

**Western Oklahoma State College**

**Financial Statements**  
and  
Independent Auditor's Report

**June 30, 2015 and 2014**

**Contents**

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## **Independent Auditor's Report**

Board of Regents  
Western Oklahoma State College  
Altus, Oklahoma

We have audited the accompanying financial statements and the discretely presented component unit of Western Oklahoma State College (the "College"), a component unit of the State of Oklahoma, as of and for the years ended June 30, 2015 and 2014, and the related notes to the financial statements, which collectively comprise the College's basic financial statements as listed in the table of contents.

### **Management's Responsibility for the Financial Statements**

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

### **Auditor's Responsibility**

Our responsibility is to express opinions on these financial statements based on our audits. We did not audit the financial statements of the College's discretely presented component unit, the Western Oklahoma State Foundation, Inc., which represents 22 and 22 percent of total assets at June 30, 2015 and 2014, 40 and 25 percent of net position at June 30, 2015 and 2014, and 6 and 4 percent of total revenues for the year ended June 30, 2015 and 2014. Those financial statements were audited by other auditors whose report thereon has been furnished to us, and our opinion, insofar as it relates to the amounts included for the Western Oklahoma State Foundation, Inc., is based solely on the report of the other auditors. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement. The financial statements of Western Oklahoma State Foundation, Inc. were not audited in accordance with *Government Auditing Standards*.

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

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

## **Opinions**

In our opinion, based on our audit and the report of the other auditor, the financial statements referred to above present fairly, in all material respects, the respective financial position and the discretely presented component of Western Oklahoma State College as of June 30, 2015 and 2014, and the respective changes in financial position and, where applicable, cash flows thereof for the year then ended in accordance with accounting principles generally accepted in the United States of America.

## **Other Matters**

As discussed in Note F to the financial statements, the Center adopted the provisions of Governmental Accounting Standards Board Statement No. 68 as amended by Statement No. 71 and has recognized a net pension liability and related deferred outflows and inflows.

### *Required Supplementary Information*

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis on pages 6 to 18 and schedules related to pension obligation on pages 51 and 52 be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

### *Other Supplementary Information*

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the College's basic financial statements. The Schedule of Expenditures of Federal Awards, as required by the U.S. Office of Management and Budget Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*, is presented for purposes of additional analysis and is not a required part of the basic financial statements.

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

**Other Reporting Required by *Government Auditing Standards***

In accordance with *Government Auditing Standards*, we have also issued our report dated October 22, 2015 on our consideration of Western Oklahoma State College's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements, and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering Western Oklahoma State College's internal control over financial reporting and compliance.

Tulsa, Oklahoma  
October 22, 2015

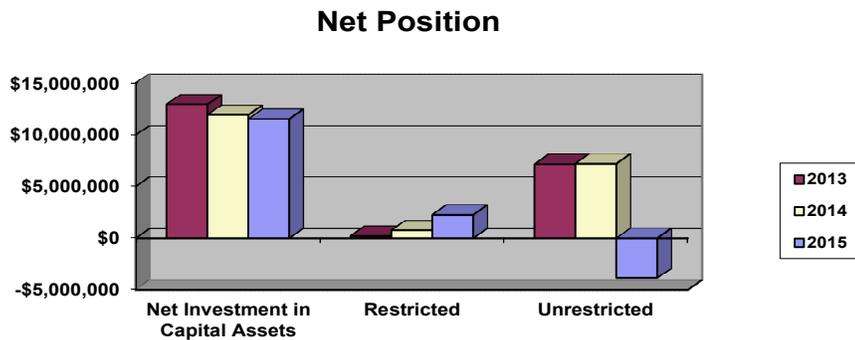
*Stanfield & O'Sell P.C.*

## **Management's Discussion and Analysis**

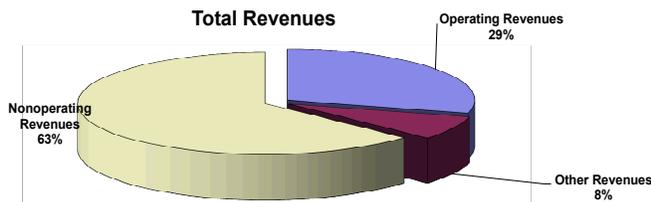
**WESTERN OKLAHOMA STATE COLLEGE**  
**Management's Discussion and Analysis**  
**Years Ended June 30, 2015, 2014 and 2013**

The discussion and analysis of Western Oklahoma State College's (the "College") financial statements provides an overview of the College's financial activities for the year ended June 30, 2015. Since this management's discussion and analysis is designed to focus on current activities and currently known facts, please read it in conjunction with the College's basic financial statements and related footnotes.

**FINANCIAL HIGHLIGHTS**



The following chart provides a graphical breakdown of total revenues by category for the fiscal year ended June 30, 2015. The 2015 change in net position includes the effect of recognizing pension liabilities as discussed in Note F.



In fiscal year ended June 30, 2015, the College's expenses exceeded revenues, creating a decrease in total net position of \$372,473, which represents a 3.61% decrease in net position for 2015. In fiscal year ended June 30, 2014, the College's expenses exceeded revenues, creating a modest increase in total net position of \$449,681, which represents a 2.20% decrease in net position for 2014.

**WESTERN OKLAHOMA STATE COLLEGE**  
**Management's Discussion and Analysis (Continued)**  
**Years Ended June 30, 2015, 2014 and 2013**

**OVERVIEW OF THE FINANCIAL STATEMENTS AND FINANCIAL ANALYSIS**

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

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

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

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

**WESTERN OKLAHOMA STATE COLLEGE**  
**Management's Discussion and Analysis (Continued)**  
**Years Ended June 30, 2015, 2014 and 2013**

**FINANCIAL ANALYSIS OF THE COLLEGE AS A WHOLE**

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

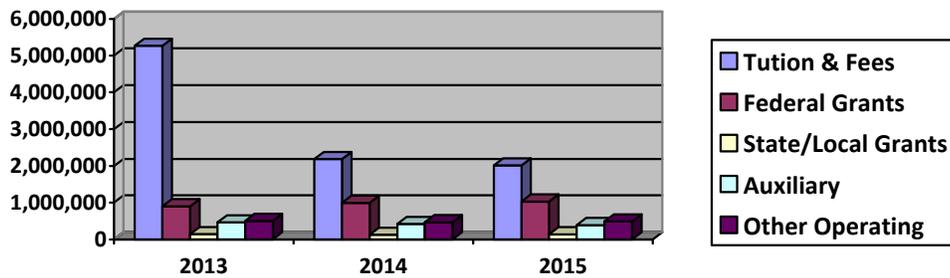
<b>Condensed Statement of Net Position</b>							
	June 30		Increase	Percent	June 30	Increase	Percent
	2015	2014	(Decrease)	Change	2013	(Decrease)	Change
Current assets	\$ 5,999,779	\$ 7,934,951	\$ (1,935,172)	-24.39%	\$ 7,846,932	\$ 88,019	1.12%
Noncurrent assets:							
Restricted Cash and							
Cash Equivalents	1,989,097	408,581	1,580,516	386.83%	399,928	8,653	2.16%
Capital assets, net	16,142,208	16,986,051	(843,843)	-4.97%	17,766,965	(780,914)	-4.40%
Total assets	<u>24,131,084</u>	<u>25,329,583</u>	<u>(1,198,499)</u>	-4.73%	<u>26,013,825</u>	<u>(684,242)</u>	-2.63%
Deferred outflows	<u>667,406</u>	<u>160,768</u>	<u>506,638</u>	315.14%	<u>241,152</u>	<u>(80,384)</u>	-33.33%
Total Assets and deferred							
outflows of resources	<u>24,798,490</u>	<u>25,490,351</u>	<u>(691,861)</u>	-2.71%	<u>26,254,977</u>	<u>(764,626)</u>	-2.91%
Current liabilities	1,143,462	933,076	210,386	22.55%	714,491	218,585	30.59%
Noncurrent liabilities:	<u>11,613,398</u>	<u>4,542,511</u>	<u>7,070,887</u>	155.66%	<u>5,213,067</u>	<u>(670,556)</u>	-12.86%
Total liabilities	<u>12,756,860</u>	<u>5,475,587</u>	<u>7,281,273</u>	132.98%	<u>5,927,558</u>	<u>(451,971)</u>	-7.62%
Deferred Inflows	2,098,110	137,026	1,961,084	1431.18%	-	137,026	0.00%
Total liabilities and deferred							
inflows of resources	<u>14,854,970</u>	<u>5,612,613</u>	<u>9,242,357</u>	164.67%	<u>5,927,558</u>	<u>(314,945)</u>	-5.31%
<b>Net Position</b>							
Investment in							
capital assets	11,551,574	11,935,882	(384,308)	-3.22%	12,970,343	(1,034,461)	-7.98%
Restricted	2,263,362	725,429	1,537,933	212.00%	190,942	534,487	279.92%
Unrestricted	<u>(3,871,416)</u>	<u>7,216,427</u>	<u>(11,087,843)</u>	-153.65%	<u>7,166,134</u>	<u>50,293</u>	0.70%
Total net position	<u>\$ 9,943,520</u>	<u>\$ 19,877,738</u>	<u>\$ (9,934,218)</u>	-49.98%	<u>\$ 20,327,419</u>	<u>\$ (449,681)</u>	-2.21%

**WESTERN OKLAHOMA STATE COLLEGE**  
**Management's Discussion and Analysis (Continued)**  
**Years Ended June 30, 2015, 2014 and 2013**

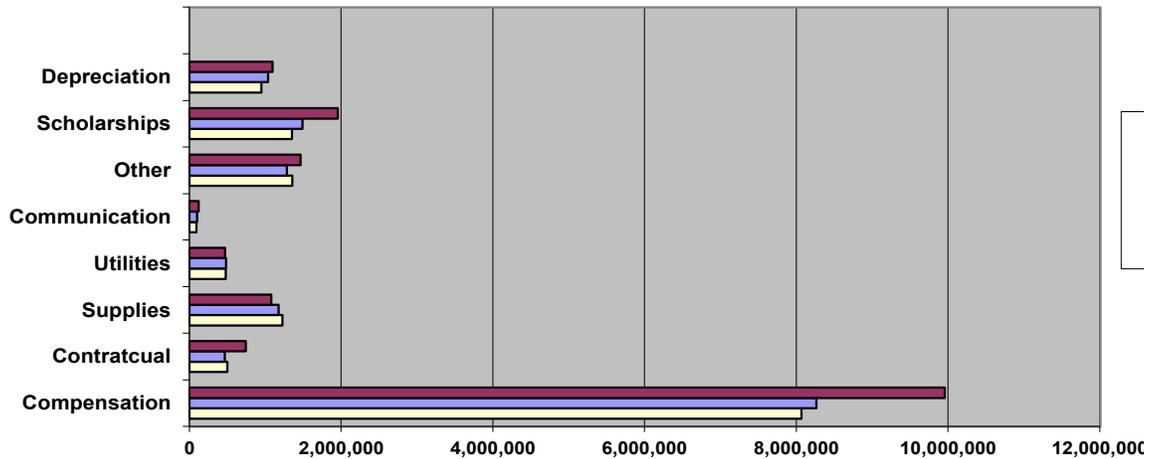
**FINANCIAL ANALYSIS OF THE COLLEGE AS A WHOLE (Continued)**

The breakdown of operating revenues and expenses for fiscal years ended June 30, 2015, 2014 and 2013 are as follows:

