (used in) investing activities	90,058
Net Increase (Decrease) in Cash and Cash Equivalents	(2,781,822)
Cash and Cash Equivalents, Beginning of Year (restated)	9,021,063
Cash and Cash Equivalents, End of Year	$ 6,239,241

(Continued)

Murray State College
Statement of Cash Flows
Year Ended June 30, 2016
(Continued)

		Murray State College 2016
Reconciliation of Net Operating Revenues (Expenses) to Net Cash Used in Operating Activities		
Operating loss	$	(13,502,453)
Depreciation expense		1,247,762
Contributions in-kind		-
OTRS on-behalf contributions		644,630
Changes in operating assets and liabilities		
Receivables, net		(113,572)
Other receivables		(578,361)
Other assets		(3,407)
Deferred outflows related to pensions		(612,596)
Inventories		(395,719)
Accounts payable and other accrued liabilities		39,788
Unearned revenue		(1,171)
Deferred inflows related to pensions		(1,329,050)
Net pension obligation		1,096,843
Compensated absences		6,317
Net Cash Used in Operating Activities	$	(13,500,989)
Noncash Investing, Noncapital Financing and Capital and Related Financing Activities		
Principal and interest on capital debt paid by state agency	$	1,327,908
Reconciliation of Cash and Cash Equivalents to the Statement of Net Assets		
Current assets		
Cash and cash equivalents	$	6,126,502
Noncurrent assets		
Restricted cash and cash equivalents		112,739
	$	6,239,241

Murray State College
Notes to Financial Statements
June 30, 2016

Note 1: Summary of Significant Accounting Policies

Nature of Operations

Murray State College (the "College") is a two-year, state supported college operating under the jurisdiction of the Board of Regents of Murray 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 financial statements of the State of Oklahoma. The College has campuses located in Tishomingo and in Ardmore at the University Center of Southern Oklahoma.

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. The accompanying financial statements include the accounts and funds of the College.

The Murray State College Foundation, Inc. (the "Foundation") and Murray State College Foundation Student Housing, LLC (the "LLC") are reported as legally separate, tax-exempt component units of the College. The Foundation is organized for the purpose of receiving and administering gifts intended for the College. Although the College does not control the timing or amount of receipts from the Foundation, the majority of resources, or income thereon, which the Foundation holds and invests, is restricted to the activities of the College by the donors. Because these restricted resources held by the Foundation can only be used by, or for the benefit of, the College, the Foundation is considered a component unit of the College and is discretely presented in the College's financial statements. The LLC is organized for the purpose of constructing and financing housing facilities for the benefit of the College. The sole member of the LLC is the Foundation and therefore the LLC is a blended component unit of the Foundation and its accounts are included in the Foundation's accounts in the accompanying financial statements.

The Foundation and the LLC are private nonprofit organizations that report under the Financial Accounting Standards Board ("FASB") standards over accounting for Not-for-Profit Organizations. As such, certain revenue recognition criteria and presentation features are different from GASB revenue recognition criteria and presentation features. No modifications have been made to the Foundation's financial information in the College's financial reporting entity for these differences. Due to staff and auditor turnover, as well as a restrictive State mandated filing deadline of October 31st, the Foundation's 2016 financials are not included in the College's 2016 audit report. Rather, the previously issued 2015 financial statements are provided in this audit report. The Foundation's 2016 stand-alone audit report will be issued at a later date.

Note 1: Summary of Significant Accounting Policies (Continued)

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

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

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

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

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

A student account receivable and student loan receivable is considered to be past due if any portion of the receivable balance is outstanding after the end of the semester. Interest and late charges are not generally assessed and, if they are assessed, are not included in income until received.

Note 1: Summary of Significant Accounting Policies (Continued)

Accounts Receivable and Other Receivables (Continued)

Other receivables include amounts due from federal, state and local governments, or private sources, in connection with reimbursement of allowable expenditures made pursuant to the College's grants and contracts. Other accounts receivable also include amounts due from the Oklahoma Development Finance Authority ("ODFA") and Oklahoma Capital Improvement Authority ("OCIA") for proceeds from the capital bond improvement program allocated to the College. No allowance for doubtful accounts has been provided for other receivables.

Restricted Cash and Investments

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

Capital assets

Capital assets are stated at cost, or fair value if acquired by gift, less accumulated depreciation. For equipment, the College's capitalization policy includes all items with a unit cost of $5,000 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. Library books and livestock are not depreciated.

Depreciation is computed using the straight-line method over the estimated useful lives of the assets, generally 40 years for buildings, infrastructure and improvements, 4 to 10 years for equipment.

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

Deferred Revenues

Deferred revenues include amounts received for tuition and fees and certain auxiliary activities prior to the end of the fiscal year but related to the subsequent accounting period.

Compensated Absences

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

Note 1: Summary of Significant Accounting Policies (Continued)

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.

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

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

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

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

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

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.

Note 1: Summary of Significant Accounting Policies (Continued)

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

Classification of Revenues
The College has classified its revenues as either operating or non operating revenues according to the following criteria:

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

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

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

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.

Note 1: Summary of Significant Accounting Policies (Continued)

Prior Period Adjustments
Beginning net position was restated as of June 30, 2015 as follows:

Beginning net position, as previously reported	$	14,294,520
Overstatement of cash		(1,304,632)
Implementation of GASB Statement No. 82		(428,741)
Beginning net position, restated	$	12,561,147

During 2016, College management identified a discrepancy between the general ledger and the State system on their monthly bank reconciliations, which resulted in the necessary restatement of cash.

The early implementation of GASB Statement 82 required the removal of the employee's share of OTRS contributions paid by the employer (i.e., the College) from Deferred Outflows of Resources, as was reported in the prior year.

