

**NORTHWESTERN OKLAHOMA  
STATE UNIVERSITY**  
**A DEPARTMENT OF THE REGIONAL  
UNIVERSITY SYSTEM OF OKLAHOMA**  
**ANNUAL FINANCIAL STATEMENTS AND  
INDEPENDENT AUDITOR'S REPORT AS OF AND  
FOR THE YEAR ENDED**

**JUNE 30, 2016**

NORTHWESTERN OKLAHOMA STATE UNIVERSITY  
A Department of the Regional University System of Oklahoma

June 30, 2016

AUDITED FINANCIAL STATEMENTS

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## INDEPENDENT AUDITOR'S REPORT

Board of Regents  
Regional University System of Oklahoma  
Northwestern Oklahoma State University  
Oklahoma City, Oklahoma

### **Report on the Financial Statements**

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

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

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

### ***Auditor's Responsibility***

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

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

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

## ***Opinions***

In our opinion, based on our audit and the report of the other auditor, the financial statements referred to above present fairly, in all material respects, the respective financial position of the University and its discretely presented component unit as of June 30, 2016, and the respective changes in financial position and cash flows thereof for the year then ended in accordance with accounting principles generally accepted in the United States of America.

## ***Emphasis of Matter***

As discussed in Note A, the financial statements of the University are intended to present the financial position, the changes in financial position, and, where applicable, cash flows of only that portion of RUSO that is attributable to the transactions of the University. They do not purport to, and do not present fairly the financial position of the RUSO as of June 30, 2016, the changes in its financial position, or its cash flows for the year then ended in conformity with accounting principles generally accepted in the United States of America. Our opinion is not modified with respect to this matter.

## ***Correction of an Error***

In 2015 and previous years, the University did not record certain previously incurred capital costs in its capital assets. As discussed in Note A to the financial statements, the University's net position at June 30, 2015 has been restated to correct this error. Our opinion is not modified with respect to this matter.

## ***Other Matters***

### ***Supplementary Information***

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the University's financial statements. The management's discussion and analysis, which is the responsibility of management, is presented for purposes of additional analysis and is not a required part of the financial statements. The management's discussion and analysis has not been subjected to the auditing procedures applied in the audit of the financial statements, and accordingly, we do not express an opinion or provide any assurance on it.

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

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



October 21, 2016

## MANAGEMENT'S DISCUSSION AND ANALYSIS (UNAUDITED)

NORTHWESTERN OKLAHOMA STATE UNIVERSITY  
A Department of the Regional University System of Oklahoma

June 30, 2016

### OVERVIEW OF FINANCIAL STATEMENTS AND FINANCIAL ANALYSIS

Northwestern Oklahoma State University is pleased to present its financial statements for fiscal year 2016, with selected comparative information for fiscal year 2015. Management's discussion and analysis is designed to focus on current activities, resulting changes, and current known facts, so it should be read in conjunction with the University's financial statements and footnotes. There are three financial statements presented: the Statement of Net Position; the Statement of Revenues, Expenses, and Changes in Net Position; and the Statement of Cash Flows. All dollar amounts in the tables in this MD&A are presented in millions of dollars. This discussion and analysis of the University's financial statements provides an overview of its financial activities for the year. Accounting standards require that financial statements for the Northwestern Oklahoma State University Foundation, Inc. be reported with the University's report.

### STATEMENT OF NET POSITION

The Statement of Net Position presents the assets (current and non-current), deferred outflows of resources, liabilities (current and noncurrent), deferred inflows of resources, and net position as of the end of the fiscal year. The purpose of this statement is to give readers of the financial statements a fiscal snapshot of Northwestern Oklahoma State University.

These statements include all assets and liabilities using the accrual basis of accounting, which is consistent with the accounting used by private sector institutions. Readers of the Statement of Net Position can determine the assets available to continue the operations of the institution. Amounts owed to vendors and lending institutions can also be determined. Finally, the Statement of Net Position provides a picture of the net position and its availability for expenditure by the institution.

Net position – the difference between assets and deferred outflows of resources and liabilities and deferred inflows of resources – is one way to measure the University's health, or position. Over time, increases or decreases in net position are an indicator of whether or not the University's financial health is improving. Non-financial factors are also important to consider, including student enrollment and condition of campus buildings. Net position is divided into three categories. The first category, Net Investment in Capital Assets, provides information on the institution's property, plant, and equipment. The next category, Restricted Net Position-Expendable, is divided into two categories, Scholarship and Capital Project and Debt Service. This portion of net position is available for expenditure by the institution but must be spent for purposes as determined by donors and/or external entities that have placed time or purpose restrictions on the use of the assets. The final category is Unrestricted Net Position. Unrestricted assets are available to the institution for any lawful purpose of the institution.

MANAGEMENT'S DISCUSSION AND ANALYSIS (UNAUDITED)--Continued

NORTHWESTERN OKLAHOMA STATE UNIVERSITY  
A Department of the Regional University System of Oklahoma

June 30, 2016

STATEMENT OF NET POSITION--Continued

A Condensed Statement of Net Position is prepared from the University's Statement of Net Position and summarizes the assets, deferred outflows, liabilities, deferred inflows and net position as of June 30, 2016, compared to the year ending June 30, 2015.

ANALYSIS OF NET POSITION 2016

CONDENSED STATEMENT OF NET POSITION  
(In Millions)

	June 30		Increase (Decrease)
	<u>2016</u>	<u>2015</u>	
<b>ASSETS</b>			
Current assets	\$ 6.1	\$ 6.1	\$ -
<b>NONCURRENT ASSETS</b>			
Capital assets, net of depreciation	27.0	25.9	1.1
Other assets	<u>2.1</u>	<u>2.2</u>	<u>(0.1)</u>
TOTAL ASSETS	<u>35.2</u>	<u>34.2</u>	<u>1.0</u>
<b>DEFERRED OUTFLOWS OF RESOURCES</b>			
	<u>-</u>	<u>0.1</u>	<u>(0.1)</u>
<b>LIABILITIES</b>			
Current liabilities	2.9	2.2	0.7
Noncurrent liabilities	<u>6.3</u>	<u>6.7</u>	<u>(0.4)</u>
TOTAL LIABILITIES	<u>9.2</u>	<u>8.9</u>	<u>0.3</u>
<b>DEFERRED INFLOWS OF RESOURCES</b>			
	<u>0.2</u>	<u>0.2</u>	<u>-</u>
<b>NET POSITION</b>			
Net investment in capital assets	19.6	18.3	1.3
Restricted	1.7	2.5	(0.8)
Unrestricted	<u>4.5</u>	<u>4.4</u>	<u>0.1</u>
TOTAL NET POSITION	<u>\$ 25.8</u>	<u>\$ 25.2</u>	<u>\$ 0.6</u>

MANAGEMENT'S DISCUSSION AND ANALYSIS (UNAUDITED)--Continued

NORTHWESTERN OKLAHOMA STATE UNIVERSITY  
A Department of the Regional University System of Oklahoma

June 30, 2016

ANALYSIS OF NET POSITION 2016--Continued

There was an increase in the total assets of the University. The most notable changes in noncurrent assets include an increase in net capital assets of \$1,154,972. The completion of a new football press box and addition of turf to the football field make up most of this increase. Dorm renovations to Fryer Hall and Coronado Hall also accounted for a portion of the increase in assets.

Liabilities saw an increase as well with current liabilities showing the largest change. Accounts Payable increased by \$621,455 that resulted mainly from an outstanding construction invoice of \$672,192 related to the dorm renovation project.

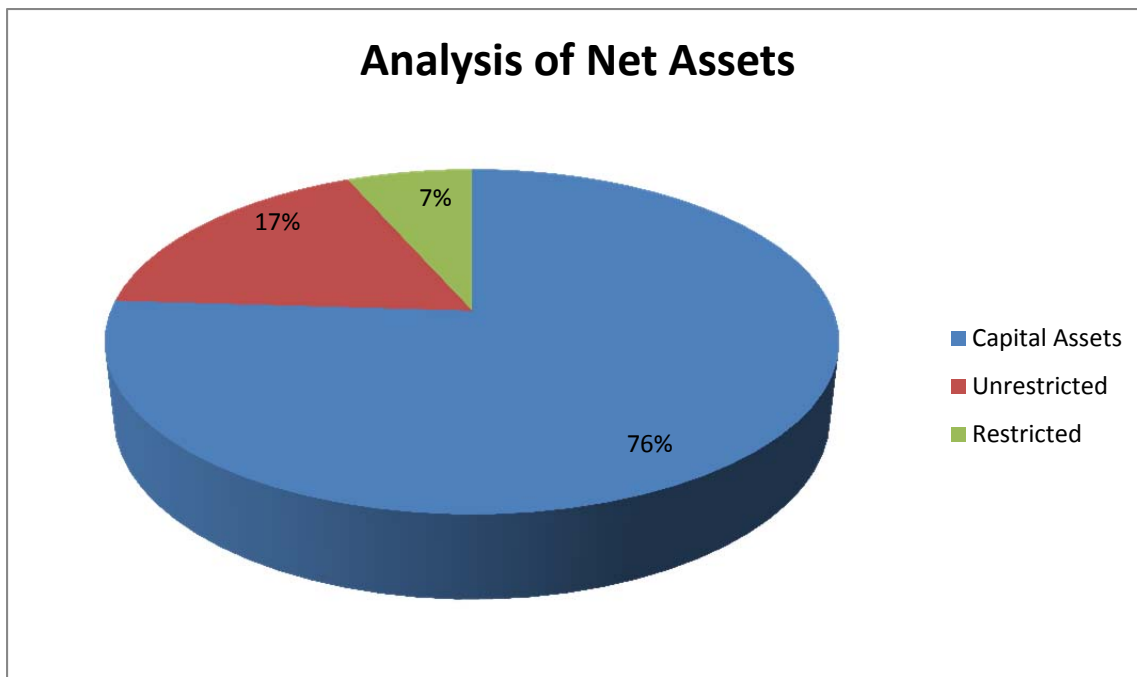
These changes caused an overall increase in net position of \$550,123. This increase was caused in large part by the construction projects on campus, resulting in an increase in the net investment of capital assets.

MANAGEMENT'S DISCUSSION AND ANALYSIS (UNAUDITED)--Continued

NORTHWESTERN OKLAHOMA STATE UNIVERSITY  
A Department of the Regional University System of Oklahoma

June 30, 2016

The following graph represents how the University's net position is split between capital assets, unrestricted, and restricted position.



STATEMENT OF REVENUES, EXPENSES, AND CHANGES IN NET POSITION

The Statement of Revenues, Expenses, and Changes in Net Position presents the University's results of operations for the year and the effect on net position. Operating revenues and expenses are generated from "exchange" transactions that arise in the course of normal activity for the organization. The comparison of operating revenues to operating expenses is an important measure of an institution's fiscal stability. Public institutions will normally not have an excess of operating revenues over operating expenses because state appropriations are considered nonoperating revenues under accounting principles generally accepted in the United States of America.



MANAGEMENT'S DISCUSSION AND ANALYSIS (UNAUDITED)--Continued

NORTHWESTERN OKLAHOMA STATE UNIVERSITY  
A Department of the Regional University System of Oklahoma

June 30, 2016

STATEMENT OF REVENUES, EXPENSES, AND CHANGES IN NET POSITION – Cont.

