

**NORTHWESTERN OKLAHOMA
STATE UNIVERSITY**

**ANNUAL FINANCIAL
STATEMENTS AND
INDEPENDENT AUDITOR'S
REPORTS AS OF AND FOR THE
YEAR ENDED JUNE 30, 2014**

NORTHWESTERN OKLAHOMA STATE UNIVERSITY

June 30, 2014

AUDITED FINANCIAL STATEMENTS

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INDEPENDENT AUDITOR'S REPORT

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

Report on the Financial Statements

We have audited the accompanying financial statements of Northwestern Oklahoma State University (the "University"), a department of the Regional University System of Oklahoma (RUSO), which is a component unit of the State of Oklahoma, that comprise the statement of net position as of June 30, 2014, and the related statements of revenues, expenses, and changes in net position, and cash flows for the year then ended, and the related notes to the financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

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

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

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

Opinion

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

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, 2014, 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 the required supplementary information, as listed in the table of contents, be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated October 31, 2014, on our consideration of the University's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the University's internal control over financial reporting and compliance.

Arledge & Associates, P.C.

October 31, 2014

MANAGEMENT'S DISCUSSION AND ANALYSIS (UNAUDITED)

NORTHWESTERN OKLAHOMA STATE UNIVERSITY

June 30, 2014

OVERVIEW OF FINANCIAL STATEMENTS AND FINANCIAL ANALYSIS

Northwestern Oklahoma State University is pleased to present its financial statements for fiscal year 2014, with selected comparative information for fiscal year 2013. 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

June 30, 2014

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, 2014, compared to the year ending June 30, 2013.

CONDENSED STATEMENT OF NET POSITION
(In Millions)

| | June 30 | | Increase |
|-------------------------------------|----------------|----------------|-------------------|
| | <u>2014</u> | <u>2013</u> | <u>(Decrease)</u> |
| ASSETS | | | |
| Current assets | \$ 5.8 | \$ 5.0 | \$ 0.8 |
| NONCURRENT ASSETS | | | |
| Capital assets, net of depreciation | \$ 24.6 | \$ 25.5 | \$ (0.9) |
| Other assets | \$ 2.6 | \$ 2.7 | \$ (0.1) |
| TOTAL ASSETS | <u>\$ 33.0</u> | <u>\$ 33.2</u> | <u>\$ (0.2)</u> |
| | | | |
| DEFERRED OUTFLOWS OF RESOURCES | <u>\$ 0.3</u> | <u>\$ 0.4</u> | <u>\$ (0.1)</u> |
| | | | |
| LIABILITIES | | | |
| Current liabilities | \$ 2.2 | \$ 1.8 | \$ 0.4 |
| Noncurrent liabilities | \$ 7.7 | \$ 8.9 | \$ (1.2) |
| TOTAL LIABILITIES | <u>\$ 9.9</u> | <u>\$ 10.7</u> | <u>\$ (0.8)</u> |
| | | | |
| DEFERRED INFLOWS OF RESOURCES | <u>\$ 0.2</u> | <u>\$ -</u> | <u>\$ 0.2</u> |
| | | | |
| NET POSITION | | | |
| Net investment in capital assets | \$ 16.0 | \$ 16.3 | \$ (0.3) |
| Restricted | \$ 2.2 | \$ 2.4 | \$ (0.2) |
| Unrestricted | \$ 5.0 | \$ 4.2 | \$ 0.8 |
| TOTAL NET POSITION | <u>\$ 23.2</u> | <u>\$ 22.9</u> | <u>\$ 0.3</u> |

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

NORTHWESTERN OKLAHOMA STATE UNIVERSITY

June 30, 2014

STATEMENT OF NET POSITION--Continued

June 30, 2014, compared to June 30, 2013

The total assets of the University decreased from 2013 to 2014 by \$209,601. The most significant change in current assets can be noted through an increase in cash and cash equivalents of \$757,526. The most notable changes in noncurrent assets include a decrease in restricted cash and cash equivalents of \$150,203 and an increase in prepaid pension asset of \$67,944 as well as a decrease in net capital assets of \$912,767.

Current liabilities included significant changes in several areas. These included an increase in accounts payable of \$75,518 and an increase in the current portion of non-current liabilities of \$383,136. The section of the financial statement covering non-current liabilities showed a decrease in ODFA master lease payable of \$336,000 and a decrease in lease obligation payable to state agency of \$795,289.

For FY14 unrestricted net assets increased by \$776,040, restricted net assets decreased by \$139,166, and the net investment in capital assets reflects a decrease of \$304,141. When one includes the component unit, the overall net position increased by nearly \$4.7 million.

The Northwestern Oklahoma State University Foundation, Inc. plays a significant role in the financial health of the university. Even though the Foundation is a separate component unit, its investment portfolio accounts for a large part of the asset base contained within these financial statements. Over the past few years the recessionary times contributed to a decrease in the assets of the Foundation. During FY14, the total assets of the Foundation grew by nearly \$4.2 million with investments held by others increasing nearly \$2.7 million over last year. The Foundation continues to rebound from losses suffered during the peak of the recession.

STATEMENT OF REVENUES, EXPENSES, AND CHANGES IN NET POSITION

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

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

NORTHWESTERN OKLAHOMA STATE UNIVERSITY

June 30, 2014

STATEMENT OF REVENUES, EXPENSES, AND CHANGES IN NET POSITION--Continued

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

| | Years Ended June 30 | |
|--|---------------------|----------------|
| | <u>2014</u> | <u>2013</u> |
| OPERATING REVENUE | | |
| Student Tuition and Fees (net of scholarship allowance of \$7.8 and \$7.8, respectively) | \$ 6.4 | \$ 5.9 |
| Federal, State, and Local Grants/Contracts | 1.4 | 1.5 |
| Auxiliary | 5.2 | 4.6 |
| Other | <u>0.3</u> | <u>0.6</u> |
| TOTAL OPERATING REVENUE | 13.3 | 12.6 |
| OPERATING EXPENSES | | |
| Compensation and Employee Benefits | 18.7 | 18.5 |
| Contractual Services | 2.8 | 2.7 |
| Supplies and Materials | 3.4 | 3.5 |
| Depreciation | 2.0 | 1.9 |
| Utilities | 1.1 | 1.0 |
| Communication Expense | 0.2 | 0.3 |
| Scholarships and Fellowships | 2.0 | 2.3 |
| Other Operating Expense | <u>0.9</u> | <u>0.8</u> |
| TOTAL OPERATING EXPENSE | <u>31.1</u> | <u>31.0</u> |
| OPERATING INCOME (LOSS) | (17.8) | (18.4) |
| NONOPERATING REVENUE (LOSS) | | |
| State Appropriations | 10.3 | 10.2 |
| OTRS on-behalf Payments | 0.9 | 0.9 |
| Federal and State Grants/Contracts | 4.7 | 5.3 |
| Gifts | 0.4 | 0.3 |
| Investment Income | 0.3 | 0.3 |
| Interest Expense | <u>(0.5)</u> | <u>(0.3)</u> |
| NET NONOPERATING REVENUE | <u>16.1</u> | <u>16.7</u> |
| INCOME (LOSS) BEFORE OTHER REVENUE/EXPENSE | (1.7) | (1.7) |
| OTHER REVENUE/EXPENSE | <u>2.0</u> | <u>1.5</u> |
| CHANGE IN NET POSITION | 0.3 | (0.2) |
| NET POSITION AT BEGINNING OF YEAR | <u>22.9</u> | <u>23.1</u> |
| NET POSITION AT END OF YEAR | <u>\$ 23.2</u> | <u>\$ 22.9</u> |

