

Northern Oklahoma College
A Component Unit of the State of Oklahoma
Financial Statements
with Independent Auditors' Reports

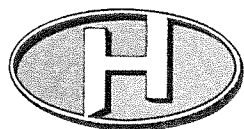
June 30, 2017



Northern Oklahoma College
A Component Unit of the State of Oklahoma
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Independent Auditors' Report

Board of Regents
Northern Oklahoma College
Tonkawa, Oklahoma

Report on the Financial Statements

We have audited the accompanying financial statements of the Northern Oklahoma College, component unit of the State of Oklahoma, as of and for the year ended June 30, 2017, and the related notes to the financial statements, which collectively comprise the Northern Oklahoma College's basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

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

Auditors' Responsibility

Our responsibility is to express opinions on these financial statements based on our audit. We have also audited the financial statements of the discretely presented component unit of Northern Oklahoma College Foundation, Inc., a not-for-profit Oklahoma corporation organized to support the College, as of and for the year ended June 30, 2017. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

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

An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the College and its discretely presented component unit, Northern Oklahoma College Foundation, Inc., as of June 30, 2017, and the respective changes in financial position, and its cash flows thereof for the year then ended in accordance with accounting principles generally accepted in the United States of America.

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Other Matters

Required Supplementary Information

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

Other Information

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

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated October 17, 2017 on our consideration of the Northern Oklahoma College's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the result of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering Northern Oklahoma College's internal control over financial reporting and compliance.

Hatch & Company

Tulsa, Oklahoma
October 17, 2017



Northern Oklahoma College

Management's Discussion and Analysis

June 30, 2017 and 2016

The following discussion and analysis of the financial performance of Northern Oklahoma College (the College) provides an overview of the College's financial activities for the fiscal years ended June 30, 2017 and 2016. The analysis is intended to provide you, the reader, with a summary of significant financial activities and information and should be read in conjunction with the College's financial statements.

Discussion of the Basic Financial Statements

The 2017 and 2016 financial statements were prepared in accordance with Governmental Accounting Standards Board Statements No. 34, *Basic Financial Statements and Management's Discussion and Analysis for State and Local Governments* (GASB 34) and GASB 35, *Basic Financial Statements and Management's Discussion and Analysis for Public Colleges and Universities*. GASB 34 and 35 provides not only for the presentation of management's discussion and analysis but also provides for the following statements.

Statement of net position: This is a financial statement of the College as a whole. It is prepared on the accrual basis of accounting and presents all assets, deferred outflows of resources, liabilities, deferred inflows of resources and net position of the College.

Statement of revenues, expenses and changes in net position: This statement is also prepared on the accrual basis of accounting and presents the overall operations of the College for the years ended June 30, 2017 and 2016.

Statement of cash flows: This statement is presented to provide a summary of how the College generated cash during the current year. This is basically done by taking the statement of revenues, expenses and changes in net position and presenting it on a cash basis. In accordance with GASB 34, the direct method of presentation is used to prepare this statement.

The College is presenting all of its financial statements as a business-type activity and has no "Fund" financial statements, as defined by GASB 34. The statement of net position is similar to a business balance sheet, which presents assets, liabilities and equity. In the College's case, equity is considered net position. The statement of revenues, expenses, and change in net position is equivalent to a business income statement, i.e., the results of operations for the current year. The statement of cash flows is very similar to that being used by businesses, in that it presents the cash activity of the College for the current year.

Northern Oklahoma College
Management's Discussion and Analysis
June 30, 2017 and 2016

Statement of Net Position

The Statement of Net Position presents the financial position of the College at the end of the fiscal year. From the data presented, readers of the statement are able to determine the assets available to continue the operations of the College. They also are able to determine how much the College owes vendors, investors and lending institutions. Finally, the Statement of Net Position provides a picture of the net assets (assets minus liabilities and deferred inflows and outflows) and their availability to pay expenses of the College or as one way to measure the College's financial health or financial position.

Over time, increases and decreases in the College's net position are one indicator of whether its financial health is improving or worsening. You will also need to consider non-financial factors, however such as changes in the College's programs and degrees offered and accreditations status, enrollment levels, in addition to the condition of its physical facilities, to fully assess the overall health of the College.

Condensed Statement of Net Position

	June 30		Increase	Percent
	2017	2016	(Decrease)	Change
Current assets	\$ 28,707,399	\$ 17,523,212	\$ 11,184,187	64%
Noncurrent assets	46,288,074	42,501,619	3,786,455	9%
Total Assets	74,995,473	60,024,831	14,970,642	25%
Deferred Outflows of Resources	10,175,369	2,394,950	7,780,419	325%
Liabilities				
Current liabilities	6,611,042	6,279,316	331,726	5%
Noncurrent liabilities	66,265,393	43,661,350	22,604,043	52%
Total liabilities	72,876,435	49,940,666	22,935,769	46%
Deferred Inflows of Resources	2,066,300	3,514,437	(1,448,137)	-41%
Net assets:				
Investment in capital assets, net of related debt	4,592,581	16,857,987	(12,265,406)	-73%
Restricted for purposes	21,975,294	7,524,818	14,450,476	192%
Unrestricted	(16,339,768)	(15,418,127)	(921,641)	6%
Total net position	\$ 10,228,107	\$ 8,964,678	\$ 1,263,429	14%

Northern Oklahoma College
Management's Discussion and Analysis
June 30, 2017 and 2016

Statement of Net Position (Continued)

During the period July 1, 2016 to June 30, 2017, the College's net position increased by \$1,263,429. A significant increase in current assets of \$11,184,187 and an increase of \$3,786,455 in noncurrent assets resulted in a total increase of \$14,970,642 in total assets. The increase in the current assets resulted primarily from and an increase in other receivables of \$12,898,354 and a decrease in cash or cash equivalents of \$1,211,956. In addition, current assets were impacted by an increase in accounts receivable of \$11,600, a decrease in inventories of \$241,905, and federal grants receivable decrease of \$271,906. The increase in the noncurrent assets resulted from acquisitions of capital assets of \$863,768, construction in progress of \$5,711,601 offset by depreciation expense of \$3,330,318. Deferred Outflows of Resources resulted in an increase of \$7,780,419 in deferred amounts related to pensions of due to the implementation of GASB 68.

Statement of Cash Flows

The Statement of Cash Flows provides additional information about the College's financial results by reporting the major sources and uses of cash. This statement will assist in evaluating the College's ability to generate net cash flows, its ability to meet its obligations as they come due, and its need for external financing. The statement is divided into five sections. The first section deals with operating cash flows and shows the net cash used by the operating activities of the College. The second section reflects cash flows from non-capital financing activities. This section reflects the cash received and spent for non-operating, non-investing, and non-capital financing purposes. The third section reflects cash flows from capital and related financing activities. This section also deals with the cash used for the acquisition and construction of capital and related assets. The fourth reflects the cash flows from investing activities and shows the purchases and proceeds of sales of investments, and interest received from investing activities. The fifth section reconciles the net cash used in operating activities to the operating income or loss reflected on the Statement of Revenues, Expenses and Changes in Net Position.

The following summarizes the College's cash flow for the year ending June 30:

Condensed Statement of Cash Flows

	<u>2017</u>	<u>2016</u>
Cash provided (used) by:		
Operating activities	\$ (16,063,028)	\$ (19,001,498)
Noncapital financing activities	16,154,058	17,578,271
Capital and related financing activities	(1,396,248)	(2,991,128)
Investing activities	<u>93,262</u>	<u>130,994</u>
Net change in cash	(1,211,956)	(4,283,361)
Cash, beginning of the year	<u>11,840,856</u>	<u>16,124,217</u>
Cash, end of year	<u>\$ 10,628,900</u>	<u>\$ 11,840,856</u>

Northern Oklahoma College
Management's Discussion and Analysis
June 30, 2017 and 2016

Statement of Revenues, Expenses and Changes in Net Position

The Statement of Revenues, Expenses and Changes in Net Position presents the revenues earned and the expense incurred during the year. A public college's dependency on state appropriations and gifts will result in operating deficits (losses). The *Governmental Accounting Standards Board* (GASB) requires state appropriations and gifts to be classified as non-operating revenues.

The purpose of this statement is to present the revenues received by the College, both operating and non-operating, and the expenses paid by the institution, operating and non-operating, and any other revenues, expenses, gains and losses received or spent. Operating revenues are generally received for providing goods and services to various customers of the College. Operating expenses are those expenses paid to acquire or produce the goods and services provided in return for the operating revenues, and to carry out the mission of the College. Non-operating revenues are revenues received for which goods and services are not provided. State appropriations are considered neither operating nor non-operating revenues and are reported under "Other Revenues, Expenses, Gains, and Losses."

The following summarizes the College's revenues, expense and changes in net position, for the years ended June 30:

Operating Results

	June 30		Increase	Percent
	2017	2016	(Decrease)	Change
Operating revenues:				
Tuition and fees, net	\$ 11,603,707	\$ 11,595,685	\$ 8,022	0%
Grants and contracts	2,159,293	2,295,158	(135,865)	-6%
Auxiliary	5,721,879	5,380,665	341,214	6%
Other	1,326,069	1,745,136	(419,067)	-24%
Total operating revenues	20,810,948	21,016,644	(205,696)	-1%
Less operating expenses	40,875,844	41,193,920	(318,076)	-1%
Net operating income (loss)	<u>\$ (20,064,896)</u>	<u>\$ (20,177,276)</u>	<u>\$ 112,380</u>	<u>-1%</u>

During the period July 1, 2016 to June 30, 2017, the College's operating expenses decreased by \$318,076, and the total operating revenues decreased \$205,696. The decrease in operating revenues is attributable to a decrease in grants and contracts of \$135,865, a decrease in other of \$419,067, an increase in tuition and fees rates offset by a decline in credit hour production resulting revenue of \$8,022, and an increase in auxiliary services of \$341,214. The decrease in operating expenses is primarily attributable to a decrease in supplies and materials of \$1,336,104, a decrease in financial aid of \$929,601, offset by an increase in contractual services of \$8,876, an increase in compensation of \$1,659,899, and an increase in depreciation of \$667,028.

Northern Oklahoma College
Management's Discussion and Analysis
June 30, 2017 and 2016

Statement of Revenues, Expenses and Changes in Net Position (Continued)

Non-Operating Results

	June 30		Increase	Percent
	2017	2016	(Decrease)	Change
Non-operating revenues				
(expenses):				
State appropriations	\$ 8,461,250	\$ 9,087,285	\$ (626,035)	-7%
On-behalf payments				
(teachers' retirements)	965,682	916,421	49,261	5%
Grants and contracts	7,692,808	8,372,976	(680,168)	-8%
Investment income	93,262	130,994	(37,732)	-29%
Other Revenue	-	118,010	(118,010)	-100%
Interest expense	(1,344,759)	(1,304,972)	(39,787)	3%
Total non-operating revenues	<u>\$ 15,868,243</u>	<u>\$ 17,320,714</u>	<u>\$ (1,452,471)</u>	<u>-8%</u>

During the period July 1, 2016 to June 30, 2017, the College's non-operating revenues and expenses decreased by \$1,452,471. The change is attributable primarily to a decrease in federal and state grants and contracts of \$680,168, a decrease of \$626,035 in the State appropriations the College received during 2017, and an increase in on-behalf payments of \$49,261. Investment income decreased by \$37,732 and other revenue decreased by \$118,010. Interest expense decreased \$39,787.

Net Position Summary

	June 30			Percent
	2017	2016	(Decrease)	Change
Net increase in net position	\$ 1,263,429	\$ 1,660,237	\$ (396,808)	-24%
Net position, beginning of year	<u>8,964,678</u>	<u>8,214,637</u>	<u>750,041</u>	<u>9%</u>
Adjustment to net position	\$ -	\$ (910,196)	910,196	-100%
Net position, beginning of year restated	<u>\$ 8,964,678</u>	<u>\$ 7,304,441</u>	<u>1,660,237</u>	<u>23%</u>
Net position, end of year	<u>\$ 10,228,107</u>	<u>\$ 8,964,678</u>	<u>\$ 1,263,429</u>	<u>14%</u>

Current assets consist primarily of cash and cash equivalents totaling \$10,628,900. Included in cash equivalents are short-term investments that the College makes with the state treasurer. These dollars are invested in short-term repurchase agreements, and the College can use the monies on a daily basis. As such, these are considered cash equivalents.

