

NORTHWESTERN OKLAHOMA STATE UNIVERSITY

A Department of the Regional University
System of Oklahoma

June 30, 2019

NORTHWESTERN OKLAHOMA STATE UNIVERSITY

A Department of the Regional University System of Oklahoma

June 30, 2019

Table of Contents

Audited Financial Statements

Independent Auditor's Report	1
---	---

Management's Discussion and Analysis (Unaudited)	i
---	---

Basic Financial Statements

Statement of Net Position.....	4
Statement of Revenues, Expenses and Changes in Net Position.....	6
Statement of Cash Flows.....	7
Statement of Fiduciary Net Position.....	9

<i>Notes to Financial Statements</i>	10
--	----

Reports Required by *Government Auditing Standards* and the Uniform Guidance

Independent Auditors' Report on Internal Control over Financial Reporting and on Compliance and Other Matters Based on an Audit of the Financial Statements Performed in Accordance with <i>Government Auditing Standards</i>	28
---	----

Independent Auditors' Report on Compliance for Each Major Federal Program; Report on Internal Control over Compliance, and Report on the Schedule of Expenditures of Federal Awards Required by the Uniform Guidance.....	30
Schedule of Expenditures of Federal Awards	32

<i>Notes to Schedule of Expenditures of Federal Awards</i>	33
--	----

Schedule of Findings and Questioned Costs	34
Summary Schedule of Prior Audit Findings	36

AUDITED FINANCIAL STATEMENTS



**HINKLE &
COMPANY**
Strategic ^{PC}
Business Advisors

Independent Auditors' 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, 2019, and the related notes to the financial statements, which collectively comprise Northwestern Oklahoma State 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.

Auditors' Responsibility

Our responsibility is to express opinions on these financial statements based on our audit. We have also audited the financial statements of the discretely presented component unit of Northwestern State University Foundation, Inc., (the Foundation) as of and for and the years ended June 30, 2019. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

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

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

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the University and its discretely presented component unit, Northwestern State University Foundation, Inc., as of June 30, 2019, and the respective changes in financial position, and, where applicable, cash flows thereof for the year then ended in accordance with accounting principles generally accepted in the United States of America.

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 RUSO as of June 30, 2019, the changes in its financial position, or, where applicable, 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.

Other Matters

Required Supplementary Information

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



Other Information

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the Northwestern Oklahoma State University's basic financial statements. The schedule of expenditures of federal awards is presented for purposes of additional analysis as required by Title 2 U.S. *Code of Federal Regulations* (CFR) Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards*, but is not a required part of the basic financial statements.

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

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated October 31, 2019, on our consideration of the University's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the result of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the University's internal control over financial reporting and compliance.

Hick & Company, PC

Tulsa, Oklahoma
October 31, 2019



MANAGEMENT'S DISCUSSION AND ANALYSIS (UNAUDITED)
NORTHWESTERN OKLAHOMA STATE UNIVERSITY
A Department of the Regional University System of Oklahoma
June 30, 2019

OVERVIEW OF FINANCIAL STATEMENTS AND FINANCIAL ANALYSIS

Northwestern Oklahoma State University is pleased to present its financial statements for fiscal year 2019, with selected comparative information for fiscal year 2018. 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 or 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, 2019

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, 2019, compared to the year ending June 30, 2018.

ANALYSIS OF NET POSITION 2019

CONDENSED STATEMENT OF NET POSITION
 (In Millions)

	June 30,		Increase (Decrease)
	2019	2018	
ASSETS			
Current assets	\$ 7.0	\$ 6.9	\$ 0.1
NONCURRENT ASSETS			
Capital assets, net of depreciation	25.8	26.3	(0.5)
Other assets	2.5	2.4	0.1
TOTAL ASSETS	35.3	35.6	(0.3)
LIABILITIES			
Current liabilities	1.9	2.3	(0.4)
Noncurrent liabilities	5.3	5.8	(0.5)
TOTAL LIABILITIES	7.2	8.1	(0.9)
DEFERRED INFLOWS OF RESOURCES	0.1	0.1	-
NET POSITION			
Net investment in capital assets	20.6	19.2	1.4
Restricted	2.7	2.7	-
Unrestricted	4.7	5.4	(0.7)
TOTAL NET POSITION	\$ 28.0	\$ 27.3	\$ 0.7

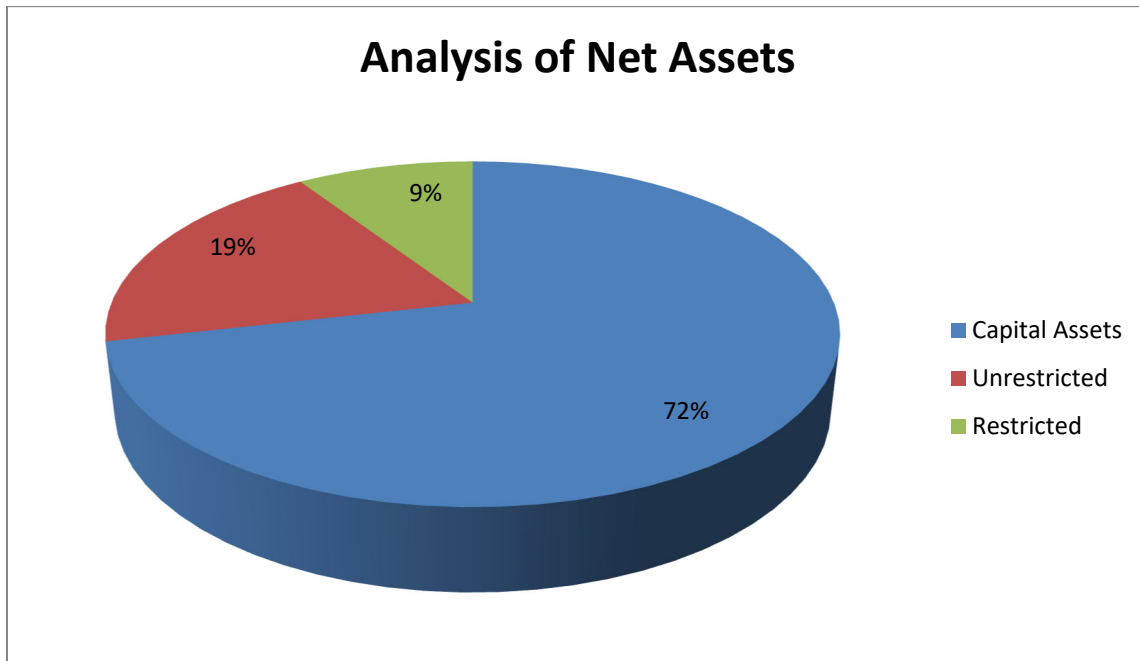
MANAGEMENT'S DISCUSSION AND ANALYSIS (UNAUDITED)--Continued
NORTHWESTERN OKLAHOMA STATE UNIVERSITY
A Department of the Regional University System of Oklahoma
June 30, 2019

ANALYSIS OF NET POSITION 2019--Continued

Assets are presented net of depreciation. Total assets decreased by \$300,000 with the largest change occurring in capital assets, net of depreciation. No projects were completed during fiscal year 2019; however, the University continued work on the ERP system implementation as well as starting a remodel of the Fine Arts Building.