Year Ended June 30, 2014, compared to Year ended June 30, 2013

The Statement of Revenues, Expenses, and Changes in Net Position reflect an increase in net position of \$332,733. Noteworthy, however, is that total operating revenue increased by \$678,246 while operating expenses increased by only \$88,732. Highlighted items to note include increases in student tuition and fees (net of scholarship discounts and allowances) of \$499,152;

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

NORTHWESTERN OKLAHOMA STATE UNIVERSITY

June 30, 2014

STATEMENT OF REVENUES, EXPENSES, AND CHANGES IN NET POSITION--Continued

Year Ended June 30, 2014, compared to Year ended June 30, 2013--Continued

decrease of Federal and state grants and contracts of \$99,050 and increases in housing and food services (net of scholarships) of \$585,089.

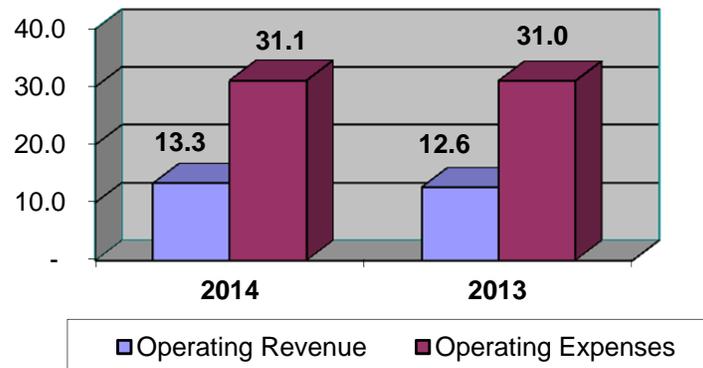
Other operating expenses show significant changes in several areas. These include an increase in compensation and employee benefits of \$207,172; increase in contractual services of \$132,871; decrease in supplies and materials of \$94,205; decrease in scholarships and fellowships of \$343,003 and an increase in other operating expenses of \$135,364.

Non-operating revenue shows an increase with several changes noted from FY13 to FY14. These highlights include an increase in state appropriations of \$123,566; decrease in OTRS on-behalf payments of \$19,774; decrease in Federal and state grants and contracts of \$609,840; increase in interest expense of \$218,221 and an increase in gifts of \$96,237.

Also noteworthy is an increase of \$379,261 in private gifts for capital assets resulting from the donation of athletic equipment and the start of construction of a new press box funded primarily from donated funds.

It is important to understand the relationship of revenues to expenses over time. The graph below shows the stability of the relationship of operating revenues to operating expenses over the past two years.

OPERATING REVENUES VS. OPERATING EXPENSES
(In Millions)



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

NORTHWESTERN OKLAHOMA STATE UNIVERSITY

June 30, 2014

STATEMENT OF REVENUES, EXPENSES, AND CHANGES IN NET POSITION--Continued

The following charts show the relationship of state appropriations when compared to tuition and fees over the past two years. Northwestern experienced a slight decrease in overall enrollment in fiscal year 2014. This decrease was the result of a strong local workforce and economy in the northwest part of the state. For FY14 Northwestern received an increase in state appropriations of approximately \$123,566. During the same period mandatory costs increased some \$435,600. For FY14, a 5.8 percent tuition increase was implemented to help offset some of the mandatory cost increases. During FY14, Northwestern was able to provide a pay increase for staff of \$500 for employees making less than \$25,000. An adjustment was made to the faculty salary schedule to provide an increase to faculty holding the rank of professor. Auxiliary revenues show an increase in revenue due to a small increase in board rates and an overall increase in the number of students living in campus housing. Expenses for campus housing also increased due to more students living on campus and auxiliary funds being earmarked for capital facility improvements.

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

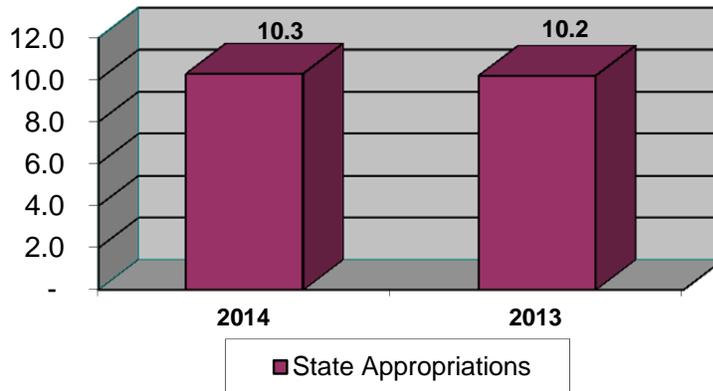
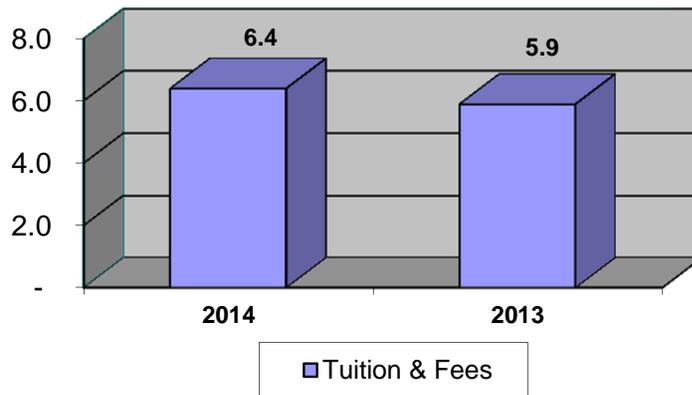
NORTHWESTERN OKLAHOMA STATE UNIVERSITY

June 30, 2014

STATEMENT OF REVENUES, EXPENSES, AND CHANGES IN NET POSITION--Continued

The following two charts show graphically the changes in tuition and fees along with the changes in state appropriations for fiscal year 2013 through fiscal year 2014.

TUITION & FEES VS. STATE APPROPRIATIONS
(In Millions)



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.

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

NORTHWESTERN OKLAHOMA STATE UNIVERSITY

June 30, 2014

STATEMENT OF CASH FLOWS--Continued

| | <u>2014</u> | <u>2013</u> |
|--|---------------|---------------|
| CASH PROVIDED BY (USED IN): | | |
| Operating activities | \$ (14.9) | \$ (15.8) |
| Noncapital financing activities | 15.4 | 15.8 |
| Investing activities | 0.3 | 0.2 |
| Capital and related financing activities | <u>(0.1)</u> | <u>0.4</u> |
| NET INCREASE (DECREASE) IN CASH | 0.7 | 0.6 |
| CASH AT BEGINNING OF YEAR | <u>6.3</u> | <u>5.7</u> |
| CASH AT END OF YEAR | <u>\$ 7.0</u> | <u>\$ 6.3</u> |

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

The University's cash and cash equivalents increased by \$611,459 from 2013 to 2014. There had been an increase in cash of \$601,704 from 2012 to 2013. This increase in the cash reserve was a planned strategy by the University to help increase the financial stability of the institution and have reserves in case of an unexpected crisis.