**Operating Revenues**



**Operating Expenses**



**WESTERN OKLAHOMA STATE COLLEGE**  
**Management's Discussion and Analysis (Continued)**  
**Years Ended June 30, 2015, 2014 and 2013**

**FINANCIAL ANALYSIS OF THE COLLEGE AS A WHOLE (Continued)**

**Revenues, Expenses and Changes in Net Position**

	Years Ended June 30		Increase (Decrease)	Percent Change	Year Ended June 30		Increase (Decrease)	Percent Change
	2015	2014			2013			
Operating revenues:								
Tuition & Fees	\$ 2,014,834	\$ 2,185,829	\$ (170,995)	-7.82%	\$ 5,268,469	(3,082,640)	-58.51%	
Federal and state grants	1,164,325	1,113,530	50,795	4.56%	1,035,923	77,607	7.49%	
Auxiliary enterprise charges	384,890	415,369	(30,479)	-7.34%	461,324	(45,955)	-9.96%	
Other	488,239	466,125	22,114	4.74%	497,521	(31,396)	-6.31%	
Total Operating Revenues	<u>4,052,288</u>	<u>4,180,853</u>	<u>(128,565)</u>	-3.08%	<u>7,263,237</u>	<u>(3,082,384)</u>	-42.44%	
Less operating expenses	<u>14,023,570</u>	<u>14,301,012</u>	<u>(277,442)</u>	-1.94%	<u>16,879,307</u>	<u>(2,578,295)</u>	-15.27%	
Net loss from operations	<u>(9,971,282)</u>	<u>(10,120,159)</u>	<u>148,877</u>	-1.47%	<u>(9,616,070)</u>	<u>(504,089)</u>	5.24%	
Nonoperating revenues (expenses):								
State appropriations	5,810,048	5,810,048	-	0.00%	5,701,773	108,275	1.90%	
Federal grants and contracts	2,164,135	2,391,235	(227,100)	-9.50%	2,674,673	(283,438)	-10.60%	
State & local grants and contracts	296,451	324,132	(27,681)	-8.54%	395,416	(71,284)	-18.03%	
On-behalf appropriations for OTRS	418,940	409,357	9,583	2.34%	505,592	(96,235)	-19.03%	
State Regents Endowment Contributions	48,268	100,628	(52,360)	-52.03%	30,563	70,065	229.25%	
Interest Revenue	20,619	19,687	932	4.73%	19,447	240	1.23%	
Interest Expense	<u>(189,263)</u>	<u>(242,278)</u>	<u>53,015</u>	-21.88%	<u>(136,203)</u>	<u>(106,075)</u>	77.88%	
Net Nonoperating revenues	<u>8,569,198</u>	<u>8,812,809</u>	<u>(243,611)</u>	-2.76%	<u>9,191,261</u>	<u>(378,452)</u>	-4.12%	
Other revenues, expenses, and gains and losses								
Capital grants and gifts	15,100	3,225	11,875	368.22%	24,336	(21,111)	-86.75%	
State appropriations restricted for capital purposes	436,941	436,941	-		436,941	-	0.00%	
On-behalf OCIA capital leases	<u>577,570</u>	<u>417,503</u>	<u>160,067</u>	38.34%	<u>65,370</u>	<u>352,133</u>	538.68%	
Total Other	<u>1,029,611</u>	<u>857,669</u>	<u>171,942</u>	20.05%	<u>526,647</u>	<u>331,022</u>	62.85%	
Increase (decrease) in net assets	<u>(372,473)</u>	<u>(449,681)</u>	<u>77,208</u>	-17.17%	<u>101,838</u>	<u>(551,519)</u>	-541.57%	
Net assets, beginning	<u>10,315,993</u>	<u>20,327,419</u>	<u>(10,011,426)</u>	-49.25%	<u>20,225,581</u>	<u>101,838</u>	0.50%	
Net assets, ending	<u>\$ 9,943,520</u>	<u>\$ 19,877,738</u>			<u>\$ 20,327,419</u>			

**WESTERN OKLAHOMA STATE COLLEGE**  
**Management's Discussion and Analysis (Continued)**  
**Years Ended June 30, 2015, 2014 and 2013**

**FINANCIAL ANALYSIS OF THE COLLEGE AS A WHOLE (Continued)**

June 30, 2015 compared to June 30, 2014 resulted in the following revenue and expense changes:

- Tuition & fees revenues decreased by 7.82%, or \$170,995. This decrease is due mostly to a 9.77% decrease in credit production hour enrollment for FY 2015. Auxiliary revenues decreased by 7.34%, which represents an increase of \$6,841 in Residence Hall and a decrease in student store of \$36,960. Federal and State Grants & Contracts experienced an increase of 4.56%. The overall operating revenues decreased by 3.08%, or \$128,565 over that of FY 14.
- Overall operating expenses decreased by 1.94%. Compensation and Employee Benefits decreased by 2.4% or \$198,094 due mostly to reduction in adjunct and overload salary and vacant positions that were not filled. Scholarship and Fellowship expenses declined by 9.45% which is in correlation with the decline in enrollment as stated above.
- Net non-operating revenues and expenses decreased by 2.76%, or \$243,611. Most of this decrease is due to the decrease in the Federal Grants and Contracts and a decrease in State Regents endowment contributions. In contrast, there was a decrease in interest expense for the OCIA Bond Issue Liability of \$53,015. In 2010 the state legislature voted to defer the payments for the 2005 OCIA Bond Issue. Because of this refinance, the interest and principal payments have been deferred until the FY 2013 and were increased substantially for FY 2014. April of 2014, a portion of the remaining 2005 OCIA Bond Issue was refinanced to defer principal and interest payments for the upcoming years and because of this refinance, the interest expense has been deferred.
- On-behalf capital lease payments increased by 38.34% resulting in an increase of \$160,067 from the prior year. Due to the 2005 OCIA bond restructuring, all principal payments were deferred in FY 11 to later years. There were no principal payments to the OCIA 2005 bond indebtedness for FY2011, but a small payment of \$55,980 was made in FY12, and a slightly larger payment in FY 13 of \$65,370. In FY 14, the bond principal and interest payments resumed resulting in a substantial increase for FY 14. In 2015 the 2005F and the 2010 obligations resumed payments resulting in an increase over the prior year's payments. Please refer to Note E - Non-Current Liabilities in the Notes to the Financial Statements.

June 30, 2014 compared to June 30, 2013 resulted in the following revenue and expense changes:

- Tuition & fees revenues decreased by 58.51%. This decrease is due mostly to a 36.5% decrease in credit production hour enrollment for FY 2014. Auxiliary revenues decreased by 10%, which represents an decrease of \$3,973 in Residence Hall and a decrease in student store of \$41,982. Federal and State Grants & Contracts experienced an increase of 7%. The overall operating revenues decreased by 42%, or \$3,082,384 over that of FY 13.
- Overall operating expenses by 15.27%. Compensation and Employee Benefits decreased by 17% or \$1,691,430 due mostly to reduction in payments of adjunct and overload salary because of a dramatic decrease in credit production hour enrollment. Scholarship and Fellowship expenses declined by 24% which is in correlation with the decline in enrollment as stated above.

**WESTERN OKLAHOMA STATE COLLEGE**  
**Management's Discussion and Analysis (Continued)**  
**Years Ended June 30, 2015, 2014 and 2013**

- Net non-operating revenues and expenses decreased by 4.12%, or \$378,452. Most of this decrease is due to the decrease in the Federal Grants and Contracts and an increase in interest expense for the OCIA Bond Issue Liability. In 2010 the state legislature voted to defer the payments for the 2005 OCIA Bond Issue. Because of this refinance, the interest and principal payments have been deferred until the FY 2013 and were increased substantially for FY 2014. April of 2014, a portion of the remaining 2005 OCIA Bond Issue was refinanced to defer principal and interest payments for the upcoming years.
- On-behalf capital lease payments increased by a very large percentage resulting in an increase of \$352,133 from the prior year. Due to the 2005 OCIA bond restructuring, all principal payments were deferred in FY 11 to later years. There were no principal payments to the OCIA 2005 bond indebtedness for FY2011, but a small payment of \$55,980 was made in FY12, and a slightly larger payment in FY 13 of \$65,370. In FY 14, the bond principal and interest payments resumed resulting in a substantial increase for FY 14, and will continue to increase in the coming years. Please refer to Note E - Non-Current Liabilities in the Notes to the Financial Statements.

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

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

The effect on the 2015 net position is reflected below:

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

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

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

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

**WESTERN OKLAHOMA STATE COLLEGE**  
**Management's Discussion and Analysis (Continued)**  
**Years Ended June 30, 2015, 2014 and 2013**

**FINANCIAL ANALYSIS OF THE COLLEGE AS A WHOLE (Continued)**

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

**Cash Flows**

	Year Ended June 30		Increase	June 30	Increase
	<u>2015</u>	<u>2014</u>	<u>(Decrease)</u>	<u>2013</u>	<u>(Decrease)</u>
Cash provided (used) by:					
Operating activities	\$ (8,905,749)	\$ (8,517,537)	\$ (388,212)	\$ (8,184,781)	\$ (332,756)
Noncapital					
financing activities	8,318,902	8,626,043	(307,141)	8,802,425	(176,382)
Capital and related	179,258	38,050	141,208	(1,063,102)	1,101,152
financing activities					
Investing activities	<u>20,619</u>	<u>19,687</u>	<u>932</u>	<u>19,447</u>	<u>240</u>
Net increase (decrease) in cash					
and cash equivalents	(386,970)	166,243	(553,213)	(426,011)	592,254
Cash and cash equivalents,					
beginning	<u>7,471,007</u>	<u>7,304,764</u>	<u>166,243</u>	<u>7,730,775</u>	<u>(426,011)</u>
Cash and cash equivalents,					
ending	<u>\$ 7,084,037</u>	<u>\$ 7,471,007</u>	<u>\$ (386,970)</u>	<u>\$ 7,304,764</u>	<u>\$ 166,243</u>

June 30, 2015 compared to June 30, 2014 resulted in the following cash flow changes:

The College's liquidity decreased by 386,970 in 2015. Cash used by operating activities increased by approximately \$388,212 while cash provided by non-capital financing activities decreased due to a decrease in grants and contracts. Cash used by capital and related financing activities decreased by approximately \$141,208 due to the 2015 reduced number of capital projects in 2015 as compared to 2014. The net result of these items is a decrease in cash by approximately \$386,970.

June 30, 2014 compared to June 30, 2013 resulted in the following cash flow changes:

The College's liquidity increased slightly during the year. Cash used by operating activities increased by approximately \$332,756 while cash provided by non-capital financing activities decreased due to a slight decrease in grants and contracts. Cash used by capital and related financing activities decreased by approximately \$1,101,152 due to the 2013 construction of a new Ag Education Facility and the 2013 construction of the Energy Performance Contract. The net result of these items is an increase in cash by approximately \$166,243.

**WESTERN OKLAHOMA STATE COLLEGE**  
**Management's Discussion and Analysis (Continued)**  
**Years Ended June 30, 2015, 2014 and 2013**

**FINANCIAL ANALYSIS OF THE COLLEGE AS A WHOLE (Continued)**

Although the Statement of Revenues, Expenses, and Changes in Net Position shows a decrease in total net position of \$372,473, this is representative of all funds combined which is inclusive of the recognition of Net Pension Expenses and On-Behalf Revenue of \$559,807. Management feels that it is important to point out the net change in fund balances for each individual fund before the recognition of the effect of the Net Pension entry. This is displayed below.