Northern Oklahoma College
Management's Discussion and Analysis
June 30, 2017 and 2016

Statement of Revenues, Expenses and Changes in Net Position (Continued)

Net Position Summary (Continued)

Also included in current assets is \$808,651 of accounts receivable, \$16,136,660 of other receivables mostly for the Stillwater classroom buildings construction, and \$812,876 due from federal grants. Inventories of \$320,312, which consists primarily of the bookstore, are also included current assets.

Noncurrent assets consist of capital assets (land, buildings, structures, etc.) net of depreciation totaling \$45,746,670 and \$541,404 of other assets. Current liabilities include \$1,894,949 of accounts payable and accrued liabilities, \$194,727 of accrued payroll, \$630,349 of unearned revenue, \$256,561 of deposits held in custody for others, \$368,986 of accrued compensated absences, and \$3,265,470 of amounts due on principal of bonds and capitalized lease obligations in the next 12 months. Noncurrent liabilities consist primarily of capital lease obligations less the current portion of \$38,106,278 and net OTRS pension liability and OPEB obligation of \$28,159,115.

Net position totaled \$10,228,107, with \$4,592,581 as investment in capital assets, i.e., this is property and equipment less bonded indebtedness. There is \$2,244,811 restricted for scholarships and \$19,671,562 restricted for capital projects, along with \$58,921 restricted for loans. Net position for unrestricted is -\$16,339,768 as a result of accounting for the implementation of GASB 68 and the adjustment for pension obligations.

Operating revenues consist primarily of tuition and fees of \$11,603,707 and federal grants and contracts of \$2,159,293. There is also \$5,721,879 included in operating revenues from sales and services of the auxiliary enterprises (i.e., bookstore, dormitories, etc.). Operating expenses are presented in their natural classification, with the largest expense being compensation. Non-operating revenues and expenses consist primarily of state appropriations of \$8,461,250 and on-behalf contributions for OTRS of \$965,682, along with investment income of \$93,262 and interest expense of \$1,344,759. Non-operating revenues also include federal grants and contracts such as Pell and SEOG totaling \$7,692,808. For the year ended June 30, 2017, the College had an increase in net position of \$1,263,429. Included in the increase in net position are \$8,022 increase in tuition and fees, \$419,067 decrease in other sources, \$341,214 increase in auxiliary services, \$135,865 decrease in federal grants and contracts, \$878,986 increase in state appropriations restricted for capital purposes, and a \$318,076 decrease in operating expenses.

Capital Assets

As of June 30, 2017, the College had a net book value of fixed assets of \$45,746,670 compared to \$42,501,619 at June 30, 2016. In the current year, additions to construction in progress, land, improvements, infrastructure and buildings were \$2,816,934, while purchases of machinery and equipment were \$513,384. Depreciation recorded for 2017 and 2016, was \$3,330,318 and \$2,663,290 respectively.

Northern Oklahoma College
Management's Discussion and Analysis
June 30, 2017 and 2016

Capital Financing

The College has nine capital leases outstanding. These obligations include one lease for the purchase of the Enid campus, one lease for the construction of the Wellness Center in Tonkawa, one lease for the Construction of New Residence Halls on the Tonkawa and Enid Campuses, one for Renovation of Residence Halls/Cafeterias on the Tonkawa and Enid Campuses, and one lease associated with the performance contract for energy management, one for the construction of the new classroom building in Stillwater, and one for the renovation of the Cultural Engagement Center in the Vineyard Library-Administration Building. The remaining two leases are associated with the OCIA Bond issue for Wilkin Hall – Phase II Renovation, Nursing and Communications Building, Enid Campus Renovations, Vineyard Library/Administration Renovation and Expansion, and New Classroom Building-Stillwater.

In November 2016, the College entered into a capital lease obligation for the ODFA Master Real Property Lease Series 2016G in the amount of \$15,159,000. Total lease payments over the term of the agreement, beginning December 15, 2016, will be \$20,379,970. Payments will be made monthly ranging from \$43,318 to \$97,350. Proceeds from the obligation will be used for the construction of Stillwater Classroom Building.

In June 2017, the College entered into a capital lease obligation for the ODFA Master Real Property Lease Series 2017A in the amount of \$190,000. Total lease payments over the term of the agreement, beginning July 15, 2017, will be \$197,187. Payments will be made monthly ranging from \$174 to \$10,694. Proceeds from the obligation will be used for the renovation project related to the Native American Serving Nontribal Institutions Program for the Cultural Engagement Center.

In July 2014, the College entered into a capital lease obligation for the ODFA Master Real Property Lease Series 2014D in the amount of \$3,868,000. Total lease payments over the term of the agreement, beginning August 15, 2014 through May 15, 2029, will be \$5,061,127. Payments will be made monthly ranging from \$14,130 to \$14,741. Proceeds from the obligation were used for the construction of residence halls on the Enid and Tonkawa campuses.

On April 24, 2014, the College entered into a capital lease obligation for the ODFA Master Real Property Lease Series 2014C in the amount of \$9,856,000. Total lease payments over the term of the agreement, beginning May 15, 2014 through May 15, 2034, will be \$14,162,748. Payments will be made monthly ranging from \$26,868 to \$29,551. Proceeds from the obligation were used for the construction of dormitories on the Enid and Tonkawa campuses.

Northern Oklahoma College
Management's Discussion and Analysis
June 30, 2017 and 2016

Capital Financing (Continued)

In fiscal year 2006, the Oklahoma Capital Improvement Authority issued State Facilities Revenue Bonds (Higher Education Projects) Series 2005F and 2005G for which the College entered into a lease agreement with OCIA for a portion of these bond proceeds totaling \$14,293,235. The revenue bond projects for Northern Oklahoma College include Wilkin Hall – Phase II Renovation, Nursing and Communications Building, Enid Campus Renovations, Vineyard Library/Administration Renovation and Expansion, and New Classroom Building-Stillwater. 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. 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. This refinancing resulted in an aggregate difference in principal and interest between the original lease agreement and the refinanced lease agreement of \$941,724, which approximates the economic savings of the transaction.

During fiscal 2004, the Oklahoma Development Authority (the Authority) issued The Oklahoma Development Finance Authority Public Facilities Financing program Revenue Refunding Bonds, Series 2004 (Northern Oklahoma College) in the amount of \$3,365,000. The bonds were issued to refinance the outstanding series 1999 Revenue Bonds. The revenue bonds (Oklahoma Development Finance Authority Revenue Bond, Series 1999) were issued by the College to purchase the Phillips University Campus in Enid. During fiscal year 2014, the ODFA master lease revenue funding bonds, Series 2013B; refinanced the outstanding revenue bond balance of \$1,600,000. On January 23, 2014, the College entered into a capital lease obligation for the ODFA Master Real Property Lease Series 2013B in the amount of \$1,036,000, to refund the ODFA Series 2004 Revenue Bonds. Total lease payments over the term of the agreement, beginning February 15, 2014 through May 15, 2018, will be \$1,127,151. Payments will be made monthly ranging from \$21,120 to \$23,901. The net present value of the savings for the refunding of the Series 2004 Revenue Bonds was \$240,972.

The capital lease obligation to the Oklahoma Capitol Improvement Authority (OCIA) originated during the year ended June 30, 2000. Proceeds from the OCIA lease were used to construct the Wellness Center. The Oklahoma State legislature appropriates revenues each year to fund the amount of principal and interest due for that year.

In 2013, the College entered into a capital lease of \$5,153,100 with an interest rate of 2.95% maturing August 2022 to finance the performance contract for energy management improvements on the Tonkawa and Enid campuses.

Additional details concerning the College's capital financing activities can be found in Note 7 to the financial statements.

Northern Oklahoma College
Management's Discussion and Analysis
June 30, 2017 and 2016

**Description of Currently Known Facts, Decisions, or
Conditions that are Expected to have a Significant Effect
on the Financial Position or Results of Operations**

The operating budget for the year July 1, 2017 to June 30, 2018, has been approved, and the estimated amount of state appropriations to be received is \$7,840,100 which reflects a 6.08% decrease in funding for Northern Oklahoma College as compared to the adjusted base for year ended June 30, 2017. The College did implement tuition and mandatory fee increase of 5.5% for the fiscal year ended June 30, 2018 to fund mandatory cost increases and budget priorities. The College continually monitors revenue and expenditures in order to maintain adequate reserve balances to ensure the College's financial viability. The College will continue to monitor the state and national economic conditions as part of our financial decision making process and will strive to develop scenarios to reduce costs and increase operating revenues to protect critical academic programming, while being sensitive to our student needs. Presently, the College does not anticipate any other significant change in operations, nor are there any items pending that could have a significant effect on the financial position or operating results of the College.

Request for Information

This financial report is designed to provide a general overview of the College's finances for all those with an interest. Questions concerning any of the information provided in this report should be addressed to the Vice President of Financial Affairs c/o Northern Oklahoma College, 1220 East Grand, P.O. Box 310, Tonkawa, Oklahoma 74653-0310.

Northern Oklahoma College
A Component Unit of the State of Oklahoma
Statements of Net Position
June 30, 2017

	Northern Oklahoma College	Northern Oklahoma College Foundation
Assets		
Current Assets		
Cash and cash equivalents	\$ 10,628,900	\$ 223,134
Accounts receivable, net of allowance for doubtful accounts	808,651	8,930
Federal grants receivable	812,876	—
Other receivables	16,136,660	—
Inventories	320,312	—
Total Current Assets	<u>28,707,399</u>	<u>232,064</u>
Noncurrent Assets		
Investments	—	9,085,372
Capital assets, net	45,746,670	17,886
Other assets	541,404	6
Total Noncurrent Assets	<u>46,288,074</u>	<u>9,103,264</u>
Total Assets	<u>74,995,473</u>	<u>9,335,328</u>
Deferred Outflows of Resources		
Deferred amounts related to pensions	10,175,369	—
Total Deferred Outflows of Resources	<u>10,175,369</u>	<u>—</u>
Liabilities		
Current Liabilities		
Accounts payable	1,894,949	709
Unearned revenue	630,349	—
Accrued payroll	194,727	—
Accrued compensated absences	368,986	—
Deposits held in custody	256,561	—
Current portion of OCIA capital leases	1,301,308	—
Current portion of ODFA capital leases	1,570,921	—
Current portion of Capital One capital lease	393,241	—
Total Current Liabilities	<u>6,611,042</u>	<u>709</u>
Noncurrent Liabilities, net of current portion		
Capital leases payable to OCIA	7,987,881	—
Capital leases payable to ODFA	26,741,548	—
Capital leases payable to capital one	3,376,849	—
Net OTRS pension liability	27,801,245	—
Net OPEB obligation	357,870	—
Total Noncurrent Liabilities	<u>66,265,393</u>	<u>—</u>
Total Liabilities	<u>72,876,435</u>	<u>—</u>
Deferred Inflows of Resources		
Deferred gain on OCIA lease restructure	323,745	—
Deferred amounts related to pensions	1,742,555	—
Total Deferred Inflows of Resources	<u>2,066,300</u>	<u>—</u>
Net investment in capital assets	4,592,581	—
Restricted for:		
Nonexpendable		
Scholarships and fellowships	—	3,782,560
Expendable		
Debt service	—	—
Capital projects	19,671,562	—
Scholarships	2,244,811	4,453,443
Loans	58,921	—
Unrestricted	<u>(16,339,768)</u>	<u>1,098,616</u>
Total Net Position	<u>\$ 10,228,107</u>	<u>\$ 9,334,619</u>



Northern Oklahoma College
A Component Unit of the State of Oklahoma
Statements of Revenues, Expenses, and Changes in Net Position
June 30, 2017