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

NORTHWESTERN OKLAHOMA STATE UNIVERSITY

June 30, 2014

ECONOMIC OUTLOOK

The economic stability and future growth of the University is directly related to the state's economic stability. For several years Oklahoma had suffered from down economic times and higher education received reductions in state appropriations. The national economy appears to have stabilized with Oklahoma boasting a low unemployment rate. Northwest Oklahoma has experienced an increase in oil and gas activity over the past several years resulting in more residents entering the workforce. This increase in work opportunities, often with very competitive wages, has impacted the University in hiring and retaining full-time employees as well as the constant effort of the recruitment and retention of students.

During FY14, Northwestern experienced a decrease in enrollment showing a decrease in credit hours generated of 3.2%. Part of this decline can be attributed to the robust work opportunities available in western Oklahoma. A continued strategic direction for the University is to focus on student recruitment and retention. With the help of an aggressive enrollment management plan updated annually, the university faculty and staff works closely with all potential and current students in an effort to recruit and retain the very best. Efforts will continue into FY15 to attract new students to the University.

Northwestern has placed a high priority on the development of grants and sponsored programs. New grant opportunities are always being explored by faculty and staff. During FY14, Northwestern's Title III grant continued to focus on student retention of at-risk students. This effort directly ties into the retention goals for the University. Faculty in selected discipline areas receives additional professional development training. The grant also allows for equipment purchases such as new smart boards in several of the classrooms. Faculty and staff will continue to explore new grant opportunities during FY15.

Construction and expansion projects continue to be a focus for Northwestern. During FY14, renovations were completed on the National Guard Armory building. This building was deeded to Northwestern and part of the facility provides locker room space for the women's softball and soccer programs. Dedicated weight lifting space was enhanced with the addition of top-of-the line weights donated by a local booster. This is one example of the enhancements taking place as the University progresses through the NCAA II membership process.

The Northwestern Oklahoma State University Foundation, Inc., plays a critical role in supporting the University and its mission. FY14 saw an increase in investment income. New contributions and endowments continue to be secured, which helps to provide support for the operations of Northwestern. The Endowed Chair Program provides matching funds through the Oklahoma State Regents for Higher Education and the state of Oklahoma.

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

NORTHWESTERN OKLAHOMA STATE UNIVERSITY

June 30, 2014

ECONOMIC OUTLOOK--Continued

Currently Northwestern has 27 endowed chairs (7 waiting to be matched by the State), 1 professorship, and 7 lectureships (5 unmatched). Once these accounts are fully matched, additional dollars of earnings will be available to Northwestern to help with faculty salaries. Northwestern is currently in the quiet phase of a comprehensive capital campaign. Specific details of the project will be publicly announced in the near future.

The future of Northwestern Oklahoma State University is bright, but funding continues to be an ongoing concern. Northwestern is constantly reviewing and evaluating every cost saving measure possible in an effort to best utilize all revenue sources, including state funding. The Higher Learning Commission's visit occurred during the spring of 2014. Students, faculty, staff, and administrators all participated in this intensive evaluation and review process. The final report reaffirmed Northwestern's accreditation for the next decade with no findings, concerns, or follow-up visits required.

STATEMENT OF NET POSITION

NORTHWESTERN OKLAHOMA STATE UNIVERSITY

| | <u>University</u> | <u>Component</u> <u>Unit</u> |
|---|----------------------|---------------------------------|
| | June 30, 2014 | June 30, 2014 |
| ASSETS | | |
| CURRENT ASSETS | | |
| Cash and cash equivalents | \$ 4,717,146 | \$ 1,659,322 |
| Restricted cash and cash equivalents | 342,026 | - |
| Accounts receivable, net | 370,636 | 9,214 |
| Receivable from state agencies | 316,407 | - |
| Interest and other receivables | 4,485 | 32,468 |
| Inventories | <u>25,503</u> | <u>-</u> |
| TOTAL CURRENT ASSETS | 5,776,203 | 1,701,004 |
| NONCURRENT ASSETS | | |
| Restricted cash and cash equivalents | 1,879,573 | - |
| Investments | - | 17,607,765 |
| Prepaid pension asset | 739,962 | - |
| Other assets | 104,966 | 823,767 |
| Land and mineral rights | - | 2,568,374 |
| Capital assets, net | <u>24,566,703</u> | <u>268,583</u> |
| TOTAL NONCURRENT ASSETS | <u>27,291,204</u> | <u>21,268,489</u> |
| TOTAL ASSETS | <u>\$ 33,067,407</u> | <u>\$ 22,969,493</u> |
| DEFERRED OUTFLOWS OF RESOURCES | | |
| Deferred charge on OCIA lease restructure | 200,670 | - |
| Deferred charge on ODFA lease restructure | <u>49,549</u> | <u>-</u> |
| TOTAL DEFERRED OUTFLOWS OF RESOURCES | <u>\$ 250,219</u> | <u>\$ -</u> |

STATEMENT OF NET POSITION--Continued

NORTHWESTERN OKLAHOMA STATE UNIVERSITY

| | <u>University</u> | <u>Component</u> |
|--|----------------------|----------------------|
| | June 30, | Unit |
| | 2014 | June 30, |
| | <u>2014</u> | <u>2014</u> |
| LIABILITIES AND NET POSITION | | |
| CURRENT LIABILITIES | | |
| Accounts payable | \$ 255,883 | \$ 11,341 |
| Accrued payroll | 132,635 | - |
| Unearned revenue | 127,084 | - |
| Deposits held in custody for others | 180,387 | - |
| Current portion of non current liabilities | <u>1,521,752</u> | <u>-</u> |
| TOTAL CURRENT LIABILITIES | 2,217,741 | 11,341 |
| NONCURRENT LIABILITIES | | |
| Accrued compensated absences | 140,520 | - |
| ODFA master lease program | 1,276,333 | - |
| Lease obligation payable to state agency | 5,733,202 | - |
| Other capital lease obligation | 297,892 | - |
| Note payable | - | 110,700 |
| Other noncurrent liabilities | <u>232,928</u> | <u>-</u> |
| TOTAL NONCURRENT LIABILITIES | <u>7,680,875</u> | <u>110,700</u> |
| TOTAL LIABILITIES | <u>\$ 9,898,616</u> | <u>\$ 122,041</u> |
| DEFERRED INFLOWS OF RESOURCES | | |
| Deferred gain on OCIA lease restructure | <u>\$ 183,463</u> | <u>\$ -</u> |
| NET POSITION | | |
| Net investment in capital assets | 16,016,329 | - |
| Restricted: | | |
| Nonexpendable: | | |
| Grants, bequests and contributions | - | 18,303,799 |
| Expendable: | | |
| Scholarships, instruction and other | 352,903 | 3,010,798 |
| Capital projects and debt service | 1,871,024 | - |
| Unrestricted | <u>4,995,291</u> | <u>1,532,855</u> |
| TOTAL NET POSITION | <u>\$ 23,235,547</u> | <u>\$ 22,847,452</u> |

See notes to financial statements.