	2015	2014	2013
Educational and General Fund	\$ (1,737,354)	\$ (97,272)	\$ 171,685
Auxiliary Fund	(348,552)	147,563	(208,650)
Restricted Fund	(62,583)	35,011	(36,935)
Unexpended Plant Fund	1,600,517	(521)	99,727
Capital Assets	(384,308)	(534,462)	76,012
Net Pension Revenue & Expense Recognition	559,807	-	-
Combined Total	<u>\$ (372,473)</u>	<u>\$ (449,681)</u>	<u>\$ 101,839</u>

**CAPITAL ASSETS AND DEBT ADMINISTRATION**

**CAPITAL ASSETS**

At June 30, 2015, the College has \$16,142,208 invested in capital assets, net of accumulated depreciation of \$16,015,891. Depreciation charges totaled \$951,282 for the current fiscal year, compared to \$1,037,576 for the previous fiscal year. Details of these assets for the three years are shown below.

	Year Ended June 30		
	2015	2014	2013
Land	\$ 230,453	\$ 230,453	\$ 230,453
Infrastructure	3,757,018	3,847,382	3,808,621
Land Improvements	787,765	838,753	879,281
Buildings	8,823,450	9,139,577	9,455,704
Furniture, Fixtures, and Equipment	945,072	1,292,693	1,703,560
Library Materials	1,566,171	1,637,193	1,679,882
Construction in Progress	32,279	-	9,464
	<u>\$ 16,142,208</u>	<u>\$ 16,986,051</u>	<u>\$ 17,766,965</u>

**WESTERN OKLAHOMA STATE COLLEGE**  
**Management's Discussion and Analysis (Continued)**  
**Years Ended June 30, 2015, 2014 and 2013**

**CAPITAL ASSETS AND DEBT ADMINISTRATION (Continued)**

CAPITAL ASSETS (Continued)

Planned capital expenditures for fiscal year ending June 2016 will be budgeted and paid through a combination of E & G fund reserves, Auxiliary fund reserves, and from Section 13 appropriated capital funds. Throughout the year there will be expenditures from other grant programs like Title IV, TANF, and institutional reserve funds.

Section 13 for fiscal year 2016 will expend approximately \$436,000 in new funds to include items such as dorm debt retirement payment of \$102,000 and WOSC Foundation promissory note payment requirements of \$40,000; campus-wide computer technology equipment and software of approximately \$80,000; new computer academic department requests of \$154,000; physical plant upgrades for HVAC and other projects of \$60,000.

There are seven capital items that have been approved by Western's board of regents for FY 2016. These include the Technical Education Building Roof Replacement for \$383,281; Main Building Roof Repair A & B Wing for \$538,981; Business Affairs Complex Remodel and ADA Compliance Correction for \$72,400; A-Wing Air Handling Unit Replacement - 50 Zones for \$274,000; PE-Wing Air Handling Unit Replacement - 25 Zones for \$173,000 and the Multi-Purpose Center Remodel for \$248,000. These projects will be funded from a \$1,500,000 transfer of Educational and General Reserve funds and \$189,662 of Section 13 appropriated capital funds reserve.

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

DEBT

At June 30, 2015, the College had \$4,542,512 in debt outstanding, compared to \$5,073,911 reported June 30, 2014 and \$5,441,197 reported June 30, 2013. The table below summarizes these amounts by type for the current year and the previous two years.

**WESTERN OKLAHOMA STATE COLLEGE**  
**Management's Discussion and Analysis (Continued)**  
**Years Ended June 30, 2015, 2014 and 2013**

**Outstanding Debt**

	Year Ended June 30		
	<u>2015</u>	<u>2014</u>	<u>2013</u>
OCIA 2005 Capital Lease Obligations	\$ 188,876	\$ 368,941	\$ 3,187,707
OCIA 2010 A&B Capital Lease Obligations	1,460,070	1,753,490	1,753,490
OCIA 2014 Capital Lease Obligations	2,507,708	2,507,708	-
WOSC Foundation, Inc. Promissory Note	385,858	443,772	500,000
	<u>\$ 4,542,512</u>	<u>\$ 5,073,911</u>	<u>\$ 5,441,197</u>

**WESTERN OKLAHOMA STATE COLLEGE**  
**Management's Discussion and Analysis (Continued)**  
**Years Ended June 30, 2015, 2014 and 2013**

**CAPITAL ASSETS AND DEBT ADMINISTRATION (Continued)**

DEBT (Continued)

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

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

On April 9, 2014, the College's remaining 2005 lease agreement with OCIA was restructured through a partial refunding of the Series 2005F bonds. OCIA issued new bonds, Series 2014A, to accomplish the refunding. As a result, the total liability of the remaining 2005F bonds refunded and the amount of the 2014A bonds acquired was a gain on restructuring of \$139,156, which was recorded as a deferred inflow of resources that will be amortized over a period of 18 years. As of June 30, 2014, the unamortized gain totaled \$137,026. The restructured lease agreement with OCIA secures the OCIA bond indebtedness and any future indebtedness that might be issued to refund earlier bond issues. The College's aforementioned lease agreement with OCIA was automatically restructured to secure the new bond issues. This refinancing resulted in an aggregate difference in principal and interest between the original lease agreement and the refinanced lease agreement of \$343,469, which approximates the economic savings of the transaction.

During the years ended June 30, 2015, 2014 and 2013, OCIA made lease principal and interest payments on behalf of the College totaling \$577,570, \$417,503 and \$65,370 respectively.

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

**WESTERN OKLAHOMA STATE COLLEGE**  
**Management's Discussion and Analysis (Continued)**  
**Years Ended June 30, 2015, 2014 and 2013**

**WESTERN OKLAHOMA STATE COLLEGE FOUNDATION, INC.**

Western Oklahoma State College Foundation, Inc. (the Foundation) is a legally separate tax-exempt component unit of the College. The Foundation acts primarily as a fund-raising organization to supplement the resources that are available to the College in support of its programs. Although the College does not control the timing and amount of receipts from the Foundation, the majority of resources, or income thereon, which the Foundation holds and invests, is restricted to the activities of the College by the donors. Because these restricted resources held by the Foundation can only be used by, or for the benefit of, the College, the Foundation is considered a component unit for the College and is discretely presented in the College's financial statements.

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

	<u>2015</u>	<u>2014</u>	<u>2013</u>
Unrestricted	\$ 1,536,551	\$ 1,402,586	\$ 1,143,324
Temporarily Restricted	212,625	207,716	279,921
Restricted	4,764,539	4,655,181	4,404,815

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

**ECONOMIC FACTORS THAT WILL AFFECT THE FUTURE**

The most significant economic factor that Western is facing is the reduction in State Appropriations of 3.5% for fiscal year 2016 with current concerns of not only further cuts next fiscal year, but a possible mid-year appropriation adjustment. The economy in the state of Oklahoma is currently experiencing a decline in revenues due to a struggling oil and natural gas industry. The ultimate impact of a shrinking appropriation equates to pressure to raise tuition and reduce services to students.

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

**Statements of Net Position**

June 30,

	2015		2014	
	WOSC	Component Unit WOSC Foundation, Inc.	WOSC	Component Unit WOSC Foundation, Inc.
<b>Assets</b>				
<b>Current assets</b>				
Cash and cash equivalents	\$ 5,094,940	\$ 608,721	\$ 7,062,426	\$ 461,656
Interest receivable	-	10,611	-	11,094
Accounts receivables, net of allowance for doubtful accounts	711,446	-	647,407	-
Receivable from WOSC Foundation, Inc.	60,000	-	60,000	-
Inventories	133,393	-	165,118	-
Notes receivable, current portion	-	59,652	-	57,915
Total current assets	<u>5,999,779</u>	<u>678,984</u>	<u>7,934,951</u>	<u>530,665</u>
<b>Noncurrent assets</b>				
Restricted cash and cash equivalents	1,989,097	-	408,581	-
Investments, net of allowance	-	5,019,464	-	4,936,689
Notes receivable, long-term	-	326,205	-	385,857
Other assets	-	85,000	-	85,000
Capital assets, net of accumulated depreciation	<u>16,142,208</u>	<u>1,025,727</u>	<u>16,986,051</u>	<u>1,074,571</u>
Total noncurrent assets	<u>18,131,305</u>	<u>6,456,396</u>	<u>17,394,632</u>	<u>6,482,117</u>
Total assets	<u>24,131,084</u>	<u>7,135,380</u>	<u>25,329,583</u>	<u>7,012,782</u>
<b>Deferred outflows of resources</b>				
Deferred cost on OCIA lease restructure	80,384	-	160,768	-
Deferred amount related to Pension	<u>587,022</u>	-	-	-
Total deferred outflows of resources	<u>667,406</u>	-	<u>160,768</u>	-
Total assets and deferred outflows of resources	<u>\$ 24,798,490</u>	<u>\$ 7,135,380</u>	<u>\$ 25,490,351</u>	<u>\$ 7,012,782</u>
<b>Liabilities and Net Position</b>				
<b>Current liabilities</b>				
Accounts payable	\$ 182,663	\$ -	\$ 170,683	\$ -
Payable to Western Oklahoma State College	-	60,000	-	60,000
Accrued interest payable	-	1,665	-	2,299
Deposits held in custody for others	234,462	-	50,451	-
Accrued payroll	105,029	-	106,709	-
Accrued compensated absences	72,836	-	73,833	-
Current portion of noncurrent liabilities	<u>548,472</u>	<u>130,000</u>	<u>531,400</u>	<u>125,000</u>
Total current liabilities	<u>1,143,462</u>	<u>191,665</u>	<u>933,076</u>	<u>187,299</u>
<b>Noncurrent liabilities, net of current portion</b>				
Obligations under capital leases and notes payable	3,994,040	-	4,542,511	-
Revenue bonds payable	-	430,000	-	560,000
Net pension liability	<u>7,619,358</u>	-	-	-
Total noncurrent liabilities	<u>11,613,398</u>	<u>430,000</u>	<u>4,542,511</u>	<u>560,000</u>
Total liabilities	<u>12,756,860</u>	<u>621,665</u>	<u>5,475,587</u>	<u>747,299</u>
<b>Deferred inflows of resources</b>				
Deferred gain on OCIA lease restructure	128,506	-	137,026	-
Deferred amount related to pension	<u>1,969,604</u>	-	-	-
Total deferred inflows	<u>2,098,110</u>	-	<u>137,026</u>	-
<b>Net Position</b>				
Net investment in capital assets	11,551,574	563,415	11,935,882	438,415
Restricted:				
Expendable				
Instruction, scholarships and other	275,401	212,625	337,985	207,716
Capital projects	1,987,961	-	387,444	-
Nonexpendable	-	4,764,539	-	4,655,181
Unrestricted	<u>(3,871,416)</u>	<u>973,136</u>	<u>7,216,427</u>	<u>964,171</u>
Total net position	<u>9,943,520</u>	<u>6,513,715</u>	<u>19,877,738</u>	<u>6,265,483</u>
Total liabilities, deferred inflows of resources, and net position	<u>\$ 24,798,490</u>	<u>\$ 7,135,380</u>	<u>\$ 25,490,351</u>	<u>\$ 7,012,782</u>