	Northern Oklahoma College	Northern Oklahoma College Foundation
Operating Revenues		
Tuition and fees, net of scholarship allowances of \$4,420,000	\$ 11,603,707	\$ —
Federal grants and contracts	2,159,293	—
Auxiliary enterprise charges, Net of scholarship allowance of \$2,178,000	5,721,879	—
Other sources	<u>1,326,069</u>	<u>273,262</u>
Total Operating Revenues	<u>20,810,948</u>	<u>273,262</u>
Operating Expenses		
Compensation	20,567,965	—
Contractual services	624,063	—
Supplies and materials	9,514,624	—
Utilities	1,186,685	—
Communications	135,508	—
Other operating expenses	505,256	664,490
Financial aid	5,011,425	249,007
Depreciation expense	<u>3,330,318</u>	<u>—</u>
Total Operating Expenses	<u>40,875,844</u>	<u>913,497</u>
Operating Loss	<u>(20,064,896)</u>	<u>(640,235)</u>
Non-operating Revenues (Expenses)		
State appropriations	8,461,250	—
On-behalf contributions for Teachers' Retirement System	965,682	—
Federal and state grants	7,692,808	—
Investment income	93,262	925,711
Contributions and other nonoperating revenues	—	671,533
Interest expense	<u>(1,344,759)</u>	<u>—</u>
Net Non-Operating Revenues	<u>15,868,243</u>	<u>1,597,244</u>
Income (Loss) Before Other Revenues, Expenses, Gains, Losses and Transfers	(4,196,653)	957,009
State appropriations restricted for capital purposes	3,730,570	—
OCIA on-behalf appropriations	1,729,512	—
Disposal of capital asset	<u>—</u>	<u>—</u>
Change in Net Position	<u>1,263,429</u>	<u>957,009</u>
Net Position, Beginning of Year, as Originally Stated	8,964,678	8,377,610
Net Position, at End of Year	<u>\$ 10,228,107</u>	<u>\$ 9,334,619</u>



Northern Oklahoma College
A Component Unit of the State of Oklahoma
Statement of Cash Flows
Year Ended June 30, 2017

	Northern Oklahoma College
Cash Flows from Operating Activities	
Tuition and fees	\$ 11,541,065
Federal and state grants and contracts	2,431,199
Contributions	—
Auxiliary enterprises charges	5,703,254
Other operating receipts	1,326,069
Payments to employees for salaries and benefits, net on-behalf payments	(18,766,413)
Payments for scholarships	—
Payments to suppliers	(18,298,202)
Net Cash Used in Operating Activities	<u>(16,063,028)</u>
Cash Flows from Non-Capital Financing Activities	
Federal direct loan program receipts	6,720,585
Federal direct loan program disbursements	(6,720,585)
State appropriations	8,461,250
Federal and state grants and contracts	7,692,808
Other non-operating activity	—
Net Cash Provided by Noncapital Financing Activities	<u>16,154,058</u>
Cash Flows from Capital and Related Financing Activities	
Cash paid for capital assets	(5,167,031)
Capital appropriations received	3,730,570
Proceeds from issuance of long term debt	3,025,788
Proceeds from sale of capital asset	—
Principal paid on capital leases and bonds	(1,495,566)
Interest paid on capital debt and leases	(1,490,009)
Net Cash used in capital and related financing activities	<u>(1,396,248)</u>
Cash Flows from Investing Activities	
Purchase of investments	—
Proceeds from sales and maturities of investments	—
Interest received on investments	93,262
Net Cash Provided by Investing Activities	<u>93,262</u>
Net Decrease in Cash and Cash Equivalents	(1,211,956)
Cash and Cash Equivalents, Beginning of Year	<u>11,840,856</u>
Cash and Cash Equivalents, End of Year	<u>\$ 10,628,900</u>



Northern Oklahoma College
A Component Unit of the State of Oklahoma
Statements of Cash Flows
Year Ended June 30, 2017

(Continued)

	<u>Northern Oklahoma College</u>
Reconciliation of Operating Loss to Net Cash Used in Operating Activities	
Operating loss	\$ (20,064,896)
Adjustments to reconcile operating loss to net cash used in operating activities:	
Depreciation expense	3,330,318
Permanently restricted contributions	—
Appreciation on investments	—
State of Oklahoma on-behalf contributions to teachers' retirement system	965,682
Changes in net assets and liabilities:	
Accounts receivables	(11,600)
Other receivables	450,861
Inventories	241,905
Beneficial interest in remainder trust	—
Accounts payable and accrued expenses	(1,606,751)
Unearned revenue	(69,667)
Due to student groups and organizations	(134,750)
Accrued payroll	(17,999)
Compensated absences	(32,699)
Net OPEB obligation	126,668
Net pension liability	9,960,932
Deferred amounts related to pensions	<u>(9,201,032)</u>
Net Cash Used in Operating Activities	<u>\$ (16,063,028)</u>
Noncash Investing, Noncapital Financing and Capital and Related Financing Activities	
Principal and interest on capital debt paid by state agency on behalf of the College	<u>\$ 1,729,512</u>
Reconciliation of Cash and Cash Equivalents to statement of net Assets	
Current assets	
Cash and cash equivalents	\$ 10,628,900
Restricted cash and cash equivalents	—
Noncurrent assets	
Restricted cash and cash equivalents	<u>\$ 10,628,900</u>



Northern Oklahoma College
A Component Unit of the State of Oklahoma
Statement of Net Position
Fiduciary Funds
June 30, 2017

	<u>2017</u>
Assets	
Cash	\$ 305,852
Total Assets	<u>305,852</u>
Liabilities	
Due to Others	305,852
Total Liabilities	<u>305,852</u>
Total Liabilities	<u>\$ 305,852</u>



Northern Oklahoma College
A Component Unit of the State of Oklahoma
Notes to Financial Statements
June 30, 2017

Note 1: Summary of Significant Accounting Policies

Nature of Operations

Northern Oklahoma College (the "College") is a two-year, state supported college operating under the jurisdiction of the Board of Regents of Northern Oklahoma College (the Board of Regents) and the Oklahoma State Regents for Higher Education. The College is a component unit of the State of Oklahoma and is included in the general-purpose financial statements of the State of Oklahoma. The College has three campuses located in Tonkawa, Enid and Stillwater.

Reporting Entity

The Northern Oklahoma 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 incomes 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.

The Foundation is a nonprofit organization that reports under Financial Accounting Standards Board (FASB) standards, including FASB Statement No. 117, *Financial Reporting for Not-for-Profit Organizations*. As such, certain revenue recognition criteria and presentation features are different from GASB revenue recognition criteria and presentation features. No modifications have been made to the Foundation's financial information in the College's financial reporting entity for these differences.

Although the College is the exclusive beneficiary of the Foundation, the Foundation is independent of the College in all respects. The Foundation is not a subsidiary or affiliate of the College and is not directly or indirectly controlled by the College. Moreover, the assets of the Foundation are the exclusive property of the Foundation and do not belong to the College. The College is not accountable for, and does not have ownership of, any of the financial and capital resources of the Foundation. The College does not have the power or authorities to mortgage, pledge, or encumber the assets of the Foundation. The Board of Directors of the Foundation is entitled to make all decisions regarding the business and affairs of the Foundation, including, without limitation, distributions made to the College. Third parties dealing with the College should not rely upon the financial statements of the Foundation for any purpose without consideration of all of the foregoing conditions and limitations.

Separate financial statements of the Foundation can be requested by contacting the Foundation's controller at (580)628-6237.



Northern Oklahoma College
A Component Unit of the State of Oklahoma
Notes to Financial Statements
June 30, 2017

Note 1: Summary of Significant Accounting Policies (Continued)

Fiduciary Funds

Fiduciary Funds are used to report assets held in a trustee or agency capacity for third parties and therefore are not available to support College programs. The reporting focus is upon net position and changes in net position and employs accounting principles similar to proprietary funds.

Agency Funds are used to report resources held by the College in a purely custodial capacity (assets equal liabilities). Agency fund assets and liabilities are recognized using the accrual basis of accounting. The college has one agency fund for the Oklahoma Higher Education Employee Interlocal Group.

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

Cash Equivalents

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



Northern Oklahoma College
A Component Unit of the State of Oklahoma
Notes to Financial Statements
June 30, 2017

Note 1: Summary of Significant Accounting Policies (Continued)

Deposits and Investment

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

Inventories

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

Accounts Receivable and Other Receivables

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

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

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

Restricted Cash and Investments

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



Northern Oklahoma College
A Component Unit of the State of Oklahoma
Notes to Financial Statements
June 30, 2017

Note 1: Summary of Significant Accounting Policies (Continued)

Unearned Revenues

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

Capital assets

Capital assets are recorded at cost on the date of the acquisition or fair value if acquired by gift. For equipment, the College's capitalization policy includes all items with a unit cost of \$5,000 or more, and an estimated useful life of greater than one year. Renovations to buildings, infrastructure and land improvements that significantly increase the value or extend the useful life of the structure are capitalized. Routine repairs and maintenance are charged to operating expense in the year in which the expense was incurred. Depreciation is computed using the straight-line method over the estimated useful life of each asset.

The following estimated useful lives are being used by the College:

Land improvements	5-20 years
Buildings and improvements	up to 40 years
Furniture, fixtures and equipment	5-10 years
Infrastructure	5-20 years

Leasehold Improvements made pursuant to property with one-year lease agreements are capitalized for control purposes and amortized over a one-year period.

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

Compensated Absences

Employees of the College earn accrued vacation or leave at the rate of 8 to 12 hours per month, depending on the length of employment. The liability for and expense incurred are recorded at year-end as accrued compensated absences in the statement of net position, and as a component of compensation and benefit expense in the statement of revenues, expenses and changes in net position.

Noncurrent Liabilities

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



Northern Oklahoma College
A Component Unit of the State of Oklahoma
Notes to Financial Statements
June 30, 2017

Note 1: Summary of Significant Accounting Policies (Continued)

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. The significant estimates used in the preparation these financial statements include the depreciation of capital assets and the allowance for doubtful accounts for accounts receivable.

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.

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

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

Income Taxes

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



Northern Oklahoma College
A Component Unit of the State of Oklahoma
Notes to Financial Statements
June 30, 2017

Note 1: Summary of Significant Accounting Policies (Continued)

Classification of Revenues

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

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

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

Scholarship Discounts and Allowances

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

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.



Northern Oklahoma College
A Component Unit of the State of Oklahoma
Notes to Financial Statements
June 30, 2017

Note 2: Deposits and Investments

Custodial Credit Risk – Deposits

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

Of the \$11,302,319 in cash and cash equivalents on deposit with the State Treasurer as of June 30, 2017, \$301,577 represents amounts held in an agency fund. Of the amount on deposit with the State Treasurer, \$6,159,565 represents amounts held within *OK INVEST*, an internal investment pool. Agencies and funds that are considered to be part of the State's reporting entity in the State's Comprehensive Annual Financial Report are allowed to participate in *OK INVEST*. Oklahoma statutes and the State Treasurer establish the primary objectives and guidelines governing the investment of funds in *OK INVEST*. Safety, liquidity, and return on investment are the objectives that establish the framework for the day to day *OK INVEST* management with an emphasis on safety of the capital and the probable income to be derived and meeting the State's daily cash flow requirements. Guidelines in the State Treasurer's Investment Policy address credit quality requirements, diversification percentages and the types and maturities of allowable investments. The specifics regarding these policies can be found on the State Treasurer's website at <http://www.ok.gov/treasurer/>. An evaluation of the use and purpose of the Departments participation in the internal investment pool the amount on deposit with *OK INVEST* are treated as demand accounts and reported as cash equivalents.

Investments: *Investment credit risk* is the risk that an issuer or other counterparty to an investment will not fulfill its obligations. Generally, the College's investments are managed by the State Treasurer. In accordance with state statutes the State Treasurer may only purchase and invest in (a) obligations of the United States government, its agencies and instrumentalities; (b) prime banker's acceptances; (c) investment grade obligations of state and local governments; (d) money market funds; (e) collateralized or insured certificates of deposits; (f) negotiable certificates of deposits; (g) prime commercial paper; and (h) repurchase agreements. *Interest rate risk* is the risk that changes in interest rates will adversely affect the fair value of an investment. Investments that are held for longer periods of time are subject to increased risk of adverse interest changes.