Note 2: Deposits and Investments

Custodial Credit Risk – Deposits
Custodial credit risk for deposits is the risk that in the event of a bank failure, the College's deposits may not be returned 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.

Of the $6,239,241 in cash and cash equivalents on deposit with the State Treasurer as of June 30, 2016, $1,793,082, represents amounts held with OK INVEST, an internal investment pool. Agencies and funds that are considered to be part of the State's reporting entity in the State's Comprehensive Annual Financial Report are allowed to participate in OK INVEST. Oklahoma statutes and the State Treasurer establish the primary objectives and guidelines governing the investment of funds in OK INVEST. Safety, liquidity, and return on investment are the objectives that establish the framework for the day to day OK INVEST management with an emphasis on safety of the capital and the probable income to be derived and meeting the State's daily cash flow requirements. Guidelines in the State Treasurer's Investment Policy address credit quality requirements, diversification percentages and the types and maturities of

Note 2: Deposits and Investments (Continued)

allowable investments. The specifics regarding these policies can be found on the State Treasurer's website at *http://www.ok.gov/treasurer/*. The College considers its amounts on deposit with *OK INVEST* to be demand accounts and they are reported as cash equivalents.

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.

Concentration of Credit Risk
Generally, credit risk is the risk that an issuer of an investment will not fulfill its obligation to the holder of the investment. This is measured by the assignment of a rating by a nationally recognized statistical rating organization. The College is authorized to invest in obligations of the United States government, its agencies and instrumentalities; certificates of deposit or other evidences of deposit at federally insured depository institutions approved by the Board of Regents.

Note 3: Accounts Receivable

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

Student tuition and fees	$ 3,163,206
Auxiliary enterprises and other operating activities	1,560,888
Total accounts receivable	4,724,094
Less: Allowance for doubtful accounts	(4,078,745)
Net accounts receivable	$ 645,349

Note 4: Other Assets

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

Cash value of life insurance policy	$ 124,155
Total other assets	$ 124,155

Murray State College
Notes to Financial Statements
June 30, 2016

Note 5: Capital Assets

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

	Balance June 30, 2015	Additions	Retirements	Transfers	Balance June 30, 2016
Capital Assets not being depreciated:					
Land	$ 99,860	$ 20,000	$ -	$ -	$ 119,860
Livestock	270,300	-	(450)	-	269,850
Library Books	244,367	10,848	(10,431)	-	244,784
Construction in progress	4,789,093	3,599,380	-	(1,077,766)	7,310,707
Total Capital Assets not being depreciated	5,403,620	3,630,228	(10,881)	(1,077,766)	7,945,201
Capital Assets being depreciated:					
Land Improvements	84,344	8,200	-	-	92,544
Equipment	8,658,217	358,863	-	-	9,017,080
Builings & Improvements	22,884,743	251,366	-	537,087	23,673,196
Infrasture	1,353,959	258,223	-	540,679	2,152,861
Total Captial Assets being depreciated	32,981,263	876,652	-	1,077,766	34,935,681
Less: Accumulated Depreciation for:					
Land Improvements	(11,216)	(5,215)	-	-	(16,431)
Equipment	(6,883,186)	(628,400)	-	-	(7,511,586)
Builings & Improvements	(8,155,597)	(527,926)	-	-	(8,683,523)
Infrasture	(676,405)	(86,221)	-	-	(762,626)
Total Accumulated Depreciation	(15,726,404)	(1,247,762)	-	-	(16,974,166)
Total Capital Assets being depreciation, net	17,254,859	(371,110)	-	1,077,766	17,961,515
Total Capital Assets	22,658,479	3,259,118	(10,881)	-	25,906,716
Capital Asset Summary					
Capital Assets not being depreciated	5,403,620	3,630,228	(10,881)	(1,077,766)	7,945,201
Capital Assets being depreciated	32,981,263	876,652	-	1,077,766	34,935,681
Total Capital Assets	38,384,883	4,506,880	(10,881)	-	42,880,882
Less: Accumulated Depreciation	(15,726,404)	(1,247,762)	-	-	(16,974,166)
Total Capital Assets, net	$ 22,658,479	$ 3,259,118	$ (10,881)	$ -	$ 25,906,716

The cost and related accumulated depreciation of assets held under lease obligations for the year ended June 30, 2016, was as follows:

	2016
Construction in progress	$ 7,095,604
Buildings	7,936,028
Infrastructure	258,223
Less accumulated depreciation	(905,254)
	$ 14,384,601

Note 6: Long-Term Liabilities

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

	Balance June 30, 2015	Additions	Reductions	Balance June 30, 2016	Current Portion
Capital Lease Obligations:					
OCIA Series 2005F	$ 365,615	$ -	$ (365,615)	$ -	$ -
OCIA Series 2010A	1,499,120	-	(173,486)	1,325,634	296,492
OCIA Series 2010B	407,121	-	(407,121)	-	-
OCIA Series 2014A	2,865,466	-	-	2,865,466	192,104
OCIA Series 2014B	161,252	-	(28,302)	132,950	31,559
ODFA Master Lease 2010A	2,022,667	-	(101,166)	1,921,501	114,167
ODFA Master Lease 2014A	5,820,333	-	(108,333)	5,712,000	120,500
ODFA Master Lease 2014C	5,906,667	-	(117,501)	5,789,166	130,333
ODFA Master Lease 2015C	-	251,000	(12,833)	238,167	22,167
	19,048,241	251,000	(1,314,357)	17,984,884	907,322
Other Liabilities					
Premium on Bonds					
ODFA Master Lease 2010A	19,020	-	(1,275)	17,745	1,275
ODFA Master Lease 2014A	45,014	-	(1,612)	43,402	1,612
ODFA Master Lease 2014C	6,131	-	(220)	5,911	220
ODFA Master Lease 2015C	-	12,390	(658)	11,732	1,316
Compensated absences	387,309	232,891	(226,574)	393,626	232,891
	457,474	245,281	(230,339)	472,416	237,314
Total Long-term Liabilities	$ 19,505,715	$ 496,281	$ (1,544,696)	$ 18,457,300	$ 1,144,636