STATEMENT OF REVENUES, EXPENSES, AND CHANGES IN NET POSITION

NORTHWESTERN OKLAHOMA STATE UNIVERSITY

| | <u>University</u> | <u>Component</u> |
|--|----------------------|----------------------|
| | <u>Year Ended</u> | <u>Unit</u> |
| | <u>June 30,</u> | <u>Year Ended</u> |
| | <u>2014</u> | <u>June 30,</u> |
| | <u>2014</u> | <u>2014</u> |
| OPERATING REVENUES | | |
| Student tuition and fees, net of scholarship discounts and allowances of \$7,782,000 | \$ 6,380,985 | \$ - |
| Federal and state grants and contracts | 1,415,451 | - |
| Housing and food service, net of scholarship discounts and allowances of \$232,000 | 5,152,548 | - |
| Contributions | - | 4,055,993 |
| Other operating revenues | 320,121 | 415,964 |
| TOTAL OPERATING REVENUES | <u>13,269,105</u> | <u>4,471,957</u> |
| OPERATING EXPENSES | | |
| Compensation and employee benefits | 18,696,507 | - |
| Contractual services | 2,816,864 | - |
| Supplies and materials | 3,355,193 | - |
| Depreciation | 1,971,320 | - |
| Utilities | 1,141,355 | - |
| Communication expense | 166,321 | - |
| Scholarships and fellowships | 1,979,694 | 814,508 |
| Other operating expenses | 919,551 | 1,531,937 |
| TOTAL OPERATING EXPENSES | <u>31,046,805</u> | <u>2,346,445</u> |
| OPERATING INCOME (LOSS) | (17,777,700) | 2,125,512 |
| NONOPERATING REVENUES (EXPENSES) | | |
| State appropriations | 10,305,434 | - |
| OTRS on-behalf payments | 875,839 | - |
| Federal and state grants and contracts | 4,719,962 | - |
| Gifts | 384,377 | - |
| Investment income | 282,266 | 2,249,308 |
| Interest expense | (503,040) | - |
| NET NONOPERATING REVENUE (EXPENSES) | <u>16,064,838</u> | <u>2,249,308</u> |
| INCOME (LOSS) BEFORE OTHER REVENUES, EXPENSES, GAINS, AND LOSSES | (1,712,862) | 4,374,820 |
| Private gifts for capital assets | 418,029 | - |
| State appropriations restricted for capital purposes | 1,020,974 | - |
| OCIA on-behalf state appropriations | 567,771 | - |
| Capital assets earned | 38,821 | - |
| CHANGE IN NET POSITION | <u>332,733</u> | <u>4,374,820</u> |
| NET POSITION, BEGINNING OF YEAR | <u>22,902,814</u> | <u>18,472,632</u> |
| NET POSITION, END OF YEAR | <u>\$ 23,235,547</u> | <u>\$ 22,847,452</u> |

See notes to financial statements.

STATEMENT OF CASH FLOWS

NORTHWESTERN OKLAHOMA STATE UNIVERSITY

Year Ended June 30, 2014

CASH FLOWS FROM OPERATING ACTIVITIES

| | |
|---|---------------------|
| Tuition and fees | \$ 6,399,588 |
| Grants and contracts | 1,419,520 |
| Auxiliary enterprise charges and other operating receipts | 5,469,516 |
| Payments to employees for salaries and benefits | (17,925,175) |
| Payments to suppliers | <u>(10,304,013)</u> |
| NET CASH USED IN OPERATING ACTIVITIES | (14,940,564) |

CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES

| | |
|--|----------------|
| State appropriations | 10,305,434 |
| Nonoperating grants | 4,719,962 |
| Direct student loans received | 5,438,705 |
| Direct student loan payments | (5,438,705) |
| Gifts for other than capital purposes | <u>384,377</u> |
| NET CASH PROVIDED BY NONCAPITAL FINANCING ACTIVITIES | 15,409,773 |

CASH FLOWS FROM INVESTING ACTIVITIES

| | |
|---|----------------|
| Interest income received | <u>274,797</u> |
| NET CASH PROVIDED BY INVESTING ACTIVITIES | 274,797 |

CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES

| | |
|--|------------------|
| Cash paid for capital assets | (648,498) |
| Capital appropriations received | 1,020,974 |
| Interest paid on capital debt and leases | (81,840) |
| Repayment of capital debt and leases | <u>(423,183)</u> |
| NET CASH USED BY CAPITAL AND RELATED FINANCING ACTIVITIES | <u>(132,547)</u> |

NET CHANGE IN CASH AND CASH EQUIVALENTS 611,459

CASH AND CASH EQUIVALENTS, BEGINNING OF YEAR 6,327,286

CASH AND CASH EQUIVALENTS, END OF YEAR \$ 6,938,745

Continued next page.

STATEMENT OF CASH FLOWS--Continued

NORTHWESTERN OKLAHOMA STATE UNIVERSITY

Year Ended June 30, 2014

RECONCILIATION OF OPERATING LOSS TO
NET CASH USED IN OPERATING ACTIVITIES

| | |
|--|------------------------|
| Operating loss | \$ (17,777,700) |
| Adjustments to reconcile operating loss to net cash used in operating activities: | |
| Depreciation expense | 1,971,320 |
| On-behalf contributions to Teachers' Retirement System | 875,839 |
| Changes in assets and liabilities: | |
| Accounts receivable | 331 |
| Inventories | 15,035 |
| Prepaid pension asset | (67,944) |
| Other assets | (31,712) |
| Accounts payable and accrued expenses | 53,420 |
| Unearned revenue | 19,188 |
| Student and other deposits | (23,562) |
| Compensated absences | <u>25,221</u> |
| NET CASH USED IN OPERATING ACTIVITIES | <u>\$ (14,940,564)</u> |

NONCASH INVESTING, NONCAPITAL FINANCING
AND CAPITAL AND RELATED FINANCING ACTIVITIES

| | |
|---|------------|
| Interest on capital debt paid by state agency on behalf of the University | \$ 315,405 |
| Principal on capital debt paid by state agency on behalf of the University | 252,366 |

RECONCILIATION OF CASH AND CASH EQUIVALENTS
TO STATEMENTS OF NET ASSETS

| | |
|--------------------------------------|---------------------|
| Current assets: | |
| Cash and cash equivalents | 4,717,146 |
| Restricted cash and cash equivalents | 342,026 |
| Noncurrent assets: | |
| Restricted cash and cash equivalents | <u>1,879,573</u> |
| TOTAL CASH AND CASH EQUIVALENTS | <u>\$ 6,938,745</u> |

See notes to financial statements.

NOTES TO FINANCIAL STATEMENTS

NORTHWESTERN OKLAHOMA STATE UNIVERSITY

June 30, 2014

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 and the Oklahoma State Regents for Higher Education.

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

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

Accordingly, Northwestern Oklahoma State University is considered an organizational unit of the Regional University System of Oklahoma reporting entity for financial reporting purposes due to the significance of its legal, operational, and financial relationships with the Board of Regents as defined in Section 2100 of the Governmental Accounting Standards Board (GASB) Codification of Governmental Accounting and Financial Reporting Standards.

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

NOTES TO FINANCIAL STATEMENTS--Continued

NORTHWESTERN OKLAHOMA STATE UNIVERSITY

June 30, 2014

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

Component Unit-Continued

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

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

Basis of Accounting: For financial reporting purposes, the University is considered a 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, 2014, all of the University's investments were considered cash equivalents.