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

**Statements of Revenues, Expenses and Changes in Net Position**

Years ended June 30,

	2015		2014	
	WOSC	Component Unit WOSC Foundation, Inc.	WOSC	Component Unit WOSC Foundation, Inc.
<b>Operating Revenues</b>				
Tuition and fees, net of scholarship discounts and allowance of \$1,760,000 and \$1,928,000 at June 30, 2015 and 2014, respectively.	\$ 2,014,834	\$ -	\$ 2,185,829	\$ -
Federal grants and contracts	1,027,139	-	991,110	-
State and local grants and contracts	137,186	-	122,420	-
Student store, net of scholarship discounts and allowances of \$256,000 and \$294,000 at June 30, 2015 and 2014, respectively.	279,547	-	316,507	-
Residence hall, net of scholarship discounts and allowances of \$92,000 and \$88,000 at June 30, 2015 and 2014, respectively.	105,343	-	98,862	-
Other operating revenues	488,239	205,000	466,125	205,000
Contributions and donations	-	512,500	-	667,852
Interest and dividend income	-	167,055	-	129,837
Net realized and unrealized investment gains (loss)	-	(75,570)	-	35,371
Total operating revenues	<u>4,052,288</u>	<u>808,985</u>	<u>4,180,853</u>	<u>1,038,060</u>
<b>Operating Expenses</b>				
Compensation and employee benefits	8,065,687	-	8,263,781	-
Contractual services	500,165	67,055	463,870	47,211
Supplies and materials	1,228,783	-	1,173,333	-
Utilities	478,289	5,389	483,925	4,061
Communication	91,200	-	101,526	-
Bond interest expense	-	30,463	-	35,747
Other operating expenses	1,357,243	-	1,285,133	-
Scholarships and fellowships	1,350,921	409,002	1,491,868	464,773
Depreciation expense	951,282	48,844	1,037,576	48,844
Total operating expenses	<u>14,023,570</u>	<u>560,753</u>	<u>14,301,012</u>	<u>600,636</u>
Operating income (loss)	<u>(9,971,282)</u>	<u>248,232</u>	<u>(10,120,159)</u>	<u>437,424</u>
<b>Nonoperating Revenues and (Expenses)</b>				
State appropriations	5,810,048	-	5,810,048	-
OTRS on-behalf contributions	418,940	-	409,357	-
Federal grants and contracts	2,164,135	-	2,391,235	-
State and local grants and contracts	296,451	-	324,132	-
Endowment contributions	48,268	-	100,628	-
Return on investments	20,619	-	19,687	-
Interest expense	(189,263)	-	(242,278)	-
Net nonoperating revenues	<u>8,569,198</u>	<u>-</u>	<u>8,812,809</u>	<u>-</u>
Income (loss) before revenues, expenses gains, or losses	(1,402,084)	248,232	(1,307,350)	437,424
Capital grants and gifts	15,100	-	3,225	-
State appropriations restricted for capital purposes	436,941	-	436,941	-
On-behalf payments for OCIA capital leases	577,570	-	417,503	-
Change in net position	<u>(372,473)</u>	<u>248,232</u>	<u>(449,681)</u>	<u>437,424</u>
Net position, beginning of year (as restated, see Note F)	<u>10,315,993</u>	<u>6,265,483</u>	<u>20,327,419</u>	<u>5,828,059</u>
Net position, end of year	<u>\$ 9,943,520</u>	<u>\$ 6,513,715</u>	<u>\$ 19,877,738</u>	<u>\$ 6,265,483</u>

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

Western Oklahoma State College

**Statements of Cash Flows**

Years ended June 30,

	2015	2014
<b>Cash flows from operating activities</b>		
Tuition and fees	\$ 2,015,240	\$ 2,200,279
Grants and contracts	1,137,805	1,111,818
Student store	238,313	386,682
Residence hall	105,343	98,862
Other operating receipts	491,548	417,220
Payments to employees for salaries and benefits	(8,025,224)	(7,857,405)
Payments to suppliers	(4,868,774)	(4,874,993)
Net cash used in operating activities	<u>(8,905,749)</u>	<u>(8,517,537)</u>
<b>Cash flows from noncapital financing activities</b>		
State appropriations	5,810,048	5,810,048
Grants and contracts	2,460,586	2,715,367
Direct loans received	1,290,663	1,482,017
Direct loans disbursed	(1,290,663)	(1,482,017)
Gifts for other than capital purposes	48,268	100,628
Net cash provided by noncapital financing activities	<u>8,318,902</u>	<u>8,626,043</u>
<b>Cash flows from capital and related financing activities</b>		
Cash paid for capital assets	(186,456)	(327,663)
Capital appropriations received	436,941	436,941
Interest paid on capital debt and leases	(13,314)	(15,000)
Repayments of capital debt and leases	(57,913)	(56,228)
Net cash provided by capital and related financing activities	<u>179,258</u>	<u>38,050</u>
<b>Cash flows from investing activities</b>		
Interest income	20,619	19,687
Net cash provided by investing activities	<u>20,619</u>	<u>19,687</u>
Net increase (decrease) in cash and cash equivalents	(386,970)	166,243
Cash and cash equivalents, beginning of year	<u>7,471,007</u>	<u>7,304,764</u>
Cash and cash equivalents, end of year	<u>\$ 7,084,037</u>	<u>\$ 7,471,007</u>

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

**Statements of Cash Flows - Continued**

Years ended June 30,

	2015	2014
<b>Reconciliation of operating loss to cash provided by (used in) operating activities</b>		
Operating loss	\$ (9,971,282)	\$ (10,120,159)
Adjustments to reconcile operating loss to net cash provided by (used in) operating activities		
Depreciation expense	951,282	1,037,576
Loss on disposal of capital assets	66,727	94,547
On-behalf contributions to Oklahoma Teachers' Retirement System	418,940	409,357
Excess in pension expense over on-behalf payments	27,217	-
Deferred cost related to pension	(587,022)	-
Changes in assets and liabilities		
Accounts receivable	(64,039)	34,008
Inventories	31,725	35,563
Accounts payable and accrued expenses	221,700	(155)
Accrued compensated absences	(997)	(8,274)
Net cash used in operating activities	<u>\$ (8,905,749)</u>	<u>\$ (8,517,537)</u>
<b>Noncash capital and related financing items</b>		
On-behalf principal and interest paid by OCIA	\$ 577,570	\$ 417,503
Contribution of capital assets	15,100	3,225
Amortization of deferred cost	80,384	80,385
Amortization of lease premium	7,619,358	(96,578)
Amortization of deferred gain on OCIA lease restructure	(8,520)	(2,130)
<b>Reconciliation of cash and cash equivalents to the Statements of Net Position</b>		
Current assets:		
Cash and cash equivalents	\$ 5,094,940	\$ 7,062,426
Noncurrent assets:		
Restricted cash and cash equivalents	1,989,097	408,581
	<u>\$ 7,084,037</u>	<u>\$ 7,471,007</u>

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

**Notes to Financial Statements**

June 30, 2015 and 2014

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**Note A - Summary of Significant Accounting Policies**

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

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

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

During the years ended June 30, 2015 and 2014, the Foundation distributed \$182,193 and \$191,030, respectively, in support to the College for both restricted and unrestricted purposes. Complete financial statements for the Foundation can be obtained from Western Oklahoma State College Foundation, Inc., 2801 North Main Street, Altus, Oklahoma 73521.

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

For financial reporting purposes, the College is considered a special-purpose government engaged only in business type activities. Accordingly, the College’s financial statements have been presented using the economic resources measurement focus and the accrual basis of accounting. Under the accrual basis, revenues are recognized when earned, and expenses are

**Notes to Financial Statements**

June 30, 2015 and 2014

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**Note A - Summary of Significant Accounting Policies - Continued**

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

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

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

3. *Cash Equivalents* - For purposes of the statements of cash flows, the College considers all highly liquid investments with an original maturity of three months or less to be cash equivalents. Funds invested through the State Treasurer’s Cash Management Program are considered cash equivalents.
4. *Deposits and Investments* - The College accounts for its investments at fair value, as determined by quoted market prices, in accordance with GASB Statement No. 31, *Accounting and Financial Reporting for Certain Investments and for External Investment Pools*. In accordance with GASB Statement No. 40, *Deposit and Investment Risk Disclosures*, the College has disclosed its deposit and investment policies related to the risks identified in GASB Statement No. 40. Changes in unrealized gains (losses) on the carrying value of the investments are reported as a component of investment income in the statements of revenues, expenses and changes in net position.
5. *Inventories* - Inventories consist of books and supplies held for resale at the bookstore, which are valued at the lower of cost (first-in, first-out basis) or market.
6. *Accounts Receivable* - Accounts receivable consists of tuition and fee charges to students and to auxiliary enterprise services provided to students, faculty and staff, the majority of each residing in the State of Oklahoma. Student accounts receivable are carried at the unpaid balance of the original amount billed to students, less an estimate made for doubtful accounts based on a review of all outstanding amounts. Management determines the allowance for doubtful accounts by identifying troubled accounts and by using historical experience applied to an aging of accounts. Student accounts receivable are written off for financial reporting purposes when deemed uncollectible. Recoveries of student accounts receivable previously written off are credited to the allowance for doubtful accounts when received. A student account receivable is considered to be past due if any portion of the receivable balance is outstanding after the end of the semester.

Accounts receivable also includes amounts due from federal, state and local governments, or private sources, in connection with reimbursement of allowable expenditures made pursuant to the College’s grants and contracts, and distributable income from the State Regents for Higher Education. No allowance for doubtful accounts has been provided for other receivables.

**Notes to Financial Statements**

June 30, 2015 and 2014

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**Note A - Summary of Significant Accounting Policies - Continued**

7. *Noncurrent Cash and Investments* - Cash and investments that are externally restricted to make debt service payments, maintain sinking or reserve funds, or to purchase capital or other noncurrent assets, are classified as noncurrent assets in the statements of net position.
8. *Capital Assets* - Capital assets are recorded at cost at the date of acquisition, or fair market value at the date of donation in the case of gifts. For equipment, the College's capitalization policy includes all items with a unit cost of \$500 or more, and an estimated useful life of greater than one year. Renovation to buildings, infrastructure, and land improvements that significantly increase the value or extend the useful life of the structure are capitalized. Routine repairs and maintenance are charged to operating expense in the year in which the expense was incurred. Depreciation is computed using the straight-line method over the estimated useful lives of the assets, generally 50 years for buildings, 25-50 years for infrastructure and land improvements, and 7 to 20 years for library materials and equipment. Depreciation expense includes amortization of assets held under capital lease obligations.
9. *Compensated Absences* - Employee vacation pay is accrued when earned by employees. The liability and expense incurred are recorded at year-end as accrued expenses in the statements of net assets, and as a component of compensation expense in the statements of revenues, expenses and changes in net position.
10. *Noncurrent Liabilities* - Noncurrent liabilities include principal amounts of capital lease and promissory note obligations with contractual maturities greater than one year.
11. *Pensions* - For purposes of measuring the net pension liability, deferred outflows of resources and deferred inflows of resources related to pensions, and pension expense, information about the fiduciary net position of the Oklahoma Teachers Retirement System (OTRS) and additions to/deductions from OTRS's fiduciary net position have been determined on the same basis as they are reported by OTRS. For this purpose, benefit payments (including refunds of employee contributions) are recognized when due and payable in accordance with the benefit terms. Investments are reported at fair value.
12. *Net Position* - The College's net position is classified as follows:

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

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

**Notes to Financial Statements**June 30, 2015 and 2014

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

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

The College has a deficit in unrestricted net position as a result of the adoption of the pension reporting standard which decreased unrestricted net assets by \$9,561,745. See Note F. The College's unrestricted net position consists of the following at June 30:

	2015	2014
Educational and general operations	\$ (2,504,490)	\$ 5,056,376
Auxiliary enterprises and other operating activities	(1,366,926)	2,160,051
Total unrestricted net position	<u>\$ (3,871,416)</u>	<u>\$ 7,216,427</u>

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

*13. Classification of Revenues* - The College has classified its revenues as either operating or nonoperating revenues according to the following criteria:

Operating Revenues - Operating revenues include activities that have the characteristics of exchange transactions, such as (1) student tuition and fees, net of scholarship discounts and allowances, (2) sales and services of auxiliary enterprises, net of scholarship discounts and allowances, and (3) certain grants and contracts.