Northern Oklahoma College
A Component Unit of the State of Oklahoma
Notes to Financial Statements
June 30, 2017

Note 2: Deposits and Investments (Continued)

Neither the College nor state statutes limit investment maturities as a means of managing exposure to fair value losses arising from increasing interest rates; however, the OST Investment Policy limits the average maturity on its portfolio to four (4) years, with certain individual securities having more restrictive limits as defined in the policy. *Concentration of credit risk* is the risk of loss attributed to the magnitude of the College's investment in a single issuer. Neither the College's investment policy nor state statutes place limits on amounts that can be invested in any one issuer; however, the OST Investment Policy states that, with the exception of U.S. Treasury securities, no more than 50% of the State's total funds may be invested in a single security type or with a single financial institution, with diversification percentages being more restrictive on individual securities. *Custodial credit risk* for investments is the risk that, in the event of failure of the counterparty, the College will not be able to recover the value of its investments or collateral securities in the possession of an outside party.

As of June 30, 2017 none of the College's cash and cash equivalents qualified as investments.

Note 3: Accounts Receivable

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

	2017
Student tuition and fees	\$ 6,084,476
Less: Allowance for doubtful accounts	(5,275,825)
Net accounts receivable	<u>\$ 808,651</u>

Note 4: Other Receivables

Other receivables consist of the following at June 30, 2017:

	2017
Due from State Agencies (ODFA)	\$ 15,854,997
Loans receivable	273,271
Other receivables	8,392
Total other receivables	<u>\$ 16,136,660</u>



Northern Oklahoma College
A Component Unit of the State of Oklahoma
Notes to Financial Statements
June 30, 2017

Note 4: Other Receivables (Continued)

Loans Receivables

Student loans made through Federal Perkins Loans Program (the Program) comprise a portion of the loans receivable at June 30, 2017. There were no federal or institutional contributions to the Program during 2017.

As the College determines loans are uncollectible and not eligible for reimbursement by the federal government, the loans are written off and assigned to the U.S. Department of Education. The College has provided an allowance for uncollectible loans, which in management's opinion, is sufficient to absorb loans, which will ultimately be written off. The allowance for uncollectible loans was approximately \$203,000, at June 30, 2016, which represents 100% of the loan receivable balance, resulting in a net carrying amount of \$-0- at June 30, 2017.

Note 5: Capital Assets

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

	Beginning Balances	Increases	Retirements	Transfers	Ending Balance
Capital Assets not being depreciated:					
Land	\$ 1,377,541	\$ -	\$ -	\$ -	\$ 1,377,541
Construction in Progress	14,143,645	5,711,601	-	(13,667,199)	6,188,047
Total Capital Assets not being depreciated	15,521,186	5,711,601	-	(13,667,199)	7,565,588
Capital Assets being depreciated:					
Land Improvements	1,844,801	18,962	-	-	1,863,763
Infrastructure	2,423,457	-	-	-	2,423,457
Buildings and Building Improvements	59,826,554	581,886	-	13,667,199	74,075,639
Machinery & Equipment	16,796,245	262,921	-	-	17,059,166
Leasehold Improvements	217,875	-	-	-	217,875
Total Capital Assets being depreciated:	81,108,932	863,769	-	13,667,199	95,639,900
Less Accumulated Depreciation for:					
Land Improvements	923,262	72,349	-	-	995,611
Infrastructure	1,676,141	124,883	-	-	1,801,024
Buildings and Building Improvements	36,130,601	2,619,702	-	-	38,750,303
Machinery & Equipment	15,180,621	513,384	-	-	15,694,005
Leasehold Improvements	217,875	-	-	-	217,875
Total Accumulated Depreciation, net	\$ 54,128,500	\$ 3,330,318	\$ -	\$ -	\$ 57,458,818
Total Capital Assets being depreciated, net	\$ 26,980,432	\$ (2,466,549)	\$ -	\$ 13,667,199	\$ 38,181,082
Capital Assets, net	\$ 42,501,618	\$ 3,245,052	\$ -	\$ -	\$ 45,746,670

Construction in progress primarily relates to construction and building renovation projects which include a new classroom building in Stillwater and renovations on the Tonkawa campus. The projects are funded through capital project funds.



Northern Oklahoma College
A Component Unit of the State of Oklahoma
Notes to Financial Statements
June 30, 2017

Note 6: Funds Held in Trust by Others

The College has a beneficial interest in the "Section Thirteen Fund State Educational Institutions" and the "New College Fund," administered by the Commissioners of the Land Office, as trustees for the various educational institutions entitled thereto.

The College has the right to receive annually approximately 3.33% of the distributions of income produced by "Section Thirteen Fund State Education Institutions" assets and 100% of the distributions of income produced by the Northern Oklahoma College "New College Fund."

The College received \$3,730,570, during the year ended June 30, 2017, which is restricted to the construction or acquisition of buildings, equipment, or other capital items. These amounts are recorded as state appropriations restricted for capital purposes. State law prohibits the distribution of any corpus of these funds to the beneficiaries. The total trust reserve (market value) for the College held in the trust by the Commissioners of the Land Office was \$57,363,507, at June 30, 2017.

The College has pledged future revenues from the "Section Thirteen Fund State Educational Institutions" and the "New College Fund" as repayment on the master leases.

Note 7: Long-Term Liabilities

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

	Balance at June 30, 2016	Additions	Reductions	Balance at June 30, 2017	Amounts Due Within One Year
Capital Leases:					
2013B ODFA Master Lease	469,750	-	(243,334)	226,416	226,417
2014C ODFA Master Lease	9,127,000	-	(373,334)	8,753,666	388,667
2014D ODFA Master Lease	3,460,000	-	(216,501)	3,243,499	222,667
2016G ODFA Master Lease	-	15,159,000	(298,081)	14,860,919	541,333
2017A ODFA Master Lease	-	190,000	-	190,000	119,250
2010A OCIA Capital Lease	3,301,204	-	(738,346)	2,562,858	1,267,524
2014A OCIA Capital Lease	7,135,816	-	(478,394)	6,657,422	-
2014B OCIA Capital Lease	101,390	-	(32,481)	68,909	33,784
2013 Capital One Capital Lease	4,134,406	-	(364,316)	3,770,090	393,241
Premiums on Leases	340,485	754,097	(56,613)	1,037,969	72,587
Total Capital Leases	28,070,051	16,103,097	(2,801,400)	41,371,748	3,265,470
Other Liabilities					
Accrued Compensated Absences	401,685	368,986	(401,685)	368,986	368,986
Total Other Liabilities	401,685	368,986	(401,685)	368,986	368,986
Total Long Term Liabilities	28,471,736	16,472,083	(3,203,085)	41,740,734	3,634,456



Northern Oklahoma College
A Component Unit of the State of Oklahoma
Notes to Financial Statements
June 30, 2017

Note 7: Long-Term Liabilities (Continued)

Additional information regarding capital lease obligations is included in the note on Lease Commitments below.

Lease Commitments

The lease payable consists of bonds issued by the Oklahoma Capital Improvement Authority (OCIA) to build, improve and remodel facilities at various higher education and other institutions in Oklahoma. Funds are received from OCIA as needed to fund construction projects. The College's pro rata share of bonds has been recorded as a lease payable.

Oklahoma Capital Improvement Authority – 2004A and 2014B

In 2014, the College's 2004A lease agreement with OCIA was refunded by Series 2014B, with OCIA. As a result, the total liability of the remaining 2004A bonds refunded by the 2014B bonds. 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.

The College's property under the refunded OCIA capital lease is summarized as follows:

	<u>Buildings</u>
Cost	\$ 719,514
Less: Accumulated depreciation	<u>(632,165)</u>
	<u>\$ 87,349</u>

The scheduled principal and interest payments related to the lease are as follows:

<u>Year ending June 30</u>	<u>Principal</u>	<u>Interest</u>	<u>Total Lease Payments</u>
2018	\$ 33,784	\$ 2,992	\$ 36,776
2019	<u>35,125</u>	<u>1,625</u>	<u>36,750</u>
	<u>\$ 68,909</u>	<u>\$ 4,617</u>	<u>\$ 73,526</u>



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Note 7: Long-Term Liabilities (Continued)

Lease Commitments (Continued)

Oklahoma Capital Improvement Authority – Series 2010 A, and 2014 A&B

The 2006 legislative session authorized the issuance of OCIA Bond Issue 2005F and 2005G, for which the College entered into a lease agreement with OCIA for a portion of these bond proceeds with varying terms of repayment.

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 was automatically restructured to secure the new bond issues. This lease restructuring had extended certain principal payments into the future.

In April 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. 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.

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

Buildings, cost	\$ 14,425,126
Infrastructure, cost	803,516
Equipment, cost	14,500
Less: Accumulated depreciation	(6,466,866)
	<u>\$ 8,776,276</u>



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Note 7: Long-Term Liabilities (Continued)

Lease Commitments (Continued)

The scheduled principal and interest payments related to the OCIA capital lease are as follows:

Year ending June 30	Principal	Interest	Total Lease Payments
2018	\$ 1,301,309	\$ 438,903	\$ 1,740,212
2019	1,345,371	378,909	1,724,280
2020	8,061	316,149	324,210
2021	—	315,987	315,987
2022	—	315,987	315,987
2023-2027	3,358,636	1,275,274	4,633,910
2028-2032	3,275,812	408,519	3,684,331
	<u>\$ 9,289,189</u>	<u>\$ 3,449,728</u>	<u>\$ 12,738,917</u>

Oklahoma Development Finance Authority

In January 2014, the College entered into a capital lease obligation for the ODFA Master Real Property Lease Series 2013B in the amount of \$1,036,000, to refund the ODFA Series 2004 Revenue Bonds. Total lease payments over the term of the agreement, beginning February 15, 2014 through May 15, 2018, will be \$1,127,151. Payments will be made monthly ranging from \$21,120 to \$23,901.

In April 2014, the College entered into a capital lease obligation for the ODFA Master Real Property Lease Series 2014C in the amount of \$9,856,000. Total lease payments over the term of the agreement, beginning May 15, 2014 through May 15, 2034, will be \$14,162,748. Payments will be made monthly ranging from \$26,868 to \$29,551. Proceeds from the obligation will be used for the construction of dormitories on the Enid and Tonkawa campuses.

In July 2014, the College entered into a capital lease obligation for the ODFA Master Real Property Lease Series 2014D in the amount of \$3,868,000. Total lease payments over the term of the agreement, beginning August 15, 2014 through May 15, 2029, will be \$5,061,127. Payments will be made monthly ranging from \$14,130 to \$14,741. Proceeds from the obligation will be used for the construction of dormitories on the Enid and Tonkawa campuses.

In November 2016, the College entered into a capital lease obligation for the ODFA Master Real Property Lease Series 2016G in the amount of \$15,159,000. Total lease payments over the term of the agreement, beginning December 15, 2016, will be \$20,379,970. Payments will be made monthly ranging from 43,318 to 97,350. Proceeds from the obligation will be used for the construction of Stillwater Classroom Building.



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Note 7: Long-Term Liabilities (Continued)

Lease Commitments (Continued)

In June 2017, the College entered into a capital lease obligation for the ODFA Master Real Property Lease Series 2017A in the amount of \$190,000. Total lease payments over the term of the agreement, beginning July 15, 2017, will be \$197,187. Payments will be made monthly ranging from \$174 to \$10,694. Proceeds from the obligation will be used for the renovation project related to the Native American Serving Nontribal Institutions Program.