Liabilities decreased as well with repayments of \$1.1 million occurring in the ODFA master lease program and the OCIA lease obligation. There was a drop in the University's current portion of noncurrent liabilities of almost \$.6 million due to a reduction in debt. A decrease in current liabilities of \$.4 million contributed to an overall \$.9 million decrease in total liabilities. Net position increased by \$655,806 consisting primarily from an increase in net investment in capital assets.

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



MANAGEMENT'S DISCUSSION AND ANALYSIS (UNAUDITED)--Continued
 NORTHWESTERN OKLAHOMA STATE UNIVERSITY
 A Department of the Regional University System of Oklahoma
 June 30, 2019

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.

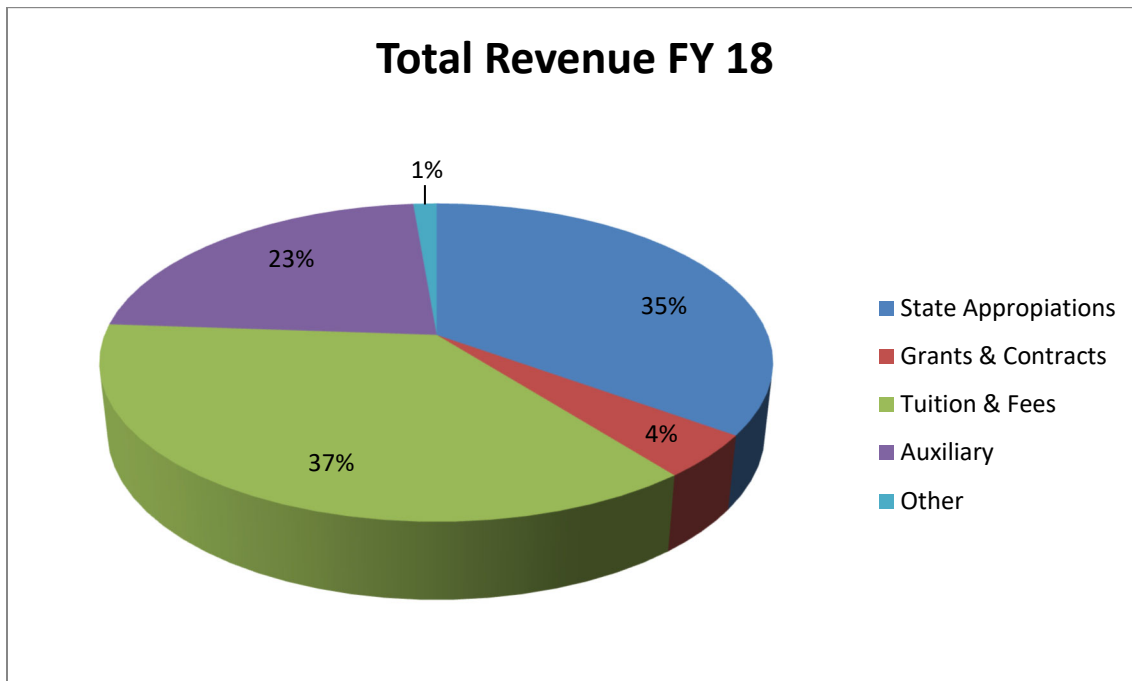
CONDENSED STATEMENT OF REVENUES, EXPENSES, AND CHANGES IN NET POSITION
 (In Millions)

	Years Ended June 30,		Increase (Decrease)
	<u>2019</u>	<u>2018</u>	
OPERATING REVENUE			
Student Tuition and Fees (net of scholarship allowance of \$8.5 and \$8.2)	\$ 8.5	\$ 8.3	\$ 0.2
Federal, State, and Local Grants/Contracts	1.3	1.0	0.3
Auxiliary	5.1	5.1	-
Other	0.4	0.3	0.1
TOTAL OPERATING REVENUE	<u>15.3</u>	<u>14.7</u>	<u>0.6</u>
OPERATING EXPENSES			
Compensation and Employee Benefits	18.3	17.7	0.6
Contractual Services	3.4	2.8	0.6
Supplies and Materials	3.3	3.3	-
Depreciation	1.8	2.0	(0.2)
Utilities	1.0	1.0	-
Communication Expense	0.2	0.3	-
Scholarships and Fellowships	2.3	2.0	0.3
Other Operating Expense	1.1	1.0	0.1
TOTAL OPERATING EXPENSE	<u>31.4</u>	<u>30.1</u>	<u>1.3</u>
OPERATING INCOME (LOSS)	<u>(16.1)</u>	<u>(15.4)</u>	<u>(0.7)</u>
NONOPERATING REVENUE (LOSS)			
State Appropriations	7.9	7.9	-
Federal and State Grants/Contracts	5.3	4.9	0.4
Gifts	0.6	0.6	-
Investment Income	0.3	0.3	-
Interest Expense	(0.2)	(0.3)	0.1
NET NONOPERATING REVENUE	<u>13.9</u>	<u>13.4</u>	<u>0.5</u>
INCOME (LOSS) BEFORE OTHER REVENUE/EXPENSE	<u>(2.2)</u>	<u>(2.0)</u>	<u>(0.2)</u>
OTHER REVENUE/EXPENSE	<u>2.8</u>	<u>2.1</u>	<u>0.7</u>
CHANGE IN NET POSITION	0.6	0.1	0.5
NET POSITION AT BEGINNING OF YEAR	<u>27.4</u>	<u>27.2</u>	<u>0.2</u>
NET POSITION AT END OF YEAR	<u>\$ 28.0</u>	<u>\$ 27.3</u>	<u>\$ 0.7</u>

MANAGEMENT'S DISCUSSION AND ANALYSIS (UNAUDITED)--Continued
NORTHWESTERN OKLAHOMA STATE UNIVERSITY
A Department of the Regional University System of Oklahoma
June 30, 2019