	<u>2016</u>	<u>2015</u>	<u>Increase (Decrease)</u>
<b>OPERATING REVENUE</b>			
Student Tuition and Fees (net of scholarship allowance of \$7.4 respectively)	\$ 7.3	\$ 7.1	\$ 0.2
Federal, State, and Local Grants/Contracts	1.3	1.5	(0.2)
Auxiliary	4.8	4.6	0.2
Other	<u>0.5</u>	<u>0.4</u>	<u>0.1</u>
TOTAL OPERATING REVENUE	<u>13.9</u>	<u>13.6</u>	<u>0.3</u>
<b>OPERATING EXPENSES</b>			
Compensation and Employee Benefits	18.1	18.1	-
Contractual Services	2.7	2.8	(0.1)
Supplies and Materials	5.1	2.4	2.7
Depreciation	1.9	1.9	-
Utilities	0.9	1.0	(0.1)
Communication Expense	0.3	0.4	(0.1)
Scholarships and Fellowships	1.9	1.9	-
Other Operating Expense	<u>1.1</u>	<u>1.2</u>	<u>(0.1)</u>
TOTAL OPERATING EXPENSE	<u>32.0</u>	<u>29.7</u>	<u>2.3</u>
OPERATING INCOME (LOSS)	<u>(18.1)</u>	<u>(16.1)</u>	<u>(2.0)</u>
<b>NONOPERATING REVENUE (LOSS)</b>			
State Appropriations	8.9	10.3	(1.4)
OTRS on-behalf Payments	-	-	-
Federal and State Grants/Contracts	4.2	4.2	-
Gifts	0.3	0.3	-
Investment Income	0.3	0.3	-
Interest Expense	<u>(0.4)</u>	<u>(0.3)</u>	<u>(0.1)</u>
NET NONOPERATING REVENUE	<u>13.3</u>	<u>14.8</u>	<u>(1.5)</u>
INCOME (LOSS) BEFORE OTHER REVENUE/EXPENSE	<u>(4.8)</u>	<u>(1.3)</u>	<u>(3.5)</u>
OTHER REVENUE/EXPENSE	<u>5.1</u>	<u>4.1</u>	<u>1.0</u>
CHANGE IN NET POSITION	0.3	2.8	(2.5)
NET POSITION AT BEGINNING OF YEAR (Restated)	<u>25.5</u>	<u>22.4</u>	<u>3.1</u>
NET POSITION AT END OF YEAR	<u>\$ 25.8</u>	<u>\$ 25.2</u>	<u>\$ 0.6</u>

MANAGEMENT'S DISCUSSION AND ANALYSIS (UNAUDITED)--Continued

NORTHWESTERN OKLAHOMA STATE UNIVERSITY  
A Department of the Regional University System of Oklahoma

June 30, 2016

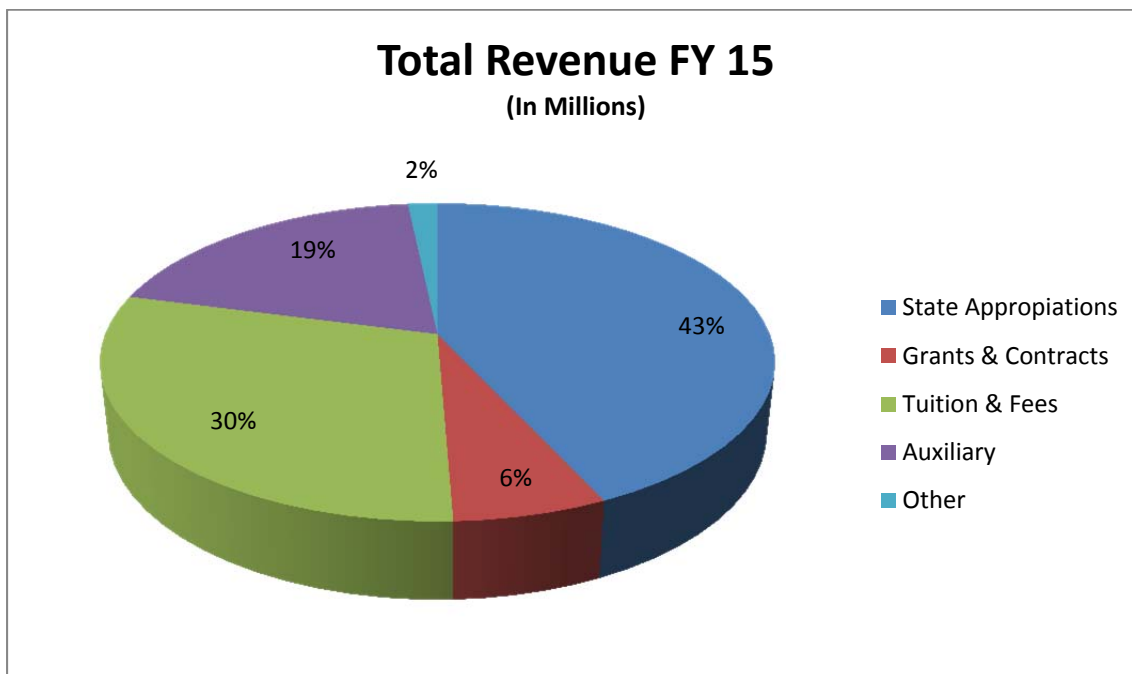
REVENUES 2016

The Auxiliary operations showed an increase from FY15 to FY16. Housing and food services make up the largest part of the auxiliary operation. This number is up \$209,726 from FY15 primarily from an increase in room and board. This is partially represented by a 6.7% increase in room rates as well as an increase of 2.8% in board rates.

The Federal Grants and Contracts are at \$1.3 million. This is a decrease of \$161,014 from fiscal year 2015 to fiscal year 2016. This was in part due to finishing out our Small Business Development Center grant as well as a decrease in employees for the Title III grant.

The university's state appropriations for the fiscal year 2016 decreased by \$1.4 million. This resulted from two general revenue failures and two gross production tax collection failures from the State of Oklahoma during FY16.

The following graph represents the sources and percentages of revenue for the fiscal year 2016 as compared to fiscal year 2015. Overall percentages are very similar for the two years. However the largest shifts in revenue were from Auxiliary and State Appropriations.

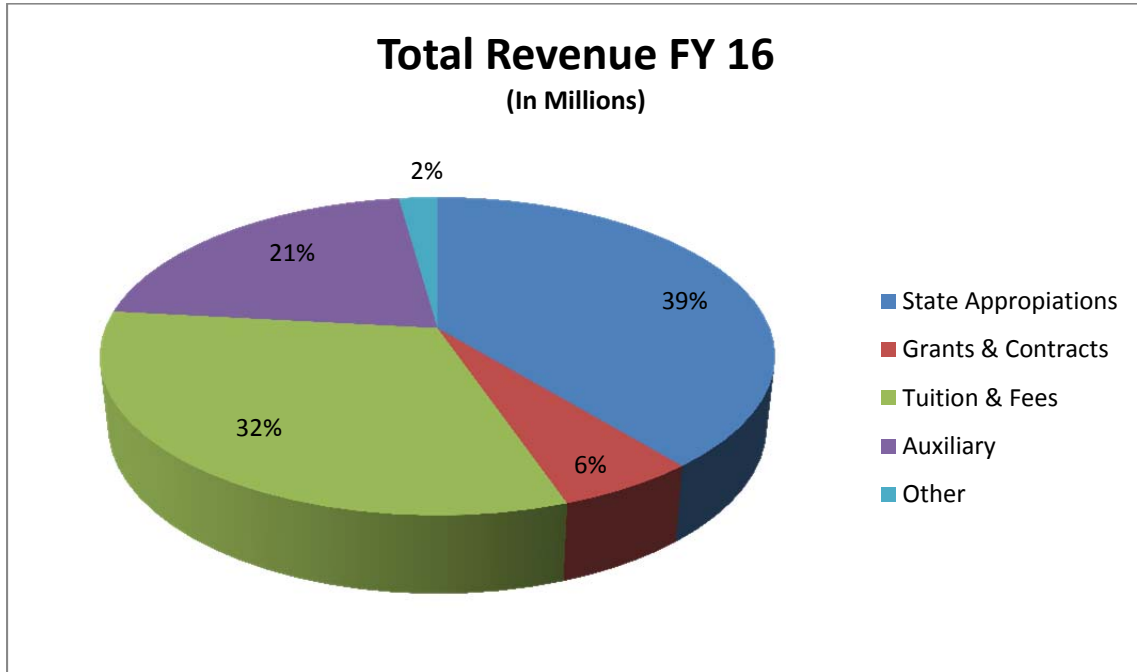


MANAGEMENT'S DISCUSSION AND ANALYSIS (UNAUDITED)--Continued

NORTHWESTERN OKLAHOMA STATE UNIVERSITY  
A Department of the Regional University System of Oklahoma

June 30, 2016

REVENUES 2016 -- Continued



EXPENSES 2016

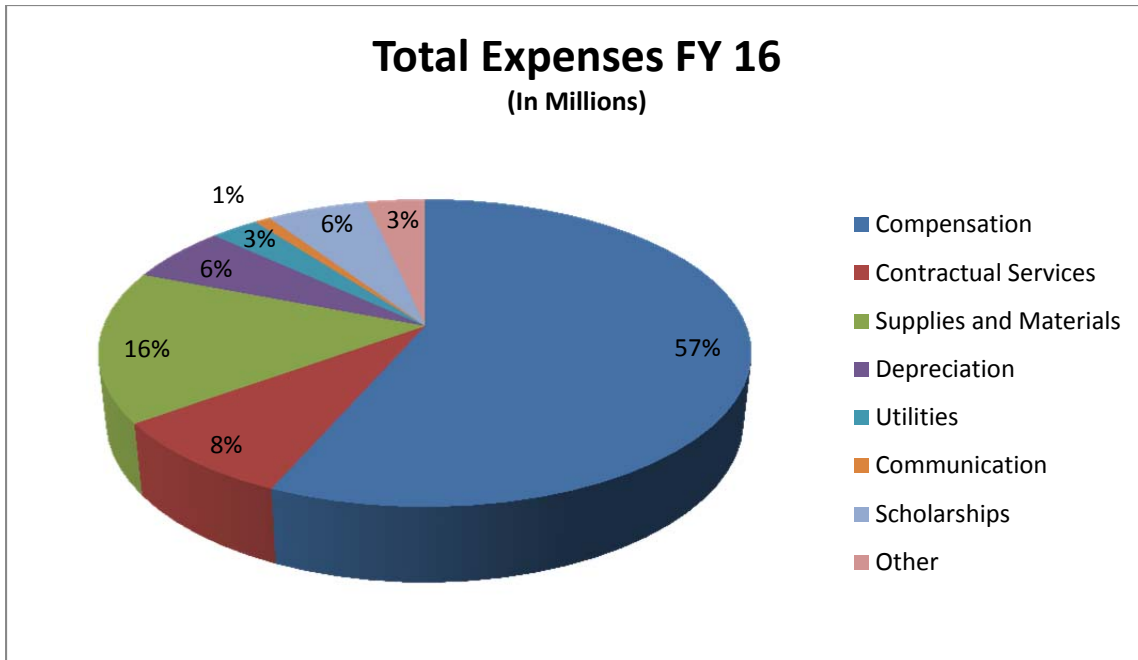
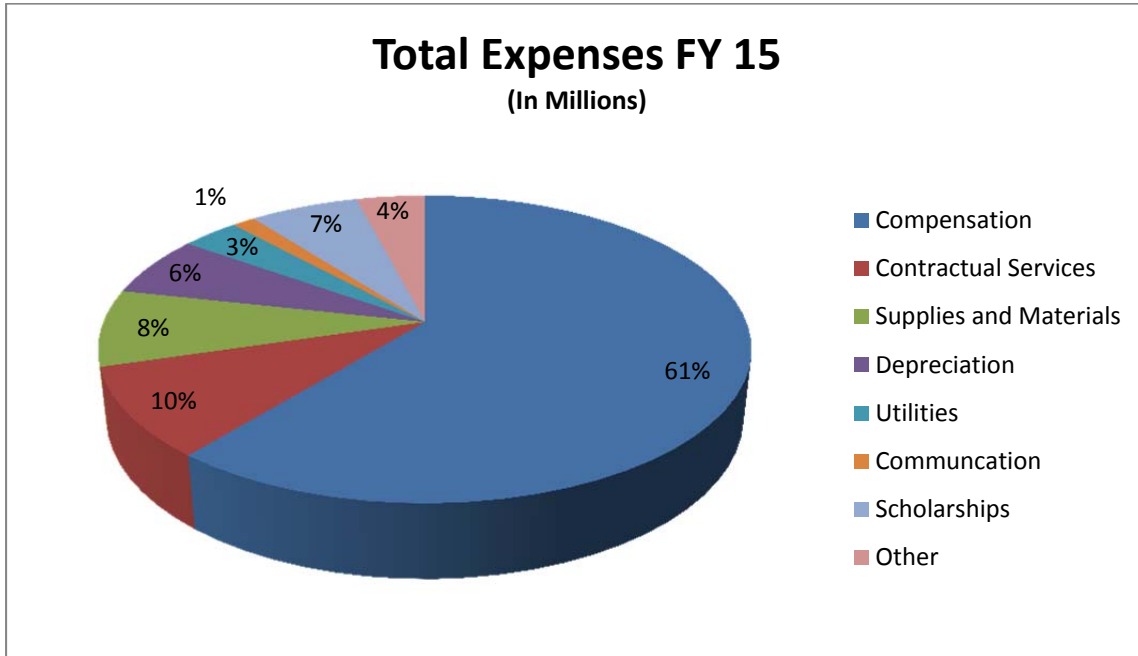
Operating expenses for the year are \$32 million. This is an increase of \$2,272,092 from fiscal year 2015. The increase of \$2,710,319 in supplies and materials as well as the decrease in utilities of \$126,999 and other expenses of \$186,708 account for this difference. The large increase in supplies and materials was due to the renovations on campus. This resulted from necessary supplies and materials being required for these construction projects.