NOTES TO FINANCIAL STATEMENTS--Continued

NORTHWESTERN OKLAHOMA STATE UNIVERSITY

June 30, 2014

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

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

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

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

Capital Assets: Capital assets are recorded at cost at the date of acquisition, or fair market value at the date of donation in the case of gifts. For equipment, the University's capitalization policy includes all items with a unit cost of \$5,000 or more and an estimated useful life of greater than one year. Renovations to buildings and infrastructure that significantly increase the value or extend the useful life of the structure and that have a cost of \$25,000 or more are capitalized. Land Improvements that significantly increase the value or extend the useful life of the structure and that have a cost of \$5,000 or more are capitalized. Routine repairs and maintenance are charged to operating expense in the year in which the expense is incurred.

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

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

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

NOTES TO FINANCIAL STATEMENTS--Continued

NORTHWESTERN OKLAHOMA STATE UNIVERSITY

June 30, 2014

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

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

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

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

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

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

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

NOTES TO FINANCIAL STATEMENTS--Continued

NORTHWESTERN OKLAHOMA STATE UNIVERSITY

June 30, 2014

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

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

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

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

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

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

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

NOTES TO FINANCIAL STATEMENTS--Continued

NORTHWESTERN OKLAHOMA STATE UNIVERSITY

June 30, 2014

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

Deferred Outflows of Resources: Deferred outflows are the consumption of net position by the University that is applicable to a future reporting period. At June 30, 2014, the University's deferred outflows of resources were comprised of deferred charges on OCIA and ODFA lease restructurings. These deferred outflows of resources are recognized as a component of interest expense over the remaining life of the old debt or the life of the new debt, whichever is shorter.

Deferred Inflows of Resources: Deferred inflows are the acquisition of net position by the University that is applicable to a future reporting period. At June 30, 2014, the University's deferred inflows of resources is comprised of a deferred gain on the restructuring of an OCIA lease.

New Accounting Pronouncements Adopted in Fiscal Year 2014:

- *Statement No. 70, Accounting and Financial Reporting for Nonexchange Financial Guarantees*
GASB No. 70 requires a government that extends a nonexchange financial guarantee to recognize a liability when qualitative factors and historical data, if any, indicate that it is more likely than not that the government will be required to make a payment on the guarantee. The government is required to report the guaranteed obligation until it is legally released as an obligor, and when it is legally released, it should recognize revenue as a result of this release. The University has made no such guarantees. As such, the adoption of GASB 70 did not have an impact on the University's financial statements.

NOTES TO FINANCIAL STATEMENTS--Continued

NORTHWESTERN OKLAHOMA STATE UNIVERSITY

June 30, 2014

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

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

Fiscal Year Ended June 30, 2015

- *Statement No. 68, Accounting and Financial Reporting for Pensions, an Amendment of GASB Statement No. 27*

GASB No. 68 establishes standards for measuring and recognizing liabilities, deferred outflows of resources, deferred inflows of resources, and pension expenses. GASB No. 68 also details the recognition and disclosure requirements for employers with liabilities to a defined benefit pension plan and for employers whose employees are provided with defined contribution pensions. Defined benefit pensions are further classified by GASB No. 68 as single employer plans, agent employer plans and cost-sharing plans, and recognition and disclosure requirements are addressed for each classification. GASB No. 68 was issued in June 2012, and implementation guidance is expected to be issued in November 2013. Although the University has not yet quantified the impact that GASB No. 68 will have on its financial statements, it believes that adoption will result in a significant decrease in its net position.

- *Statement No. 69, Government Combinations and Disposals of Government Operations*

GASB No. 69 was issued in January 2013 and establishes accounting and financial reporting standards related to government combinations and disposals of government operations. Government combinations can include a variety of transactions, including mergers, acquisitions and transfers of operations. A disposal of a government's operations results in the removal of specific activities of a government. The requirements of this Statement are effective for government combinations and disposals of government operations occurring in financial reporting periods beginning after December 15, 2013, and should be applied on a prospective basis. Earlier application is encouraged.

NOTES TO FINANCIAL STATEMENTS--Continued

NORTHWESTERN OKLAHOMA STATE UNIVERSITY

June 30, 2014

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

- *Statement No. 71, Pension Transition for Contributions Made Subsequent to the Measurement Date-an amendment of GASB Statement No. 68*

GASB No. 71 addresses an issues regarding application of the transition provisions of Statement No. 68, *Accounting and Financial Reporting for Pensions*. The issue relates to amounts associated with contributions, if any, made by a state or local government employer or nonemployer contributing entity to a defined benefit pension plan after the measurement date of the government's beginning net pension liability. The University has not yet determined the impact that the implementation of GASB No. 71 will have on its net position. The provisions of this statement are to be applied simultaneously with the provisions of Statement No. 68

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.

NOTES TO FINANCIAL STATEMENTS--Continued

NORTHWESTERN OKLAHOMA STATE UNIVERSITY

June 30, 2014

NOTE B--DEPOSITS AND INVESTMENTS – Continued

Deposits--Continued: Some deposits with the OST are placed in the OST’s internal investment pool, *OK INVEST*. *OK INVEST* pools the resources of all state funds and agencies and invests them in (a) U.S. treasury securities which are explicitly backed by the full faith and credit of the U.S. government; (b) U.S. agency securities which carry an implicit guarantee of the full faith and credit of the U.S. government; (c) money market mutual funds which participate in investments, either directly or indirectly, in securities issued by the U.S. treasury and/or agency and repurchase agreements relating to such securities; (d) investments related to tri-party repurchase agreements which are collateralized at 102% and, whereby, the collateral is held by a third party in the name of the OST; (e) collateralized certificates of deposits; (f) commercial paper; (g) obligations of state and local governments; and (h) State of Israel bonds. At June 30, 2014, the carrying amount of all University deposits with the OST and other financial institutions was \$6,938,745. This amount consisted of deposits with the OST (\$6,934,075) and change funds (\$4,670). Of funds on deposit with the OST, amounts invested in *OK INVEST* totaled \$2,527,685 at June 30, 2014. The differences between the bank balance of deposits and the related carrying amounts were generally not significant and are due to outstanding checks and deposits in transit.

For financial reporting purposes, deposits with the OST that are invested in *OK INVEST* are classified as cash equivalents. The distribution of deposits in *OK INVEST* is as follows at June 30, 2014:

| <u>OK Invest Portfolio</u> | <u>Cost</u> | <u>Market Value</u> |
|-----------------------------------|---------------------|---------------------|
| U.S. Agency Securities | \$ 1,159,710 | \$ 1,157,455 |
| Money Market Mutual Fund | 122,041 | 122,041 |
| Commercial Paper | 53,193 | 53,193 |
| Certificates of Deposit | 65,615 | 65,615 |
| Mortgage Backed Agency Securities | 1,038,396 | 1,059,823 |
| Municipal Bonds | 38,779 | 42,947 |
| Foreign Bonds | 19,857 | 19,857 |
| U.S. Treasury Obligations | 30,094 | 37,253 |
| TOTALS | <u>\$ 2,527,685</u> | <u>\$ 2,558,184</u> |

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

NOTES TO FINANCIAL STATEMENTS--Continued

NORTHWESTERN OKLAHOMA STATE UNIVERSITY

June 30, 2014

NOTE B--DEPOSITS AND INVESTMENTS--Continued

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

Guidelines in the Investment Policy address credit quality requirements and diversification percentages and specify the types and maturities of allowable investments, and the specifics regarding these policies can be found on the OST website at <http://www.treasurer.state.ok.us/>. The State Treasurer, at his discretion, may further limit or restrict such investments on a day to day basis. *OK INVEST* includes a substantial investment in securities with an overnight maturity as well as in U.S. government securities with a maturity of up to ten years. *OK INVEST* maintains an overall weighted average maturity of no more than four years.