Capital Lease Obligations

<u>Oklahoma Capital Improvement Authority Lease Obligations</u>

In 2005, the OCIA issued its State Facilities Revenue Bonds (Higher Education Project) Series 2005F. Of the total bond indebtedness, the State Regents allocated approximately $6,800,000 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

Note 6: Long-Term Liabilities (Continued)

Capital Lease Obligations (Continued)

Oklahoma Capital Improvement Authority Lease Obligations (Continued)

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 $1,094,409 on restructuring as a deferred cost that will be amortized over a period of 5 years, ending in fiscal year 2016.

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 will end 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 $159,008 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, 2016 was $137,104.

In 2015, the OCIA issued bond series 2014B that refunded the 2004A bonds. The lease agreement will no longer secure the 2004A bond issue but will now act as security for the 2014B bond issue over the term of the lease through the year 2021. This lease restructuring has resulted in a gain on restructuring that has been recorded as a gain of $15,855 on restructuring as a deferred inflow of resources that will be amortized over a period of 5 years. The unamortized amount of the deferred lease restructuring gain at June 30, 2016 was $9,841.

Lease principal and interest payments to OCIA totaling $1,327,908 during the year ended June 30, 2016, 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.

Oklahoma Development Finance Authority Lease Obligations

In 2011, the College entered into a capital lease obligation for the ODFA Master Lease Revenue Bonds, Series 2010A in the amount of $2,530,000. Total lease payments over the term of the agreement, beginning October 15, 2010 through May 15, 2030, will be $3,497,613. Payments will be made monthly ranging from approximately $14,800 to $17,200. Proceeds from the obligation were used for various capital projects. A bond issuance premium of $25,078 is being amortized over the term of the agreement.

In 2014, the College entered into a capital lease obligation for the ODFA Master Lease Revenue Bonds, Series 2014A in the amount of $5,985,000. Total lease payments over the term of the agreement, beginning March 15, 2014 through May 15, 2043, will be $10,471,940. Payments will be made monthly ranging from approximately $29,600 to $31,600. Proceeds from the

Note 6: Long-Term Liabilities (Continued)

Capital Lease Obligations (Continued)

Oklahoma Development Finance Authority Lease Obligations (Continued)

obligation are being used to construct the new Agriculture building. A bond issuance premium of $47,163 is being amortized over the term of the agreement

In 2014, the College entered into a capital lease obligation for the ODFA Master Lease Revenue Bonds, Series 2014C in the amount of $6,030,000. Total lease payments over the term of the agreement, beginning May 15, 2014 through May 15, 2043, will be $10,194,276. Payments will be made monthly ranging from approximately $26,600 to $29,500. Proceeds from the obligation are being used to construct the new Nursing building. A bond issuance premium of $6,388 is being amortized over the term of the agreement

In 2016, the College entered into a capital lease obligation for the ODFA Master Lease Revenue Bonds, Series 2015C in the amount of $251,000. Total lease payments over the term of the agreement, beginning in January 2016 through May 2025, will be $292,390. Payments will be made monthly ranging from approximately $2,400 to $2,800. Proceeds from the obligation were used to construct lights at the baseball field. A bond issuance premium of $12,390 is being amortized over the term of the agreement

Future debt service requirements under the College's obligations to the OCIA and ODFA for the year ended June 30, 2015, are as follows:

	Principal	Interest	Total
Years Ending June 30:			
2017	$ 907,322	$ 722,017	$ 1,629,339
2018	942,551	694,068	1,636,619
2019	973,594	657,542	1,631,136
2020	460,780	618,505	1,079,285
2021	439,250	603,790	1,043,040
2022-2026	3,509,342	2,666,217	6,175,559
2027-2031	4,207,545	1,882,402	6,089,947
2032-2036	2,364,750	1,174,948	3,539,698
2037-2041	2,899,167	648,875	3,548,042
2042-2043	1,280,583	81,012	1,361,595
Total	$ 17,984,884	$ 9,749,376	$ 27,734,260

Note 7: Retirement Plans

The College's academic and non-academic personnel are covered by various retirement plans. The plans available to College personnel include the Oklahoma Teachers' Retirement System (the "OTRS"), which is a State of Oklahoma public employee's retirement system. The College also sponsors a 403(b) annuity plan, a defined contribution plan. The College does not maintain the accounting records, hold the investments for, or administer these plans.

Oklahoma Teachers' Retirement System

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

Benefits provided

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

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

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

Note 7: Retirement Plans (Continued)

Oklahoma Teachers' Retirement System (Continued)

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

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

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

- Members may elect to make additional contributions to a tax-sheltered annuity program up to the exclusion allowance provided under the IRC under Code Section 403(b).

At the election of each eligible member initiating receipt of retirement benefits, the System remits between $100 and $105 per month per eligible retiree to the Employees Group Insurance Division ("EGID"), depending on the members' years of service during 2016.

Contributions

The contributions requirements of the Plan are at an established rate determined by Oklahoma Statute, amended by the Oklahoma Legislature, and are not based on actuarial calculations. Employees are required to contribute 7% percent of their annual pay. Participating employers are required to contribute 9.5% of the employees' annual pay and an additional 8.25% for any employees' salaries covered by federal funds. Contributions to the pension plan from the College were $874,442. The State of Oklahoma also made on-behalf contributions to OTRS, of which $644,630 was recognized by the College; these on-behalf payments did not meet the criteria of a special funding situation.