The following graph represents the percentages of expenses for the fiscal year 2016 compared to fiscal year 2015. Again, overall percentages are very similar.

MANAGEMENT'S DISCUSSION AND ANALYSIS (UNAUDITED)--Continued

NORTHWESTERN OKLAHOMA STATE UNIVERSITY  
A Department of the Regional University System of Oklahoma

June 30, 2016



MANAGEMENT'S DISCUSSION AND ANALYSIS (UNAUDITED)--Continued

NORTHWESTERN OKLAHOMA STATE UNIVERSITY  
 A Department of the Regional University System of Oklahoma

June 30, 2016

STATEMENT OF CASH FLOWS

The final statement presented by Northwestern Oklahoma State University is the Statement of Cash Flows. The primary purpose of the Statement of Cash Flows is to provide information about the cash receipts and disbursements of an entity during a period. This statement also aids in the assessment of an entity's ability to generate future net cash flows, ability to meet obligations as they come due, and needs for external financing. The statement is divided into five parts.

STATEMENT OF CASH FLOWS  
 (In Millions)

	Years Ended June 30		Increase (Decrease)
	2016	2015	
CASH PROVIDED BY (USED IN):			
Operating activities	\$ (15.6)	\$ (14.2)	\$ (1.4)
Noncapital financing activities	13.4	14.9	(1.5)
Investing activities	0.3	0.2	0.1
Capital and related financing activities	1.8	(0.3)	2.1
NET INCREASE (DECREASE) IN CASH	(0.1)	0.6	(0.7)
CASH AT BEGINNING OF YEAR	7.6	7.0	0.6
CASH AT END OF YEAR	<u>\$ 7.5</u>	<u>\$ 7.6</u>	<u>\$ (0.1)</u>

The first section presents operating cash flows and shows the net cash used by the operating activities of the institution. The second section reflects cash flows from noncapital financing activities. This section reflects the cash received and spent for nonoperating, noninvesting, and noncapital financing purposes. The third section shows the cash flows from investing activities and shows the purchase, proceeds, and interest received from investing activities. The fourth section presents cash flows from capital and related financing activities. This section deals with the cash used for the acquisition and construction of capital and related items. The fifth section reconciles the net cash used to the operating income or loss reflected on the Statement of Revenues, Expenses, and Change in Net Position.

The University's cash and cash equivalents decreased by \$104,202 from 2015 to 2016. This change was primarily due to the reduction in state appropriations. There had been an increase in cash of \$618,472 from 2014 to 2015. The University adopted a planned strategy to increase cash reserves during the prior two fiscal years. This effort enabled the University to adjust for the loss of state appropriations during FY 16.

## MANAGEMENT'S DISCUSSION AND ANALYSIS (UNAUDITED)--Continued

NORTHWESTERN OKLAHOMA STATE UNIVERSITY  
A Department of the Regional University System of Oklahoma

June 30, 2016

### ECONOMIC OUTLOOK

The economic stability and future growth of the University is directly related to the State's economic stability. For several years Oklahoma had prospered due to abundant oil and natural gas activity. This increase in work opportunities, often with very competitive wages, had impacted the University in hiring and retaining full-time employees as well as the constant effort of the recruitment and retention of students. During the past two years, this oil and gas activity has drastically slowed.

During FY16, Northwestern experienced a drop in enrollment showing a 3.7% decrease in credit hours generated. Part of this decline can be attributed to the other work opportunities available in western Oklahoma. A continued strategic direction for the University is to focus on student recruitment and retention. With the help of an aggressive enrollment management plan updated annually, the university faculty and staff works closely with all potential and current students in an effort to recruit and retain the very best. Northwestern was selected to participate in the Academy for Student Persistence and Completion through the Higher Learning Commission. This participation will enable the University to learn about and implement best practices in retention.

Northwestern has placed a high priority on the development of grants and sponsored programs. New grant opportunities are always being explored by faculty and staff. During FY16, Northwestern's Title III grant continued to focus on student retention of at-risk students. This effort directly ties into the retention goals for the University. Faculty in selected discipline areas received additional professional development training. The grant also allows for equipment purchases such as new smart boards in several of the classrooms. Northwestern was awarded a Student Support Services grant that began during the fall of FY16. Staff, with this grant, will work with at-risk, first-time students in an effort to make their college transition successful. Faculty and staff will continue to explore new grant opportunities during FY17.

Construction and expansion projects continue to be a focus for Northwestern. During FY16, several projects took place on campus. Fryer Hall, a female dorm, saw renovations completed in August of 2015, while Coronado Hall, a male dorm, underwent major renovations in May of 2016. All suites in Coronado saw the addition of new bathrooms, showers, and HVAC units. Some furniture was upgraded as well as updates to common areas. The press box at Ranger Field was also completed.

MANAGEMENT'S DISCUSSION AND ANALYSIS (UNAUDITED)--Continued

NORTHWESTERN OKLAHOMA STATE UNIVERSITY  
A Department of the Regional University System of Oklahoma

June 30, 2016

ECONOMIC OUTLOOK – Continued

The Northwestern Oklahoma State University Foundation, Inc. plays a critical role in supporting the University and its mission. New contributions and endowments continue to be secured, which provides support for the operations of Northwestern. The Endowed Chair Program provides matching funds through the Oklahoma State Regents for Higher Education and the State of Oklahoma. As of June 30, 2016, Northwestern has 43 endowed chairs (23 waiting to be matched by the State), 2 professorship (1 unmatched), and 12 lectureships (10 unmatched). Once these accounts are fully matched, additional dollars of earnings will be available to Northwestern to help with faculty salaries. Northwestern is currently in the quiet phase of a comprehensive capital campaign. Specific details of the program will be publicly announced in the near future.

During FY16, a historic development occurred at Northwestern. Both the RUSO Board of Regents and the Oklahoma State Regents for Higher Education approved Northwestern to offer its first doctorate degree. The Doctor of Nursing Practice will start accepting candidates with classes beginning in the fall of 2017. This new academic program is possible only through the generosity of the Wisdom Family Foundation and the Charles Morton Share Trust, which combined donated \$5 million dollars in Endowed Chairs to the university. At some point in the future these chairs will be matched with another \$5 million by the State of Oklahoma.

During FY16, the State of Oklahoma experienced significant financial challenges and funding shortfalls. All agencies, including Northwestern, received reductions in state appropriations. Northwestern alone saw its funding reduced by 16.4%. To combat this problem travel was reduced, expenses were closely monitored and vacant positions were evaluated, with some not being refilled. As FY17 began, 14 full-time positions had been eliminated, including one academic dean's position.

The future of Northwestern Oklahoma State University is bright, but state funding and student enrollment continue to be focal points. If additional budget shortfalls occur during FY17, aggressive measures will be needed to combat the reduction of funds. Enrollment for the fall 2016 semester showed an increase over the fall of 2015, confirming that recent improvements in recruitment and retention efforts were showing positive results.

STATEMENT OF NET POSITION

NORTHWESTERN OKLAHOMA STATE UNIVERSITY  
A Department of the Regional University System of Oklahoma

	<u>University</u>	<u>Component Unit</u>
	June 30, 2016	June 30, 2016
<b>ASSETS</b>		
<b>CURRENT ASSETS</b>		
Cash and cash equivalents	\$ 5,135,683	\$ 348,517
Restricted cash and cash equivalents	269,927	-
Accounts receivable, net	435,954	-
Receivable from state agencies	220,757	-
Interest and other receivables	4,873	-
Inventories	13,062	-
<b>TOTAL CURRENT ASSETS</b>	<u>6,080,256</u>	<u>348,517</u>
<b>NONCURRENT ASSETS</b>		
Restricted cash and cash equivalents	2,047,405	-
Investments	-	21,471,053
Other assets	165	797,823
Land and mineral rights	-	2,568,374
Capital assets, net	27,044,390	253,271
<b>TOTAL NONCURRENT ASSETS</b>	<u>29,091,960</u>	<u>25,090,521</u>
<b>TOTAL ASSETS</b>	<u>\$ 35,172,216</u>	<u>\$ 25,439,038</u>
<b>DEFERRED OUTFLOWS OF RESOURCES</b>		
Deferred charge on ODFA lease restructure	<u>\$ 33,033</u>	<u>\$ -</u>

(Continued)



## STATEMENT OF NET POSITION--Continued

NORTHWESTERN OKLAHOMA STATE UNIVERSITY  
A Department of the Regional University System of Oklahoma

	University	Component Unit
	June 30, 2016	June 30, 2016
<b>LIABILITIES AND NET POSITION</b>		
<b>CURRENT LIABILITIES</b>		
Accounts payable	\$ 824,633	\$ 60,682
Accrued payroll	263,980	-
Unearned revenue	144,876	-
Deposits held in custody for others	197,819	-
Current portion of non current liabilities	1,445,377	-
<b>TOTAL CURRENT LIABILITIES</b>	<u>2,876,685</u>	<u>60,682</u>
<b>NONCURRENT LIABILITIES</b>		
Accrued compensated absences	119,216	-
ODFA master lease program	1,531,583	-
Lease obligation payable to state agency	4,473,618	-
Other capital lease obligation	102,830	-
Note payable	-	65,000
Other noncurrent liabilities	155,286	-
<b>TOTAL NONCURRENT LIABILITIES</b>	<u>6,382,533</u>	<u>65,000</u>
<b>TOTAL LIABILITIES</b>	<u>\$ 9,259,218</u>	<u>\$ 125,682</u>
<b>DEFERRED INFLOWS OF RESOURCES</b>		
Deferred gain on OCIA lease restructure	<u>\$ 160,649</u>	<u>\$ -</u>
<b>NET POSITION</b>		
Net investment in capital assets	\$ 19,584,557	\$ -
Restricted:		
Nonexpendable:		
Grants, bequests and contributions	-	24,143,593
Expendable:		
Scholarships, instruction and other	318,263	1,004,418
Capital projects and debt service	1,375,140	-
Unrestricted	<u>4,507,422</u>	<u>165,345</u>
<b>TOTAL NET POSITION</b>	<u>\$ 25,785,382</u>	<u>\$ 25,313,356</u>

See notes to financial statements.

STATEMENT OF REVENUES, EXPENSES, AND CHANGES IN NET POSITION

NORTHWESTERN OKLAHOMA STATE UNIVERSITY

A Department of the Regional University System of Oklahoma

	University Year ended June 30, 2016	Component Unit Year ended June 30, 2016
<b>OPERATING REVENUES</b>		
Student tuition and fees, net of scholarship discounts and allowances of \$7,415,000	\$ 7,290,649	\$ -
Federal and state grants and contracts	1,310,860	-
Housing and food service, net of scholarship discounts and allowances of \$246,000	4,761,486	-
Contributions	-	5,037,809
Other operating revenues	472,360	799,208
<b>TOTAL OPERATING REVENUES</b>	<u>13,835,355</u>	<u>5,837,017</u>
<b>OPERATING EXPENSES</b>		
Compensation and employee benefits	18,107,930	-
Contractual services	2,708,822	-
Supplies and materials	5,113,838	-
Depreciation	1,910,696	-
Utilities	894,765	-
Communication expense	288,999	-
Scholarships and fellowships	1,893,831	888,234
Other operating expenses	1,058,027	1,842,283
<b>TOTAL OPERATING EXPENSES</b>	<u>31,976,908</u>	<u>2,730,517</u>
<b>OPERATING INCOME (LOSS)</b>	<u>(18,141,553)</u>	<u>3,106,500</u>
<b>NONOPERATING REVENUES (EXPENSES)</b>		
State appropriations	8,886,340	-
Federal and state grants and contracts	4,178,595	-
Gifts	374,454	-
Investment income	284,219	(106,536)
Interest expense	(431,189)	-
<b>NET NONOPERATING REVENUE (EXPENSES)</b>	<u>13,292,419</u>	<u>(106,536)</u>
<b>INCOME (LOSS) BEFORE OTHER REVENUES, EXPENSES, GAINS, AND LOSSES</b>	<u>(4,849,134)</u>	<u>2,999,964</u>
Private gifts for capital assets	3,093,986	-
State appropriations restricted for capital purposes	1,151,848	-
OCIA on-behalf state appropriations	889,410	-
Capital assets earned	38,821	-
<b>CHANGE IN NET POSITION</b>	<u>324,931</u>	<u>2,999,964</u>
<b>NET POSITION, BEGINNING OF YEAR - Restated</b>	<u>25,460,451</u>	<u>22,313,392</u>
<b>NET POSITION, END OF YEAR</b>	<u>\$ 25,785,382</u>	<u>\$ 25,313,356</u>

See notes to financial statements.