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

**Notes to Financial Statements**

June 30, 2015 and 2014

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**Note A - Summary of Significant Accounting Policies - Continued**

14. *Scholarship Discounts and Allowances* - Student tuition and fee revenues, and certain other revenues from students, are reported net of scholarship discounts and allowances in the statements of revenues, expenses, and changes in net assets. Scholarship discounts and allowances are the difference between the stated charge for goods and services provided by the College, and the amount that is paid by students and/or third parties making payments on the students' behalf. Certain governmental grants, such as Pell grants, and other federal, state or nongovernmental programs, are recorded as nonoperating revenues in the College's financial statements. To the extent that revenues from such programs are used to satisfy tuition and fees and other student charges, the College has recorded a scholarship discount and allowance.
15. *Income Taxes* - The College, as a political subdivision of the State of Oklahoma, is exempt from federal income taxes under Section 115(1) of the Internal Revenue Code, as amended. However, the College may be subject to income taxes on unrelated business income under Internal Revenue Code Section 511(a)(2)(B).
16. *Use of Estimates* - The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.
17. *Subsequent Events* - Subsequent events were evaluated through October 22, 2015, which is the date the financial statements were available to be issued.

**Note B - Deposits and Investments**

1. *Deposits - Custodial credit risk* for deposits is the risk that in the event of a bank failure, the College's deposits may not be returned or the College will not be able to recover collateral securities in the possession of an outside party. Generally, the College deposits its funds with the Office of the State Treasurer ("OST") and those funds are pooled with funds of other state agencies and then, in accordance with statutory limitations, are placed in financial institutions or invested as the OST may determine, in the State's name. State statutes require the OST to ensure that all state funds are either insured by Federal Deposit Insurance, collateralized by securities held by the cognizant Federal Reserve Bank, or invested in U.S. government obligations. The OST's responsibilities include receiving and collateralizing the deposit of State funds, investing State funds in compliance with statutory requirements, and maintaining adequate liquidity to meet the cash flow needs of the State and all its funds and agencies. If the College deposits funds directly with financial institutions, those funds must be insured by Federal Deposit Insurance or collateralized by securities held by the cognizant Federal Reserve Bank in the College's name. Some deposits with the OST are placed in the OST's internal investment pool *OK INVEST*. *OK INVEST* pools the resources of all state funds and agencies and invests them in (a) U.S. treasury securities which are explicitly backed by the full faith and credit of the U.S. government; (b) U.S. agency securities which carry an implicit guarantee of

**Notes to Financial Statements**

June 30, 2015 and 2014

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

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

Deposits with financial institutions primarily consist of money market funds that invest in U.S. Treasury bills, notes and securities backed by the full faith and credit of the U.S. Government, some of which may be subject to repurchase agreements. Repurchase agreements are collateralized with securities backed by the full faith and credit of the U.S. Government at 102 percent of maturity value. At June 30, 2015 and 2014, the bank balances of all College deposits with the OST and other financial institutions were \$7,134,916 and \$7,495,718, respectively. Of funds on deposit with the OST, amounts invested in *OK INVEST* totaled \$911,172 in 2015 and \$1,322,217 in 2014.

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

At June 30, 2015		
<u><i>OK INVEST</i> Portfolio</u>	<u>Cost</u>	<u>Market Value</u>
U.S. agency securities	\$ 365,818	\$ 365,422
Money market mutual fund	114,388	144,388
Commercial paper sweep	18,435	18,435
Certificates of deposit	24,879	24,879
Mortgage backed agency securities	357,456	362,025
Municipal bonds	12,634	13,699
Foreign bonds	7,016	7,016
U.S. Treasury obligations	10,546	12,660
Totals	<u>\$ 911,172</u>	<u>\$ 948,524</u>

**Notes to Financial Statements**

June 30, 2015 and 2014

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

At June 30, 2014		
<u>OK INVEST Portfolio</u>	<u>Cost</u>	<u>Market Value</u>
U.S. agency securities	\$ 606,637	\$ 605,458
Money market mutual fund	63,839	63,839
Commercial paper sweep	27,825	27,825
Certificates of deposit	34,323	34,323
Mortgage backed agency securities	543,179	554,387
Municipal bonds	20,285	22,466
Foreign bonds	10,387	10,387
U.S. Treasury obligations	15,742	19,487
Totals	<u>\$ 1,322,217</u>	<u>\$ 1,338,172</u>

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

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

**Notes to Financial Statements**June 30, 2015 and 2014

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

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

*2. Interest Rate Risk* - At June 30, 2015, the College does not have any investments. The College does not have a formal policy that limits investment maturities as a means of managing its exposure to fair value losses arising from increasing interest rates.

*3. Concentration of Credit Risk* - The College places no limit on the amount the College may invest in any one issuer. However, the majority of the investments are in mutual funds and investments guaranteed by the U.S. Government.

**Note C - Accounts Receivable**

Accounts receivable consist of the following at June 30:

	2015	2014
Student tuition and fees	\$ 1,059,531	\$ 1,042,631
Auxiliary enterprises	79,792	38,558
Contributions, gifts and other operating activities	135,056	138,364
Federal, state, and private grants and contracts	255,292	228,772
	<u>1,529,671</u>	<u>1,448,325</u>
Less allowance for doubtful accounts	<u>(818,225)</u>	<u>(800,918)</u>
Accounts receivable, net of allowance for doubtful accounts	<u>\$ 711,446</u>	<u>\$ 647,407</u>

Western Oklahoma State College

**Notes to Financial Statements**

June 30, 2015 and 2014

**Note D - Capital Assets**

Following are the changes in capital assets for the years ended June 30, 2015 and 2014:

	Year Ended June 30, 2015				Ending Balance
	Beginning Balance	Additions	Transfers	Retirements	
Capital assets not being depreciated					
Land	\$ 230,453	\$ -	\$ -	\$ -	\$ 230,453
Total capital assets not being depreciated	<u>\$ 230,453</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 230,453</u>
Other capital assets					
Non-major infrastructure networks	\$ 4,607,862	\$ 4,372	\$ -	\$ (2,595)	\$ 4,609,639
Land improvements	1,934,170	-	-	-	1,934,170
Buildings	15,806,359	-	-	-	15,806,359
Furniture, fixtures, and equipment	7,554,663	107,576	-	(80,537)	7,581,702
Library materials	2,006,379	29,940	-	(72,822)	1,963,497
Construction in progress	-	32,279	-	-	32,279
Total other capital assets	<u>31,909,433</u>	<u>174,167</u>	<u>-</u>	<u>(155,954)</u>	<u>31,927,646</u>
Less accumulated depreciation					
Non-major infrastructure networks	(760,480)	(92,193)	-	52	(852,621)
Land improvements	(1,095,417)	(50,988)	-	-	(1,146,405)
Buildings	(6,666,782)	(316,127)	-	-	(6,982,909)
Furniture, fixtures, and equipment	(6,261,970)	(454,571)	-	79,911	(6,636,630)
Library materials	(369,186)	(37,403)	-	9,263	(397,326)
Total accumulated depreciation	<u>(15,153,835)</u>	<u>(951,282)</u>	<u>-</u>	<u>89,226</u>	<u>(16,015,891)</u>
Other capital assets, net	16,755,598	(777,115)	-	(66,728)	15,911,755
Capital asset summary					
Capital assets not being depreciated	230,453	-	-	-	230,453
Other capital assets	<u>31,909,433</u>	<u>174,167</u>	<u>-</u>	<u>(155,954)</u>	<u>31,927,646</u>
Total capital assets	32,139,886	174,167	-	(155,954)	32,158,099
Less accumulated depreciation	<u>(15,153,835)</u>	<u>(951,282)</u>	<u>-</u>	<u>89,226</u>	<u>(16,015,891)</u>
Capital assets net	<u>\$ 16,986,051</u>	<u>\$ (777,115)</u>	<u>\$ -</u>	<u>\$ (66,728)</u>	<u>\$ 16,142,208</u>

**Notes to Financial Statements**

June 30, 2015 and 2014

**Note D - Capital Assets - Continued**

	Year Ended June 30, 2014				Ending Balance
	Beginning Balance	Additions	Transfers	Retirements	
Capital assets not being depreciated					
Land	\$ 230,453	\$ -	\$ -	\$ -	\$ 230,453
Total capital assets not being depreciated	<u>\$ 230,453</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 230,453</u>
Other capital assets					
Non-major infrastructure networks	\$ 4,496,945	\$ 187,032	\$ 9,464	\$ (85,579)	\$ 4,607,862
Land improvements	1,923,710	10,460	-	-	1,934,170
Buildings	15,806,359	-	-	-	15,806,359
Furniture, fixtures, and equipment	7,588,896	135,684	-	(169,917)	7,554,663
Library materials	2,023,452	18,033	-	(35,106)	2,006,379
Construction in progress	9,464	-	(9,464)	-	-
Total other capital assets	<u>31,848,826</u>	<u>351,209</u>	<u>-</u>	<u>(290,602)</u>	<u>31,909,433</u>
Less accumulated depreciation					
Non-major infrastructure networks	(688,324)	(92,157)	-	20,001	(760,480)
Land improvements	(1,044,429)	(50,988)	-	-	(1,095,417)
Buildings	(6,350,655)	(316,127)	-	-	(6,666,782)
Furniture, fixtures, and equipment	(5,885,336)	(541,181)	-	164,547	(6,261,970)
Library materials	(343,570)	(37,123)	-	11,507	(369,186)
Total accumulated depreciation	<u>(14,312,314)</u>	<u>(1,037,576)</u>	<u>-</u>	<u>196,055</u>	<u>(15,153,835)</u>
Other capital assets, net	17,536,512	(686,367)	-	(94,547)	16,755,598
Capital asset summary					
Capital assets not being depreciated	230,453	-	-	-	230,453
Other capital assets	<u>31,848,826</u>	<u>351,209</u>	<u>-</u>	<u>(290,602)</u>	<u>31,909,433</u>
Total capital assets	32,079,279	351,209	-	(290,602)	32,139,886
Less accumulated depreciation	<u>(14,312,314)</u>	<u>(1,037,576)</u>	<u>-</u>	<u>196,055</u>	<u>(15,153,835)</u>
Capital assets net	<u>\$ 17,766,965</u>	<u>\$ (686,367)</u>	<u>\$ -</u>	<u>\$ (94,547)</u>	<u>\$ 16,986,051</u>

**Notes to Financial Statements**

June 30, 2015 and 2014

**Note D - Capital Assets - Continued**

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

	2015				Total
	Buildings	Equipment	Infrastructure	Land Improvements	
Cost	\$ 3,524,754	\$ 1,167,520	\$ 1,692,189	\$ 761,047	\$ 7,145,510
Less accumulated depreciation	(452,106)	(1,152,306)	(203,063)	(251,298)	(2,058,773)
	<u>\$ 3,072,648</u>	<u>\$ 15,214</u>	<u>\$ 1,489,126</u>	<u>\$ 509,749</u>	<u>\$ 5,086,737</u>