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

At June 30, 2016, the College reported a liability of $12,549,259 for its proportionate share of the net pension liability. The net pension liability was measured as of June 30, 2015, and the total pension liability used to calculate the net pension liability was determined by an actuarial valuation as of June 30, 2015. The College's proportion of the net pension liability was based on the College's contributions received by the pension plan relative to the total contributions received by the pension plan for all participating employers as of June 30, 2015. Based upon this information, the College's proportion was 0.2066484 percent.

Note 7: Retirement Plans (Continued)

Oklahoma Teachers' Retirement System (Continued)

For the year ended June 30, 2016, the College recognized pension expense of $674,269. At June 30, 2016, the College reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

	Deferred Outflows of Resources	Deferred Inflows of Resources
Differences between expected and actual experience	$ -	$ 426,249
Changes of assumptions	600,899	-
Net difference between projected and actual earnings on pension plan investments	-	851,326
Changes in College's proportionate share of contributions	-	353,825
Differences between College contributions and proportionate share of	3,368	-
College contributions subsequent to the measurement date	874,442	-
Total	$ 1,478,709	$ 1,631,400

The $874,442 reported as deferred outflows of resources related to pensions resulting from College contributions subsequent to the measurement date will be recognized as a reduction of the net pension liability in the year ended June 30, 2016. Other amounts reported as deferred outflows of resources and deferred inflows of resources related to pensions will be recognized in pension expense as follows:

Year ended June 30:	
2017	$ (420,613)
2018	(420,613)
2019	(420,613)
2020	252,037
2021	(16,196)
Thereafter	(1,135)
	$ (1,027,133)

Note 7: Retirement Plans (Continued)

Oklahoma Teachers' Retirement System (Continued)

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

- Actuarial Cost Method - Entry Age
- Amortization Method - Level Percentage of Payroll
- Inflation - 3.00%
- Salary Increases - Composed of 3.75% inflation, including 3.00% price inflation, plus a service-related component ranging from 0.00% to 8% based on years of service.
- Investment Rate of Return - 8.00%
- Retirement Age - Experience-based table of rates based on age, service, and gender. Adopted by the Board in May 2015 in conjunction with the five year experience study for the period ending June 30, 2014.
- Mortality Rates after Retirement – Males: RP-2000 Combined 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 All Cap Equity*	7.0%	6.0%
Domestic Large Cap Equity	10.0%	5.3%
Domestic Mid Cap Equity	13.0%	6.1%
Domestic Small Cap Equity	10.0%	6.6%
International Large Cap Equity	11.5%	5.8%
Internationa Small Cap Equity	6.0%	5.8%
Core Plus Fixed Income	17.5%	1.8%
High-yield Fixed Income	6.0%	4.1%
Private Equity	5.0%	7.6%
Real Estate**	7.0%	5.5%
Master Limited Partnerships	7.0%	7.6%
Total	100%	

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

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

Note 7: Retirement Plans (Continued)

Oklahoma Teachers' Retirement System (Continued)

Discount Rate

A single discount rate of 8.00% was used to measure the total pension liability as of June 30, 2014 and June 30, 2015. This single discount rate was based solely on the expected rate of return on pension plan investments of 8.00%. Based on the stated assumptions and the projection of cash flows, the pension plan's fiduciary net position and future contributions were projected to be available to finance all projected future benefit payments of current plan members. Therefore, the long-term expected rate of return on pension plan investments was applied to all periods of projected benefit payments to determine the total pension liability. The projection of cash flows used to determine this single discount rate assumed that plan member and employer contributions will be made at the current statutory levels and remain a level percentage of payrolls. The projection of cash flows also assumed that the State's contribution plus the matching contributions will remain a constant percent of projected member payroll based on the past 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 8%, as well as what the Plan's net pension liability would be if it were calculated using a discount rate that is 1-percentage point lower (7%) or 1-percentage-point higher (9%) than the current rate:

	1% Decrease (7%)	Current Discount Rate (8%)	1% Increase (9%)
Employers' net pension liability	$ 17,348,045	$ 12,549,259	$ 8,515,662

Pension plan fiduciary net position

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

Note 8: Post-Employment Benefits

In addition to the pension benefits as described above, the College pays the group health insurance premiums for retired employees until age 65. A retiring employee must have been employed full-time in the Oklahoma State System of Higher Education for not less than twenty years immediately preceding the date of retirement, been a member of the Teachers' Retirement System of Oklahoma during this time, and elected to receive a vested benefit under the provisions of the Teachers' Retirement System of Oklahoma. The College is funding on a pay-as-you-go basis the payments for this benefit out of current operations. The College has determined that the difference between these pay-as-you go costs and the OPEB annual cost and any OPEB obligation as defined by GASB Statement 45– *Accounting and Financial Reporting by Employers for Postemployment Benefits Other Than Pensions,* are immaterial; therefore no net OPEB obligation is reported nor is any funding status and funding progress information reported by the College in regards to this plan. For the year ended June 30, 2016, the College's contributions for health insurance premiums for retired employees were approximately $48,000.

Note 9: Other Post-Employment Benefits

The College has a supplemental retirement benefit plan for a former President of the College which was funded upon his retirement effective June 30, 1994, through the purchase of an annuity. The College's Board of Regents subsequently extended the plan to cover the President's spouse as a co-beneficiary. To provide for this contingent liability, the College purchased a life insurance policy on the life of the former President with the College being the beneficiary of the policy. The proceeds of the policy will be used to purchase an annuity to fulfill the College's agreement with the former President as agreed upon plus return most of the original purchase price to the College. The 2016 income from the increase in the cash surrender value of the policy is $3,407. The cash value of the life insurance policy at June 30, 2016 is $124,155, and is reported as other assets on the statement of net position.