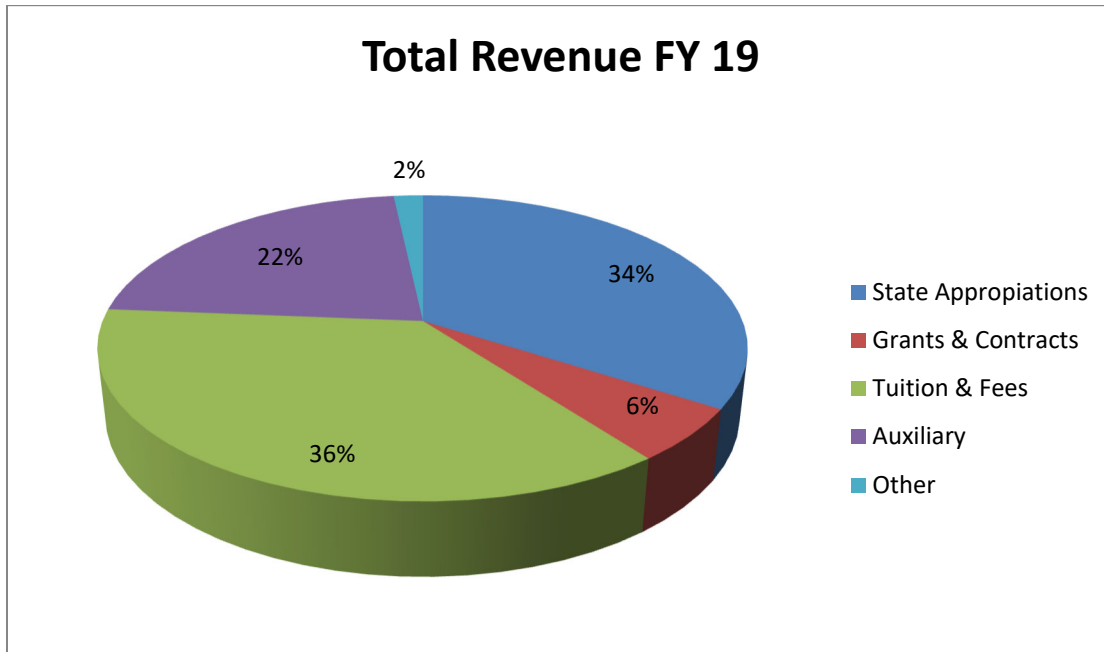
REVENUES 2019

Operating revenues increased by \$.6 million. The University saw an increase in student tuition and fees of \$.2 million due in part to a tuition increase of 4.9% for FY19. Federal and state grants and contracts revenues increased by \$.3 million that resulted from an increase in funding for two TRIO grants as well as the addition of a USDA Telemedicine grant.



MANAGEMENT'S DISCUSSION AND ANALYSIS (UNAUDITED)--Continued
NORTHWESTERN OKLAHOMA STATE UNIVERSITY
A Department of the Regional University System of Oklahoma
June 30, 2019

REVENUES 2019--Continued



EXPENSES 2019

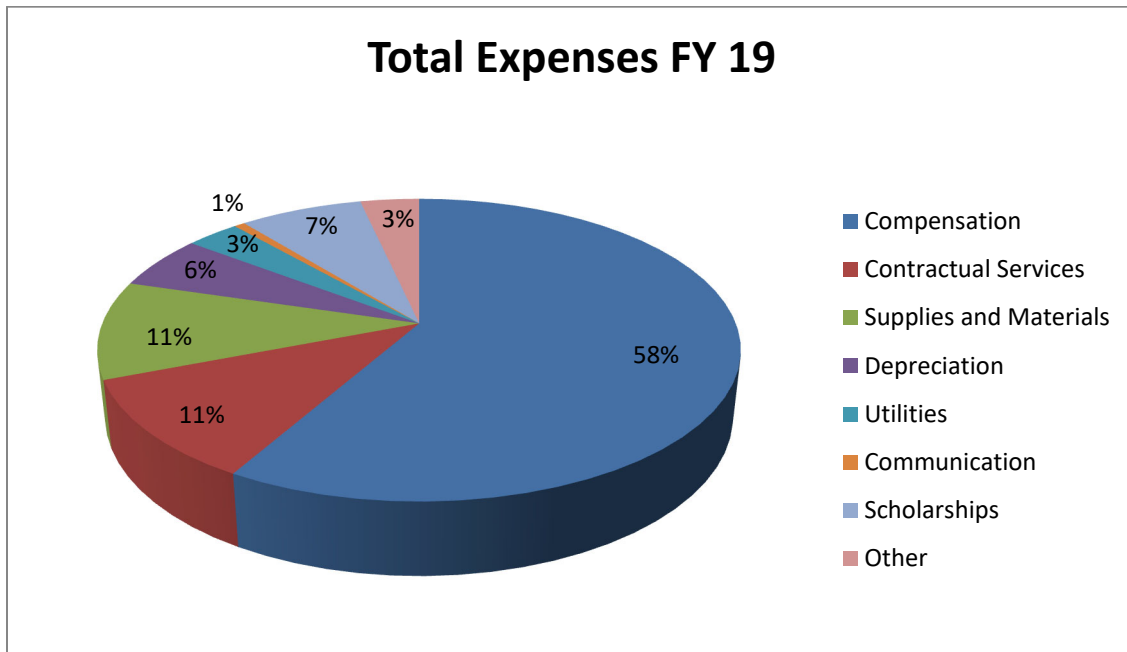
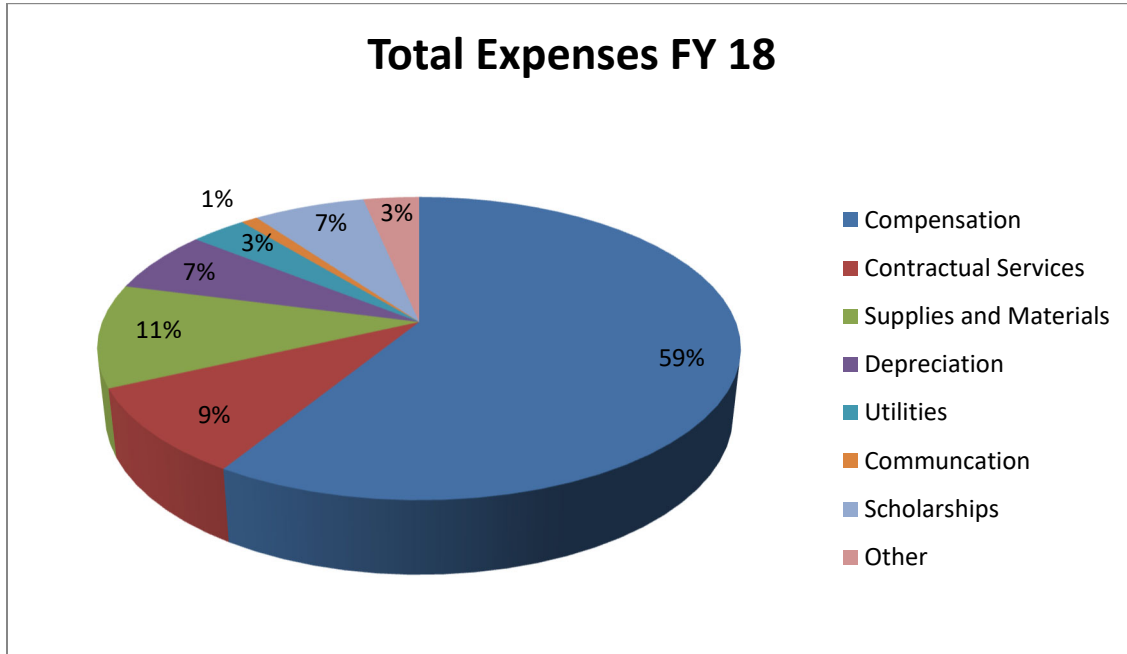
Operating expenses for the year were \$31.4 million. This is an increase of \$1.3 million from fiscal year 2018. The increase of \$.6 million in compensation and employee benefits had to do with a mid-year across the board salary increase as well as an increase in health insurance costs. There was also an increase of \$.6 million in contractual services that was the result of the ERP implementation. These two categories make up the majority of this difference from fiscal year 2018.