**Note E - Noncurrent Liabilities**

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

	2015				
	Balance at June 30, 2014	Additions	Reductions	Balance at June 30, 2015	Amounts Due Within One Year
Capital lease obligations					
OCIA 2005F capital lease obligation	\$ 368,941	\$ -	\$ (180,065)	\$ 188,876	\$ 188,876
OCIA 2010 A&B capital lease obligations	1,753,490	-	(293,420)	1,460,070	299,944
OCIA 2014A capital lease obligation	2,507,708	-	-	2,507,708	-
Total capital lease obligations	4,630,139	-	(473,485)	4,156,654	488,820
Other noncurrent obligations					
Compensated absences	73,833	120,736	(121,733)	72,836	72,836
WOSC Foundation, Inc. promissory note	443,772	-	(57,914)	385,858	59,652
Total noncurrent liabilities	<u>\$ 5,147,744</u>	<u>\$ 120,736</u>	<u>\$ (653,132)</u>	<u>\$ 4,615,348</u>	<u>\$ 621,308</u>

**Notes to Financial Statements**

June 30, 2015 and 2014

**Note E - Noncurrent Liabilities - Continued**

	2014				
	Balance at June 30, 2013	Additions	Reductions	Balance at June 30, 2014	Amounts Due Within One Year
Capital lease obligations					
OCIA 2005F capital lease obligations	\$ 3,187,707	\$ -	\$ (2,818,766)	\$ 368,941	\$ 180,065
OCIA 2010 A&B capital lease obligations	1,753,490	-	-	1,753,490	293,420
OCIA 2014A capital lease obligation	-	2,507,708	-	2,507,708	-
Total capital lease obligations	4,941,197	2,507,708	(2,818,766)	4,630,139	473,485
Other noncurrent obligations					
Compensated absences	82,107	119,157	(127,431)	73,833	73,833
WOSC Foundation, Inc. promissory note	500,000	-	(56,228)	443,772	57,915
Total noncurrent liabilities	\$ 5,523,304	\$ 2,626,865	\$ (3,002,425)	\$ 5,147,744	\$ 605,233

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

In August 2010, the College's 2005F lease agreement with the OCIA was restructured through a partial refunding of OCIA's 2005F bond debt. OCIA issued two new bonds, Series 2010A and 2010B. The College's lease agreements with OCIA secure the OCIA bond debt and any future debt that might be issued to refund earlier bond issues. OCIA issued this new debt to provide budgetary relief for fiscal years 2011 and 2012 by extending and restructuring debt service. Consequently, the College's lease agreement with OCIA automatically restructured to secure the new bond issues. This lease restructuring has extended certain principal payments into the future, resulting in a charge or cost on restructuring. In FY 2011, the College recorded a deferred charge of \$482,305 on restructuring as a deferred cost that will be amortized over a period of 6 years. During the year ended June 30, 2015, amortization of the deferred charge was \$80,384.

On April 9, 2014, the College's remaining 2005 lease agreement with OCIA was restructured through a partial refunding of the Series 2005F bonds. OCIA issued new bonds, Series 2014A, to accomplish the refunding. As a result, the total liability of the remaining 2005F bonds refunded and the amount of the 2014A bonds acquired was a gain on restructuring of \$139,156, which was recorded as a deferred inflow of resources that will be amortized over a period of 18 years. As of June 30, 2015, the unamortized gain totaled \$128,506. The restructured lease agreement with OCIA secures the OCIA bond indebtedness and any future indebtedness that might be issued to refund earlier bond issues. The College's aforementioned lease agreement with OCIA was automatically restructured to secure the new bond issues. This refinancing resulted in an aggregate difference in principal and interest between the original lease agreement and the refinanced lease agreement of \$343,469, which approximates the economic savings of the transaction.

**Notes to Financial Statements**

June 30, 2015 and 2014

**Note E - Noncurrent Liabilities - Continued**

During the years ended June 30, 2015 and 2014, OCIA made principal and interest payments totaling \$577,570 and \$417,503, respectively, on behalf of the College. These on-behalf payments have been recorded as restricted state appropriations in the College's statements of revenues, expenses and changes in net position.

Oklahoma Development Finance Authority Master Lease Program - In 2007, the Oklahoma Development Finance Authority ("ODFA") issued the Oklahoma State System of Higher Education Master Lease Revenue Bonds, Series 2007. Of the total bond indebtedness, the State Regents for Higher Education allocated \$181,000 to the College. The proceeds of the bonds are to provide for capital improvements at the College.

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

Year Ending June 30:	Principal	Interest	Total
2016	\$ 488,820	\$ 203,207	\$ 692,027
2017	427,594	167,457	595,051
2018	445,440	153,190	598,630
2019	460,453	132,587	593,040
2020	2,833	111,103	113,936
2021 - 2025	679,987	523,156	1,203,143
2026 - 2030	1,343,047	275,424	1,618,471
2031 - 2035	308,480	15,239	323,719
Total	<u>\$ 4,156,654</u>	<u>\$ 1,581,363</u>	<u>\$ 5,738,017</u>

**Note F - Retirement Plan**

In June 2012, The Governmental Accounting Standards Board issued Statement No. 68, *Accounting and Financial Reporting for Pensions*. The statement was effective for fiscal years beginning after June 15, 2014. The College is a component unit of the State of Oklahoma; therefore, the College had to adopt the statement for its June 30, 2015 year-end which is reported in the State of Oklahoma's Comprehensive Annual Financial Report for June 30, 2015.

Prior Period Adjustment

Beginning fund balances/net position were restated as of June 30, 2015 as follows:

	<u>Fiscal Year 2015</u>
Beginning net position, as previously reported	\$ 19,877,738
Implementation of GASB Statements 68 & 71	<u>(9,561,745)</u>
Beginning net position, restated	<u>\$ 10,315,993</u>

**Notes to Financial Statements**

June 30, 2015 and 2014

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**Note F - Retirement Plan - Continued**

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

**Notes to Financial Statements**

June 30, 2015 and 2014

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**Note F - Retirement Plan - Continued**

- 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.

*Contributions* - The contributions requirements of the Plan are at an established rate determine by Oklahoma Statute, amended by the Oklahoma Legislature, and are not based on actuarial calculations. Employees are required to contribute 7% percent of their annual pay. Participating employers are required to contribute 9.5% of the employees’ annual pay and an additional 8.25% for any employees’ salaries covered by federal funds. Contributions to the pension plan from the College were \$587,022. The State of Oklahoma also made on-behalf contributions to OTRS, of which \$418,940 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, 2015, the College reported a liability of \$7,619,358 for its proportionate share of the net pension liability. The net pension liability was measured as of June 30, 2014, and the total pension liability used to calculate the net pension liability was determined by an actuarial valuation as of July 1, 2014. The College’s proportion of the net pension liability was based on the College’s contributions received by the pension plan relative to the total contributions received by pension plan for all participating employers as of June 30, 2014. Based upon this information, the College’s proportion was .1416 percent.

For the year ended June 30, 2015, the College recognized pension expense of \$446,157. At June 30, 2015, 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	\$ -	\$ 125,590
Net difference between projected and actual earnings on pension plan investments	-	1,844,014
College contributions subsequent to the measurement date	587,022	-
Total	<u>\$ 587,022</u>	<u>\$ 1,969,604</u>

**Notes to Financial Statements**

June 30, 2015 and 2014

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**Note F - Retirement Plan - Continued**

\$587,022 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. Amortization periods are five years for net difference between projected and actual earnings on pension plan investments and six years for net differences between expected and actual experience. Other amounts reported as deferred outflows of resources and deferred inflows of resources related to pensions will be:

Year ended June 30:

2016	\$	(486,611)
2017		(484,611)
2018		(484,611)
2019		(484,611)
2020		(23,607)
Thereafter		<u>(5,553)</u>
	\$	<u><u>(1,969,604)</u></u>

*Actuarial Assumptions* - The total pension liability as of June 30, 2014, was determined based on an actuarial valuation prepared as if June 30, 2014 using the following actuarial assumptions:

- Actuarial Cost Method - Entry Age
- Amortization Method - Level Percentage of Payroll
- Inflation - 3.00%
- Salary Increases - Composed of 3.00% inflation, plus 1.00% productivity increase rate, plus step-rate promotional increases for members with less than 25 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 September 2010 in conjunction with the five year experience study for the period ending June 30, 2009.
- Mortality - RP-2000 Combined Mortality Table, projected to 2016 using Scale AA, multiplied by 90% for males and 80% for females.

The actuarial assumptions used in the July 1, 2014 valuation were based on the results of an actuarial experience study for the period July 2007 to June 2011.

**Notes to Financial Statements**

June 30, 2015 and 2014

**Note F - Retirement Plan - Continued**

Asset Class	Target Asset Allocation	Long-Term Expected Real Rate of Return
Domestic All Cap Equity*	7.0%	6.7%
Domestic Large Cap Equity	10.0%	6.2%
Domestic Mid Cap Equity	13.0%	6.9%
Domestic Small Cap Equity	10.0%	7.0%
International Large Cap Equity	11.5%	7.0%
International Small Cap Equity	6.0%	7.0%
Core Plus Fixed Income	17.5%	2.1%
High-yield Fixed Income	6.0%	4.5%
Private Equity	5.0%	7.9%
Real Estate**	7.0%	5.5%
Master Limited Partnerships	7.0%	7.9%
Total	100.00%	

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

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

*Discount Rate* - A single discount rate of 8.00% was used to measure the total pension liability as of June 30, 2013 and June 30, 2014. 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	\$ 10,704,199	\$ 7,619,358	\$ 5,015,647

**Notes to Financial Statements**

June 30, 2015 and 2014

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**Note F - Retirement Plan - Continued**

*Pension plan fiduciary net position* - Detailed information about the pension plan's fiduciary net position is available in the separately issued financial report of the OTRS which can be located at [www.ok.gov/OTRS](http://www.ok.gov/OTRS).

**Note G - Funds Held in Trust by Others**

*Oklahoma State Regents' Endowment Trust Funds*

In connection with the Oklahoma State Regents' Endowment Program (the "Endowment Program"), funds are invested by the Oklahoma State Regents on behalf of the College. These funds are not recognized in the College's statement of net position. At June 30, 2015 and 2014, the funds totaled approximately \$547,000 and \$668,000, respectively. The College is entitled to receive an annual distribution of earnings on these funds. Distributions to be received totaled approximately \$29,000 and \$28,000 at June 30, 2015 and 2014, respectively.

**Note H - Related Party Transactions**

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

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

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

**Notes to Financial Statements**

June 30, 2015 and 2014

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**Note H - Related Party Transactions - Continued**

interest in the Housing Facility for \$205,000 per year. The initial lease term of the Student Housing Lease Agreement was from July 1, 2002 through June 30, 2003. The College and the Foundation must agree to future lease terms.

During 2013, the College entered into an agreement to borrow an amount not to exceed \$500,000 from the Foundation. The proceeds were used to finance certain campus energy efficient campus infrastructure improvements. The promissory note accrues interest at an interest rate of not more than three percent per annum. Interest and principal are payable in eight successive annual installments of \$71,228 with the final installment being due on August 1, 2020. Future principal payments as of June 30, 2015 are as follows: \$59,652 in 2016, \$61,442 in 2017, \$63,285 in 2018, \$65,184 in 2019, \$67,139 in 2020, and \$69,156 in 2021.

**Note I - Commitments and Contingencies**

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

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

During 2013, the College was placed on academic probation by its accrediting agency over concerns about the quality of the College's online courses. As a result, the College was temporarily suspended from offering its condensed format online courses. In 2014, enrollment declined by 37 percent due to less course offerings. Measures were implemented to help lessen the financial statement impact, resulting in a modest 2.65 percent decrease in net position. The accrediting agency scheduled a focused visit in the spring of 2014 where positive indicators were reported as a result. A full comprehensive review occurred in the spring of 2015 by the accrediting agency, and the sanction of probation was removed as of July 8, 2015.