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

NOTES TO FINANCIAL STATEMENTS--Continued

NORTHWESTERN OKLAHOMA STATE UNIVERSITY

June 30, 2014

NOTE C--ACCOUNTS RECEIVABLE

Accounts receivable consisted of the following at June 30, 2014:

| | | |
|--|----|-----------------------|
| Student tuition and fees | \$ | 278,478 |
| Auxiliary enterprises and other operating activities | | 157,912 |
| Federal, state, and private grants and contracts | | <u>228,896</u> |
| | | 665,286 |
| Less: allowance for doubtful accounts | | <u>294,650</u> |
| NET ACCOUNTS RECEIVABLE | \$ | <u><u>370,636</u></u> |

NOTES TO FINANCIAL STATEMENTS--Continued

NORTHWESTERN OKLAHOMA STATE UNIVERSITY

June 30, 2014

NOTE D--CAPITAL ASSETS

Following are the changes in capital assets for the year ended June 30, 2014:

| | Balance June 30, 2013 | Additions | Retirements/ Adjustments | Balance June 30, 2014 |
|--------------------------------------|--------------------------|-----------------------|-----------------------------|--------------------------|
| Capital assets not being depreciated | | | | |
| Land | \$ 1,077,242 | \$ - | \$ - | \$ 1,077,242 |
| Construction in progress | <u>53,053</u> | <u>625,430</u> | <u>(53,053)</u> | <u>625,430</u> |
| Total assets not being depreciated | <u>\$ 1,130,295</u> | <u>\$ 625,430</u> | <u>\$ (53,053)</u> | <u>\$ 1,702,672</u> |
| Other capital assets | | | | |
| Land improvements | \$ 3,213,582 | \$ 25,844 | \$ - | \$ 3,239,426 |
| Leasehold improvements | 43,381 | 29,315 | - | 72,696 |
| Buildings | 41,795,833 | 151,763 | - | 41,947,596 |
| Furniture, fixtures and equipment | 3,552,512 | 223,839 | (89,368) | 3,686,983 |
| Library materials | <u>2,005,425</u> | <u>57,815</u> | <u>(173,214)</u> | <u>1,890,026</u> |
| Total other capital assets | <u>50,610,733</u> | <u>488,576</u> | <u>(262,582)</u> | <u>50,836,727</u> |
| Less accumulated depreciation for | | | | |
| Land improvements | 1,426,528 | 271,236 | - | 1,697,764 |
| Leasehold improvements | 43,381 | 1,466 | - | 44,847 |
| Buildings | 20,439,135 | 1,297,908 | - | 21,737,043 |
| Furniture, fixtures and equipment | 2,529,403 | 320,841 | (86,968) | 2,763,276 |
| Library materials | <u>1,823,111</u> | <u>79,869</u> | <u>(173,214)</u> | <u>1,729,766</u> |
| Total accumulated depreciation | <u>26,261,558</u> | <u>1,971,320</u> | <u>(260,182)</u> | <u>27,972,696</u> |
| Other capital assets, net | <u>\$ 24,349,175</u> | <u>\$ (1,482,744)</u> | <u>\$ (2,400)</u> | <u>\$ 22,864,031</u> |
| Capital asset summary: | | | | |
| Capital assets not being depreciated | \$ 1,130,295 | \$ 625,430 | \$ (53,053) | \$ 1,702,672 |
| Other capital assets, at cost | <u>50,610,733</u> | <u>488,576</u> | <u>(262,582)</u> | <u>50,836,727</u> |
| Total cost of capital assets | 51,741,028 | 1,114,006 | (315,635) | 52,539,399 |
| Less: accumulated depreciation | <u>26,261,558</u> | <u>1,971,320</u> | <u>(260,182)</u> | <u>27,972,696</u> |
| Capital assets, net | <u>\$ 25,479,470</u> | <u>\$ (857,314)</u> | <u>\$ (55,453)</u> | <u>\$ 24,566,703</u> |

At June 30, 2014, the cost and related accumulated depreciation of assets held under capital lease obligations were approximately \$12,455,000 and \$3,859,000 respectively.

NOTES TO FINANCIAL STATEMENTS--Continued

NORTHWESTERN OKLAHOMA STATE UNIVERSITY

June 30, 2014

NOTE E--LONG-TERM LIABILITIES

Long-term liability activity for the year ended June 30, 2014 was as follows:

| | Balance June 30, 2013 | Additions | Reductions | Balance June 30, 2014 | Amounts due within one year |
|---------------------------------|--------------------------|-------------------|---------------------|--------------------------|-----------------------------------|
| Capital lease obligations: | | | | | |
| ODFA master lease | \$ 1,946,250 | \$ - | \$ 333,917 | \$ 1,612,333 | \$ 336,000 |
| OCIA lease obligation | 6,781,356 | - | 438,680 | 6,342,676 | 609,475 |
| Lease purchase obligation | 479,636 | - | 89,265 | 390,371 | 92,478 |
| Total capital lease obligations | 9,207,242 | - | 861,862 | 8,345,380 | 1,037,953 |
| Other liabilities: | | | | | |
| Accrued compensated absences | 560,277 | 376,749 | 351,528 | 585,498 | 444,978 |
| Unearned capital assets | 310,570 | - | 38,821 | 271,749 | 38,821 |
| Total other liabilities | 870,847 | 376,749 | 390,349 | 857,247 | 483,799 |
| Total long-term liabilities | <u>\$ 10,078,089</u> | <u>\$ 376,749</u> | <u>\$ 1,252,211</u> | <u>\$ 9,202,627</u> | <u>\$ 1,521,752</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, 2014, 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. The University has also recorded an asset for its pro-rata share of the bond issuance costs and is amortizing that asset over the term of the lease agreement. At June 30, 2014, the unamortized bond issuance costs totaled \$269.

NOTES TO FINANCIAL STATEMENTS--Continued

NORTHWESTERN OKLAHOMA STATE UNIVERSITY

June 30, 2014

NOTE E--LONG-TERM LIABILITIES--Continued

Capital Lease Obligations--Continued:

Oklahoma Capital Improvement Authority Lease Obligation--Continued

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

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

Through June 30, 2014, the University has drawn down the total of \$6,813,432 for expenditures incurred in connection with specified projects. These expenses have been capitalized as investment in capital assets in accordance with University policy. The University has recorded a lease obligation payable to OCIA for the total amount of the allotment, less repayments made on the University's behalf.