The increase in expenses combined with an overall increase in revenue compared to FY18 caused the net position of the University to increase in FY19. The increase in net position was \$.5 million.

The following graph represents the percentages of expenses for the fiscal year 2019 compared to fiscal year 2018. 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, 2019

EXPENSES 2019--Continued



MANAGEMENT'S DISCUSSION AND ANALYSIS (UNAUDITED)--Continued
 NORTHWESTERN OKLAHOMA STATE UNIVERSITY
 A Department of the Regional University System of Oklahoma
 June 30, 2019

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)
	2019	2018	
CASH PROVIDED BY (USED IN):			
Operating activities	\$ (14.1)	\$ (13.5)	\$ (0.6)
Noncapital financing activities	13.8	13.4	0.4
Investing activities	0.5	0.3	0.2
Capital and related financing activities	(0.2)	(0.1)	(0.1)
NET INCREASE (DECREASE) IN CASH	0.0	0.1	(0.1)
CASH AT BEGINNING OF YEAR	8.7	8.6	0.1
CASH AT END OF YEAR	\$ 8.7	\$ 8.7	\$ -

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.

MANAGEMENT'S DISCUSSION AND ANALYSIS (UNAUDITED)--Continued
NORTHWESTERN OKLAHOMA STATE UNIVERSITY
A Department of the Regional University System of Oklahoma
June 30, 2019

ECONOMIC OUTLOOK

Northwestern Oklahoma State University continues to be a leading economic engine for the northwest sector of Oklahoma. The University continues to focus on strategic planning as a guide for its day-to-day operations as it deals with driving forces and emerging factors. For the past few decades the general population of Northwest Oklahoma has seen a consistent decline; however, data from the Oklahoma State Department of Education reflects that over the next five years high school graduation classes in northwest Oklahoma will increase. This provides an opportunity for Northwestern to recruit new students to campus. State appropriations for higher education have declined over the years; however, FY19 saw a flat state appropriation. Northwestern continues to focus its priorities on maintaining and supporting the fiscal and human capital to provide the best educational experience possible for all constituents.

Northwestern has placed a high priority on the development of grants and sponsored programs. Faculty and staff continually explore new grant opportunities. Northwestern continued its support of a Student Support Services grant that began during the fall of FY16. Staff works with at-risk, first-time students in an effort to make their college transition successful. A multi-year USDA grant was awarded to NWOSU and during FY19 instructional equipment was purchased for ITV labs.

FY19 saw a transformation of the Fine Arts Building. The oldest building on the Northwestern campus (constructed in 1907) was in need of updating. Made possible by a \$1 million private gift, updates include replacing 386 windows, seven new doors, tuck pointing, and renovations to the four outdated bathrooms. The work on this renovation will be complete in FY20.

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, that provides support for the operations of Northwestern. The Endowed Chair Program provide matching funds through the Oklahoma State Regents for Higher Education and the state of Oklahoma. As of June 30, 2019, Northwestern has 51 endowed chairs (31 waiting to be matched by the state), 2 professorships (1 unmatched), and 18 lectureships (16 unmatched). Once these accounts are fully matched (\$8.6 million), additional dollars of earnings will be available to Northwestern to help with faculty salaries. Northwestern completed its first ever capital campaign slightly exceeding its goal of \$28 million. These donor gifts were earmarked for a variety of projects including endowed chairs, student scholarships, and facility projects.

MANAGEMENT'S DISCUSSION AND ANALYSIS (UNAUDITED)--Continued
NORTHWESTERN OKLAHOMA STATE UNIVERSITY
A Department of the Regional University System of Oklahoma
June 30, 2019

ECONOMIC OUTLOOK--Continued

During FY18, Northwestern collaborated with sister institutions Southwestern Oklahoma State University and Southeastern Oklahoma State University to investigate the options to update the Enterprise Resource Planning (ERP) system for all three universities. Staff spent many hours researching possibilities, attending demonstrations, and analyzing proposals submitted for review. At the end of the process all three institutions selected Ellucian Colleague as the new platform. This two-year implementation process began during the spring of 2018. By working together and selecting a common vendor, all three institutions will see significant cost savings. Northwestern started saving funds for this capital project several years ago in an effort to avoid borrowing to implement this nearly \$1.8 million endeavor for the University. Modules implemented during FY19 were financial aid and student registration. Fiscal went live on July 1, 2019, and human resources will implement on January 1, 2020. Time savings and improved efficiency are already trackable with this new system.

On-going maintenance projects during FY19 included roof replacements on several campus buildings. Carter Hall and the Joe J. Struckle Education Center both received new roofs. In addition to roof upgrades, Northwestern updated carpet and paint for several office and classroom spaces.

The future of Northwestern Oklahoma State University is bright. The slumping state budget outlook appears to be stable and higher education will continue to fight for new state dollars. Enrollment management efforts will continue to focus on ways to increase both recruitment of new students as well as retention of continuing students.

BASIC FINANCIAL STATEMENTS

Northwestern Oklahoma State University
A Department of the Regional University System of Oklahoma
Statement of Net Position
June 30, 2019

	University	Component Unit
Assets		
Current Assets		
Cash and cash equivalents	\$ 6,101,093	\$ 856,739
Restricted cash and cash equivalents	134,386	-
Accounts Receivable, net	503,897	-
Receivable from state agencies	243,292	-
Interest and other receivables	9,058	-
Inventories	12,294	-
Total Current Assets	7,004,020	856,739
Noncurrent Assets		
Restricted cash and cash equivalents	2,509,953	-
Investments	-	26,047,885
Prepaid Insurance	-	4,522
Other assets	8	589,204
Land and mineral rights	-	2,853,624
Capital assets, net	25,758,820	199,753
Total Noncurrent Assets	28,268,781	29,694,988
Total Assets	\$ 35,272,801	\$ 30,551,727
Deferred Outflows Of Resources		
Deferred charge on ODFA lease restructure	8,258	-
Total Deferred Outflows Of Resources	\$ 8,258	\$ -

(Continued)

Northwestern Oklahoma State University
A Department of the Regional University System of Oklahoma
Statement of Net Position
June 30, 2019
(Continued)

	University	Component Unit
Liabilities and Net Position		
Current Liabilities		
Accounts payable	\$ 335,279	\$ 17,259
Accrued payroll	183,973	-
Unearned revenue	165,222	-
Deposits held in custody for others	219,835	-
Current portion of noncurrent liabilities	950,816	-
Total Current Liabilities	1,855,125	17,259
Noncurrent Liabilities		
Accrued compensated absences	164,077	-
ODFA Master Lease Program	1,990,409	-
Lease obligation payable to a state agency	2,685,119	-
Other noncurrent liabilities	435,841	-
Total Noncurrent Liabilities	5,275,446	-
Total Liabilities	\$ 7,130,571	\$ 17,259
Deferred Inflows of Resources		
Deferred Inflow	126,428	-
Deferred Inflows of Resources	\$ 126,428	\$ -
Net Position		
Net Investment in Capital Assets	20,617,768	-
Restricted:		
Nonexpendable:		
Grants, bequests and contributions	-	28,248,067
Expendable:		
Scholarships, instruction and other	176,920	2,055,718
Capital projects and debt service	2,473,885	-
Unrestricted	4,755,487	230,683
Total Net Position	\$ 28,024,060	\$ 30,534,468