STATEMENT OF CASH FLOWS

NORTHWESTERN OKLAHOMA STATE UNIVERSITY  
 A Department of the Regional University System of Oklahoma

Year Ended June 30, 2016

CASH FLOWS FROM OPERATING ACTIVITIES

Tuition and fees	\$ 7,148,890
Grants and contracts	1,247,534
Auxiliary enterprise charges and other operating receipts	5,221,695
Payments to employees for salaries and benefits	(18,113,031)
Payments to suppliers	<u>(11,115,305)</u>
NET CASH USED IN OPERATING ACTIVITIES	(15,610,217)

CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES

State appropriations	8,886,340
Nonoperating grants	4,178,595
Direct student loans received	5,436,602
Direct student loan payments	(5,436,602)
Gifts for other than capital purposes	<u>374,454</u>
NET CASH PROVIDED BY NONCAPITAL FINANCING ACTIVITIES	13,439,389

CASH FLOWS FROM INVESTING ACTIVITIES

Interest income received	<u>283,804</u>
NET CASH PROVIDED BY INVESTING ACTIVITIES	283,804

CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES

Cash paid for capital assets	(2,849,102)
Capital appropriations received	1,151,848
Interest paid on capital debt and leases	(73,770)
Gifts for capital assets	3,093,986
Repayment of capital debt and leases	<u>459,860</u>
NET CASH PROVIDED BY CAPITAL AND RELATED FINANCING ACTIVITIES	<u>1,782,822</u>

NET CHANGE IN CASH AND CASH EQUIVALENTS (104,202)

CASH AND CASH EQUIVALENTS, BEGINNING OF YEAR 7,557,217

CASH AND CASH EQUIVALENTS, END OF YEAR \$ 7,453,015

(Continued)

STATEMENT OF CASH FLOWS--Continued

NORTHWESTERN OKLAHOMA STATE UNIVERSITY  
A Department of the Regional University System of Oklahoma

Year Ended June 30, 2016

RECONCILIATION OF OPERATING LOSS TO  
NET CASH USED IN OPERATING ACTIVITIES

Operating loss	\$ (18,141,553)
Adjustments to reconcile operating loss to net cash used in operating activities:	
Depreciation expense	1,910,696
Loss on disposal of capital assets	8,626
Changes in assets and liabilities:	
Accounts receivable	(106,211)
Receivable from state agencies	101,751
Inventories	5,894
Other assets	52
Accounts payable and accrued expenses	691,879
Unearned revenue	(4,811)
Student and other deposits	(1,015)
Compensated absences	(75,525)
	<u>(75,525)</u>
NET CASH USED IN OPERATING ACTIVITIES	<u>\$ (15,610,217)</u>

NONCASH INVESTING, NONCAPITAL FINANCING  
AND CAPITAL AND RELATED FINANCING ACTIVITIES

Interest on capital debt paid by state agency on behalf of the University	<u>\$ 260,233</u>
Principal on capital debt paid by state agency on behalf of the University	<u>\$ 629,177</u>

RECONCILIATION OF CASH AND CASH EQUIVALENTS  
TO STATEMENT OF NET ASSETS

Current assets:	
Cash and cash equivalents	\$ 5,135,683
Restricted cash and cash equivalents	269,927
Noncurrent assets:	
Restricted cash and cash equivalents	<u>2,047,405</u>
TOTAL CASH AND CASH EQUIVALENTS	<u>\$ 7,453,015</u>

See notes to financial statements.

## NOTES TO FINANCIAL STATEMENTS

NORTHWESTERN OKLAHOMA STATE UNIVERSITY  
A Department of the Regional University System of Oklahoma

June 30, 2016

### NOTE A--SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Nature of Organization: Northwestern Oklahoma State University (the "University") is a regional University operating under the jurisdiction of the Regional University System of Oklahoma ("RUSO" or the "System") and the Oklahoma State Regents for Higher Education.

Reporting Entity: Northwestern Oklahoma State University is one of six institutions of higher education in Oklahoma that comprise part of the Regional University System of Oklahoma, which in turn is part of the Higher Education component unit of the State of Oklahoma.

The Board of Regents has constitutional authority to govern, control and manage the Regional University System of Oklahoma; which consist of six institutions and an administrative office. This authority includes but is not limited to the power to designate management, the ability to significantly influence operations, acquire and take title to real and personal property in its name, appoint or hire all necessary officers, supervisors, instructors, and employees for member institutions.

Northwestern Oklahoma State University is considered a department of the System for financial reporting purposes and is included in the System's financial reporting entity.

Component Unit: Northwestern Oklahoma State University Foundation, Inc. (the "Foundation") and Alumni Association (the "Association") are combined and considered a component unit of the University under Governmental Accounting Standards Board (GASB) Statement No. 14, *The Financial Reporting Entity*, as amended by GASB Statement No. 39 *Determining Whether Certain Organizations Are Component Units-An Amendment of GASB Statement No. 14* and GASB Statement No. 61, *The Financial Reporting Entity: Omnibus - an Amendment of GASB Statements No. 14 and No. 34*, and their financial statements are discretely presented with the financial statements of the University. The Foundation is a perpetual corporation formed under the laws of the State of Oklahoma for charitable, benevolent, educational, and scientific purposes. Its specific purpose is to benefit the University through charitable actions and activities. Its activities are guided by a Board of Trustees, which receives no compensation for their activities. The Association is an unincorporated association formed for the benefit of the Alumni of Northwestern Oklahoma State University as a whole. Its specific purpose is to provide alumni with information about University related organizations and activities. Its activities are guided by a Board of Directors who receives no compensation for their activities. In September 1986, the two organizations adopted an operating agreement

NOTES TO FINANCIAL STATEMENTS--Continued

NORTHWESTERN OKLAHOMA STATE UNIVERSITY  
A Department of the Regional University System of Oklahoma

June 30, 2016

NOTE A--SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES--Continued

Component Unit-Continued

for their mutual benefit. Its purpose was to avoid repetition of projects and to pool the resources of the two organizations. The two organizations remained separate entities, each governed by its own board. The president of the Association will be appointed as a trustee of the Foundation. Accounting for the funds and fund transactions is accomplished by the Foundation. The Foundation provides financial support as needed to the Alumni Association. Each year the Alumni Association Board presents a budget to the Foundation Board to finance its operations.

Financial Statement Presentation: The University's financial statements are presented in accordance with the requirements of GASB Statement No. 34, *Basic Financial Statement and Management's Discussion and Analysis - for State and Local Governments*, and GASB Statement No. 35, *Basic Financial Statements and Management's Discussion and Analysis for Public Colleges and Universities*. Under GASB Statements No. 34 and 35, the University is required to present a statement of net position classified between current and noncurrent assets and liabilities and deferred outflows and inflows; 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.

Basis of Accounting: For financial reporting purposes, the University is considered a department of special-purpose government engaged only in business-type activities. Accordingly, the University'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 statement of cash flows, the University 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.

Investments: The University accounts for its investments at fair value in accordance with GASB Statement No. 31, *Accounting and Financial Reporting for Certain Investments and for External Investment Pools*. Changes in unrealized gain (loss) on the carrying value of investments are reported as a component of investment income in the statement of revenues, expenses, and changes in net position. At June 30, 2016, all of the University's investments were considered cash equivalents.

NOTES TO FINANCIAL STATEMENTS--Continued

NORTHWESTERN OKLAHOMA STATE UNIVERSITY  
A Department of the Regional University System of Oklahoma

June 30, 2016

NOTE A--SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES--Continued

Accounts Receivable: Accounts receivable consists of tuition and fee charges to students and auxiliary enterprise services provided to students, faculty, and staff, the majority of each residing in the State of Oklahoma. Accounts receivable also include amounts due from the federal government, state, and local governments, or private sources, in connection with reimbursement of allowable expenditures made pursuant to the University's grants and contracts. Accounts receivable are recorded net of estimated uncollectible amounts.

Inventories: Inventories consist of maintenance supplies and are carried at the lower of cost or market on the first-in, first-out ("FIFO") basis.

Restricted Cash and Investments: Cash and investments that are externally restricted to make long-term student loans, or to purchase capital or other noncurrent assets, are classified as restricted assets in the statements of net position.

Capital Assets: Capital assets are recorded at cost at the date of acquisition, or fair market value at the date of donation in the case of gifts. For equipment, the University'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 and infrastructure that significantly increase the value or extend the useful life of the structure and that have a cost of \$25,000 or more are capitalized. Land Improvements that significantly increase the value or extend the useful life of the structure and that have a cost of \$5,000 or more are capitalized. Routine repairs and maintenance are charged to operating expense in the year in which the expense is incurred.

Depreciation is computed using the straight-line method over the estimated useful lives of the assets, generally 40 years for buildings, 20 years for infrastructure and land improvements, and 5 years for library materials and equipment.

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

Compensated Absences: Employee vacation pay is accrued at year-end for financial statement purposes. The liability and expense incurred are recorded at year-end as accrued vacation payable 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.

NOTES TO FINANCIAL STATEMENTS--Continued

NORTHWESTERN OKLAHOMA STATE UNIVERSITY  
A Department of the Regional University System of Oklahoma

June 30, 2016

NOTE A--SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES--Continued

Noncurrent liabilities: Noncurrent liabilities include (1) principal amounts of revenue bonds payable, notes payable, and capital lease obligations with contractual maturities greater than one year; (2) estimated amounts for accrued compensated absences and other liabilities that will not be paid within the next fiscal year; and (3) other liabilities that, although payable within one year, are to be paid from funds that are classified as noncurrent assets.

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

Net investment in capital assets: The net investment in capital assets component of net position consists of capital assets, net of accumulated depreciation, reduced by the outstanding balances of bonds, notes, or other borrowings that are attributable to the acquisition, construction, or improvement of those assets. Deferred outflows of resources and deferred inflows of resources that are attributable to the acquisition, construction, or improvement of those assets or related debt are also included in this component of net position. To the extent debt has been incurred but not yet expended for capital assets, such amounts are not included as a component of net investment in capital assets.

Restricted net position - expendable: Restricted expendable net position includes resources in which the University 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 University 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 University's policy is to first apply the expense towards restricted resources and then toward unrestricted resources.



NOTES TO FINANCIAL STATEMENTS--Continued

NORTHWESTERN OKLAHOMA STATE UNIVERSITY  
A Department of the Regional University System of Oklahoma

June 30, 2016

NOTE A--SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES--Continued

Income Taxes: The University, 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 University may be subject to income taxes on unrelated business income under the Internal Revenue Code Section 511(a)(2)(B).

Use of Estimates: The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect certain reported amounts and disclosures. Accordingly, actual results could differ from these estimates.

Classification of Revenues: The University 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) interest on institutional student loans; and (4) certain federal, state, and local grants and contracts.