Note 10: Related Party Transactions

The Foundation is a tax-exempt organization whose objective is the betterment of the College and its related activities. The College is the ultimate beneficiary of the Foundation. The College has entered into a written agreement with the Foundation whereby the College agrees to provide certain administrative services to the Foundation in exchange for scholarships to College students.

Note 11: Commitments and Contingencies

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

Through June 30, 2010, the College participated in the Federal Family Education Loan Program (the "FFEL Program"), which included the Federal Stafford Loan Program and Federal Parents Loans for Undergraduate Students Program. The FFEL Program did not require the College to draw down cash; however, the College was required to perform certain administrative functions under the FFEL Program. Failure to perform such functions may have required the College to reimburse the loan guarantee agencies.

In July 2011, the College began participating in the Federal Direct Student Loan Program (Direct Lending Program). For the year ended June 30, 2016, approximately $5,125,000 of Direct Lending Program loans was provided to College students.

During the course of ordinary business, the College may be subjected to various lawsuits and civil action claims. There were no pending lawsuits to claims against the College at June 30, 2016, that management believes would result in a material loss to the College in the event of an adverse outcome.

Note 12: Risk Management

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

The College, along with other state agencies and political subdivisions, participates in the State of Oklahoma Risk Management Program and the State Insurance Fund, public entity risk pools currently operating as a common risk management and insurance program for its members. The College pays an annual premium to the pools for its torts, property, and workers' compensation insurance 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.

Note 12: Risk Management (Continued)

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

Note 13: Accounting Pronouncements Not Yet Implemented

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

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

Note 13: Accounting Pronouncements Not Yet Implemented (Continued)

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

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

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

Note 13: Accounting Pronouncements Not Yet Implemented (Continued)

GASB Statement No. 79, *Certain External Investment Pools and Pool Participants* – GASB 79 was issued in December 2015, and addresses accounting and financial reporting for certain external investment pools and pool participants. Specifically, it establishes criteria for an external investment pool to qualify for making the election to measure all of its investments at amortized cost for financial reporting purposes. An external investment pool qualifies for that reporting if it meets all of the applicable criteria established in this Statement. The specific criteria address (1) how the external investment pool transacts with participants; (2) requirements for portfolio maturity, quality, diversification, and liquidity; and (3) calculation and requirements of a shadow price. Significant noncompliance prevents the external investment pool from measuring all of its investments at amortized cost for financial reporting purposes. Professional judgment is required to determine if instances of noncompliance with the criteria established by this Statement during the reporting period, individually or in the aggregate, were significant. The requirements of this Statement are effective for reporting periods beginning after June 15, 2015, except for certain provisions on portfolio quality, custodial credit risk, and shadow pricing. Those provisions are effective for reporting periods beginning after December 15, 2015. At this time, the impact to the College is unknown.

GASB Statement No. 80, *Blending Requirements for Certain Component Units* – An Amendment of GASB Statement No. 14 – GASB 80 was issued in January 2016, and amends the blending requirements for the financial statement presentation of component units of all state and local governments. The additional criterion requires blending of a component unit incorporated as a not-for-profit corporation in which the primary government is the sole corporate member. The additional criterion does not apply to component units included in the financial reporting entity pursuant to the provisions of Statement No. 39, Determining Whether Certain Organizations Are Component Units. The requirements of this Statement are effective for reporting periods beginning after June 15, 2016. At this time, the impact to the College is unknown.

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

Note 14: Murray State College Foundation, Inc.

The following are significant disclosures 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.

Investments

Investments are reported at fair value and holding gains and losses are included in investment income.

Investments consist of the following at June 30, 2015:

	Cost	Fair Value
Mutual Funds	$ 1,923,701	$ 1,864,606
Variable Annuity	100,000	142,725
Total Investments	$ 2,023,701	$ 2,007,331

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.

Net Position

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

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

> *Unrestricted* – Net position that is not subject to donor-imposed restrictions. Unrestricted net position may be designated for specific purposes by action of the Board of Trustees.
>
> *Expendable* – Net position 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.

Note 14: Murray State College Foundation, Inc. (Continued)

Nonexpendable – Net position 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.

Fair Value Measurements

Fair value is defined by GAAP 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. GAAP also establishes a three level hierarchy for measuring fair value. The three levels of inputs that may be used to measure fair value are:

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

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

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

The following table presents the fair value measurements of assets recognized in the accompanying financial statements at fair value on a recurring basis and the level within the fair value hierarchy in which the fair value measurements fall at June 30, 2015.

	As of June 30, 2015			
	Level 1	Level 2	Level 3	Total
Mutual Funds	$ 1,864,606	$ —	$ —	$ 1,864,606
Variable annuity	—	142,725	—	142,725
Total Investments	$ 1,864,606	$ 142,725	$ —	$ 2,007,331

Endowments

The Foundation's endowments consist of approximately 140 individual funds established for a variety of purposes. As required by generally accepted accounting principles (GAAP), net position 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.

Note 14: Murray State College Foundation, Inc. (Continued)

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

In accordance with OUPMIFA, the Foundation considers the following factors in making a determination to appropriate or accumulate donor-restricted endowment funds:

(1) The duration and preservation of the fund;
(2) The purpose of the foundation and the donor-restricted endowment fund;
(3) General economic conditions;
(4) The possible effect of inflation and deflation;
(5) The expected total return from income and the appreciation of investments;
(6) Other resources of the foundation;
(7) The investment policies of the foundation.

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.