In 2014, the OCIA restructured the 2005F series bond debt by issuing new 2014A series bonds. This restructuring was a partial refunding and resulted in a gain of \$186,313 between the remaining liability of 2005F and the new liability of 2014A. This gain on restructuring was recorded as a deferred inflow of resources that will be amortized over a period of 18 years. As of June 30, 2014, the deferred gain, net of amortization, was \$183,463. The restructured lease agreement with OCIA secures the OCIA bond indebtedness and any future indebtedness that might be issued to refund earlier bond issues. The University's aforementioned lease agreement with OCIA was automatically restructured to secure the new bond issue. This refinancing resulted in an aggregate difference in principal and interest between the original lease agreement and the refinanced lease agreement of \$448,900, which approximates the economic savings of the transaction. The University has recorded a lease obligation payable to OCIA for the total amount of the allotment, less payments made on the University's behalf, which is \$3,357,530 at June 30, 2014.

NOTES TO FINANCIAL STATEMENTS--Continued

NORTHWESTERN OKLAHOMA STATE UNIVERSITY

June 30, 2014

NOTE E--LONG-TERM LIABILITIES--Continued

Oklahoma Capital Improvement Authority Lease Obligation – Continued

During the year ended June 30, 2011, the 2005 lease agreement with OCIA was restructured through a partial refunding of OCIA's 2005F bond debt. OCIA issued two new bonds, Series 2010A and 2010B. The lease agreements with OCIA secure the OCIA bond debt and any future debt that might be issued to refund earlier bond issues. OCIA issued this new debt to provide budgetary relief for fiscal years 2011 and 2012 by extending and restructuring debt service. Consequently, the lease agreement with OCIA automatically restructured to secure the new bond issues. This lease restructuring has extended certain principal payments into the future, resulting in a charge or cost on restructuring. A charge of \$602,010 was recorded as a deferred outflow that will be amortized over a period of 6 years. As of June 30, 2014, the deferred charge, net of amortization, was \$200,670. 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, 2014, the State of Oklahoma made lease principal and interest payments totaling \$567,771 to OCIA on behalf of the University. These on-behalf payments have been recorded as restricted state appropriations in the statements of revenues, expenses, and changes in net position.

Oklahoma Development Finance Authority Master Lease Program

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

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

NOTES TO FINANCIAL STATEMENTS--Continued

NORTHWESTERN OKLAHOMA STATE UNIVERSITY

June 30, 2014

NOTE E--LONG-TERM LIABILITIES--Continued

Oklahoma Development Finance Authority Master Lease Program--Continued

In July 2011, the ODFA issued its ODFA Master Real Property Lease Revenue Bonds, Series 2011A. Of the total bond indebtedness, the State Regents for Higher Education allocated \$390,000 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 2015. The proceeds of the bonds and subsequent leases are to provide for capital improvements to the University.

Lease Purchase Obligation

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

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

| | <u>Principal</u> | <u>Interest</u> | <u>Total</u> |
|----------------------|---------------------|---------------------|----------------------|
| Year Ending June 30: | | | |
| 2015 | 1,037,953 | 215,288 | 1,253,241 |
| 2016 | 973,317 | 314,438 | 1,287,755 |
| 2017 | 981,996 | 279,517 | 1,261,513 |
| 2018 | 1,016,696 | 247,896 | 1,264,592 |
| 2019 | 945,367 | 203,303 | 1,148,670 |
| 2020-2024 | 865,196 | 741,391 | 1,606,587 |
| 2025-2029 | 1,718,255 | 448,620 | 2,166,875 |
| 2030-2031 | 806,600 | 60,299 | 866,899 |
| | <u>\$ 8,345,380</u> | <u>\$ 2,510,752</u> | <u>\$ 10,856,132</u> |

NOTES TO FINANCIAL STATEMENTS--Continued

NORTHWESTERN OKLAHOMA STATE UNIVERSITY

June 30, 2014

NOTE F--RETIREMENT PLANS

The University's academic and nonacademic personnel are covered by various retirement plans. The plans available to University personnel include the Oklahoma Teachers' Retirement System ("OTRS"), which is a State of Oklahoma public employees retirement system, the Supplemental Retirement Annuity ("SRA"), a single employer defined benefit plan available to employees hired prior to July 1, 1995, and a defined contribution 403(b) plan. The University does not maintain the accounting records, hold the investments for, or administer these plans.

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 operation of the Plan to the Board of Trustees of OTRS. OTRS does not provide for a cost of living adjustment. OTRS issues a publicly available financial report that includes financial statements and supplementary information for OTRS. That report may be obtained by writing to Teachers' Retirement System of Oklahoma, P.O. Box 53524, Oklahoma City, Oklahoma 73152, or by calling (405) 521-2387.

Oklahoma Teachers' Retirement System (OTRS)--Continued

Funding Policy: The University is required to contribute a fixed percentage of annual compensation on behalf of active members. The employer contribution rate was 8.55% for 2014, 2013 and 2012. This rate is applied to annual compensation and is determined by state statute.

Employees' contributions are also determined by state statute. For all employees, the contribution rate was 7% of covered salaries and fringe benefits in 2014, 2013 and 2012. During this time, the University paid the entire amount of employees' contributions to OTRS directly.

The University's contribution to OTRS for the years ended June 30, 2014, 2013, and 2012 was approximately \$2,311,000, \$2,259,000, and \$2,022,000, respectively. These contributions included the University's statutory contribution and the share of the employees' contribution paid directly by the University.

NOTES TO FINANCIAL STATEMENTS--Continued

NORTHWESTERN OKLAHOMA STATE UNIVERSITY

June 30, 2014

NOTE F--RETIREMENT PLANS--Continued

The State of Oklahoma is also required to contribute to the OTRS on behalf of the participating employers. For 2014, 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. The University has estimated the amounts contributed to the OTRS by the State of Oklahoma on its behalf by multiplying the ratio of its covered salaries to total covered salaries for OTRS for the year by the applicable percentage of taxes collected during the year. For the year ended June 30, 2014, the total amounts contributed to the OTRS by the State of Oklahoma on behalf of the University were approximately \$876,000. These on behalf payments have been recorded as both revenues and expenses in the statements of revenues, expenses, and changes in net position.

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 year ended June 30, 2014.

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, 1995, or to those eligible employees' beneficiaries. The authority to amend the SRA's benefit provisions rests with the University's Board of Regents. The SRA does not issue a stand-alone financial report, nor is it included in the financial report of another entity.

Supplemental Retirement Annuity (SRA)--Continued

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.

NOTES TO FINANCIAL STATEMENTS--Continued

NORTHWESTERN OKLAHOMA STATE UNIVERSITY

June 30, 2014

NOTE F--RETIREMENT PLANS--Continued

Annual Cost and Net Obligation (Asset): Annual pension cost and net pension obligation (asset) of the SRA for 2014 are as follows:

| | |
|---|---------------------|
| Annual required contribution | \$ 180,307 |
| Interest on net pension obligation | (43,681) |
| Adjustment to annual required contribution | <u>55,430</u> |
| Annual pension cost | 192,056 |
| Contribution made | <u>(260,000)</u> |
| Decrease in net pension obligation | (67,944) |
| Net pension obligation (asset) at beginning of year | <u>(672,018)</u> |
| Net pension obligation (asset) at end of year | <u>\$ (739,962)</u> |

The annual required contribution for 2014 was determined as part of an actuarial valuation on June 30, 2014, using the projected unit credit actuarial cost method. The actuarial assumptions included (a) a discount rate of 6.5% per year to determine the present value of future benefit payments, (b) retirement at age 63, (c) an 6.5% rate of return on investments, and (d) projected salary increases of 2.5% per year. The value of the SRA assets is based on the TIAA-CREF group annuity account asset value. The unfunded actuarial accrued liability is being amortized over twenty years as a level dollar amount on a closed basis.