Nonoperating revenues: Nonoperating revenues include activities that have the characteristics of nonexchange transactions, such as gifts and contributions, and other revenue sources that are defined as nonoperating revenues by GASB No. 9 *Reporting Cash Flows of Proprietary and Nonexpendable Trust Funds and Governmental Entities That Use Proprietary Fund Accounting*, and GASB No. 34, such as state appropriations, governmental and other pass-through grants, 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 statements 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 University and the amount that is paid by students and/or third parties making payments on the students' behalf. Certain governmental grants, such as Pell grants, and other federal, state, or nongovernmental programs, are recorded as nonoperating revenues in the University's financial statements. To the extent that revenues from such programs are used to satisfy tuition and fees and other student charges, the University has recorded a scholarship discount and allowance.

NOTES TO FINANCIAL STATEMENTS--Continued

NORTHWESTERN OKLAHOMA STATE UNIVERSITY  
A Department of the Regional University System of Oklahoma

June 30, 2016

NOTE A--SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES--Continued

Deferred Outflows of Resources: Deferred outflows are the consumption of net position by the University that is applicable to a future reporting period. At June 30, 2016, the University's deferred outflows of resources were comprised of deferred charges on OCIA and ODFA lease restructurings. These deferred outflows of resources are recognized as a component of interest expense over the remaining life of the old debt or the life of the new debt, whichever is shorter.

Deferred Inflows of Resources: Deferred inflows are the acquisition of net position by the University that is applicable to a future reporting period. At June 30, 2016, the University's deferred inflows of resources is comprised of a deferred gain on the restructuring of an OCIA lease.

New Accounting Pronouncements Adopted in Fiscal Year 2016: The University adopted the following new accounting pronouncement during the year ended June 30, 2016:

- *Statement No. 72, Fair Value Measurement and Application*  
GASB Statement No. 72 addresses accounting and financial reporting issues related to fair value measurements. This Statement provides guidance for determining a fair value measurement for financial reporting purposes. This Statement also provides guidance for applying fair value to certain investments and disclosures related to all fair value measurements.
- *GASB Statement No. 76, The Hierarchy of Generally Accepted Accounting Principles for State and Local Governments*  
GASB Statement No. 76 identifies, in the context of the current governmental financial reporting environment, the hierarchy of generally accepted accounting principles (GAAP). The "GAAP hierarchy" consists of the sources of accounting principles used to prepare financial statements of state and local governmental entities in conformity with GAAP and the framework for selecting those principles. This Statement reduces the GAAP hierarchy to two categories of authoritative GAAP and addresses the use of authoritative and nonauthoritative literature in the event that the accounting treatment for a transaction or other event is not specified within a source of authoritative GAAP.

NOTES TO FINANCIAL STATEMENTS--Continued

NORTHWESTERN OKLAHOMA STATE UNIVERSITY  
A Department of the Regional University System of Oklahoma

June 30, 2016

NOTE A--SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES--Continued

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

- *GASB Statement No. 73, Accounting and Financial Reporting for Pensions and Related Assets That Are Not within the Scope of GASB Statement 68, and Amendments to Certain Provisions of GASB Statements 67 and 68*

GASB No. 73 was issued in June 2015 and establishes requirements for defined benefit pensions that are not within the scope of Statement No. 68, *Accounting and Financial Reporting for Pensions*, as well as for the assets accumulated for purposes of providing those pensions. In addition, it establishes requirements for defined contribution pensions that are not within the scope of Statement 68. It also amends certain provisions of Statement No. 67, *Financial Reporting for Pension Plans*, and Statement 68 for pension plans and pensions that are within their respective scopes. The requirements of this Statement that address accounting and financial reporting by employers and governmental nonemployer contributing entities for pensions that are not within the scope of Statement 68 are effective for financial statements for fiscal years beginning after June 15, 2016, and the requirements of this Statement that address financial reporting for assets accumulated for purposes of providing those pensions are effective for fiscal years beginning after June 15, 2015. The requirements of this Statement is for pension plans that are within the scope of Statement 67 or for pensions that are within the scope of Statement 68 are effective for fiscal years beginning after June 15, 2015. The University has not yet determined the impact that implementation of GASB 75 will have on its net position.

NOTES TO FINANCIAL STATEMENTS--Continued

NORTHWESTERN OKLAHOMA STATE UNIVERSITY  
A Department of the Regional University System of Oklahoma

June 30, 2016

NOTE A--SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES—Continued

New Accounting Pronouncements Issued Not Yet Adopted - Continued

- *GASB Statement No. 74, Financial Reporting for Postemployment Benefit Plans Other Than Pension Plans*  
GASB No. 74 was issued in June 2015, and replaces Statements No. 43, Financial Reporting for Postemployment Benefit Plans Other Than Pension Plans, as amended, and No. 57, OPEB Measurements by Agent Employers and Agent Multiple-Employer Plans. It also includes requirements for defined contribution OPEB plans that replace the requirements for those OPEB plans in Statement No. 25, Financial Reporting for Defined Benefit Pension Plans and Note Disclosures for Defined Contribution Plans, as amended, Statement 43, and Statement No. 50, Pension Disclosures. This Statement is effective for financial statements for fiscal years beginning after June 15, 2016. The University has not yet determined the impact that implementation of GASB 75 will have on its net position.
- *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 University has not yet determined the impact that implementation of GASB 75 will have on its net position.

NOTES TO FINANCIAL STATEMENTS--Continued

NORTHWESTERN OKLAHOMA STATE UNIVERSITY  
A Department of the Regional University System of Oklahoma

June 30, 2016

NOTE A--ACCOUNTING STANDARDS ISSUED --Continued

New Accounting Pronouncements Issued Not Yet Adopted - Continued

- *GASB Statement No. 77, Tax Abatement Disclosures*  
GASB 77 was issued in August 2015, and establishes financial reporting standards for tax abatement agreements entered into by state and local governments. The disclosures required by this Statement encompass tax abatements resulting from both (a) agreements that are entered into by the reporting government and (b) agreements that are entered into by other governments and that reduce the reporting government's tax revenues. The requirements of this Statement are effective for financial statements for periods beginning after December 15, 2015. The University has not yet determined the impact that implementation of GASB 75 will have on its net position.
- *GASB Statement No. 78, Pensions Provided Through Certain Multiple-Employer Defined Benefit Pension Plans*  
GASB 78 was issued in December 2015, and amends the scope and applicability of Statement 68 to exclude pensions provided to employees of state or local governmental employers through a cost-sharing multiple employer defined benefit pension plan that (1) is not a state or local governmental pension plan, (2) is used to provide defined benefit pensions both to employees of state or local governmental employers and to employees of employers that are not state or local governmental employers, and (3) has no predominant state or local governmental employer (either individually or collectively with other state or local governmental employers that provide pensions through the pension plan). This Statement establishes requirements for recognition and measurement of pension expense, expenditures, and liabilities; note disclosures; and required supplementary information for pensions that have the characteristics described above. The requirements of this Statement are effective for reporting periods beginning after December 15, 2015. The statement does not affect the University's financial statements.

NOTES TO FINANCIAL STATEMENTS--Continued

NORTHWESTERN OKLAHOMA STATE UNIVERSITY  
A Department of the Regional University System of Oklahoma

June 30, 2016

NOTE A--ACCOUNTING STANDARDS ISSUED –Continued

New Accounting Pronouncements Issued Not Yet Adopted - Continued

- *GASB Statement No. 79, Certain External Investment Pools and Pool Participants*  
GASB 79 was issued in December 2015, and addresses accounting and financial reporting for certain external investment pools and pool participants. Specifically, it establishes criteria for an external investment pool to qualify for making the election to measure all of its investments at amortized cost for financial reporting purposes. An external investment pool qualifies for that reporting if it meets all of the applicable criteria established in this Statement. The specific criteria address (1) how the external investment pool transacts with participants; (2) requirements for portfolio maturity, quality, diversification, and liquidity; and (3) calculation and requirements of a shadow price. Significant noncompliance prevents the external investment pool from measuring all of its investments at amortized cost for financial reporting purposes. Professional judgment is required to determine if instances of noncompliance with the criteria established by this Statement during the reporting period, individually or in the aggregate, were significant. The requirements of this Statement are effective for reporting periods beginning after June 15, 2015, except for certain provisions on portfolio quality, custodial credit risk, and shadow pricing. Those provisions are effective for reporting periods beginning after December 15, 2015. At this time, the impact to the University is unknown.
- *GASB Statement No. 80, Blending Requirements for Certain Component Units*  
An Amendment of GASB Statement No. 14 – GASB 80 was issued in January 2016, and amends the blending requirements for the financial statement presentation of component units of all state and local governments. The additional criterion requires blending of a component unit incorporated as a not-for profit corporation in which the primary government is the sole corporate member. The additional criterion does not apply to component units included in the financial reporting entity pursuant to the provisions of Statement No. 39, Determining Whether Certain Organizations Are Component Units. The requirements of this Statement are effective for reporting periods beginning after June 15, 2016. At this time, the impact to the University is unknown.

NOTES TO FINANCIAL STATEMENTS--Continued

NORTHWESTERN OKLAHOMA STATE UNIVERSITY  
A Department of the Regional University System of Oklahoma

June 30, 2016

NOTE A--ACCOUNTING STANDARDS ISSUED --Continued

New Accounting Pronouncements Issued Not Yet Adopted - Continued

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

Restatement– In 2016 the University discovered that certain previously incurred capital costs had not been included in its capital assets. As a result, the University has restated its beginning net position to include those costs in its capital assets.

Following is a summary of the restated net position as of July 1, 2015:

Net assets at June 30, 2015	
as previously reported	\$ 25,235,259
Addition of capital assets	<u>225,192</u>
Net assets at June 30, 2015	
as restated	\$ <u>25,460,451</u>

NOTE B--DEPOSITS AND INVESTMENTS

Deposits: *Custodial credit risk* for deposits is the risk that in the event of a bank failure, the University's deposits may not be returned or the University will not be able to recover collateral securities in the possession of an outside party. Generally, the University deposits its funds with the Office of the State Treasurer (OST), and those funds are pooled with funds of other state agencies and then, in accordance with statutory limitations, are placed in financial institutions or invested as the OST may determine, in the state's name. State statutes require the OST to ensure that all state funds are either insured by Federal Deposit Insurance, collateralized by securities held by the cognizant Federal Reserve Bank, or invested in U.S. government obligations. The OST's responsibilities include receiving and collateralizing the deposit of State funds, investing State funds in compliance with statutory requirements, and maintaining adequate liquidity to meet the cash flow needs of the State and all its funds and agencies.

NOTES TO FINANCIAL STATEMENTS--Continued

NORTHWESTERN OKLAHOMA STATE UNIVERSITY  
A Department of the Regional University System of Oklahoma

June 30, 2016

NOTE B--DEPOSITS AND INVESTMENTS - Continued

If the University deposits funds directly with financial institutions, those funds must be insured by Federal Deposit Insurance or collateralized by securities held by the cognizant Federal Reserve Bank in the University's name.

Some deposits with the OST are placed in the OST's internal investment pool, *OK INVEST*. *OK INVEST* pools the resources of all state funds and agencies and invests them in (a) U.S. treasury securities which are explicitly backed by the full faith and credit of the U.S. government; (b) U.S. agency securities which carry an implicit guarantee of the full faith and credit of the U.S. government; (c) money market mutual funds which participate in investments, either directly or indirectly, in securities issued by the U.S. treasury and/or agency and repurchase agreements relating to such securities; (d) investments related to tri-party repurchase agreements which are collateralized at 102% and, whereby, the collateral is held by a third party in the name of the OST; (e) collateralized certificates of deposits; (f) commercial paper; (g) obligations of state and local governments; and (h) State of Israel bonds. At June 30, 2016, the carrying amount of all University deposits with the OST and other financial institutions was \$7,227,819. This amount consisted of deposits with the OST (\$7,223,269) and change funds (\$4,550). Of funds on deposit with the OST, amounts invested in *OK INVEST* totaled \$2,856,350 at June 30, 2016. The differences between the bank balance of deposits and the related carrying amounts were generally not significant and are due to outstanding checks and deposits in transit.

Agencies and funds that are considered to be part of the State's reporting entity in the State's Comprehensive Annual Financial Report are allowed to participate in *OK INVEST*. Oklahoma statutes and the OST establish the primary objectives and guidelines governing the investment of funds in *OK INVEST*.

Safety, liquidity, and return on investment are the objectives which establish the framework for the day to day *OK INVEST* management with an emphasis on safety of the capital and the probable income to be derived and meeting the State and its funds' and agencies' daily cash flow requirements.