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

Construction in Progress	\$ 1,720,166
Buildings	12,125,812
Less: Accumulated depreciation	(606,291)
	<u>\$ 13,239,687</u>

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

Year ending June 30	Principal	Interest	Total Lease Payments
2018	\$ 1,498,333	\$ 440,294	\$ 1,938,627
2019	1,265,500	948,484	2,213,984
2020	1,223,583	878,852	2,102,435
2021	1,255,750	839,705	2,095,455
2022	1,309,167	787,903	2,097,070
2023-2027	7,406,250	3,097,197	10,503,447
2028-2032	7,751,417	1,706,928	9,458,345
2033-2042	5,564,500	459,379	6,023,879
	<u>\$ 27,274,500</u>	<u>\$ 9,158,742</u>	<u>\$ 36,433,242</u>

2013 Capital One – Energy Savings Improvements Capital Lease

The College's lease agreement with Green Campus Partners, LLC is for financing of the performance contract for energy management improvements on the Tonkawa and Enid campuses. The lease was issued in May 2013 for an amount of \$5,153,100 with an interest rate of 2.95% maturing August 2022. The lease was then assigned to Capital One in 2013.



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Note 7: Long-Term Liabilities (Continued)

Lease Commitments (Continued)

The scheduled principal and interest payments related to the capital lease are as follows:

Year ending June 30	Principal	Interest	Total Lease Payments
2018	\$ 393,242	\$ 106,918	\$ 500,160
2019	400,618	95,188	495,806
2020	416,870	83,239	500,109
2021-2025	2,423,112	215,005	2,638,117
2026	136,248	1,005	137,253
	\$ 3,770,090	\$ 501,355	\$ 4,271,445

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

	Buildings
Cost	\$ 5,116,919
Less: Accumulated depreciation	(1,912,860)
	\$ 3,204,059

Operating Lease

In 2011, the College entered into an agreement to lease office space (Fountain Square in Stillwater) for \$6,278 per month. The related rental expense was approximately \$75,000, for the year ended June 30, 2017. Future minimum lease payments are approximately \$75,000, annually for 2018.

Note 8: Retirement Plans

Oklahoma Teachers' Retirement System (OTRS)

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



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

Oklahoma Teachers' Retirement System (OTRS) (Continued)

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.
- 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 Blue Cross Blue Shield depending on the members' years of service during 2017.



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Note 8: Retirement Plans (Continued)

Oklahoma Teachers' Retirement System (OTRS) (Continued)

Contributions - The contributions requirements of the Plan are at an established rate determine by Oklahoma Statute, amended by the Oklahoma Legislature, and are not based on actuarial calculations. Employees are required to contribute 7% 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 \$1,403,476. The State of Oklahoma also made on-behalf contributions to OTRS, of which \$965,682 was recognized by the College; these on-behalf payments did not meet the criteria of a special funding situation.

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

At June 30, 2017, the College reported a liability of \$27,801,245 for its proportionate share of the net pension liability. The net pension liability was measured as of June 30, 2016, and the total pension liability used to calculate the net pension liability was determined by an actuarial valuation as of June 30, 2016. The College's proportion of the net pension liability was based on the College's contributions received by the pension plan relative to the total contributions received by pension plan for all participating employers as of June 30, 2016. Based upon this information, the College's proportion was .3331 percent.

For the year ended June 30, 2017, the College recognized pension expense of \$3,129,028. At June 30, 2017, the College reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

	Deferred Outflows of Resources	Deferred Inflows of Resources
Differences between expected and actual experience	\$ -	\$ 645,430
Changes of assumptions	3,347,661	-
Net difference between projected and actual earnings on pension plan investments	3,245,410	-
Changes in College's proportionate share of contributions	2,077,423	1,088,928
Differences between College contributions and proportionate share of contributions	101,399	8,197
College contributions subsequent to the measurement date	1,403,476	-
Total	<u>\$ 10,175,369</u>	<u>\$ 1,742,555</u>



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Notes to Financial Statements
June 30, 2017

Note 8: Retirement Plans (Continued)

Oklahoma Teachers' Retirement System (OTRS) (Continued)

The amount of \$1,403,476 reported as deferred outflows of resources related to pensions resulting from College contributions subsequent to the measurement date will be recognized as a reduction of the net pension liability in the year ended June 30, 2018. Other amounts reported as deferred outflows of resources and deferred inflows of resources related to pensions will be recognized in pension expense as follows:

Year ended June 30:

2018	\$	1,159,763
2019		1,159,763
2020		2,244,105
2021		1,811,701
2022		654,006
Total	\$	<u>7,029,338</u>

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

- Actuarial Cost Method - Entry Age
- Amortization Method - Level Percentage of Payroll
- Inflation - 2.50%
- Salary Increases - Composed of 3.25% inflation, including 2.50% price inflation, plus a service-related component ranging from 0.00% to 8% based on years of service.
- Investment Rate of Return – 7.50%
- Retirement Age - Experience-based table of rates based on age, service, and gender. Adopted by the Board in May 2015 in conjunction with the five-year experience study for the period ending June 30, 2014.
- Mortality Rates after Retirement – Males: RP-2000 Combined Mortality Table for males with White Collar Adjustments. Generational mortality improvements in accordance with Scale BB from table's base year of 2000. Females: GRS Southwest Region Teacher Mortality Table, scaled at 105%. Generational mortality improvements in accordance with Scale BB from the table's base year of 2012.
- Mortality Rates for Active Members – RP – 2000 Employer Mortality tables, with male rates multiplied by 60% and female rates multiplied by 50%.



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Note 8: Retirement Plans (Continued)

Oklahoma Teachers' Retirement System (OTRS) (Continued)

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

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

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

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

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

	1% Decrease (6.5%)	Current Discount Rate (7.5%)	1% Increase (8.5%)
Employers' net pension liability	\$ 36,542,661	\$ 27,801,245	\$ 20,690,351



Northern Oklahoma College
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Notes to Financial Statements
June 30, 2017

Note 8: Retirement Plans (Continued)

Oklahoma Teachers' Retirement System (OTRS) (Continued)

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

Note 9: Post-Employment Benefits

Plan Description: The College covers, through a single-employer plan, the cost of health and dental insurance premiums for retired employees until the age of 65. A retiring employee whom has received full retirement benefits under the current regulations of Oklahoma Teacher Retirement System receive 100% of health and dental premiums paid by the College. A retirement employee who chooses to exercise the personal early retirement option at age 58 or older may request health and dental be continued with the College covering 50% of the premiums. The College's Board of Regents has the authority to modify or change plan benefits and contributions. The plan does not have a separate, audited financial report prepared.

Funding Policy: The Plan is unfunded and benefits are on a "pay-as-you-go" basis. The College funds 100% of the retirees' premium, with funding from current operations and a monthly allowance from the Teachers' Retirement System of Oklahoma.

Annual OPEB cost and net OPEB obligation: The College's annual other postemployment benefit (OPEB) cost (expense) is calculated based on the annual required contribution of the employer (ARC), an amount actuarially determined in accordance with the parameters of GASB Statement 45. The ARC represents a level of funding that, if paid on an ongoing basis, is projected to cover normal cost each year and amortize any unfunded actuarial liabilities (or funding excess) over a period not to exceed thirty years. The following table shows the components of the College's annual OPEB cost the amount actually contributed to the plan, and changes in the College's net OPEB obligation for the year ended June 30, 2017:

Annual required contribution	\$ 88,845
Interest on net OPEB obligation	2,710
Adjustment to annual required contribution	<u>75,730</u>
Annual OPEB cost (expense)	167,285
Contributions made	<u>40,617</u>
Increase in net OPEB obligation	(126,668)
Net OPEB obligation, beginning of year	<u>(231,202)</u>
Net OPEB obligation, end of year	<u>\$ (357,870)</u>



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Note 9: Post-Employment Benefits (Continued)

The College's annual OPEB cost, the percentage of annual OPEB cost contributed to the plan, and the net OPEB obligation for 2017 was as follows:

Year Ended June 30	Annual OPEB Cost	% of Annual OPEB Cost Contributed	Net OPEB Obligation
2015	\$ 155,697	28%	\$ 111,483
2016	159,285	25%	231,202
2017	167,286	24%	357,870

Funded Status and Funding Progress: The funded status of the plan as of June 30, 2017 was as follows:

	2017
Actuarial accrued liability (AAL)	\$ 1,351,382
Actuarial value of plan assets	-
Unfunded actuarial accrued liability (UAAL)	<u>\$ 1,351,382</u>
Funded ratio (actuarial value of plan assets/AAL)	0.0%
Covered payroll (active plan members)	\$ 14,796,716
UAAL as a percentage of covered payroll	9%

Actuarial valuations of an ongoing plan involve estimates of the value of reported amounts and assumptions about the probability of occurrence of events far into the future. Examples include assumptions about future employment, mortality, and the healthcare cost trend. Amounts determined regarding the funded status of the plan and the annual required contributions of the employer are subject to continual revision as actual results are compared with past expectations and new estimates are made about the future. The schedule of funding progress, presented as required supplementary information following the notes to the financial statements, presents multiyear trend information about whether the actuarial value of plan assets is increasing or decreasing over time relative to the actuarial accrued liabilities for benefits.

Actuarial Methods and Assumptions: Projections of benefits for financial reporting purposes are based on the substantive plan (the plan as understood by the employer and the plan members) and include the types of benefits provided at the time of each valuation and the historical pattern of sharing of benefit costs between the employer and plan members to that point. The actuarial methods and assumptions used include techniques that are designed to reduce the effects of short-term volatility in actuarial accrued liabilities and the actuarial value of assets, consistent with the long-term perspective of the calculations.

In the June 30, 2017, actuarial valuation, the projected unit credit cost method was used. The actuarial assumptions included (a) discount rate of 3.05% per year compounded annually, (b) retirement at the earlier of (1) attainment of age 63, (2) RP-2000 mortality table projected to 2020, and (c) an annual healthcare cost trend rate of 7.0% annually. The college elected to have actuarial valuations performed biannually.



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Note 10: Related Party Transactions

In the year ended June 30, 2017, the College entered into an Exchange of Services Agreement with Northern Oklahoma College Foundation, Inc. (the Foundation). The Exchange of Service Agreement defines and memorializes the terms agreed upon by the parties for the exchange of services not otherwise covered by separate, specific contractual agreements between the parties.

For substantially all scholarships awarded by the Foundation, amounts are remitted to the College. Subsequently, the College makes payments directly to the award recipients. Such amounts approximated \$249,000, in 2017.

Note 11: Subsequent Events

The College has evaluated subsequent events through October 17, 2017, which is the date that the financial statements were available to be issued. There are no subsequent events requiring recognition or disclosure in the October 17, 2017 financial statements.

Note 12: Risk Management

The College is exposed to various risks of loss from torts; theft of, damage to and destruction of assets; business interruptions; errors and 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, public entity risk pools currently operating as a common risk management and insurance program for its members. The College pays an annual premium to the pools for its torts, property and worker's compensation insurance coverage. The Oklahoma Risk Management Pool's governing agreement specifies that the Pool will be self-sustaining through member premiums and will reinsure through commercial carriers for claims in excess of specified stop-loss amounts.



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Note 12: Risk Management (Continued)

The College also began participating, during fiscal year 2017, in the Oklahoma Higher Education Employee Interlocal Group Health Insurance Pool "OKHEEI". College employees have health insurance coverage through OKHEEI. OKHEEI is an Interlocal Cooperative Act Agency organized as a public entity risk pool health insurance program for participating College and Universities in the State. The College pays monthly health insurance premiums to OKHEEI for employee health insurance coverage based on the health coverage elected by the employee and the maximum benefit provide by the College for health coverage. Amounts of premiums exceeding benefits are payable by the employee. The governing agreement for OKHEEI specifies that the pool will be self-sustaining through premiums received and with additional stop-loss coverages obtained. If health care claims exceed reserves and reinsurance coverages, additional assessments may be made to participating Colleges & Universities. As of June 30, 2017 additional assessments are not probable.

Note 13: Commitments and Contingencies

Federal Programs: The College conducts certain programs pursuant to various grants and contracts which are subject to audit by federal and state agencies. Costs questioned as a result of these audits, if any, may result in refunds to these government agencies from various sources of the College.