Spending Policy and How the Investment Objectives Relate to Spending Policy: The Foundation has a policy of appropriating for distribution each year amounts necessary to fund donor-designated uses. In establishing this policy, the Foundation considered the long-term expected return on its investment assets, the nature and duration of the individual endowment funds, many of which must be maintained in perpetuity because of

Note 14: Murray State College Foundation, Inc. (Continued)

donor-restrictions, and the possible effects of inflation. The Foundation expects the current spending policy to allow its endowment funds to maintain the purchasing power of the endowment assets as well as to provide additional real growth through investment return.

Endowment net position composition by type of fund as of June 30, 2015:

	Unrestricted	Expendable	Non-expendable
Donor-restricted endowment funds	$ —	$3,613,646	$ 1,723,863
Board-designated endowment funds	95,535	—	—
Total endowment funds	$ 95,535	$3,616,646	$ 1,723,863

Changes in Endowment net position for the year ending June 30, 2015:

	Unrestricted	Expendable	Non-expendable
Endowment net position - beginning	$ 97,746	$ 3,541,593	$ 1,721,363
Investment return	—	135,386	—
Contributions	—	118,523	2,500
Appropriations for expenditure	(2,211)	(181,856)	—
Total endowment funds	$ 95,535	$ 3,613,646	$ 1,723,863

Notes Payable

Long-term debt consists of the following:

Note Payable, U.S. Department of Agriculture (A)	$ 3,651,397
Less: Current Maturities	(57,659)
	$ 3,593,738

(A) Payable in annual installments of $217,408 at rate of 4.375%, with the final payment due June 30, 2046. Loan is collateralized by a mortgage and security interest in the revenues collected from the housing project.

Note 14: Murray State College Foundation, Inc. (Continued)

Future minimum debt service for the year ended June 30, 2015, are as follows:

	Principal	Interest	Total
Years Ending June 30:			
2016	$ 57,659	$ 845,950	$ 903,609
2017	60,182	714,872	775,054
2018	62,815	687,588	750,403
2019	65,563	651,787	717,350
2020	68,432	613,527	681,959
2021-2025	389,773	2,782,417	3,172,190
2026-2030	482,830	2,052,382	2,535,212
2031-2035	598,103	1,282,486	1,880,589
2036-2040	740,898	764,848	1,505,746
2041-2045	917,785	764,848	1,682,633
2046	207,357	162,113	369,470
Total	$ 3,651,397	$ 11,322,818	$ 14,974,215

Required Supplementary Information

SCHEDULE OF THE COLLEGE'S PROPORTIONATE SHARE OF THE NET PENSION LIABILITY
OKLAHOMA TEACHERS RETIREMENT SYSTEM
Last 10 Fiscal Years* (Dollar amounts in thousands)

	2015	2016
College's proportion of the net pension liability	0.2129%	0.2066%
College's proportionate share of the net pension liability	$ 11,452,416	$ 12,549,259
College's covered-employee payroll	$ 8,296,004	$ 8,623,624
College's proportionate share of the net pension liability as a percentage of its covered-employee payroll	138%	146%
Plan fiduciary net position as a percentage of the total pension liability	72.43%	70.31%

*The amounts present for each fiscal year were determined as of June 30.

Notes to Schedule:

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

SCHEDULE OF THE COLLEGE'S CONTRIBUTIONS
OKLAHOMA TEACHERS RETIREMENT SYSTEM
Last 10 Fiscal Years (Dollar amounts in thousands)

	2015	2016
Contractually required contribution	$ 866,113	$ 874,442
Contributions in relation to the contractually required contribution	866,113	874,442
Contribution deficiency (excess)	$ -	$ -
College's covered-employee payroll	$ 8,623,624	$ 8,482,503
Contributions as a percentage of covered-employee payroll	10%	10%

Notes to Schedule:

Only the current and prior fiscal year is presented because 10-year data is not yet available.
2015 has been restated for early implementation of GASB 82.

Reports Required by *Governmental Auditing Standards* and Uniform Guidance

Arledge & Associates, P.C.
CERTIFIED PUBLIC ACCOUNTANTS

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

Board of Regents
Murray State College
Tishomingo, 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 Murray State College (the "College"), as of and for the year ended June 30, 2016, and the related notes to the financial statements, which collectively comprise the College's basic financial statements and have issued our report thereon dated October 21, 2016. Our report included an adverse opinion on the discretely presented component unit. In addition, our report included paragraphs related to the correction of an error, a change in accounting principle, and a reference to other auditors.

Internal Control over Financial Reporting

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

Our consideration of internal control was for the limited purpose described in the preceding paragraph and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies and therefore, material weaknesses or significant deficiencies may exist that were not identified. However, as described in the accompanying schedule of findings and questioned costs, we identified certain deficiencies in internal control that we consider to be material weaknesses and significant deficiencies.

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. We consider the deficiency described in the accompanying schedule of findings and questioned costs as finding 2016-02 to be a material weakness.

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. We consider the deficiency described in the accompanying schedule of findings and questioned costs as finding 2016-01 to be a significant deficiency.

Compliance and Other Matters

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

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The College's Response to Findings

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

Purpose of this Report

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

Arledge & Associates, P.C.

October 21, 2016

Arledge & Associates, P.C.
CERTIFIED PUBLIC ACCOUNTANTS

INDEPENDENT AUDITOR'S REPORT ON COMPLIANCE FOR EACH MAJOR PROGRAM AND ON INTERNAL CONTROL OVER COMPLIANCE REQUIRED BY THE UNIFORM GUIDANCE; AND REPORT OF SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS REQUIRED BY THE UNIFORM GUIDANCE

Board of Regents
Murray State College
Tishomingo, Oklahoma

Report on Compliance for Each Major Federal Program

We have audited Murray State College's (the "College") compliance with the types of compliance requirements described in the *OMB Compliance Supplement* that could have a direct and material effect on each of the College's major federal programs for the year ended June 30, 2016. The College's major federal programs are identified in the summary of auditor's results section of the accompanying schedule of findings and questioned costs.