Guidelines in the Investment Policy address credit quality requirements and diversification percentages and specify the types and maturities of allowable investments, and the specifics regarding these policies can be found on the OST website at <http://www.treasurer.state.ok.us/>.



NOTES TO FINANCIAL STATEMENTS--Continued

NORTHWESTERN OKLAHOMA STATE UNIVERSITY  
A Department of the Regional University System of Oklahoma

June 30, 2016

NOTE B--DEPOSITS AND INVESTMENTS--Continued

*OK INVEST* includes a substantial investment in securities with an overnight maturity as well as in U.S. government securities with a maturity of up to ten years. *OK INVEST* maintains an overall weighted average maturity of no more than four years. The amount on deposit with *OK INVEST* is treated as demand accounts and reported as cash equivalents in the accompanying financial statements.

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

NOTE C--ACCOUNTS RECEIVABLE

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

Student tuition and fees	\$ 343,692
Auxiliary enterprises and other operating activities	155,526
Federal, state, and private grants and contracts	<u>252,729</u>
	751,947
Less: allowance for doubtful accounts	<u>315,993</u>
NET ACCOUNTS RECEIVABLE	<u><u>\$ 435,954</u></u>

NOTES TO FINANCIAL STATEMENTS--Continued

NORTHWESTERN OKLAHOMA STATE UNIVERSITY  
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June 30, 2016

NOTE D--CAPITAL ASSETS

Following are the changes in capital assets for the year ended June 30, 2016:

	Restated June 30, 2015	Additions	Retirements/ Adjustments	June 30, 2016
Capital assets not being depreciated				
Land	\$ 1,077,242	\$ -	\$ -	\$ 1,077,242
Construction in progress	<u>3,997,094</u>	<u>818,548</u>	<u>(3,771,901)</u>	<u>1,043,741</u>
Total assets not being depreciated	<u>\$ 5,074,336</u>	<u>\$ 818,548</u>	<u>\$ (3,771,901)</u>	<u>\$ 2,120,983</u>
Other capital assets				
Land improvements	\$ 3,239,426	\$ 1,323,285	\$ -	\$ 4,562,711
Leasehold improvements	72,696	82,250	-	154,946
Buildings	41,868,611	4,005,252	-	45,873,863
Furniture, fixtures and equipment	3,637,502	358,925	(89,315)	3,907,112
Library materials	<u>1,784,480</u>	<u>32,742</u>	<u>(310,688)</u>	<u>1,506,534</u>
Total other capital assets	<u>50,602,715</u>	<u>5,802,454</u>	<u>(400,003)</u>	<u>56,005,166</u>
Less accumulated depreciation for				
Land improvements	1,967,997	332,752	-	2,300,749
Leasehold improvements	47,779	7,044	-	54,823
Buildings	22,921,711	1,213,285	-	24,134,996
Furniture, fixtures and equipment	2,968,068	303,204	(80,690)	3,190,582
Library materials	<u>1,656,886</u>	<u>54,411</u>	<u>(310,688)</u>	<u>1,400,609</u>
Total accumulated depreciation	<u>29,562,441</u>	<u>1,910,696</u>	<u>(391,378)</u>	<u>31,081,759</u>
Other capital assets, net	<u>\$ 21,040,274</u>	<u>\$ 3,891,758</u>	<u>\$ (8,625)</u>	<u>\$ 24,923,407</u>
Capital asset summary:				
Capital assets not being depreciated	\$ 5,074,336	\$ 818,548	\$ (3,771,901)	\$ 2,120,983
Other capital assets, at cost	<u>50,602,715</u>	<u>5,802,454</u>	<u>(400,003)</u>	<u>56,005,166</u>
Total cost of capital assets	55,677,051	6,621,002	(4,171,904)	58,126,149
Less: accumulated depreciation	<u>29,562,441</u>	<u>1,910,696</u>	<u>(391,378)</u>	<u>31,081,759</u>
Capital assets, net	<u>\$ 26,114,610</u>	<u>\$ 4,710,306</u>	<u>\$ (3,780,526)</u>	<u>\$ 27,044,390</u>

At June 30, 2016, the cost and related accumulated depreciation of assets held under capital lease obligations totaled approximately \$13,297,000 and \$5,251,000 respectively.

NOTES TO FINANCIAL STATEMENTS--Continued

NORTHWESTERN OKLAHOMA STATE UNIVERSITY  
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NOTE E--LONG-TERM LIABILITIES

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

	Balance June 30, 2015	Additions	Reductions	Balance June 30, 2016	Amounts due within one year
Capital lease obligations:					
ODFA master lease	\$ 1,276,333	\$ 843,000	\$ 287,333	\$ 1,832,000	\$ 300,417
OCIA lease obligation	5,733,201	-	629,177	5,104,024	630,406
Lease purchase obligation	297,893	-	95,807	202,086	99,256
Total capital lease obligations	7,307,427	843,000	1,012,317	7,138,110	1,030,079
Other liabilities:					
Accrued compensated absences	571,217	358,602	434,126	495,693	376,477
Unearned capital assets	232,928	-	38,821	194,107	38,821
Total other liabilities	804,146	358,602	472,947	689,800	415,298
Total long-term liabilities	<u>\$ 8,111,573</u>	<u>\$ 1,201,602</u>	<u>\$ 1,485,264</u>	<u>\$ 7,827,910</u>	<u>\$ 1,445,377</u>

Capital Lease Obligations:

*Oklahoma Capital Improvement Authority Lease Obligation*

In September 1999, the Oklahoma Capital Improvement Authority (OCIA) issued its OCIA Bond Issues, 1999 Series A, B, and C. Of the total bond indebtedness, the State Regents for Higher Education allocated \$850,000 to the University. Concurrently with the allocation, the University entered into a lease agreement with OCIA, for the project being funded by the OCIA bonds. The lease agreement provides for the University to make specified monthly payments to OCIA over the respective terms of the agreement, which is for 20 years. The proceeds of the bonds and subsequent lease are to provide for capital improvements at the University.

Through June 30, 2016, the University has drawn down its total allotment of \$850,000 for expenditures incurred in connection with specified projects. These expenditures have been capitalized as capital assets or recorded as non-capitalized operating expenses, in accordance with University policy. The University has recorded a lease obligation payable to OCIA for the total amount of the allotment, less repayments made during the fiscal year.

NOTES TO FINANCIAL STATEMENTS--Continued

NORTHWESTERN OKLAHOMA STATE UNIVERSITY  
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NOTE E--LONG-TERM LIABILITIES--Continued

Capital Lease Obligations--Continued:

*Oklahoma Capital Improvement Authority Lease Obligation--Continued*

In 2004, the OCIA issued bond series 2004A that refunded a significant portion of the 1999A bonds. The amortization of the 1999A bond issue ended in 2010. The lease agreement will no longer secure the 1999A bond issue but will now act as security for the 2004A bond issue over the term of the lease through the year 2020. As a result, there are two amortization schedules, which have been combined, related to this one lease agreement.

In November 2005, the OCIA issued its OCIA Bond Issues, 2005 Series F and G. Of the total bond indebtedness, the State Regents for Higher Education allocated \$6,813,432 to the University. Concurrently with the allocation, the University entered into a lease agreement with OCIA, which includes three projects being funded by the OCIA bonds. The lease agreement provides for the University to make specified monthly payments to OCIA over the term of the agreement. The projects have terms of 5 to 30 years. The proceeds of the bonds and the subsequent leases are to provide for capital improvements at the University.

Through June 30, 2016, the University has drawn down the total of \$6,813,432 for expenditures incurred in connection with specified projects. These expenses have been capitalized as investment in capital assets in accordance with University policy. The University has recorded a lease obligation payable to OCIA for the total amount of the allotment, less repayments made on the University's behalf.

In 2014, the OCIA restructured the 2005F series bond debt by issuing new 2014A series bonds. This restructuring was a partial refunding and resulted in a gain of \$186,313 between the remaining liability of the 2005F series and the new liability of the 2014A series. This gain on restructuring was recorded as a deferred inflow of resources and is being amortized over a period of 18 years. As of June 30, 2016, the deferred gain, net of amortization, was \$160,649. 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 University's aforementioned lease agreement with OCIA was automatically restructured to secure the new bond issue. This refinancing resulted in an aggregate difference in principal and interest between the original lease agreement and the refinanced lease agreement of \$448,900, which approximates the economic savings of the transaction. The University has recorded a lease obligation payable to OCIA for the total amount of the allotment, less payments made on the University's behalf, which is \$3,357,530 at June 30, 2016.

NOTES TO FINANCIAL STATEMENTS--Continued

NORTHWESTERN OKLAHOMA STATE UNIVERSITY  
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NOTE E--LONG-TERM LIABILITIES--Continued

Capital Lease Obligations--Continued:

*Oklahoma Capital Improvement Authority Lease Obligation – Continued*

During the year ended June 30, 2011, the 2005 lease agreement with OCIA was restructured through a partial refunding of OCIA's 2005F bond debt. OCIA issued two new bonds, Series 2010A and 2010B. The 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 lease agreement with OCIA automatically restructured to secure the new bond issues. This lease restructuring has extended certain principal payments into the future, resulting in a charge or cost on restructuring. A charge of \$602,010 was recorded as a deferred outflow that is being amortized over a period of 6 years. As of June 30, 2016, the University completed its required payments for the Series 2010B lease and the agreement ended as scheduled in July 2015. This restructuring resulted in an aggregate debt service difference for principal and interest between the original lease agreement and the restructured lease agreement of \$172,878, which also approximates the economic cost of the lease restructuring.

During the year ended June 30, 2016, the State of Oklahoma made lease principal and interest payments totaling \$889,410 to OCIA on behalf of the University. These on-behalf payments have been recorded as restricted state appropriations in the statement of revenues, expenses, and changes in net position.

*Oklahoma Development Finance Authority Master Lease Program*

In December 2002, the ODFA issued its ODFA Master Lease Revenue Bonds, Series 2002C. Of the total bond indebtedness, the State Regents for Higher Education allocated \$3,815,000 to the University. Concurrently with the allocation, the University entered into a lease agreement with ODFA for the project being funded by the ODFA bonds. The lease agreement provides for the University to make specified monthly payments to ODFA over the respective terms of the agreement, which is through December 1, 2020. The proceeds of the bonds and subsequent leases are to provide for capital improvements to the University.

In November 2011, the ODFA refinanced the Series 2002C ODFA Master Lease Revenue Bonds with the Series 2011B ODFA Master Lease Revenue Refunding Bonds. As a result, the University's lease was restructured according to the terms of the new bonds. The University will continue to make specified monthly payments to ODFA over the respective term of the agreement through May 2020.

NOTES TO FINANCIAL STATEMENTS--Continued

NORTHWESTERN OKLAHOMA STATE UNIVERSITY  
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NOTE E--LONG-TERM LIABILITIES--Continued

Capital Lease Obligations--Continued:

*Oklahoma Development Finance Authority Master Lease Program--Continued*

In September 2015, the ODFA issued its ODFA Master Real Property Lease Revenue Bonds, Tax-Exempt Series 2015D. Of the total bond indebtedness, the State Regents for Higher Education allocated \$843,000 to the University. Concurrently with the allocation, the University entered into a lease agreement with ODFA for the project being funded by the ODFA bonds. The lease agreement provides for the University to make specified monthly payments to ODFA over the respective terms of the agreement, which is through May 15, 2030. The proceeds of the bonds and subsequent leases are to provide for capital improvements to the University.

*Lease Purchase Obligation*

In August 2012, the University entered into a lease purchase agreement with a finance company in the amount of \$586,167 to finance the purchase of two buses. The lease agreement terminates in August 2017, at which time the University has the option to purchase the buses for one dollar. Annual lease payments of \$106,531 include interest calculated at a rate of 3.6%. The University has recorded capital assets and a long-term liability related to the lease purchase agreement in the statement of net position.