In July 2010, the College began participating in the Federal Direct Student Loan Program (Direct Lending Program) that replaced the FFEL Program. The Direct Lending Program requires the College to draw down cash from the U.S. Department of Education, as well as perform certain administrative functions under the Direct Lending Program. Failure to perform such functions may require the College to reimburse the U.S. Department of Education. For the year ended June 30, 2017, approximately \$6,721,000, of Direct Lending Program loans were provided to College students.

Grant from Enid Economic Development Authority: In June 1999, the College received assistance from the Enid Economic Development Authority (the "Authority") to accomplish the purchase of the Phillips College Campus in Enid. The assistance from the Authority is conditional. The College is required to utilize the facilities primarily for higher education to benefit the Enid area and is restricted from selling the campus. If the campus is sold, the College must repay the full amount of the assistance received, \$1,906,250, back to the Authority. A portion of the assets may be sold if proceeds are used for maintenance or improvement of facilities or used to fund academic programs or scholarships.



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Note 14: New Accounting Standards Issued not yet Adopted

New Accounting Pronouncements Issued Not Yet Adopted: The GASB has also issued several new accounting pronouncements which will be effective to the College in subsequent years. A description of the new accounting pronouncements, the fiscal year in which they are effective, and the College's consideration of the impact of these pronouncements are described below:

- *GASB Statement No. 75, Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions*

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

- *GASB Statement No. 81, Irrevocable Split-Interest Agreements*

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

- *GASB Statement No. 83, Certain Asset Retirement Obligations*

GASB No. 83 was issued December 2016, under this statement a government that has legal obligations to perform future asset retirement activities related to its tangible capital assets is required to recognize a liability and a corresponding deferred outflow of resources. The Statement identifies the circumstances that trigger the recognition of these transactions. The Statement also requires the measurement of an asset retirement obligation to be based on the best estimate of the current value of outlays expected to be incurred while the deferred outflow of resources associated with the asset retirement obligation will be measured at the amount of the corresponding liability upon initial measurement and generally recognized as an expense during the reporting periods that the asset provides service. The Statement requires disclosures including a general description of the asset retirement obligation and associated tangible capital assets; the source of the obligation to retire the assets; the methods and assumptions used to measure the liability; and other relevant information. The College has not yet determined the impact implementation will have on its net position.



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Note 14: New Accounting Standards Issued not yet Adopted (Continued)

- *GASB Statement 84, Fiduciary Activities*

GASB No. 84 was issued January 2017, this Statement establishes criteria for identifying fiduciary activities of all state and local governments. The focus of the criteria generally is on (1) whether a government is controlling the assets of the fiduciary activity and (2) the beneficiaries with whom a fiduciary relationship exists. Separate criteria are included to identify fiduciary component units and postemployment benefit arrangements that are fiduciary activities. The College has not yet determined the impact that implementation of GASB 80 will have on its net position.

- *GASB Statement 85, Omnibus 2017*

GASB No. 85 issued March 2017, this Statement address a variety of topics including issues related to blending component units, goodwill, fair value measurement and application, and postemployment benefits. The College has not yet determined the impact that implementation of GASB 85 will have on its net position.

- *GASB Statement 86, Certain Debt Extinguishment Issues*

GASB No. 86 issued May 2017 the primary objective of this Statement is to improve the consistency in accounting and financial reporting for in-substance defeasance of debt by providing guidance for transactions in which cash and other monetary assets acquired with only existing resources – resources other than the proceeds of refunding debt – are placed in an irrevocable trust for the sole purpose of extinguishing debt. This Statement also improves accounting and financial reporting for prepaid insurance on debt that is extinguished and notes to financial statements for debt substance. The College has not yet determined the impact that implementation of GASB 86 will have on its net position.

- *GASB Statement 87, Leases*

GASB No. 87 was issued June 2017, the primary objective of this Statement is to increases the usefulness of governments' financial statements by requiring recognition of certain lease assets and liabilities for leases that previously were classified as operating leases and recognized as inflows of resources or outflows of resources based on the payment provisions of the contract. It establishes a single model for lease accounting based on the foundational principle that leases are financings of the right to use an underlying asset. Under this Statement, a lessee is required to recognize a lease liability and an intangible right-to-use lease asset, and a lessor is required to recognize a lease receivable and a deferred inflow of resources, thereby enhancing the relevance and consistency of information about activities. The College has not yet determined the impact that implementation of GASB 87 will have on its net position.



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Note 15: Northern Oklahoma College Educational Foundation, Inc.

Note A: Summary of Significant Accounting Policies

Nature of Activities: Northern Oklahoma College Foundation, Inc. (the Foundation) was established for the benefit of Northern Oklahoma College (the College). The Foundation awards scholarships and makes loans to students of the College and provides other general support to the College.

The Board of Trustees, which governs the Foundation, is separate and distinct from the Board of Regents, the governing body of the College.

Accounting Standards Codification: The Foundation adopted the Financial Accounting Standards Board ("FASB") Accounting Standards Codification ("ASC"). The ASC does not alter current accounting principles generally accepted in the United States of America ("U.S. GAAP"), but rather integrates existing accounting standards with other authoritative guidance. The ASC provides a single source of authoritative U.S. GAAP for nongovernmental entities and supersedes all other previously issued non-SEC accounting and reporting guidance. Adoption of the ASC did not have a significant effect on the Foundation's financial statements.

Basis of Presentation: Financial statement presentation follows the recommendations of the Financial Accounting Standards Board and accordingly, the Foundation reports information regarding its financial position and activities according to three classes of net assets: unrestricted, temporarily restricted, and permanently restricted.

Contributions are reported as increases in the appropriate category of net assets. Expenses are reported as decreases in unrestricted net assets. Temporary restrictions on gifts to acquire long-lived assets are considered met in the period in which the assets are acquired or placed in service. Expirations of temporary restrictions (i.e., the donor-stipulated purpose has been fulfilled and/or the stipulated time period has elapsed) are reported as net assets released from restrictions. Contributions received from donors with general use restrictions for the College as a whole, or for specific departments within the College, are reflected as unrestricted to the extent that the College, or departments have expended sufficient dollars which meet these general use restrictions.

Income and gains on investments are reported as increases in permanently restricted net assets if the terms of the gift that gave rise to the investment require such amounts be added to permanent endowment principal. Income and gains are reported as increases in temporarily restricted net assets if the terms of the gift impose restrictions on the use of the income and/or the income is related to a donor-restricted endowment fund, and as increases in unrestricted net assets in all other cases.



Northern Oklahoma College
A Component Unit of the State of Oklahoma
Notes to Financial Statements
June 30, 2017

Note 15: Northern Oklahoma College Educational Foundation, Inc. (Continued)

Note A: Summary of Significant Accounting Policies (Continued)

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

Net Asset Classification: The Uniform Prudent Management of Institutional Funds Act of 2006 ("UPMIFA") was enacted in the state of Oklahoma effective November 1, 2007 ("OK UPMIFA"). The Foundation's Board of Trustees' (the "Trustees") interpretation of OK UPMIFA and other required endowment disclosures are included in Note F.

Net assets, revenues, and gains and losses of the Foundation are classified based on the existence or absence of donor-imposed restrictions as follows:

Unrestricted net assets - Net assets for which no donor has imposed any restrictions that the assets be used for a specific purpose or held for a certain period of time. Contributions received with time and/or purpose restrictions which are fully expended in the same period are classified as unrestricted.

Temporarily restricted net assets - Net assets subject to donor-imposed stipulations that may or will be met, either by actions of the Foundation and/or the passage of time. When a restriction expires, temporarily restricted net assets are reclassified to unrestricted net assets and reported in the statements of activities as net assets released from restrictions.

Permanently restricted net assets - Net assets subject to donor-imposed stipulations that they be maintained permanently by the Foundation. Generally, the donors of these assets permit the Foundation to use all or part of the income earned on any related investment for general or specific purposes.

Cash and Cash Equivalents: The Foundation considers all highly liquid investments with an initial maturity of three months or less to be cash equivalents.

Support and Expenses: Expenses are reported as decreases in unrestricted net assets. Expirations of donor-imposed restrictions that simultaneously increase one class of net assets and decrease another are reported as reclassifications between the applicable classes.

Loans Receivable: The Foundation grants various student loans as directed by donor-imposed stipulations. The Foundation considers all loans receivable to be fully collectible.



Northern Oklahoma College
A Component Unit of the State of Oklahoma
Notes to Financial Statements
June 30, 2017

Note 15: Northern Oklahoma College Educational Foundation, Inc. (Continued)

Note A: Summary of Significant Accounting Policies (Continued)

Income Taxes: The Internal Revenue Service has recognized the Foundation as exempt from income taxes under Section 501(a) of the Internal Revenue Code (the Code) as an organization described in Section 501 (c)(3) of the Code.

Accounting for Uncertain Tax Positions: The Financial Accounting Standards Board issued guidance on the accounting for uncertainty in income taxes. The Foundation adopted this new guidance for the year ended June 30, 2010. Management evaluated the Foundation's tax positions and concluded that the Foundation had taken no uncertain tax positions that require adjustment to the financial statements to comply with the provisions of this guidance. With few exceptions, the Foundation is no longer subject to income tax examinations by the U.S. federal state or local tax authorities before 2007.

Investments and Investment Return: Investments in marketable equity securities with readily determinable fair values and all debt securities are carried at fair value. Non-marketable securities are stated at fair value or the best estimate of fair value as determined by the investment manager and/or Foundation management. Realized gains and losses are computed on the first-in, first-out basis.

Property and Equipment: Property and equipment are stated at cost or fair value at date of donation. For equipment, the Foundation's capitalization policy includes all items with a cost of \$5,000 or more and an estimated useful life of greater than one year. Depreciation is computed using the straight-line method over the estimated useful lives of the assets: ten years for equipment.

Contributions Receivable: Contributions receivable, which arise primarily from trusts and estates, are carried at present value at the financial statement date. This valuation assumes collection within one year; however, due to the nature of the receivable, the final settlement dates are uncertain. All amounts are expected to be fully collected. There were no contributions receivables at June 30, 2017.



Northern Oklahoma College
A Component Unit of the State of Oklahoma
Notes to Financial Statements
June 30, 2017

Note 15: Northern Oklahoma College Educational Foundation, Inc. (Continued)

Note A: Summary of Significant Accounting Policies (Continued)

Fair Value Measurements: The Foundation follows the ASC Topic 820, *Fair Value Measurements and Disclosures*. Topic 820 defines fair value, establishes a framework for measuring 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 that 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;
- Level 3: Inputs that are unobservable and significant to the overall fair value measurement.

Financial assets and liabilities carried at fair value on a recurring basis include investments, beneficial interest in assets held by others, and custodial funds. The Foundation has no assets or liabilities carried at fair value on a non-recurring basis at June 30, 2017.

The FASB continues to clarify and improve disclosures related to Topic 820 and as a result, the Foundation has implemented the following:

For the year ended June 30, 2016, the Foundation implemented *Improving Disclosures about Fair Value Measurements* (ASU 2010-06) which requires additional disclosures about transfers in and out of Levels 1 and 2 and disaggregation within the reconciliation for fair value measurements using significant unobservable inputs. The update also clarifies existing disclosures regarding disaggregation by class and disclosures about inputs and valuation techniques. Implementation of these new requirements did not have a significant impact on the Foundation's financial statements.

For the year ended June 30, 2015, the Foundation implemented *Improving Disclosures about Fair Value Measurements* (ASU 2010-06) which requires additional disclosures about transfers in and out of Levels 1 and 2 and disaggregation within the reconciliation for fair value measurements using significant unobservable inputs. The update also clarifies existing disclosures regarding disaggregation by class and disclosures about inputs and valuation techniques. Implementation of these new requirements did not have a significant impact on the Foundation's financial statements.



Northern Oklahoma College
A Component Unit of the State of Oklahoma
Notes to Financial Statements
June 30, 2017

Note 15: Northern Oklahoma College Educational Foundation, Inc. (Continued)

Note A: Summary of Significant Accounting Policies (Continued)

Adoption of Accounting Principle

FASB Accounting Standards Update No. 2013-06 became effective for fiscal years beginning after June 15, 2014. The standard requires the financial statements to reflect the value of services received from personnel of an affiliate.