Northwestern Oklahoma State University
A Department of the Regional University System of Oklahoma
Statement of Revenues, Expenses, And Changes In Net Position
For the Year Ended June 30, 2019

	University	Component Unit
Operating Revenues		
Student tuition and fees, net of scholarship discounts and allowances of \$8,466,000	\$ 8,558,126	\$ -
Federal and state grants and contracts	1,274,715	-
Housing and food service, net of scholarship discounts and allowances of \$255,000	5,123,539	-
Contributions	-	1,544,204
Other operating revenues	392,687	919,972
Total Operating Revenues	15,349,067	2,464,176
Operating Expenses		
Compensation and employee benefits	18,316,634	-
Contractual services	3,414,791	-
Supplies and materials	3,323,015	-
Depreciation	1,842,910	-
Utilities	954,476	-
Communication expense	155,952	-
Scholarships and fellowships	2,270,350	894,496
Other operating expenses	1,122,999	2,621,919
Total Operating Expenses	31,401,127	3,516,415
Operating Income (Loss)	(16,052,060)	(1,052,239)
Nonoperating Revenues (Expenses)		
State appropriations	7,943,987	-
Federal and state grants and contracts	5,260,914	-
Gifts	615,249	-
Investment income	312,452	1,149,303
Interest expense	(262,050)	-
Net Nonoperating Revenue	13,870,552	1,149,303
Income (Loss) Before Other Revenues, Expenses, Gains And Losses	(2,181,508)	97,064
Private gifts for capital assets	515,754	-
State appropriations restricted for capital purposes	1,093,389	-
OCIA on-behalf state appropriations	861,442	-
Capital assets earned	366,729	-
Change In Net Position	655,806	97,064
Net Position, Beginning of Year	27,368,254	30,437,404
Net Position, End of Year	\$ 28,024,060	\$ 30,534,468

See Notes to Financial Statements.

Northwestern Oklahoma State University
A Department of the Regional University System of Oklahoma
Statement of Cash Flows
For the Year Ended June 30, 2019

Cash Flows from Operating Activities	
Tuition and fees	\$ 8,517,675
Grants and contracts	1,253,605
Auxiliary enterprise charges and other operating receipts	5,516,226
Payments to employees for salaries and benefits	(18,259,880)
Payment to suppliers	(11,081,494)
Net Cash Used in Operating Activities	<u>(14,053,868)</u>
Cash Flows from Noncapital Financing Activities	
State appropriations	7,943,987
Nonoperating grants	5,260,914
Direct student loans received	6,406,244
Direct student loan payments	(6,406,244)
Gifts for other than capital purposes	615,249
Net Cash Provided By Noncapital Investing Activities	<u>13,820,150</u>
Cash Flows from Investing Activities	
Interest income received	491,544
Net Cash Provided by Investing Activities	<u>491,544</u>
Cash Flows From Capital and Related Financing Activities	
Cash paid for capital assets	(1,086,439)
Gift for capital assets	515,754
Capital appropriations received	1,093,389
Interest paid on capital debt and leases	(265,199)
Repayment of capital debt and leases	(429,416)
Net Cash Used in Capital and Related Financing Activities	<u>(171,911)</u>
Net Change in Cash and Cash Equivalents	85,915
Cash and Cash Equivalents, Beginning of Year	<u>8,659,517</u>
Cash and Cash Equivalents, End of Year	<u>\$ 8,745,432</u>

(Continued)

Northwestern Oklahoma State University
A Department of the Regional University System of Oklahoma
Statement of Cash Flows
For the Year Ended June 30, 2019
(Continued)

Reconciliation of Operating Loss to	
Net Cash Used in Operating Activities	
Operating Loss	\$ (16,052,060)
Adjustments to reconcile operating loss	
to net cash used in operating activities	
Depreciation expense	1,842,910
Changes in assets and liabilities:	
Accounts receivable	(106,626)
Inventories	(24)
Other assets	53
Accounts payable and accrued expenses	179,966
Unearned revenue	39,471
Student and other deposits	5,594
Compensated absences	36,848
Net Cash Used in Operating Activities	<u>\$ (14,053,868)</u>
Noncash Investing, Noncapital Financial	
and Capital and Related Financing Activities	
Interest on capital debt paid by state	
agency on behalf of the University	<u>\$ 181,158</u>
Principal on capital debt paid by state	
agency on behalf of University	<u>\$ 680,284</u>
Donated Capital assets reported as	
unearned capital assets	<u>\$ 261,738</u>
Reconciliation of Cash and Cash Equivalents	
to Statement of Net Position	
Current assets:	
Cash and cash equivalents	\$ 6,101,093
Restricted cash and cash equivalents	134,386
Noncurrent assets:	
Restricted cash and cash equivalents	<u>2,509,953</u>
Total Cash And Cash Equivalents	<u>\$ 8,745,432</u>

Northwestern Oklahoma State University
A Department of the Regional University System of Oklahoma
Statement of Fiduciary Net Position
June 30, 2019

	<u>Fiduciary Funds</u>
Assets	
Cash and cash equivalents	\$ 371,842
	<u> </u>
Liabilities	
Due to OKHEEI	\$ 371,842
	<u> </u>

NORTHWESTERN OKLAHOMA STATE UNIVERSITY

A Department of the Regional University System of Oklahoma

Notes to Financial Statements

June 30, 2019

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 System, 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 System, 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.

The 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 University 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 University 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 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 University Foundation. Accounting for the funds and fund transactions is accomplished by the University Foundation. The University Foundation provides financial support as needed to the Alumni Association. Each year the Alumni Association Board presents a budget to the University Foundation Board to finance its operations.

NORTHWESTERN OKLAHOMA STATE UNIVERSITY

A Department of the Regional University System of Oklahoma

Notes to Financial Statements

June 30, 2019

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

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 a 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, 2019, all of the University's investments were considered cash equivalents.

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.

NORTHWESTERN OKLAHOMA STATE UNIVERSITY

A Department of the Regional University System of Oklahoma

Notes to Financial Statements

June 30, 2019

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

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 statement 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. 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 compensated absences in the statement of net position and as a component of compensation and employee benefit expense in the statement of revenues, expenses, and changes in net position.

Noncurrent Liabilities

Noncurrent liabilities include (1) principal amounts of revenue bonds payable, notes payable, and capital lease obligations with contractual maturities greater than one year; (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.

NORTHWESTERN OKLAHOMA STATE UNIVERSITY

A Department of the Regional University System of Oklahoma

Notes to Financial Statements

June 30, 2019

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

Net investment in capital assets the University's net position is classified as follows:

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.