Future minimum lease payments under the University's capital lease obligations are as follows:

	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
Year Ending June 30:			
2017	\$ 1,030,079	\$ 303,467	\$ 1,333,546
2018	1,065,779	270,843	1,336,622
2019	995,534	224,777	1,220,311
2020	320,507	180,670	501,177
2021	53,167	167,084	220,251
2022-2026	1,529,216	725,385	2,254,601
2027-2031	2,143,827	303,544	2,447,371
	<u>\$ 7,138,109</u>	<u>\$ 2,175,770</u>	<u>\$ 9,313,879</u>

NOTES TO FINANCIAL STATEMENTS--Continued

NORTHWESTERN OKLAHOMA STATE UNIVERSITY  
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NOTE F--RETIREMENT PLANS

The University's academic and nonacademic personnel are covered by various retirement plans. The plans available to University personnel include the Oklahoma Teachers' Retirement System (OTRS), which is a State of Oklahoma public employees retirement system, the Supplemental Retirement Annuity (SRA), a single employer defined benefit pension plan available to employees hired prior to July 1, 1995, and a defined contribution 403(b) plan. Personnel may also be eligible to participate in the Other Post-Employment Insurance (OPEB) plan, as described further in Note H. The University does not maintain the accounting records, hold the investments for, or administer these plans.

The accounting and financial reporting for OTRS, the SRA, and the OPEB plans are recorded at the reporting entity level in the Regional University System of Oklahoma financial statements. That report may be obtained by writing to the Regional University System of Oklahoma, 3555 N.W. 58<sup>th</sup> Street, Suite 320, Oklahoma City, Oklahoma 73112, or by calling (405) 924-8817.

All payments made to these plans by the University are accounted for as compensation expense in the accompanying financial statements.

*Oklahoma Teachers' Retirement System (OTRS)*

Plan Description: The University contributes to the Oklahoma Teachers' Retirement System (OTRS), a cost-sharing multiple-employer defined benefit pension plan sponsored by the State of Oklahoma. OTRS provides defined retirement benefits based on members' final compensation, age and term of service. In addition, the retirement program provides for benefits upon disability and to survivors upon the death of eligible members. The benefit provisions are established and may be amended by the legislature of the State of Oklahoma. Title 70 of the Oklahoma Statutes, Sections 17-101 through 116.9, as amended, assigns the authority for management and operations of the Plan to the Board of Trustees of OTRS. OTRS is not required to provide for a cost of living adjustment. OTRS issues a publicly available financial report that can be obtained at [www.ok.gov/OTRS](http://www.ok.gov/OTRS).

Funding Policy: The University is required by state statute to contribute a fixed percentage of annual compensation on behalf of active members. The employer contribution rate, as determined by state statute, was 8.55% for 2016, 2015, and 2014, and was applied to annual compensation.

NOTES TO FINANCIAL STATEMENTS--Continued

NORTHWESTERN OKLAHOMA STATE UNIVERSITY  
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NOTE F--RETIREMENT PLANS--Continued

*Oklahoma Teachers' Retirement System (OTRS)--Continued*

Funding Policy--Continued: Employees' contributions are also determined by state statute. For all employees, the contribution rate was 7% of covered salaries and fringe benefits in 2016, 2015, and 2014. For compensation in excess of \$25,000, the employee's contributions are paid directly by the University to the OTRS.

The University's contributions to the OTRS for the years ended June 30, 2016, 2015 and 2014 were approximately \$965,000, \$2,331,000 and \$2,311,000 respectively. These contributions included the University's statutory contribution and the share of the employee's contribution paid directly by the University.

The State of Oklahoma is also required to contribute to the OTRS on behalf of the participating employers. For 2016, the State of Oklahoma contribution was 5% of state revenues from sales and use taxes and individual income taxes, to the OTRS on behalf of participating employers. These amounts and other system-wide related amounts are reported in the Regional University System of Oklahoma financial statements and not at the individual department level.

*Supplemental Retirement Annuity (SRA)*

Plan Description: The University's SRA plan is a single employer, defined benefit pension plan administered by the University's Board of Regents. The SRA was established by the University's Board of Regents to provide supplemental retirement and death benefits to University employees who were hired prior to July 1, 1987, or to those eligible employees' beneficiaries. Effective December 1, 2002, the SRA was amended to provide supplemental retirement and death benefits to University employees who were hired between July 1, 1987 and June 30, 1995. Effective October 1, 2003, the SRA plan was changed to eliminate the TIAA offset in the benefit calculation. The authority to amend the SRA's benefit provisions rests with the University's Board of Regents. The SRA is included in the financial report of the Regional University System of Oklahoma reporting entity, and does not issue separate, stand-alone financial statements.

Funding Policy: The authority to establish and amend eligible employees' and employer contribution obligations to the SRA rests with the University's Board of Regents. Eligible employees are not required to make contributions to the SRA. The University is required to contribute to the SRA an actuarially determined amount on an annual basis. Under a policy



NOTES TO FINANCIAL STATEMENTS--Continued

NORTHWESTERN OKLAHOMA STATE UNIVERSITY  
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NOTE F--RETIREMENT PLANS--Continued

*Supplemental Retirement Annuity (SRA)--Continued*

Funding Policy--Continued: adopted in December 2002, the Plan must achieve 80% funding of the pension benefit obligation by December 1, 2022.

The University's contributions to the SRA for the years ended June 30, 2016, 2015, and 2014, were approximately \$295,000, \$260,000, and \$260,000, respectively.

*Defined Contribution Plan*

The University also has a defined contribution 403(b) plan (DCP) available to full-time employees. The DCP is administered by the RUSO System, and the plan provisions are established and may be amended by the Board of Regents. Plan members may make voluntary contributions in accordance with IRS regulations. The University has no contribution requirements, and no contributions were made during the years ended June 30, 2016, 2015, and 2014.

NOTE G--OTHER POST-EMPLOYMENT INSURANCE BENEFITS

*Postemployment Healthcare Plan*

Plan Description: The University's postemployment healthcare plan is a single-employer defined benefit plan administered by the Regional University System of Oklahoma Board of Regents (the University's Board). The plan provides medical and life insurance benefits to eligible retired employees until age 65. A retiring employee must have been employed full-time in the Regional University System of Oklahoma for not less than ten years immediately preceding the date of retirement, been a member of the Oklahoma Teachers' Retirement System during that time, and elected to receive a vested benefit under the provision of the Oklahoma Teachers' Retirement System. As of June 30, 2016 there were 127 participants in the plan. The retirement insurance program was adopted by the Board of Regents in 1985. In March of 2008, the Retiree Medical Trust for Regional University System of Oklahoma was established to hold assets and pay benefits on behalf of the University's postemployment healthcare plan and was administered by The Bank of Oklahoma, N.A.

NOTES TO FINANCIAL STATEMENTS--Continued

NORTHWESTERN OKLAHOMA STATE UNIVERSITY  
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NOTE G--OTHER POST-EMPLOYMENT INSURANCE BENEFITS--Continued

*Postemployment Healthcare Plan--Continued*

Prior to the establishment of the trust, the insurance benefits were accounted for on a pay-as-you-go basis so that premiums were paid from current operating funds. The plan is included in the financial report of the Regional University System of Oklahoma reporting entity and does not issue separate, stand-alone financial statements.

Funding Policy: The contribution requirements of the University are established and may be amended by the Regional University System of Oklahoma Board of Regents. The University is required to contribute the *annual required contribution of the employer*, in 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 current ARC is \$76,251 and represents .6% (percent) of covered payroll. The University made no contributions to the plan in fiscal 2016. The contributions for the years ended June 30, 2015, and 2014, were approximately \$35,000, and \$20,000, respectively, and beginning July 1, 2014, are accounted for as compensation expense in the accompanying financial statements.

NOTE H--FUNDS HELD IN TRUST BY OTHERS

Beneficial Interest in State School Land Funds: The University 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 University has the right to receive annually 3.7% of the distributions of income produced by "Section Thirteen Fund State Educational Institutions" assets and 100% of the distributions of income produced by the University's "New College Fund." The University received approximately \$1,036,000 during the year ended June 30, 2016, which is restricted to the construction or acquisition of buildings, equipment, or other capital items. This amount is recorded as state appropriations for capital purposes in the statements of revenues, expenses, and changes in net position. State law prohibits the distribution of any corpus of these funds to the beneficiaries. The total trust fund for Northwestern Oklahoma State University, held in trust by the Commissioners of Land Office, was approximately \$19,686,000 at June 30, 2016.

## NOTES TO FINANCIAL STATEMENTS--Continued

NORTHWESTERN OKLAHOMA STATE UNIVERSITY  
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### NOTE H--FUNDS HELD IN TRUST BY OTHERS - Continued

Oklahoma State Regents Endowment Trust Fund: In connection with the Oklahoma State Regents' Endowment Program (the "Endowment Program"), the State of Oklahoma has matched contributions received under the Endowment Program. The state match amounts, plus any retained accumulated earnings, totaled \$4,347,460 at June 30, 2016, and are invested by the Oklahoma State Regents on behalf of the University. The University is entitled to receive an annual distribution of 4.5% of the market value at year end on these funds. As legal title of the State Regents matching endowment funds is retained by the Oklahoma State Regents, only the funds available for distribution, approximately \$297,750 at June 30, 2016, have been reflected as assets in the statements of net position.

### NOTE I--COMMITMENTS AND CONTINGENCIES

The University conducts certain programs pursuant to various grants and contracts that 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 governmental agencies from various sources of the University.

During the ordinary course of business, the University may be subjected to various lawsuits and civil action claims. Management believes that resolution of any such matters pending at June 30, 2016, will not have material adverse impact to the University.

### NOTE J--RISK MANAGEMENT

The University is exposed to various risks of loss from torts; theft of, damage to, and destruction of assets; business interruption; errors and omission; employee injuries and illness; 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 University, along with other state agencies and political subdivisions, participates in the State of Oklahoma Risk Management Program and CompSource Oklahoma (formerly State Insurance Fund), public entity risk pools currently operating as a common risk management and insurance program for its members. The University pays annual premiums to the pools for tort, property, and liability insurance coverage. The Oklahoma Risk Management Pool's governing agreement specifies that the pool will be self-sustaining through member premiums and will reinsure through commercial carriers for claims in excess of specified stop-loss amounts.

NOTES TO FINANCIAL STATEMENTS--Continued

NORTHWESTERN OKLAHOMA STATE UNIVERSITY  
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NOTE J--RISK MANAGEMENT - Continued

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

NOTE K--NORTHWESTERN OKLAHOMA STATE UNIVERSITY FOUNDATION, INC. AND  
ALUMNI ASSOCIATION

The following are significant disclosures of Northwestern Oklahoma State University Foundation, Inc. and Alumni Association:

The Foundation prepares its financial statements in accordance with accounting principles generally accepted in the United States of America.

Net Position Classification:

The Foundation reports activities based on the existence or absence of donor-imposed restrictions, which are as follows:

*Unrestricted net position:* Net position for which there are no donor-imposed restrictions that the assets be used for a specific purpose or held for a certain period of time.

*Expendable net position:* Net position subject to donor-imposed stipulations that are to be met with actions of the Foundation or the passage of time. When a restriction expires, expendable net position are reclassified as unrestricted.

*Nonexpendable net position:* Net position subject to donor-imposed restrictions that they be maintained permanently by the Foundation. Generally, income generated by these assets may be used for general or specific purposes.

NOTES TO FINANCIAL STATEMENTS--Continued

NORTHWESTERN OKLAHOMA STATE UNIVERSITY  
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NOTE K--NORTHWESTERN OKLAHOMA STATE UNIVERSITY FOUNDATION, INC. AND  
ALUMNI ASSOCIATION

Investments

Investments are reported at fair value. Gains and losses are reported as a component of investment income.

Land and Mineral Rights

Land and mineral rights consists of properties donated to the Foundation. Management has made attempts to revalue portions of these assets at subsequent dates. Management does not believe revaluation of these properties would have a significant impact on the Foundation's financial statements.

Income Taxes

The Foundation is exempt from income tax under section 501c(3) of the Internal Revenue Code.

Property and Equipment

Property and equipment is stated at cost or fair value at the date of donation, and is depreciated using the straight line method.

Fair Value Measurements

The Foundation follows ASC Topic 820, Fair Value Measurements, which provides the framework for measuring fair value. The framework provides a fair value hierarchy that prioritizes the inputs to valuation techniques used to measure fair value.

The hierarchy gives highest priority to unadjusted quotes prices in active markets for identical assets or liabilities (Level 1 measurements) and the lowest priority to unobservable inputs (Level 3 measurements).