Use of Estimates: The preparation of the financial statements in conformity with accounting principles generally accepted in the United States requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and 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.

Concentration of Credit Risk: The Foundation maintains cash in bank deposit accounts that, at times, may exceed federally insured limits. The Foundation has not experienced any losses in such accounts and believes that it is not exposed to any significant credit risk on cash or cash equivalents.

In 2017, approximately 38% of total contribution revenue was received from 18 donors.
In 2016, approximately 34% of total contribution revenue was received from 13 donors.

Subsequent Events: The Foundation has evaluated subsequent events through October 17, 2017, which is the date that the financial statements were available to be issued. There are no subsequent events requiring recognition or disclosure in the 2017 financial statements.



Northern Oklahoma College
A Component Unit of the State of Oklahoma
Notes to Financial Statements
June 30, 2017

Note 15: Northern Oklahoma College Educational Foundation, Inc. (Continued)

Note B: Investments

The fair value of investments by type is summarized as follows:

	June 30 2017
Cash and cash equivalents	\$ 46,575
Certificates of deposit	4,999
Common stock - domestic	1,334,777
Common stock - fixed income	751,983
Government/Agency Securities	-
Real estate investment trusts	-
Mutual funds	38,533
Pooled funds - equities	4,381,385
Pooled funds - fixed income	2,445,841
Private pool investments	81,278
	<u>\$ 9,085,371</u>

Note C: Property and Equipment

Property and equipment by category is summarized as follows:

	2017
Land	\$ -
Equipment	148,393
	<u>148,393</u>
Less accumulated depreciation	(130,507)
Net property and equipment	<u>\$ 17,886</u>



Northern Oklahoma College
A Component Unit of the State of Oklahoma
Notes to Financial Statements
June 30, 2017

Note 15: Northern Oklahoma College Educational Foundation, Inc. (Continued)

Note D: Restricted Net Assets

Temporarily restricted net assets are restricted for the following purposes:

	2017
Scholarships	\$ 4,186,769
Loans	266,674
	<u>\$ 4,453,443</u>

Net assets released from restrictions were as follows:

	2017
Scholarships	\$ 407,031
Program Expense	473,436
Other Expense	191,091
	<u>\$ 1,071,558</u>

Permanently restricted net assets are restricted for the following purposes:

	2017
Scholarships	\$ 3,509,053
Loans	173,507
Lectureship	100,000
	<u>\$ 3,782,560</u>

Note E: Related Party Transactions

Based upon an exchange of service agreement, the College provides the Foundation with the necessary staffing and office space at no cost to the Foundation. In exchange, the College receives scholarships, funds for capital improvement, and other services from the Foundation. Substantially all expenses are for the benefit of the students, faculty, or activities of College. Transactions between the Foundation and the College are covered under a written agreement between the Foundation and the College. Under this agreement, the College agrees to provide certain administrative services to the Foundation in exchange for scholarships, endowments, grants, and payment of services for the benefit of the College. The Foundation has recorded in-kind contributions received from the College in the accompanying financial statements in the amount of \$212,347 for the year ended June 30, 2017.

During the year ended June 30, 2017, the Foundation awarded scholarships totaling approximately \$249,000 to students of the College.



Northern Oklahoma College
A Component Unit of the State of Oklahoma
Notes to Financial Statements
June 30, 2017

Note 15: Northern Oklahoma College Educational Foundation, Inc. (Continued)

Note F: Endowment Disclosures

The Foundation's endowment consists of 46 individual donor-restricted funds and 3 other funds which are managed and controlled by the Foundation. Net assets associated with endowment funds are classified and reported based on the existence or absence of donor-imposed restrictions. Other endowment funds consist of contributions which were not restricted by the donor for scholarships but have been endowed by the Foundation's Board of Trustees to provide scholarships for future periods rather than fully expending such amounts in the current year. All of the endowment funds held by the Foundation are managed and controlled by the Foundation in accordance with the following policies.

The State of Oklahoma adopted UPMIFA effective November 1, 2007 ("OK UPMIFA"). The Board of Trustees of the Foundation has interpreted OK UPMIFA 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 gifts donated to the permanent endowment, (b) the original value of subsequent gifts to the permanent endowment, and (c) accumulations 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 assets is classified as temporarily restricted net assets until those amounts are appropriated for expenditure by the Foundation in a manner consistent with the standard of prudence prescribed by OK UPMIFA. In accordance with OK UPMIFA, the Foundation considers the following factors in making a determination to appropriate or accumulate donor-restricted endowment funds.

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



Northern Oklahoma College
A Component Unit of the State of Oklahoma
Notes to Financial Statements
June 30, 2017

Note 15: Northern Oklahoma College Educational Foundation, Inc. (Continued)

Note F: Endowment Disclosures (Continued)

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

	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Permanently Restricted</u>	<u>Total</u>
Donor-restricted endowment funds	\$ (31,702)	\$ 2,150,212	\$ 3,724,545	\$ 5,843,055
Board-designated endowment funds	<u>527,191</u>	<u>-</u>	<u>-</u>	<u>527,191</u>
Total Funds Invested	<u>\$ 495,489</u>	<u>\$ 2,150,212</u>	<u>\$ 3,724,545</u>	<u>\$ 6,370,246</u>

Changes in Endowment Net Assets for the Year Ended June 30, 2017:

	<u>Unrestricted</u>	<u>Temporarily T. Restricted</u>	<u>Permanently Restricted</u>	<u>Total</u>
Endowment net assets, beginning of year - reclassified	\$ 450,051	\$ 1,653,533	\$ 3,623,240	\$ 5,726,824
Investment return:				
Investment income	9,321	104,925	1,305	115,551
Net investment return (realized and unrealized)	<u>50,781</u>	<u>459,276</u>	<u>-</u>	<u>510,057</u>
Net investment return	60,102	564,201	1,305	625,608
Contributions	100	39,730	100,000	139,830
Transferred to recover Underwater funds	1,002	(12,654)	-	(11,652)
Appropriation of endowment assets for expenditure	<u>(15,766)</u>	<u>(94,598)</u>	<u>-</u>	<u>(110,364)</u>
Endowment Net Assets	<u>\$ 495,489</u>	<u>\$ 2,150,212</u>	<u>\$ 3,724,545</u>	<u>\$ 6,370,246</u>



Northern Oklahoma College
A Component Unit of the State of Oklahoma
Notes to Financial Statements
June 30, 2017

Note 15: Northern Oklahoma College Educational Foundation, Inc. (Continued)

Note F: Endowment Disclosures (Continued)

Description of amounts classified as Permanently Restricted Net Assets and Temporarily Restricted Net Assets (Endowment Only) at June 30, 2017:

Permanently Restricted Net Assets

The portion of perpetual endowment funds that is required to be retained permanently either by explicit donor stipulation or by OK UPMIFA	\$ 3,724,545
Total endowment funds classified as permanently restricted net assets	<u>\$ 3,724,545</u>

Temporarily Restricted Net Assets

The portion of perpetual endowment funds subject to time restriction under OK UPMIFA with purpose restrictions	\$ 2,150,212
Total endowment funds classified as temporarily restricted net assets	<u>\$ 2,150,212</u>

Funds with Deficiencies

From time to time, the fair value of assets associated with individual donor-restricted endowment funds may fall below the level that the donor requires the Foundation to retain as a fund of perpetual duration. In accordance with accounting principles generally accepted in the United States of America, deficiencies of this nature that are reported in unrestricted net assets were approximately \$0 and \$0 for years ending June 30, 2017 and 2016, respectively. These deficiencies resulted from unfavorable market fluctuations. As a result, appropriations were limited to appropriations that were deemed prudent and necessary for the programs of the Foundation.

Return Objectives and Risk Parameters

The Foundation has adopted investment and spending policies for endowment assets that attempt to provide a predictable stream of funding to programs supported by its endowments while seeking to maintain the purchasing power of the endowment assets. Endowment assets include those assets of donor-restricted funds that the organization must hold in perpetuity or for a donor-specified period(s). The Foundation's investment objective for the Endowment Fund (the "Fund") is "Growth and Income". The intent of the objective is to provide both current income and future growth of the Fund sufficient to offset reasonable spending plus nominal inflation; thereby, preserving the dollar value and purchasing power of the endowment for future generations. Investment performance will be judged over a five-year horizon or market cycle. The goal for equity investment performance is to exceed the price and yield results of Standard and Poor's 500 Common Stock Index while maintaining a risk level similar to that of the benchmark. The goal for fixed income investment performance is to exceed returns of the broad U.S. bond market, while maintaining a risk level similar to that of the benchmark.



Northern Oklahoma College
A Component Unit of the State of Oklahoma
Notes to Financial Statements
June 30, 2017

Note 15: Northern Oklahoma College Educational Foundation, Inc. (Continued)

Note F: Endowment Disclosures (Continued)

Strategies Employed for Achieving Objectives

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

Spending Policy and How the Investment Objectives Relate to Spending Policy

The Foundation has a policy of appropriating for distribution each year amounts up to, but not to exceed actual investment performance for that year, as well as prior year accumulations.

Since the Foundation has a policy of designating unrestricted funds each year for certificates of deposit based on yield curves, interest rates, and other relevant factors and are classified as Level 2. Private pool, and pooled equity and fixed income funds for which a quoted market price is not available are carried at net asset value ("NAV") as determined by the fund manager and are classified as Level 2.

Investments: Investments are stated at fair value, and are based on quoted market prices, when available, or the best estimate of fair value as determined by the fund and/or investment manager. Generally, quoted market prices are available for common and preferred stocks, and mutual funds and as such are classified as Level 1 in the fair value hierarchy. Fair values of certificates of deposit are based on yield curves, interest rates, and other relevant factors and are classified as Level 2. Private pool, and pooled equity and fixed income funds for which a quoted market price is not available are carried at net asset value ("NAV") as determined by the fund manager and are classified as Level 2. The pooled investments are classified as Level 2 due to their ability to be redeemed within 30 days of redemption request.

Note G: Fair Value Measurements

Contributions Receivable: The note is carried at cost and fair value is determined by calculating the present value of the expected future cash flows using a discount rate equal to the rate of return earned on the Foundation's investment portfolio.

Interest and Other Receivables: The carrying amount approximates fair value due to the short maturity of such amounts.



Northern Oklahoma College
A Component Unit of the State of Oklahoma
Notes to Financial Statements
June 30, 2017

Note 15: Northern Oklahoma College Educational Foundation, Inc. (Continued)

Note G: Fair Value Measurements (Continued)

Assets measured at fair value on a recurring basis are classified within the fair value hierarchy is as follows:

	As of June 30, 2017			
	Level 1	Level 2	Level 3	Total
ASSETS				
Cash and cash equivalents	\$ 46,576	\$ -	\$ -	\$ 46,576
Certificates of deposit	-	4,999	-	4,999
Common stock	1,334,777	-	-	1,334,777
Government agency securities	-	-	-	-
Mutual fund-fixed income	751,983	-	-	751,983
Mutual fund-equity	38,533	-	-	38,533
Pooled fund - fixed income	-	2,445,841	-	2,445,841
Pooled fund - equities	-	4,381,385	-	4,381,385
Private pool	-	81,278	-	81,278
	<u>\$ 2,171,869</u>	<u>\$ 6,913,503</u>	<u>\$ -</u>	<u>\$ 9,085,372</u>



Northern Oklahoma College
A Component Unit of the State of Oklahoma
Notes to Financial Statements
June 30, 2017

Note 15: Northern Oklahoma College Educational Foundation, Inc. (Continued)

Note G: Fair Value Measurements (Continued)

The Foundation's investments in certain entities that calculate net asset value ("NAV") per share for which there is not a readily determinable fair market value include the following:

Pooled fund – Fixed income: This pooled fund is invested in a multi-strategy bond program, and will generally be invested in investment grade bonds and other fixed income securities in an attempt to outperform the broad U.S. bond market. Investment in the multi-strategy bond fund can be redeemed at net asset value per share on the last business day of each month with five days prior written notice. If the redemption is for 90% or more of the member's total interest, then 10% will be held back until after the final NAV on the redemption date is determined.