Income Taxes

The University, a department of RUSO, 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.

NORTHWESTERN OKLAHOMA STATE UNIVERSITY

A Department of the Regional University System of Oklahoma

Notes to Financial Statements

June 30, 2019

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

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 statement of revenues, expenses, and changes in net position. Scholarship discounts and allowances are the difference between the stated charge for goods and services provided by the 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.

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, 2019, the University's deferred outflows of resources were comprised of deferred charges on 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, 2019, the University's deferred inflows of resources is comprised of a deferred gain on the restructuring of an OCIA lease.

Fiduciary Funds

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

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

NORTHWESTERN OKLAHOMA STATE UNIVERSITY

A Department of the Regional University System of Oklahoma

Notes to Financial Statements

June 30, 2019

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. 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.

There is \$9,117,273 in cash and cash equivalents on deposit with the State Treasurer as of June 30, 2019, of which approximately \$154,000 represents amounts held in agency funds. Of the \$9,117,273 on deposit with the State Treasurer, \$3,267,983 represents amounts held within OK INVEST, an internal investment pool. State Agencies and funds that are considered to be part of the State's reporting entity in the State's Comprehensive Annual Financial Report are allowed to participate in OK INVEST. Oklahoma statutes and the State Treasurer establish the primary objectives and guidelines governing the investment of funds in OK INVEST. Safety, liquidity, and return on investment are the objectives that establish the framework for the day-to-day OK INVEST management of funds with an emphasis on safety of the capital and the probable income to be derived while also meeting the State's daily cash flow requirements. Guidelines in the State Treasurer's Investment Policy address credit quality requirements, diversification percentages and the types and maturities of allowable investments. The specifics regarding these policies can be found on the State Treasurer's website at <http://www.ok.gov/treasurer/>. An evaluation of the use and purpose of the various State Agencies and funds participation in the internal investment pool has determined that the amount on deposit with OK INVEST are treated as demand accounts and reported as cash equivalents. For financial reporting purposes, deposits with the OST that are invested in *OK INVEST* are classified as cash equivalents.

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.

NORTHWESTERN OKLAHOMA STATE UNIVERSITY

A Department of the Regional University System of Oklahoma

Notes to Financial Statements

June 30, 2019

NOTE C--ACCOUNTS RECEIVABLE

Accounts receivable consisted of the following at June 30, 2019:

Student tuition and fees	\$	780,590
Auxiliary enterprises and other operating activities		139,928
Federal, state, and private grants and contracts		<u>222,182</u>
		1,142,700
Less: allowance for doubtful accounts		<u>(416,621)</u>
Total	\$	<u><u>726,079</u></u>

NORTHWESTERN OKLAHOMA STATE UNIVERSITY

A Department of the Regional University System of Oklahoma

Notes to Financial Statements

June 30, 2019

NOTE D--CAPITAL ASSETS

Following are the changes in capital assets for the year ended June 30, 2019:

	Balance 06/30/18	Additions	Deletions	Balance 06/30/19
<i>Capital Assets, not being depreciated</i>				
Land	\$ 1,149,042	\$ -	\$ -	\$ 1,149,042
Art	133,333	-	-	133,333
Construction in Progress	381,098	1,183,253	-	1,564,351
Total Capital Assets, not being depreciated	1,663,473	1,183,253	-	2,846,726
<i>Capital Assets, being depreciated</i>				
Land Improvements	5,295,336	-	-	5,295,336
Leasehold Improvements	125,631	-	-	125,631
Buildings	48,505,184	-	-	48,505,184
Furniture, Fixtures and Equipment	4,192,022	152,708	(83,216)	4,261,514
Library Materials	905,376	12,216	(51,124)	866,468
Total Capital Assets, being depreciated	59,023,549	164,924	(134,340)	59,054,133
<i>Less Accumulated Depreciation:</i>				
Land Improvements	(3,047,742)	(336,310)	-	(3,384,052)
Leasehold Improvements	(63,945)	(8,225)	-	(72,170)
Buildings	(26,707,199)	(1,298,617)	-	(28,005,816)
Furniture, Fixtures and Equipment	(3,749,768)	(177,251)	83,216	(3,843,803)
Library Materials	(864,815)	(22,507)	51,124	(836,198)
Total Accumulated Depreciation	(34,433,469)	(1,842,910)	134,340	(36,142,039)
Total Capital Assets, being depreciated	24,590,080	(1,677,986)	-	22,912,094
Capital Assets, Net	\$ 26,253,553	\$ (494,733)	\$ -	\$ 25,758,820
<i>Capital Assets Summary</i>				
Capital Assets, not being depreciated	\$ 1,663,473	\$ 1,183,253	\$ -	\$ 2,846,726
Capital Assets, being depreciated	59,023,549	164,924	(134,340)	59,054,133
Total Cost of Capital Assets	60,687,022	1,348,177	(134,340)	61,900,859
Less: Accumulated Depreciation	(34,433,469)	(1,842,910)	134,340	(36,142,039)
Total	\$ 26,253,553	\$ (494,733)	\$ -	\$ 25,758,820

NORTHWESTERN OKLAHOMA STATE UNIVERSITY

A Department of the Regional University System of Oklahoma

Notes to Financial Statements

June 30, 2019

NOTE E--LONG-TERM LIABILITIES

Long-term liability activity for the year ended June 30, 2019 was as follows:

	Balance			Balance	Due Within
	06/30/18	Additions	Deletions	06/30/19	One Year
Capital Lease Obligations:					
ODFA Master Lease	\$ 2,434,333	\$ -	\$ (429,416)	\$ 2,004,917	\$ 14,508
OCIA Lease Obligation	3,816,419	-	(680,284)	3,136,135	451,016
	<u>6,250,752</u>	<u>-</u>	<u>(1,109,700)</u>	<u>5,141,052</u>	<u>465,524</u>
Other Liabilities					
Accrued Compensated Absences	507,529	306,084	(269,236)	544,377	380,301
Unearned Capital Assets	645,824	-	(104,991)	540,833	104,991
	<u>1,153,353</u>	<u>306,084</u>	<u>(374,227)</u>	<u>1,085,210</u>	<u>485,292</u>
Total	<u>\$ 7,404,105</u>	<u>\$ 306,084</u>	<u>\$ (1,483,927)</u>	<u>\$ 6,226,262</u>	<u>\$ 950,816</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, 2019, 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.

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 OCTA issued its OCTA 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, 2019, 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.

NORTHWESTERN OKLAHOMA STATE UNIVERSITY

A Department of the Regional University System of Oklahoma

Notes to Financial Statements

June 30, 2019

NOTE E--LONG-TERM LIABILITIES--Continued

Capital Lease Obligations--Continued

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, 2019, the deferred gain, net of amortization, was \$126,428. 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.

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, 2019, 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, 2019, the State of Oklahoma made lease principal and interest payments totaling \$861,442 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.

NORTHWESTERN OKLAHOMA STATE UNIVERSITY

A Department of the Regional University System of Oklahoma

Notes to Financial Statements

June 30, 2019

NOTE E--LONG-TERM LIABILITIES--Continued

Capital Lease Obligations--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.