Management's Responsibility

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

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; 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 noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about the College's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances.

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

Opinion on Each Major Federal Program

In our opinion, the College complied, in all material respects, with the types of compliance requirements referred to above that could have a direct and material effect on each of its major federal programs for the year ended June 30, 2016.

Report on Internal Control over Compliance

Management of the College is responsible for establishing and maintaining effective internal control over compliance with the types of compliance requirements referred to above. In planning and performing our audit of compliance, we considered the College's internal control over compliance with the types of requirements that could have a direct and material effect on each major federal program to determine the auditing procedures that are appropriate in the circumstances for the purpose of expressing an opinion on compliance for each major federal program and to test and report on internal control over compliance in accordance with the Uniform

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

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

Our consideration of internal control over compliance was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over compliance that might be material weaknesses or significant deficiencies and therefore, material weaknesses or significant deficiencies may exist that were not identified. We did not identify any deficiencies in internal control over compliance that we consider to be material weaknesses. However, we identified a certain deficiency in internal control over compliance, as described in the accompanying schedule of findings and questioned costs as finding 2016-01, that we consider to be a significant deficiency.

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

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 College as of and for the year ended June 30, 2016, and the related notes to the financial statements, which collectively comprise the College's basic financial statements. We issued our report thereon dated October 21, 2016, which contained an unmodified opinion on the College's financial statements and an adverse opinion on the discretely presented component unit. 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 additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic financial statements or to the basic financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the schedule of expenditures of federal awards is fairly stated in all material respects in relation to the basic financial statements as a whole.

Arledge & Associates, P.C.

October 21, 2016

MURRAY STATE COLLEGE

SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS

Year Ended June 30, 2016

Federal Grantor/Pass-Through Grantor/Program Title	*Federal CFDA Number*	*Pass-Through Entity Identifying Number*	*Federal Expenditures*
U.S. DEPARTMENT OF EDUCATION			
Student financial aid cluster			
Federal Pell Grants	84.063	N/A	$ 4,335,454
Federal Supplemental Education Opportunity Grants	84.007	N/A	66,900
Federal Work Study Program	84.033	N/A	79,696
Federal Direct Loan Program	84.268	N/A	5,125,348
Total Student Financial Aid Cluster			9,607,398
TRIO program cluster			
TRIO--Student Support Services	84.042	N/A	356,458
Total TRIO program cluster			356,458
Other Programs			
Strengthening Minority-Serving Institutions	84.382	N/A	396,844
Pass-through Oklahoma State Department of Vocational Education			
Vocational Education National Centers for Career and Technical Education	84.048	V048A160036	126,793
Total Other Programs			523,637
TOTAL U.S. DEPARTMENT OF EDUCATION			**10,487,493**
U.S. DEPARTMENT OF HEALTH AND HUMAN SERVICES			
National Institute for Health			
Pass-Through Program From:			
Oklahoma State Department of Human Services			
Temporary Assistance for Needy Families (TANF)	93.558	0310559	580,662
Oklahoma State Regents for Higher Education			
Child Care Development Block Grant Scholars for Excellence Program	93.575	1936002309	77,022
TOTAL U.S. DEPARTMENT OF HEALTH AND HUMAN SERVICES			**657,684**
TOTAL EXPENDITURES OF FEDERAL AWARDS			**$ 11,145,177**

See notes to schedule of expenditures of federal awards.

MURRAY STATE COLLEGE

NOTES TO SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS

Year Ended June 30, 2016

NOTE A—BASIS OF PRESENTATION

The accompanying schedule of expenditures of federal awards (“SEFA”) includes the federal award activity of Murray State College (the “College”) under programs of the federal government for the year ended June 30, 2016. The information in this SEFA 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 SEFA presents only a selected portion of the operations of the College, it is not intended to and does not present the financial position, changes in net assets, or cash flows of the College.

NOTE B—SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Expenditures reported on the SEFA are reported on the accrual basis of accounting. Such expenditures are recognized following, as applicable, either the cost principles in Office of Management and Budget Circular A-21, Cost Principles for Educational Institutions, or the cost principles contained in Title 2 *U.S. Code of Federal Regulations* Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards*, wherein certain types of expenditures are not allowable or are limited as to reimbursement. The College has elected not to use the 10-percent de Minimis indirect cost rate allowed under the Uniform Guidance.

NOTE C --FEDERAL DIRECT STUDENT LOAN PROGRAM

The College participates in the Federal Direct Loan Program (the Program), CFDA number 84.268, which includes the Federal Subsidized Direct Loan, the Federal Unsubsidized Direct Loan, the Federal Graduate Student PLUS Direct Loan and Federal Direct Loans Parents of Undergraduate Students. The Federal Direct Loan Program requires the College to draw down cash; and the College is required to perform certain administrative functions under the Program. Failure to perform such functions may require the College to reimburse the loan guarantee agencies. The College is not responsible for the collection of these loans. The value of loans made during the audit period are considered Federal awards expended for the audit period.

NOTE D--SUBRECIPIENTS

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

MURRAY STATE COLLEGE

SCHEDULE OF FINDINGS AND QUESTIONED COSTS

Year Ended June 30, 2016

Section I--Summary of Auditor's Results

Financial statements

Type of auditor's report issued on whether the financial statements were in accordance with GAAP:	*Unmodified – Murray State College* *Adverse – Discretely Presented Component Unit*
Internal control over financial reporting:	
• Material weakness(es) identified?	_X_ yes ____ no
• Significant deficiency(ies) identified that are not considered to be material weakness(es)?	_X_ yes ____ none reported
Noncompliance material to financial statements noted?	____ yes _X_ no

Federal Awards

Internal control over major programs:	
• Material weakness(es) identified?	____ yes _X_ no
• Significant deficiency(ies) identified that are not considered to be material weakness(es)?	_X_ yes ____ none reported
Type of auditor's report issued on compliance for major programs:	*Unmodified*
Any audit findings disclosed that are required to be reported in accordance with 2 CFR 200.516(a)?	____ yes _X_ no

Identification of major programs:

Program	CFDA Number
Student Financial Aid Cluster	*

*Refer to the Schedule of Expenditures of Federal Awards for CFDA numbers related to these programs.