**Notes to Financial Statements**

June 30, 2015 and 2014

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**Note J - Western Oklahoma State College Foundation, Inc.**

The following are significant disclosures of the Foundation:

Description of the Entity and Summary of Significant Accounting Policies

Western Oklahoma State College Foundation, Inc., a nonprofit organization, was formed in 1974 for the benefit of Western Oklahoma State College (the College) in aid of charitable, benevolent educational, scientific and literary purposes. The purposes of the Foundation are strengthened by the worthy accomplishments that are a part of the history of the Foundation. The role of the Foundation is to provide the financial support that will enable the College to achieve expanded goals and fulfill higher purposes that otherwise are not possible on limited funding. The Foundation leaders recognize the potential for the Foundation and realize greater support can be attained for the College as it reaches increasingly significant levels of educational leadership. The Foundation seeks continuous support from individuals, business firms, corporations, civic groups, foundations, service organizations and bequests of wills. As the Foundation grows, the College educational programs grow. The Foundation provides a variety of opportunities to share in the future development of the College and its continuing *Commitment to Excellence*.

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

*Basis of Accounting* - The Foundation uses the accrual basis of accounting, whereby revenues are recognized when earned and expenses when incurred. Expenses incurred but not paid are represented by a liability on the statement of financial position. Other revenues are recognized when received or earned. Net assets represent the cumulative excess of revenues recognized over expenses incurred.

*Financial Statement Presentation* - The financial statement presentation follows the guidance of ASC 958-205, *Financial Statements of Not-for-Profit Organizations*. Under ASC 958-205, the Foundation is required to report information regarding its financial position and activities according to three classes of net assets: unrestricted, temporarily restricted, and permanently restricted. In addition, the Foundation is required to present a statement of cash flows. The Foundation reports information regarding its financial position and changes in net assets according to the three classes of net assets based on the existence or absence of donor-imposed restrictions, as follows: unrestricted net assets consist of expendable amounts available to support the Foundation's operations and objectives; temporarily restricted net assets consist of amounts which have been temporarily restricted by donors for specific purposes or time periods; and permanently restricted net assets consist of amounts required to be maintained by the Foundation, with income generated by such amounts available to support general or specific purposes.

**Notes to Financial Statements**

June 30, 2015 and 2014

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

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

*Revenue Recognition and Support* - The Foundation reports gifts of cash and other assets as unrestricted contributions unless they are received with donor stipulations that limit the use of the asset. In the case that a donor restriction expires, through the passage of time or when the stipulated purpose is accomplished, temporarily restricted net assets are reclassified as unrestricted and reported as net assets released from restrictions. Donor restricted net assets whose stipulations are met within the same year as the reporting period are reflected as unrestricted net assets in the statement of activities.

Contributions received under endowment agreements, where donors have restricted the use of income received from the assets, are reported as increases in permanently restricted net assets. Income and realized or unrealized gains that is not donor restricted are reported as increases in unrestricted net assets in the statement of activities.

*Fair Value Measurements* - The Foundation follows the ASC Topic 820, *Fair Value Measurements and Disclosures*, with respect to financial assets and liabilities. Topic 820 defines fair value, establishes a framework for fair value and expands disclosures about fair value measurements. Fair value is defined as the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. Topic 820 establishes a fair value hierarchy that prioritizes the inputs to valuation techniques used to measure fair value into three broad levels. The following is a brief description of those three levels:

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

*Capital Assets* - Capital assets are recorded at cost at the date of acquisition. Depreciation is computed using the straight-line method over the estimated useful life of the asset, which is generally 37.5 years for buildings.

Capital assets that are contributed to the Foundation are carried at their fair market value at the time of the donation.

*Cash and Cash Equivalents* - The Foundation considers all liquid investments with original maturities of three months or less to be cash equivalents.

*Use of Estimates* - The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities, disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

**Notes to Financial Statements**

June 30, 2015 and 2014

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

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

*Income Taxes* - The Foundation is exempt from income taxes under Section 501(c)(3) of the Internal Revenue Code; as such, no provision has been made for federal or state income taxes. Federal and state informational tax returns have been filed as required.

The Foundation has adopted the provisions of FASB Accounting Standards Codification Topic ASC 740-10 (previously Financial Interpretation No. 48, *Accounting for Uncertainty in Income Taxes*). The implementation of this standard has no impact on the financial statements. As of June 30, 2015 and 2014, the unrecognized tax benefit accrual was zero.

*Concentration of Risk* - The Foundation maintains its cash accounts and certificates of deposit at several commercial banks. Cash accounts and certificates of deposit at each bank are insured by the Federal Deposit Insurance Corporation (FDIC) for up to \$250,000 and additional insurance to cover any of those amounts that may exceed the \$250,000 FDIC insurance. The Foundation has not experienced any losses in cash and cash equivalents and does not believe that they are exposed to significant credit risk.

WOSC Student Facilities Revenue Bond Series 2008

In July 1998, Western Oklahoma State College Foundation, Inc. (Foundation) entered into a lease and development agreement with the Board of Regents of Western Oklahoma State College (the Board) to lease a portion of the Western Oklahoma State College campus for the purpose of constructing a student housing facility. The Board agreed to pay the development fee of \$150,000 in order to obtain the financing. In addition, the Board entered into an operation and maintenance agreement whereby the Board agreed to operate and maintain the student housing facility. In July 2002, the Board terminated the original operation and maintenance agreement and entered into a lease agreement providing for an annual lease of \$205,000. The Board agreed to pay for all maintenance, utilities, insurance and repairs necessary to operate the student housing facility.

In June 2008, the WOSC Student Facilities Revenue Bonds Series 1998 were retired with the proceeds from the issue of the WOSC Student Facilities Revenue Bonds Series 2008 in the amount of \$1,360,000 with interest due on June 1 and December 1 and with principal payments annually. The first principal and interest payments commenced on December 1, 2008.

**Notes to Financial Statements**

June 30, 2015 and 2014

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

WOSC Student Facilities Revenue Bond Series 2008 - Continued

The bonds mature during the fiscal year ending June 30, in the following manner:

Year Ending June 30:	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2016	\$ 130,000	\$ 23,798	\$ 153,798
2017	135,000	18,468	153,468
2018	145,000	12,798	157,798
2019	<u>150,000</u>	<u>6,563</u>	<u>156,563</u>
Total	<u>\$ 560,000</u>	<u>\$ 61,627</u>	<u>\$ 621,627</u>

*Capital Assets*

Capital assets consist of the following at June 30:

	<u>2015</u>	<u>2014</u>
Student housing facility	\$ 1,807,234	\$ 1,807,234
Less accumulated depreciation	<u>(781,507)</u>	<u>(732,663)</u>
	<u>\$ 1,025,727</u>	<u>\$ 1,074,571</u>

Depreciation expense included in the accompanying financial statements for the years ended June 30, 2015 and 2014 was \$48,844 each year.

**Notes to Financial Statements**

June 30, 2015 and 2014

**Note J - Western Oklahoma State College Foundation, Inc. - Continued**Investments and Allowance for Investment Loss

Investments are made in conformity with the objectives and guidelines of the Foundation's Board of Directors. The investments are stated at fair value. The fair values are based primarily on quoted market prices for those or similar instruments (considered level 1 inputs for determination of fair value, as illustrated below). Types of investments are as follows at June 30:

	2015	2014
	Fair Value	Fair Value
	Level 1	Level 1
Certificates of deposits	\$ 3,689,020	\$ 3,189,000
Money market funds	133,680	44,622
Mutual funds	738,236	1,080,733
Annuities	251,000	251,000
Real estate investment trusts	269,846	369,846
Total investments	<u>5,081,782</u>	<u>4,935,201</u>
Allowance for market revaluation	<u>(62,318)</u>	<u>1,488</u>
Fair market value (carrying value)	<u><u>\$ 5,019,464</u></u>	<u><u>\$ 4,936,689</u></u>

Endowment Disclosure

The Foundation's endowment consists of 92 individual donor restricted funds which are managed and controlled by the Foundation and were established for scholarships and program support. As required by generally accepted accounting principles, net assets associated with endowment funds are classified and reported based on the existence or absence of donor imposed restrictions. All of the endowment funds held by the Foundation are managed and controlled by the Foundation in accordance with the following policies.

Interpretation of Relevant Law

The Board of Trustees of the Foundation have interpreted the State Prudent Management of Institutional Funds Act ("SPMIFA") as requiring the preservation of the fair value of the original gift as of the gift date of the donor restricted endowment funds absent explicit donor stipulations to the contrary. As a result of this interpretation, the Foundation classifies as permanently restricted net assets: (a) the original value of the gifts donated to the permanent endowment; (b) the original value of subsequent gifts to the permanent endowment; and (c) accumulation to the permanent endowment made in accordance with the direction of the applicable donor gift instrument at the time the accumulation is added to the fund. The remaining portion of the donor restricted endowment fund that is not classified in permanently restricted net asset is classified as temporarily restricted net assets until those amounts are

**Notes to Financial Statements**

June 30, 2015 and 2014

**Note J - Western Oklahoma State College Foundation, Inc. - Continued**Interpretation of Relevant Law - Continued

appropriated for expenditure by the Foundation in the manner consistent with the standard of prudence prescribed by SPMIFA. In accordance with SPMIFA, the Foundation considers the following factors in making a determination to appropriate or accumulate donor restricted endowment funds.

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

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

<b>Endowments</b>	<b>2015</b>			<b>Total</b>
	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Permanently Restricted</u>	
Donor restricted endowments	\$ -	\$ 212,625	\$ 4,764,539	\$ 4,977,164
Board designated endowments	962,976	-	-	962,976
Total funds invested	<u>\$ 962,976</u>	<u>\$ 212,625</u>	<u>\$ 4,764,539</u>	<u>\$ 5,940,140</u>
	<b>2014</b>			
Donor restricted endowments	\$ -	\$ 207,716	\$ 4,655,181	\$ 4,862,897
Board designated endowments	951,485	-	-	951,485
Total funds invested	<u>\$ 951,485</u>	<u>\$ 207,716</u>	<u>\$ 4,655,181</u>	<u>\$ 5,814,382</u>

**Notes to Financial Statements**

June 30, 2015 and 2014

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

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

	Unrestricted Board Designated	Temporarily Restricted	Permanently Restricted	Total
Endowment net assets as of June 30, 2013	\$ 813,084	\$ 279,921	\$ 4,404,815	\$ 5,497,820
Investment return				
Investment income	70,842	57,189	1,806	129,837
Net realized and unrealized gain on investments	35,371	-	-	35,371
Total investment return	106,213	57,189	1,806	165,208
Contributions	32,188	87,486	248,560	368,234
Appropriation of endowment assets for expenditure	-	(216,880)	-	(216,880)
Endowment net assets, as of June 30, 2014	951,485	207,716	4,655,181	5,814,382
Investment return				
Investment income	74,696	89,427	2,932	167,055
Net realized and unrealized gain on investments	(75,570)	-	-	(75,570)
Total investment return	(874)	89,427	2,932	91,485
Contributions	12,365	132,689	106,426	251,480
Appropriation of endowment assets for expenditure	-	(217,207)	-	(217,207)
Endowment net assets, as of June 30, 2015	\$ 962,976	\$ 212,625	\$ 4,764,539	\$ 5,940,140

**Notes to Financial Statements**

June 30, 2015 and 2014

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

Endowment Disclosure - Continued

Funds with Deficiencies

From time to time, the fair value of assets associated with individual donor restricted endowment funds may fall below the level that donor or SPMIFA requires the Foundation to retain as a fund of perpetual duration. In accordance with generally accepted accounting principles, an allowance to adjust invested funds to their fair market value was recorded. At June 30, 2015, the allowance reported represented a decline in the fair market value of invested endowment funds totaling \$62,318, which is also the endowment funding deficiency for the year then ended. At June 30, 2014, the allowance reported represented an increase in the fair market value of invested endowment funds was \$1,488, so no deficiency existed at that time.