In August 2016, the ODFA issued its ODFA Master Real Property Lease Revenue Bonds, Tax-Exempt Series 2016D, of the total bond indebtedness, the State Regents for Higher Education allocated \$1,033,000 and \$383,000 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, 2031 and June 23, 2023 respectively. The proceeds of the bonds and subsequent leases are to provide for capital improvements to the University.

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

<u>Year Ending June 30,</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2020	\$ 432,964	\$ 218,681	\$ 651,645
2021	172,417	202,801	375,218
2022	468,408	198,242	666,650
2023	483,033	178,904	661,937
2024	438,985	158,665	597,650
2025 - 2029	2,500,227	487,810	2,988,037
2030 - 2033	<u>645,018</u>	<u>32,464</u>	<u>677,482</u>
Total	\$ <u>5,141,052</u>	\$ <u>1,477,567</u>	\$ <u>6,618,619</u>

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 employee's 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 G. The University does not maintain the accounting records, hold the investments for, or administer these plans.

NORTHWESTERN OKLAHOMA STATE UNIVERSITY

A Department of the Regional University System of Oklahoma

Notes to Financial Statements

June 30, 2019

NOTE F--RETIREMENT PLANS--Continued

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. 58th 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.

The application of GAAP at the departmental level does not include certain liabilities incurred by the system as a whole. Those liabilities relate to the participation of System employees in the Oklahoma Teachers Retirement System, the Supplemental Retirement Plan, and the Postemployment Healthcare Plan. The accounting and reporting of these can be located in the financial statements of RUSO.

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/TRS.

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 2019, 2018, and 2017, and was applied to annual compensation.

Employees' contributions are also determined by state statute. For all employees, the contribution rate was 7% of covered salaries and fringe benefits in 2019, 2018, and 2017. 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 year ended June 30, 2019, 2018, and 2017 was approximately \$1,218,000, \$1,151,000, and \$1,056,000 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 2019, 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 System's financial statements and not at the individual department level.

NORTHWESTERN OKLAHOMA STATE UNIVERSITY

A Department of the Regional University System of Oklahoma

Notes to Financial Statements

June 30, 2019

NOTE F--RETIREMENT PLANS--Continued

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 System, 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 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, 2019, 2018 and 2017, were approximately \$276,000, \$260,000 and \$272,000, 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, 2019, 2018, and 2017.

NOTE G -- OTHER POST-EMPLOYMENT INSURANCE BENEFITS

Plan Description Post - Employment Healthcare Plan

The University's post-employment 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, 2019, there were 96 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.

NORTHWESTERN OKLAHOMA STATE UNIVERSITY

A Department of the Regional University System of Oklahoma

Notes to Financial Statements

June 30, 2019

NOTE G--OTHER POST-EMPLOYMENT INSURANCE BENEFITS--Continued

Plan Description Post - Employment 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 ("ARC") 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 University made no contributions to the plan in fiscal 2019, 2018, or 2017.

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 \$1,093,389 during the year ended June 30, 2019, 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 statement of revenues, expenses, and changes in net position. State law prohibits the distribution of any corpus of these funds to the beneficiaries. The cost basis of the total trust reserve for the University, held in trust by the Commissioners of Land Office, was approximately \$20,129,000 at June 30, 2019.

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 approximately \$6,085,000 at June 30, 2019, and are invested by the Oklahoma State Regents on behalf of the University. The University is entitled to receive an annual distribution of 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, \$243,293 at June 30, 2019, have been reflected as assets in the statements of net position.

NORTHWESTERN OKLAHOMA STATE UNIVERSITY

A Department of the Regional University System of Oklahoma

Notes to Financial Statements

June 30, 2019

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, 2019, 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 a public entity risk pool 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.

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 Comp Source Mutual. 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.

The College also began participating, during fiscal year 2017, in the Oklahoma Higher Education Employee Interlocal Group Health Insurance Pool "OKHEEI". College employees are provided health insurance coverage through OKHEEI. OKHEEI is an Interlocal Cooperative Act Agency organized as a public entity risk pool health insurance program for participating Colleges and Universities in the State. The College pays monthly health insurance premiums to OKHEEI for employee health insurance coverage based on the health coverage elected by the employee and the maximum benefit provided by the College for health coverage. Amount of premiums exceeding benefits are payable by the employee. The governing agreement for OKHEEI specifies that the pool will be self-sustaining through premiums received and with additional stop-loss coverages obtained. If health care claims exceed reserves and reinsurance coverages, additional assessments may be made to participating Colleges and Universities. As of June 30, 2019, additional assessments did not occur.

NORTHWESTERN OKLAHOMA STATE UNIVERSITY

A Department of the Regional University System of Oklahoma

Notes to Financial Statements

June 30, 2019

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 (collectively the "Foundation"):

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).

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.

Land and Mineral Rights

Land and mineral rights consist primarily of oil & gas property and farm property donated to the Foundation. Management has made attempts to revalue portions of the real property assets at subsequent dates. The Foundation's management is of the opinion that revaluation of all real property would not have a significant impact on the Foundation's statements of financial position or changes in net position.

Assets measured at fair value on a recurring basis are classified within the fair value hierarchy as follows as of June 30, 2019:

Capital Lease Obligations:	Level 1	Level 2	Level 3	Total
Uninvested cash	\$ 567,553	\$ -	\$ -	\$ 567,553
Certificates of deposit	198,614	-	-	198,614
Equity Securities	12,899,869	-	-	12,899,869
Exchange-traded products	5,580,105	-	-	5,580,105
Corporate and other bonds	449,804	-	-	449,804
Mutual funds	5,149,921	-	-	5,149,921
Alternative investments	-	1,202,019	-	1,202,019
Total	\$ 24,845,866	\$ 1,202,019	\$ -	\$ 26,047,885

NORTHWESTERN OKLAHOMA STATE UNIVERSITY

A Department of the Regional University System of Oklahoma

Notes to Financial Statements

June 30, 2019

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

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.

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.

NORTHWESTERN OKLAHOMA STATE UNIVERSITY

A Department of the Regional University System of Oklahoma

Notes to Financial Statements

June 30, 2019

NOTE K--NORTHWESTERN OKLAHOMA STATE UNIVERSITY FOUNDATION, INC. AND ALUMNI ASSOCIATION--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, 2019:

	Unrestricted	Expendable	Non- Expendable	Total
Donor-restricted endowment funds	\$ -	\$ -	\$ 28,248,067	\$ 28,248,067
Board-designated endowment funds	-	2,055,718	-	2,055,718
Total	<u>\$ -</u>	<u>\$ 2,055,718</u>	<u>\$ 28,248,067</u>	<u>\$ 30,303,785</u>

Changes in endowment net position for the year ended June 30, 2019 are as follows:

	Unrestricted	Expendable	Non- Expendable	Total
Endowment net assets, beginning of year	\$ -	\$ 2,832,146	\$ 27,231,032	\$ 30,063,178
Transfers	-	200	(200)	-
Investment Return	-	755,195	-	755,195
Contributions	-	1,283,229	1,017,235	2,300,464
Appropriation of endowment assets for expenditures	-	(2,815,052)	-	(2,815,052)
Total	<u>\$ -</u>	<u>\$ 2,055,718</u>	<u>\$ 28,248,067</u>	<u>\$ 30,303,785</u>

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



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

Board of Regents
Regional University System of Oklahoma
Northwestern Oklahoma State University
Alva, 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, as of and for the year ended June 30, 2019, 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 31, 2019.