Dollar threshold used to distinguish between type A and type B programs:	$750,000
Auditee qualified as low-risk auditee?	_X_ yes ____ no

MURRAY STATE COLLEGE

SCHEDULE OF FINDINGS AND QUESTIONED COSTS

Year Ended June 30, 2016

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

Finding 2016-01: Student Account Reconciliations

Federal Program: CFDA # - 84.063, 84.007, 84.033, 84.268 Student Financial Aid Cluster

Criteria: In order to ensure accurate financial reporting, student account activity should be reconciled on a monthly basis with the student records maintained by the student financial aid department.

Condition: During our audit testwork, we noted that monthly reconciliations are not being performed between student financial aid amounts and the amounts reflected in the general ledger and subsidiary student accounts receivable ledgers.

Cause and Effect: Failure to reconcile student financial aid amounts with the amounts reflected in the general ledger and subsidiary student accounts receivable ledger could result in an error not being detected in a timely manner and corrected.

Recommendation: We recommend that student financial aid activity be reconciled to the general ledger and student accounts receivable subsidiary ledgers on a monthly basis to ensure accurate financial reporting.

College's response: College management agrees with this finding. Management has already identified the proper reconciliation procedures and is implementing them on a monthly basis.

Section II--Findings Required to be Reported in Accordance with *Government Auditing Standards: (Cont'd)*

Finding 2016-02: Cash Account Reconciliations

Criteria: In order to ensure accurate financial reporting, account reconciliations should be performed in a timely manner and all reconciling items should be thoroughly investigated. Completed reconciliations should be reviewed and approved by an individual not involved with the reconciliation process.

Condition: During our audit testwork, we noted that certain reconciling items on the bank account reconciliations of the 290, 430, and 747 accounts could not be explained/had not been reviewed during the preparation of the bank account reconciliations. Upon further inquiry and discussion with management, it was determined that the amounts listed as "outstanding receipts", typically consisting of amounts in transit from the 79901 Clearing Account, on the bank reconciliations was not accurate in that the amounts listed were a "plug" number necessary to "balance" the bank account reconciliations. The amount totaled approximately $1,300,000.

Cause and Effect: Failure to perform timely and complete reconciliations of the bank accounts resulted in the College's cash balance per books being overstated by $1,300,000 as of June 30, 2016.

Recommendation: We recommend that bank account reconciliations be performed on a monthly basis and that all reconciling amounts be investigated and documented.

College's response: College management agrees with this finding. Management has already identified and is implementing proper account reconciliations for this fiscal year. Investigation into previous fiscal year reconciliations is also being implemented with proper documentation of all findings.

MURRAY STATE COLLEGE

SCHEDULE OF FINDINGS AND QUESTIONED COSTS

Year Ended June 30, 2016

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

Finding 2016-01: Student Account Reconciliations

Federal Program: CFDA # - 84.063, 84.007, 84.033, 84.268 Student Financial Aid Cluster

Criteria: In order to ensure accurate financial reporting, student account activity should be reconciled on a monthly basis with the student records maintained by the student financial aid department.

Condition: During our audit testwork, we noted that monthly reconciliations are not being performed between student financial aid amounts and the amounts reflected in the general ledger and subsidiary student accounts receivable ledgers.

Cause and Effect: Failure to reconcile student financial aid amounts with the amounts reflected in the general ledger and subsidiary student accounts receivable ledger could result in an error not being detected in a timely manner and corrected.

Recommendation: We recommend that student financial aid activity be reconciled to the general ledger and student accounts receivable subsidiary ledgers on a monthly basis to ensure accurate financial reporting.

College's response: College management agrees with this finding. Management has already identified the proper reconciliation procedures and is implementing them on a monthly basis.

MURRAY STATE COLLEGE

SUMMARY SCHEDULE OF PRIOR AUDIT FINDINGS AND QUESTIONED COSTS

Year Ended June 30, 2016

Findings Required to be Reported by OMB Circular A-133

Finding 2015-1

Type of Finding: Significant Deficiency that is not considered a material weakness.

Criteria: The regulations in 34 CFR 668.22 state that a school must always return any unearned Title IV funds it is responsible for returning within 45 days of the date the school determined the student withdrew.

Condition: For the year ended June 30, 2015, we sampled 60 Title IV fund recipients for testing the financial aid compliance requirements for loan disbursements. During the review of those who received loan disbursements, but later withdrew, we noted 1 instance of non-compliance in that the institution did not meet the compliance requirement to return the Title IV funds within the 45 day time period.

Cause: The MSC Financial Aid office determined the communication process between several offices including several reports did not include all the necessary information. The withdraws were requested from the instructors on 4/25/15, however the last date of attendance documented by an instructor was on 2/9/15, which changed the earned percentage from 100%, no refund liability, to 25.9%, which created a refund due to the Department of Education. Therefore, the Title IV aid earned in the R2T4 Form was completed with a revised withdraw date of 10/21/15.

Effect: As a result, the College did not meet the return of Title IV funds within the 45 day requirement.

Recommendation: For the College to review and confirm information with the registrar’s office on drop forms on all students who have withdrawn to ensure that when refunds of Title IV funds are required, that the return of Title IV funds are returned within the proper time period.

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