Pooled fund – Equities: The fund is a multi-strategy equity program, and is primarily invested in investment grade common and preferred stock of domestic companies, and includes diversification through a portion of assets allocated to common stock and equity securities of foreign companies in developed and emerging markets. A portion of the fund is also allocated to marketable alternative investments in domestic and foreign markets. Investment in the multi-strategy equity fund can be redeemed at net asset value per share on the last business day of each month with five days prior written notice. If the redemption is for 90% or more of the member's total interest, then 10% will be held back until after the final NAV on the redemption date is determined.

Private pool investment: The fund is primarily invested in domestic and foreign bond fund programs. The private pool includes diversification through a portion of assets allocated to common stock and equity index funds, and a portion is also allocated to marketable alternative investments. Investment in the private pool can be redeemed at net asset value per unit share with 30 days' notice.



Required Supplementary Information



Northern Oklahoma College
A Component Unit of the State of Oklahoma
Schedules of Required Supplementary Information
June 30, 2017

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

	<u>*2015</u>	<u>2016</u>	<u>2017</u>
College's proportion of the net pension liability	0.31748%	0.29378%	0.33312%
College's proportionate share of the net pension liability	\$ 17,080,072	\$ 14,443,133	\$ 27,801,245
College's covered-employee payroll	\$ 13,269,725	\$ 14,210,434	\$ 14,796,716
College's proportionate share of the net pension liability as a percentage of its covered-employee payroll	129%	102%	188%
Plan fiduciary net position as a percentage of the total pension liability	72.43%	70.31%	62.24%

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

Notes to Schedule:

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

The Plan's net pension liability increased between 2015 and 2016 due to changes in assumptions adopted by the System's Board. The most notable change was the lowering of the System's discount rate from 8.0% to 7.5%.



Northern Oklahoma College
A Component Unit of the State of Oklahoma
Schedules of Required Supplementary Information
June 30, 2017

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

	<u>2015</u>	<u>2016</u>	<u>2017</u>
Contractually required contribution	\$ 1,375,036	\$ 1,415,272	\$ 1,403,476
Contributions in relation to the contractually required contribution	<u>1,375,036</u>	<u>1,415,272</u>	<u>1,403,476</u>
Contribution deficiency (excess)	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>
College's covered-employee payroll	\$ 14,210,434	\$ 14,796,716	\$ 14,650,947
Contributions as a percentage of covered-employee payroll	9.68%	9.56%	9.58%

Notes to Schedule:

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





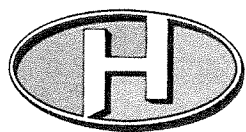
Northern Oklahoma College
A Component Unit of the State of Oklahoma
Schedules of Required Supplementary Information
June 30, 2017

Schedules of Required Supplementary Information
SCHEDULE OF FUNDING PROGRESS FOR OPEB PLAN
NORTHERN OKLAHOMA COLLEGE

June 30, 2017

Actuarial Valuation Date	Actuarial Accrued Liability (AAL) (b)	Actuarial Value of Assets (a)	Unfunded AAL (UAAAL) (b-a)	Funded Ratio (a/b)	Covered Payroll (c)	UAAAL as a Percentage of Covered Payroll (b-a)/c
06/30/15	907,357	-	907,357	0%	14,210,434	6%
06/30/17	1,351,382	-	1,351,382	0%	14,796,716	9%

The actuarial accrued liability is based on the projected unit credit method.
The College has elected to have an actuarial study performed biannually.



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

Board of Regents
Northern Oklahoma College
Tonkawa, Oklahoma

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of the Northern Oklahoma College, as of and for the year ended June 30, 2017, and the related notes to the financial statements, which collectively comprise Northern Oklahoma College's basic financial statements, and have issued our report thereon dated October 17, 2017.

Internal Control over Financial Reporting

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

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

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

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Compliance and Other Matters

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

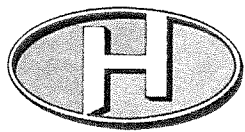
Purpose of this Report

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

Hill & Company

Tulsa, Oklahoma
October 17, 2017





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Independent Auditors' Report on Compliance for Each Major Federal Program; Report on Internal Control over Compliance and Report on Schedule of Expenditures of Federal Awards Required by the Uniform Guidance

Board of Regents
Northern Oklahoma College
Tonkawa, Oklahoma

Report on Compliance for Each Major Federal Program

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

Management's Responsibility

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

Auditors' Responsibility

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

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

Opinion on Each Major Federal Program

In our opinion, the Northern Oklahoma College complied, in all material respects, with the types of compliance requirements referred to above that could have a direct and material effect on each of its major federal programs for the year ended June 30, 2017.

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Report on Internal Control Over Compliance

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

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

Our consideration of internal control over compliance was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over compliance that might be material weaknesses or significant deficiencies. We did not identify any deficiencies in internal control over compliance that we considered to be material weaknesses. However, material weaknesses may exist that have not been identified. The purpose of this report on internal control over compliance is solely to describe the scope of our testing of internal control over compliance and the results of that testing based on the requirements of the Uniform Guidance. Accordingly, this report is not suitable for any other purpose.

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

We have audited the financial statements of the Northern Oklahoma College as of and for the year ended June 30, 2017 and the related notes to the financial statements, which collectively comprise the College's basic financial statements. We issued our report thereon dated October 17, 2017, which contained an unmodified opinion on those financial statements. Our audit was conducted for the purpose of forming an opinion on the financial statements that collectively comprise the basic financial statements. The accompanying schedule of expenditures of federal awards is presented for purposes of additional analysis as required by the Uniform Guidance and is not a required part of the basic financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the basic financial statements. The information has been subjected to the auditing procedures applied in the audit of the financial statements and certain auditing procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the schedule of expenditure of federal awards is fairly stated in all material respects in relation to the basic financial statements as a whole.

Hill & Company

Tulsa, Oklahoma
October 17, 2017



Northern Oklahoma College
A Component Unit of the State of Oklahoma
Schedule of Expenditures of Federal Awards
Year Ended June 30, 2017

<u>Federal Grantor/Pass Through Grantor/Program Title</u>	<u>CFDA Number</u>	<u>Pass Through Entity Identify Number</u>	<u>Federal Expenditures</u>
U.S. Department of Education			
<i>Student Financial Aid Cluster</i>			
Office of Postsecondary Education			
Federal Pell Grant Program	84.063		\$ 6,659,156
Federal Direct Loan Programs	84.268		6,720,585
Federal Supplemental Education Opportunity	84.007		111,880
Federal Work Study Program	84.033		<u>81,545</u>
Total Student Financial Aid Cluster			<u>13,573,166</u>
Office of Postsecondary Education			
Upward Bound	84.047		<u>264,460</u>
Gaining Early Awareness and Readiness			
NOC Leadership Camp	84.334s		24,546
For Undergraduate Program	84.334		<u>52,229</u>
Vocational Education National Centers			
For Career and Technical Education CP-PS-1248	84.048		<u>74,386</u>
Native American-Serving Non-Tribal Institutions			
Program (NASNTI)	84.382		<u>247,055</u>
Project AAIMS	84.299		<u>5,770</u>
Total U.S. Department of Education			<u>14,241,612</u>
U.S. Department of Health and Human Services			
Temporary Assistance for Needy			
Families (TANF)	93.558		146,903
Oklahoma State Regents for Higher Education			
Child Care Development Block Grant			
Refugee & Entrant Assistance	93.576		<u>90,475</u>
Total U. S. Department of Health and Human Services			<u>237,378</u>



Northern Oklahoma College
A Component Unit of the State of Oklahoma
Schedule of Expenditures of Federal Awards
Year Ended June 30, 2017

(Continued)

<u>Federal Grantor/Pass Through Grantor/Program Title</u>	<u>CFDA Number</u>	<u>Pass Through Entity Identify Number</u>	<u>Federal Expenditures</u>
Corporation for National and Community Services			
AmeriCorps	94.006		<u>17,400</u>
Total Expenditures of Federal Awards			<u>\$ 14,496,390</u>



Northern Oklahoma College
A Component Unit of the State of Oklahoma
Notes to Schedule of Expenditures of Federal Awards
Year Ended June 30, 2017

Note A: Basis of Presentation

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

Note B: Summary of Significant Accounting Policies

1. Expenditures reported on the Schedule are reported on the accrual basis of accounting. Such expenditures are recognized following the cost principles contained in the Uniform Guidance, wherein certain types of expenditures are not allowable or are limited as to reimbursement.
2. Under the Federal Direct Student Loan Program ("Direct Loan Program"), the U.S. Department of Education makes loans to enable a student or parent to pay the costs of the student's attendance at a postsecondary school. The Direct Loan Program enables an eligible student or parent to obtain a loan to pay for the student's cost of attendance directly from the U.S. Department of Education rather than through private lenders. The College administers the origination and disbursement of the loans to eligible students or parents. The College is not responsible for the collection of these loans.
3. The College has elected to use the 10 percent *de minimis* cost rate under the Uniform Guidance for the TANF and Scholars federal grant awards. The college has an indirect cost rate of 31.9% on all other federal grant awards.
4. During the year ended June 30, 2017 the College did not provide any federal awards to subrecipients.



Northern Oklahoma College
A Component Unit of the State of Oklahoma
Schedule of Expenditures of State Awards
Year Ended June 30, 2017

State Grantor/Program Title	<u>Contract Number</u>	<u>Contract Period</u>	<u>State Expenditures</u>
Oklahoma Higher Learning Access Program (OHLAP) now called Oklahoma's Promise	N/A	7/1/16 - 6/30/17	\$704,054
State Regents Academic Scholarships	N/A	7/1/16 - 6/30/17	\$30,279
Indian Gaming Curriculum	N/A	7/1/15 - 6/30/16	\$9,625
Oklahoma Arts Council (ARC)	N/A	7/1/15 - 6/30/16	\$1,250
Oklahoma Tuition Aid Grant Program (OTAG)	N/A	7/1/16 - 6/30/17	\$325,808
Quality Initiative Grant, Institute for Tribal Leadership	N/A	7/1/16 - 6/30/17	\$95,692
Teacher Compensation and Helps (TEACH)	N/A	7/1/16 - 6/30/17	<u>\$47,001</u>
Total State Expenditures			\$1,213,709



Northern Oklahoma College
A Component Unit of the State of Oklahoma
Schedule of Findings and Questioned Costs
Year Ended June 30, 2017

Summary of Auditors' Results

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

2. The independent accountants' report on internal control over financial reporting described:

Significant deficiencies ☐ Yes ☒ None reported

Material weaknesses? ☐ Yes ☒ No

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

4. The independent auditors' report on internal control over compliance for major federal awards programs disclosed:

Significant deficiencies? ☐ Yes ☒ None reported

Material weaknesses? ☐ Yes ☒ No

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

☒ Unmodified ☐ Qualified ☐ Adverse ☐ Disclaimed

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



Northern Oklahoma College
A Component Unit of the State of Oklahoma
Schedule of Findings and Questioned Costs
Year Ended June 30, 2017

Summary of Auditors' Results (Continued)

7. The College's major program was:

<u>Cluster/Program</u>	<u>CFDA Number</u>
Student Financial Aid Cluster	
Federal Supplemental Education Opportunity Grants	84.007
Federal Direct Loan Program	84.268
Federal Work Study	84.033
Federal Pell Grant	84.063

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

9. The College qualified as a low-risk auditee as that term is defined in Uniform Guidance. ☒ Yes ☐ No

Findings Required to be Reported by Government Auditing Standards

No matters are reportable.

Findings Required to be Reported by the Uniform Guidance

No matters are reportable.



Northern Oklahoma College
A Component Unit of the State of Oklahoma
Summary Schedule of Prior Audit Findings
Year Ended June 30, 2016

No Items Reportable.