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 opinions 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 Northwestern Oklahoma State 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 entity's internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the entity's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

Hick & Company, PC

Tulsa, Oklahoma
October 31, 2019





Independent Auditors' Report on Compliance for Each Major Federal Program; Report on Internal Control over Compliance 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
Alva, Oklahoma

Report on Compliance for Each Major Federal Program

We have audited Northwestern Oklahoma State University's compliance with the types of compliance requirements described in the *OMB Compliance Supplement* that could have direct and material effect on each of the University's major federal programs for the year ended June 30, 2019. 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 applicable to its federal programs.

Auditors' 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 non-compliance with the types of compliance referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about the 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, Northwestern Oklahoma State 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, 2019.

Report on Internal Control Over Compliance

Management of Northwestern Oklahoma State 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 considered to be material weaknesses. However, material weaknesses may exist that have not been identified. The purpose of this report on internal control over compliance is solely to describe the scope of our testing of internal control over compliance and the results of that testing based on the requirements of the Uniform Guidance. Accordingly, this report is not suitable for any other purpose.

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

We have audited the financial statements of the Northwestern Oklahoma State University as of and for the year ended June 30, 2019 and the related notes to the financial statements, which collectively comprise the University's basic financial statements. We issued our report thereon dated October 31, 2019, which contained an unmodified opinion on those financial statements. Our audit was conducted for the purpose of forming an opinion on the financial statements that collectively comprise the basic financial statements. The accompanying schedule of expenditures of federal awards is presented for purposes of additional analysis as required by the Uniform Guidance and is not a required part of the basic financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the basic financial statements. The information has been subjected to the auditing procedures applied in the audit of the financial statements and certain auditing procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the schedule of expenditure of federal awards is fairly stated in all material respects in relation to the basic financial statements as a whole.

Hick & Company, PC

Tulsa, Oklahoma
October 31, 2019



Northwestern Oklahoma State University
A Department of the Regional University System of Oklahoma
Schedule of Expenditures of Federal Awards
For the Year Ended June 30, 2019

Federal Grantor/Pass-Through Grantor/Program Title	Federal CFDA Number	Pass-Through Entity Identifying Number	Federal Expenditures
U.S. Department of Education			
Student Financial Assistance Cluster			
Federal Pell Grants	84.063	N/A	\$ 3,885,578
Federal Supplemental Education Opportunity Grant	84.007	N/A	58,542
Federal Work Study Program	84.033	N/A	167,641
Federal Direct Loan Program	84.268	N/A	<u>6,406,244</u>
Total Student Financial Assistance Cluster			<u>10,518,005</u>
TRIO Program Cluster			
Upward Bound	84.047A	N/A	294,455
Upward Bound - Math & Science	84.047M	N/A	287,941
Student Support Services	84.042A	N/A	<u>206,453</u>
Total TRIO Program Cluster			<u>788,849</u>
Other Programs			
Higher Education Institutional Aid	84.031	N/A	<u>23</u>
Total U.S. Department of Education			<u>11,306,877</u>
U.S. Department of Agriculture			
Distance Learning & Telemedicine Grant	10.855	OK 729-D16	<u>171,974</u>
Total U.S. Department of Agriculture			<u>171,974</u>
Research and Development (R & D) Cluster			
National Science Foundation			
Pass-through Oklahoma State University Education and Human Resources	47.076	AA-5-64291	<u>10,000</u>
Total Research and Development Cluster National Science Foundation			<u>10,000</u>
Total Expenditures of Federal Awards			<u>\$ 11,488,851</u>

Northwestern Oklahoma State University

A Department of the Regional University System of Oklahoma

Notes to Schedule of Expenditures of Federal Awards

For the Year Ended June 30, 2019

NOTE A--BASIS OF PRESENTATION

The accompanying schedule of expenditures of federal awards (the Schedule) includes the federal awards activity of Northwestern Oklahoma State University under programs for the federal government for the year ended June 30, 2019. The information in this Schedule is presented in accordance with the requirements of Title 2 U.S. *Code of Federal Regulations Part 200, Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (Uniform Guidance). Because the Schedule presents only a selected portion of the operations of Northwestern Oklahoma State University, it is not intended to and does not present the financial position, changes in net position, or cash flows of Northwestern Oklahoma State 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 the cost principles contained in the Uniform Guidance, wherein certain types of expenditures are not allowable or are limited as to reimbursement.
- Under CFDA number 84.268, the Federal Direct Student Loan Program (“Direct Loan Program”), the U.S. Department of Education makes loans to enable a student or parent to pay the costs of the student’s attendance at a postsecondary school. The Direct Loan Program enables an eligible student or parent to obtain a loan to pay for the student’s cost of attendance directly from the U.S. Department of Education rather than through private lenders. The University administers the origination and disbursement of the loans to eligible students or parents. The University is not responsible for the collection of these loans.
- The University has elected not to use the 10 percent de minimis indirect cost rate as allowed under the Uniform Guidance.
- During the year ended June 30, 2019, the University did not provide any federal awards to subrecipients.

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 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.

Northwestern Oklahoma State University
 A Department of the Regional University System of Oklahoma
 Schedule of Findings and Questioned Costs
 For the Year Ended June 30, 2019

Section I: Summary of Auditors Results

Financial Statements

The opinion expressed in the independent accountants' report was:

- Unmodified Qualified Adverse Disclaimed

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

- Significant deficiencies Yes None reported
- Material weaknesses? Yes No

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

Federal Awards

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

- Significant deficiencies? Yes None Reported
- Material weaknesses? Yes No

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

- Unmodified Qualified Adverse Disclaimed

The audit disclosed findings required to be reported by the Uniform Guidance? Yes No

The University's major program was:

Cluster/Program	CFDA Number
Student Financial Aid Cluster	*
Trio Program Cluster	*

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

The University qualified as a low-risk auditee as that term is defined in Uniform Guidance. Yes No

Northwestern Oklahoma State University

A Department of the Regional University System of Oklahoma
Schedule of Findings and Questioned Costs
For the Year Ended June 30, 2019

Section II: Findings Required to be Reported by *Government Auditing Standards*

None to report for the year ended June 30, 2019.

Section III: Findings Required to be Reported by the Uniform Guidance

None to report for the year ended June 30, 2019.

Northwestern Oklahoma State University
A Department of the Regional University System of Oklahoma
Summary Schedule of Prior Year Findings
For the Year Ended June 30, 2019

Section II: Financial Statements Findings

No prior year findings for follow up.

Section III: Federal Award, Findings and questioned costs

None to report for the year ended June 30, 2019.