NOTES TO FINANCIAL STATEMENTS--Continued

NORTHWESTERN OKLAHOMA STATE UNIVERSITY  
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NOTE K--NORTHWESTERN OKLAHOMA STATE UNIVERSITY FOUNDATION, INC. AND  
ALUMNI ASSOCIATION--Continued

Fair Value Measurements - Continued

The inputs to the three levels of the fair value hierarchy under Topic 820 are described as follows:

- Level 1: Unadjusted quoted prices for identical assets or liabilities in active markets that the Foundation has the ability to access.
- Level 2: Quoted prices for similar assets or liabilities in active markets; quoted prices for identical assets or liabilities in inactive markets; inputs other than quoted prices that are observable for the asset or liability; and inputs that are derived principally from, or corroborated by, observable market data by correlation to other means. If the asset or liability has a specified (contractual) term, the Level 2 input must be observable for substantially the full term of the asset or liability.
- Level 3: Unobservable and significant to the fair value measurement.

The Foundation has certain investments which are measured at net asset value per share ("NAV"). If the Foundation has the ability to redeem its investment with the investee at NAV at the measurement date or within ninety days of the measurement date, the fair value of the asset is categorized as a Level 2 fair value measurement. If the Foundation will never have the ability to redeem its investment with the investee at NAV or the Foundation cannot redeem its investment within ninety days of the measurement date, the Foundation categorizes the asset as a Level 3 measurement.

Financial assets and liabilities carried at fair value on a recurring basis consist exclusively of investments. The Foundation had no assets or liabilities carried at fair value on a non-recurring basis at June 30, 2016.

NOTES TO FINANCIAL STATEMENTS--Continued

NORTHWESTERN OKLAHOMA STATE UNIVERSITY  
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NOTE K--NORTHWESTERN OKLAHOMA STATE UNIVERSITY FOUNDATION, INC. AND  
ALUMNI ASSOCIATION--Continued

Fair Value Measurements - Continued

Assets and liabilities measured at fair value are classified within the fair value hierarchy as follows:

	Totals	Level 1	Level 2	Level 3
Uninvested cash	\$ 1,243,302	\$ 1,243,302	\$ -	\$ -
Certificates of deposit	30,000	-	30,000	-
Equities	14,781,728	14,781,728	-	-
Exchange traded funds	167,580	-	167,580	-
Fixed income	304,958	-	304,958	-
Mutual funds	4,943,485	4,943,485	-	-
	<u>\$ 21,471,053</u>	<u>\$ 20,968,515</u>	<u>\$ 502,538</u>	<u>\$ -</u>

Endowment Disclosures

The Foundation's endowment consists of approximately 202 endowment funds established for a variety of purposes. Its endowment includes both donor-restricted endowment funds and funds designated by the Trustees to function as endowments. As required by U.S. GAAP, net assets associated with endowment funds, including funds designated by the Trustees to function as endowments, are classified and reported based on the existence or absence of donor-imposed restrictions.

*Interpretation of Relevant Law*

The Trustees of the Foundation have chosen to preserve 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.

NOTES TO FINANCIAL STATEMENTS--Continued

NORTHWESTERN OKLAHOMA STATE UNIVERSITY  
A Department of the Regional University System of Oklahoma

June 30, 2016

NOTE K--NORTHWESTERN OKLAHOMA STATE UNIVERSITY FOUNDATION, INC. AND  
ALUMNI ASSOCIATION—Continued

Endowment Disclosures - Continued

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:

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

*Return Objectives and Risk Parameters*

The Foundation has adopted investment and spending policies for endowment assets that attempt to provide a predictable stream of funding to programs supported by the endowment while seeking to maintain the purchasing power of the endowment assets. Under this policy, as approved by the Board of Directors, the endowment assets are invested in a manner that is intended to produce results which generate a dependable, increasing source of income and appreciation while assuming a moderate level of investment risk. The Foundation expects its endowment funds, over time, to provide an average rate of return of approximately 10% annually. Actual returns in any given year may vary from this amount.

*Strategies for Achieving Objectives*

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



NOTES TO FINANCIAL STATEMENTS--Continued

NORTHWESTERN OKLAHOMA STATE UNIVERSITY  
A Department of the Regional University System of Oklahoma

June 30, 2016

NOTE K--NORTHWESTERN OKLAHOMA STATE UNIVERSITY FOUNDATION, INC. AND  
ALUMNI ASSOCIATION—Continued

Endowment Disclosures - Continued

*Spending Policy*

The Foundation has a policy of appropriating for distribution each year the equivalent of up to 5% of its endowment fund's fair value as of the immediately preceding July 1. In establishing this policy, the Foundation considered the long-term expected return on its endowment. Accordingly, over the long term, the Foundation expects the current spending policy to allow its endowment to grow at an average of 1.16% annually. This is consistent with the Foundation's objective to maintain the purchasing power of the endowment assets held in perpetuity or for a specified term as well as to provide additional real growth through new gifts and investment return.

Endowment net position composition as of June 30, 2016 is as follows:

	Unrestricted	Expendable	Nonexpendable	Total
Donor-restricted endowment funds	\$ —	\$ 1,004,418	\$ 24,143,593	\$ 25,148,011
Board-designated endowment funds	<u>—</u>	<u>—</u>	<u>—</u>	<u>—</u>
Total endowment funds	<u>\$ —</u>	<u>\$ 1,004,418</u>	<u>\$ 24,143,593</u>	<u>\$ 25,148,011</u>

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



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

Board of Regents  
Regional University System of Oklahoma  
Northwestern Oklahoma State University  
Oklahoma City, 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 Northwestern Oklahoma State University (the "University"), a department of the Regional University System of Oklahoma ("RUSO"), which is a component unit of the State of Oklahoma, and its discretely presented component unit, that comprise the statement of net position as of June 30, 2016, and the related statements of revenue, expenses, and changes in net position and cash flows for the year then ended, and the related notes to the financial statements, which collectively comprise the University's basic financial statements, and have issued our report thereon dated October 21, 2016. Our report includes a reference to other auditors who audited the financial statements of Northwestern Oklahoma State University Foundation, Inc. and Alumni Association (the "Foundation"), the University's discretely presented component unit, as described in our report on the University's financial statements. The financial statements of the Foundation were not audited in accordance with *Government Auditing Standards* and accordingly this report does not include reporting on internal control over financial reporting or instances of reportable noncompliance associated with the Foundation.

**Internal Control over Financial Reporting**

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

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

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

## **Compliance and Other Matters**

As part of obtaining reasonable assurance about whether the University'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 University'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 University's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

*Arlidge & Associates, P.C.*

October 21, 2016



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

Board of Regents  
Regional University System of Oklahoma  
Northwestern Oklahoma State University  
Oklahoma City, Oklahoma

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

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

***Management's Responsibility***

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

***Auditor's Responsibility***

Our responsibility is to express an opinion on compliance for each of the University'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 noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about the University'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 University's compliance.

***Opinion on Each Major Federal Program***

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

## **Report on Internal Control over Compliance**

Management of the University 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 University'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 University's internal control over compliance.

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

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

The purpose of this report on internal control over compliance is solely to describe the scope of our testing of internal control over compliance and the results of that testing based on the requirements of 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 University as of and for the year ended June 30, 2016, and the related notes to the financial statements, which collectively comprise the University's basic financial statements. We issued our report thereon dated October 21, 2016, 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 additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic financial statements or to the basic financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the schedule of expenditures of federal awards is fairly stated in all material respects in relation to the basic financial statements as a whole.



October 21, 2016

SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS

NORTHWESTERN OKLAHOMA STATE UNIVERSITY  
A Department of the Regional University System of Oklahoma

Year Ended June 30, 2016

<i>Federal Grantor/Pass-Through Grantor/Program Title</i>	<i>Federal CFDA Number</i>	<i>Pass-Through Entity Identifying Number</i>	<i>Federal Expenditures</i>
<b>U.S. DEPARTMENT OF EDUCATION</b>			
<b>Student financial aid cluster</b>			
Federal Pell Grants	84.063	N/A	\$ 2,968,540
Federal Supplemental Education Opportunity Grants	84.007	N/A	66,124
Federal Work Study Program	84.033	N/A	149,157
Federal Direct Loan Program	84.268	N/A	5,436,602
<i>Total Student Financial Aid Cluster</i>			<u>8,620,423</u>
<b>TRIO program cluster</b>			
TRIO--Upward Bound	84.047A	N/A	261,319
TRIO--Upward Bound - Math & Science	84.047M	N/A	264,601
TRIO--Student Support Services	84.042A	N/A	116,903
<i>Total TRIO program cluster</i>			<u>642,823</u>
<b>Other Programs</b>			
Title III--Strengthening Institutions Programs	84.031	N/A	255,477
<i>Total Other Programs</i>			<u>255,477</u>
TOTAL U.S. DEPARTMENT OF EDUCATION			<u><b>9,518,723</b></u>
<b>Research and Development (R&amp;D) Cluster</b>			
<b>NATIONAL SCIENCE FOUNDATION</b>			
Pass-through Oklahoma State University			
Education and Human Resources	47.076	AA-5-64291	10,865
<i>Subtotal for CFDA #47.076</i>			<u>10,865</u>
TOTAL FOR NATIONAL SCIENCE FOUNDATION			<u><b>10,865</b></u>
<b>Other Federal Programs</b>			
<b>U.S. SMALL BUSINESS ADMINISTRATION</b>			
Pass-through Southeastern Oklahoma State University			
Small Business Development Centers	59.037	1-7620-0038-17	47,750
TOTAL U.S. SMALL BUSINESS ADMINISTRATION			<u><b>47,750</b></u>
<b>TOTAL EXPENDITURES OF FEDERAL AWARDS</b>			<u><u><b>\$ 9,577,338</b></u></u>

See notes to schedule of expenditures of federal awards.

## NOTES TO SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS

NORTHWESTERN OKLAHOMA STATE UNIVERSITY  
A Department of the Regional University System of Oklahoma

Year Ended June 30, 2016

### NOTE A—BASIS OF PRESENTATION

The accompanying schedule of expenditures of federal awards (“SEFA”) includes the federal award activity of Northwestern Oklahoma State University (the “University”) under programs of the federal government for the year ended June 30, 2016. The information in this SEFA is presented in accordance with the requirements of Title 2 U.S. *Code of Federal Regulations* Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (Uniform Guidance). Because the SEFA presents only a selected portion of the operations of the University, it is not intended to and does not present the financial position, changes in net assets, or cash flows of the University.

### NOTE B—SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

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

### NOTE C --FEDERAL DIRECT STUDENT LOAN PROGRAM

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

### NOTE D—SUBRECIPIENTS

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



SCHEDULE OF FINDINGS AND QUESTIONED COSTS

NORTHWESTERN OKLAHOMA STATE UNIVERSITY  
A Department of the Regional University System of Oklahoma

Year Ended June 30, 2016

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

*Financial statements*

Type of auditor's report issued on whether the financial statements were in accordance with GAAP:

*Unmodified*

Internal control over financial reporting:

- Material weakness(es) identified?  yes  no
- Significant deficiency(ies) identified that are not considered to be material weakness(es)?  yes  none reported

Noncompliance material to financial statements noted?  yes  no

*Federal Awards*

Internal control over major programs:

- Material weakness(es) identified?  yes  no
- Significant deficiency(ies) identified that are not considered to be material weakness(es)?  yes  none reported

Type of auditor's report issued on compliance for major programs:

*Unmodified*

Any audit findings disclosed that are required to be reported in accordance with 2 CFR 200.516(a)?

yes  no

Identification of major programs:

Program

Student Financial Aid Cluster

CFDA Number

\*

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

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

Auditee qualified as low-risk auditee?  yes  no

SCHEDULE OF FINDINGS AND QUESTIONED COSTS--Continued

NORTHWESTERN OKLAHOMA STATE UNIVERSITY  
A Department of the Regional University System of Oklahoma

Year Ended June 30, 2016

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

None to report for the June 30, 2016 period.

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

None to report for the June 30, 2016 period.

SUMMARY SCHEDULE OF PRIOR AUDIT FINDINGS AND QUESTIONED COSTS

NORTHWESTERN OKLAHOMA STATE UNIVERSITY  
A Department of the Regional University System of Oklahoma

Year Ended June 30, 2016

No matters were reportable.