Return Objectivities and Risk Parameters

The Foundation has adopted investment and spending policies for endowment assets that attempt to provide a predictable stream of funding to programs supported by its endowments while seeking to maintain the purchasing power of the endowment assets. Endowment assets include those assets of the donor restricted funds that the Foundation must hold in perpetuity or for a donor specified period as well as board designated funds. Under this policy, as approved by the Board of Trustees, the endowment assets are invested with the primary objective of growth and a secondary objective of current income. The asset allocation policies reflect and are consistent with the investment objectives and risk tolerances expressed through the investment policy. These policies, developed after examining the historical relationships of risk and return among asset classes, are designed to provide the highest probability of meeting or exceeding the return objectives at the lowest level of risk. Actual returns in any given year may vary from this amount.

Spending Policy

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

How the Investment Objectives Relate to the Spending Policy

Since the Foundation has a policy of designating unrestricted funds each year for investment, it feels that this policy protects the purchasing power of the endowments. In light of the current market fluctuations and the future needs of the Foundation, it evaluates the spending policy annually to ensure that it remains in accordance with the long term objectives of the Foundation.

**Notes to Financial Statements**

June 30, 2015 and 2014

**Note J - Western Oklahoma State College Foundation, Inc. - Continued**Silver Statues

The Foundation maintains various silver statues. These statues are maintained for public exhibition rather than financial gain. On June 30, 2015 and 2014, these statues had a value of approximately \$85,000. These statues are protected, kept unencumbered, cared for, and preserved.

Contributions and Donations

The following is a breakdown of the contributions and donations received in 2015 and 2014 and their respective categories by restriction:

	<b>As of June 30, 2015</b>			
	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Permanently Restricted</u>	<u>Total</u>
<b>Contributions and Donations</b>				
Endowments	\$ 12,364	\$ 132,689	\$ 106,426	\$ 251,479
Sustaining membership account	6,191	-	-	6,191
Pass-through funds	-	228,616	-	228,616
President's partners	26,214	-	-	26,214
Total contributions and donations	<u>\$ 44,769</u>	<u>\$ 361,305</u>	<u>\$ 106,426</u>	<u>\$ 512,500</u>
	<b>As of June 30, 2014</b>			
	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Permanently Restricted</u>	<u>Total</u>
<b>Contributions and Donations</b>				
Endowments	\$ 10,030	\$ 116,764	\$ 248,560	\$ 375,354
Sustaining membership account	15,940	-	-	15,940
Pass-through funds	-	247,027	-	247,027
President's partners	29,531	-	-	29,531
Total contributions and donations	<u>\$ 55,501</u>	<u>\$ 363,791</u>	<u>\$ 248,560</u>	<u>\$ 667,852</u>

Note Receivable

Effective August 1, 2012, the Foundation loaned Western Oklahoma State College (the "College") \$500,000 as part of a performance-based efficiency contract pursuant to Section 312 of Title 62 of the Oklahoma Statutes for certain campus infrastructure improvements. The borrowing was made at an interest rate of 3% and a term of 8 years, and is paid back in successive annual installments of \$71,228 made August 1 of each year, with the final installment due in 2020. The note receivable is stated at \$385,857 in the statement of financial position for the year ended June 30, 2015, representing a payment of \$13,313 interest and \$57,915 made during the year.

**Required Supplementary Information**

Western Oklahoma State College

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

As of plan year-end of June 30,

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<b>Oklahoma Teachers Retirement System</b>	<u>2015</u>
Center's proportion of the net pension liability	0.1416%
Center's proportionate share of the net pension liability	\$ 7,619,358
Center's covered-employee payroll	\$ 5,487,910
Center's proportionate share of the net pension liability as a percentage of its covered-employee payroll	139%
Plan fiduciary net position as a percentage of the total pension liability	72.43%

\* Note - Only the current fiscal year is presented because 10-year data is not available.

Western Oklahoma State College

**Schedule of Contributions - last 10 fiscal years\***

As of plan year end of June 30,

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<b>Oklahoma Teachers Retirement System</b>	<u>2015</u>
Contractually required contribution	\$ 587,022
Contributions in relation to the contractually required contribution	<u>587,022</u>
Contribution deficiency (excess)	<u><u>\$ -</u></u>
College/University's covered-employee payroll	\$ 5,788,613
Contributions as a percentage of covered-employee payroll	10.14%

\* Note - Only the current fiscal year is presented because 10-year data is not available

## **Internal Control and Compliance Reports**



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

Board of Regents  
Western Oklahoma State College  
Altus, Oklahoma

We have audited in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States, the financial statements and the discretely presented component unit of Western Oklahoma State College (the "College"), a component unit of the State of Oklahoma, as of and for the year ended June 30, 2015, and the remaining related notes to the financial statements, which collectively comprise the College's basic financial statements, and have issued our report thereon dated October 22, 2015. Our report includes a reference to other auditors who audited the financial statements of the Western Oklahoma State College Foundation, Inc. (the "Foundation"), the College's discretely presented component unit, as described in our report on the College's financial statements. The financial statements of the Foundation were not audited in accordance with *Government Auditing Standards*.

**Internal Control Over Financial Reporting**

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

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

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

### **Compliance and Other Matters**

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

### **Purpose of this Report**

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

Tulsa, Oklahoma  
October 22, 2015

*Stanfield & O'Sell P.C.*



**Independent Auditor's Report on Compliance  
With Requirements Applicable to  
Each Major Program and on Internal Control Over Compliance in Accordance  
With OMB Circular A-133**

Board of Regents  
Western Oklahoma State College  
Altus, Oklahoma

**Report on Compliance for Each Major Federal Program**

We have audited Western Oklahoma State College's (the "College") compliance with the types of compliance requirements described in the U.S. Office of Management and Budget (OMB) Circular A-133 *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, 2015. The College's major federal programs are identified in the summary of auditor's results section of the accompanying schedule of findings and questioned costs.

**Management's Responsibility**

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

**Auditor's Responsibility**

Our responsibility is to express an opinion on compliance for each of the College's major federal programs based on our audit of the types of compliance requirements referred to above. We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. Those standards and OMB Circular A-133 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, 2015.

## Report on Internal Control over Compliance

Management of the College is responsible for establishing and maintaining effective internal control over compliance with the types of compliance requirements referred to above. In planning and performing our audit of compliance, we considered the College's internal control over compliance with the types of requirements that could have a direct and material effect on each major federal program as a basis for designing auditing procedures that are appropriate in the circumstances for the purpose of expressing an opinion on compliance for each major federal program and to test and report on internal control over compliance in accordance with OMB Circular A-133, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of the College's internal control over compliance.

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

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

The purpose of this report on internal control over compliance is solely to describe the scope of our testing of internal control over compliance and the results of that testing based on the requirements of OMB Circular A-133. Accordingly, this report is not suitable for any other purpose.

Tulsa, Oklahoma  
October 22, 2015

*Stanfield & O'Sell P.C.*

Western Oklahoma State College

**Schedule of Expenditures of Federal Awards**

For the Year Ended June 30, 2015

Federal Grantor/Pass-through Grantor/ Program Title	Federal CFDA Number	Federal Expenditures
<b>U.S. Department of Education</b>		
Student Financial Aid Cluster		
Federal Pell Grant Program	84.063	\$ 2,120,822
Federal Supplemental Educational Opportunity Grants	84.007	37,700
Federal Work Study Program	84.033	76,202
Federal Direct Student Loan Program	84.268	1,325,849
Total Student Financial Aid Cluster		<u>3,560,573</u>
TRIO Program Cluster		
Upward Bound	84.047	294,307
Student Support Services	84.042A	271,547
Total TRIO Program Cluster		<u>565,854</u>
College Access Challenge Grant Program	84.378A	5,538
Passed through the Oklahoma State Regents for Higher Education:		
OK Gaining Early Awareness and Readiness for Undergraduate Programs (GEAR UP)	84.334	53,927
Passed through the Oklahoma State Department of Education:		
Carl Perkins Program	84.051	26,161
Total U.S. Department of Education		<u>4,212,053</u>
<b>U.S. Department of Health and Human Services</b>		
Passed through the Oklahoma State Regents for Higher Education:		
Temporary Assistance for Needy Families	93.558	124,370
Child Development Associative Initiative	93.596	91,461
Total U.S. Department of Health and Human Services		<u>215,831</u>
<b>U.S. Department of Labor</b>		
Passed through Oklahom City Community College		
Oklahoma Works (TAACCCT)	17.282	53,380
Total U.S. Department of Labor		<u>53,380</u>
<b>U.S. Department of Homeland Security</b>		
Public Assistance Grants	97.036	9,583
Total U.S. Department of Homeland Security		<u>9,583</u>
<b>Total Federal Awards Expended</b>		<u><u>\$ 4,490,847</u></u>

See Notes to Schedule of Expenditures of Federal Awards.

**Notes to Schedule of Expenditures of Federal Awards**

Year Ended June 30, 2015

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**Note A - Summary Of Significant Accounting Policies**

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

**Note B - Federal Direct Student Loan Program**

Under the Federal Direct Student Loan Program (“Direct Loan Program”), the U.S. Department of Education makes loans to enable a student or parent to pay the costs of the student’s attendance at a postsecondary school. The Direct Loan Program enables an eligible student or parent to obtain a loan to pay for the student’s cost of attendance directly from the U.S. Department of Education rather than through private lenders. The College began participation in the Direct Loan Program on July 1, 2010. The College administers the origination and disbursement of the loans to eligible students or parents. The College is not responsible for the collection of these loans.

**Note C - Subrecipients**

During the year ended June 30, 2015, the College did not provide any federal awards to subrecipients.

**Schedule of Findings and Questioned Costs**

For the Year Ended June 30, 2015

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**Section I - Summary of Auditor's Results**

**Financial Statements**

Type of auditors report issued: Unqualified

Internal control over financial reporting:  
Material weakness(es) identified  Yes  No

Significant deficiency(s) identified that are not  
considered to be material weaknesses?  Yes  None reported

Noncompliance material to financial statements noted?  Yes  No

**Federal Awards**

Internal control over major programs:  
Material weakness(es) identified?  Yes  None reported

Significant deficiency(ies) identified that are not  
considered to be material weaknesses?  Yes  No

Type of auditors' report issued on compliance  
for major programs: Unqualified

Any audit findings disclosed that are required to be reported  
in accordance with Section 510(a) of Circular A-133?  Yes  No

Identification of major programs:

<u>Program</u>	<u>CFDA Number</u>
Student Financial Aid Cluster	*
TRIO Program 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 \$300,000

Auditee qualified as low-risk auditee Yes

**Section II - Financial Statement Findings - None**

**Section III - Findings Required to be Reported in Accordance with OMB Circular A-133 - None**

Western Oklahoma State College

**Summary Schedule of Prior Year Audit Findings**

For the Year Ended June 30, 2014

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

None to report for the June 30, 2014 period.

**Section III - Findings Required to be Reported in Accordance with OMB Circular A-133:**

None to report for the June 30, 2014 period.