Trend Information:

| Year Ended June 30 | Annual Pension Cost (APC) | Percentage of APC Contributed | Net Pension Obligation (Asset) |
|-----------------------|------------------------------|----------------------------------|-----------------------------------|
| 2014 | \$ 192,056 | 135.4% | \$ (739,962) |
| 2013 | \$ 192,200 | 166.5% | \$ (672,018) |
| 2012 | \$ 198,579 | 110.8% | \$ (544,218) |

NOTES TO FINANCIAL STATEMENTS--Continued

NORTHWESTERN OKLAHOMA STATE UNIVERSITY

June 30, 2014

NOTE F--RETIREMENT PLANS--Continued

Funded Status and Funding Progress: The funded status of the plan as of June 30, 2014, was as follows:

| | |
|---|---------------------|
| Actuarial accrued liability (AAL) | \$ 3,411,172 |
| Actuarial value of plan assets | <u>1,067,695</u> |
| Unfunded actuarial accrued liability (UAAL) | <u>\$ 2,343,477</u> |
| Funded ratio (actuarial value of plan assets/AAL) | 31.3% |
| Covered payroll (active plan members) | \$ 1,387,529 |
| UAAL as a percentage of covered payroll | 168.9% |

The schedule of funding progress, presented as required supplementary information following the notes to the financial statements, presents multi-year trend information, as available, about whether the actuarial value of plan assets are increasing or decreasing over time relative to the actuarial accrued liability for benefits.

NOTE G--OTHER POST-EMPLOYMENT INSURANCE BENEFITS

Plan Description: The University's postemployment healthcare plan is an agent multiple-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, 2014 there were 164 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.

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 does not issue a stand-alone financial report, nor is it included in the financial report of another entity.

NOTES TO FINANCIAL STATEMENTS--Continued

NORTHWESTERN OKLAHOMA STATE UNIVERSITY

June 30, 2014

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

Funding Policy: The contribution requirements of the University are established and may be amended by the Regional University System of Oklahoma Board of Regents. The University is required to contribute the *annual required contribution of the employer*, in an amount actuarially determined in accordance with the parameters of GASB Statement 45. The ARC represents a level of funding that, if paid on an ongoing basis, is projected to cover normal cost each year and amortize any unfunded actuarial liabilities (or funding excess) over a period not to exceed thirty years. The current ARC is \$144,680 and represents 1.4% (percent) of covered payroll.

Annual Cost and Net Obligation (Asset): Annual OPEB cost and net OPEB obligation (asset) of the plan for 2014 are as follows:

| | |
|--|---------------------|
| Annual required contribution | \$ 144,680 |
| Interest on net OPEB obligation | - |
| Adjustment to annual required contribution | - |
| Annual OPEB cost | 144,680 |
| Contribution made | <u>(176,392)</u> |
| Decrease (increase) in net OPEB obligation | (31,712) |
| Net OPEB obligation (asset) at beginning of year | <u>(72,985)</u> |
| Net OPEB obligation (asset) at end of year | <u>\$ (104,697)</u> |

Projections of benefits for financial reporting purposes are based on the substantive plan and include the types of benefits provided at the time of each valuation. The actuarial methods and assumptions used include techniques that are designed to reduce short-term volatility in actuarial accrued liabilities and the actuarial value of assets, consistent with the long-term perspective of the calculations. For the June 30, 2014, actuarial valuation, the projected unit credit cost method was used. The actuarial assumptions included a 7.0% investment rate of return and an annual healthcare cost inflationary increase of 8.5%.

Trend Information:

| Fiscal Year Ended | Annual OPEB Cost | Annual OPEB Cost Contributed | Net OPEB Obligation (Asset) |
|----------------------|---------------------|---------------------------------|--------------------------------|
| 2014 | \$ 144,680 | 122% | \$ (104,697) |
| 2013 | \$ 183,706 | 100% | \$ (72,985) |
| 2012 | \$ 179,342 | 100% | \$ (72,985) |

NOTES TO FINANCIAL STATEMENTS--Continued

NORTHWESTERN OKLAHOMA STATE UNIVERSITY

June 30, 2014

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

Funded Status and Funding Progress: The funded status of the plan as of June 30, 2014, was as follows:

| | |
|---|---------------------|
| Actuarial accrued liability (AAL) | \$ 1,781,740 |
| Actuarial value of plan assets | <u>709,651</u> |
| Unfunded actuarial accrued liability (UAAL) | \$ <u>1,072,089</u> |
| Funded ratio (actuarial value of plan assets/AAL) | 39.8% |
| Covered payroll (active plan members) | \$ 13,632,445 |
| UAAL as a percentage of covered payroll | 7.9% |

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

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 \$1,005,000 during the year ended June 30, 2014, which is restricted to the construction or acquisition of buildings, equipment, or other capital items. This amount is recorded as state appropriations for capital purposes in the statements of revenues, expenses, and changes in net position. State law prohibits the distribution of any corpus of these funds to the beneficiaries. The total trust fund for Northwestern Oklahoma State University, held in trust by the Commissioners of Land Office, was approximately \$19,447,000 at June 30, 2014.

NOTES TO FINANCIAL STATEMENTS--Continued

NORTHWESTERN OKLAHOMA STATE UNIVERSITY

June 30, 2014

NOTE H--FUNDS HELD IN TRUST BY OTHERS--Continued

Oklahoma State Regents Endowment Trust Fund: In connection with the Oklahoma State Regents' Endowment Program (the "Endowment Program"), the State of Oklahoma has matched contributions received under the Endowment Program. The state match amounts, plus any retained accumulated earnings, totaled approximately \$5,394,000 at June 30, 2014, 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, approximately \$316,000 at June 30, 2014, have been reflected as assets in the statements of net position.

NOTE I--COMMITMENTS AND CONTINGENCIES

The University conducts certain programs pursuant to various grants and contracts that are subject to audit by federal and state agencies. Costs questioned as a result of these audits, if any, may result in refunds to these governmental agencies from various sources of the University.

During the ordinary course of business, the University may be subjected to various lawsuits and civil action claims. Management believes that resolution of any such matters pending at June 30, 2014, will not have material adverse impact to the University.

NOTE J--RISK MANAGEMENT

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

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

NOTES TO FINANCIAL STATEMENTS--Continued

NORTHWESTERN OKLAHOMA STATE UNIVERSITY

June 30, 2014

NOTE J--RISK MANAGEMENT--Continued

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

NOTES TO FINANCIAL STATEMENTS--Continued

NORTHWESTERN OKLAHOMA STATE UNIVERSITY

June 30, 2014

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:

FAIR VALUE MEASUREMENTS ACCOUNTING POLICY

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.

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

NOTES TO FINANCIAL STATEMENTS--Continued

NORTHWESTERN OKLAHOMA STATE UNIVERSITY

June 30, 2014

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

Financial assets and liabilities carried at fair value on a recurring basis include investments, beneficial interest in perpetual trust and funds held for others. The Foundation had no assets or liabilities carried at fair value on a non-recurring basis at June 30, 2014. At December 31, 2013, the Foundation has assets held for sale which are carried at fair value on a non-recurring basis.

FAIR VALUE MEASUREMENT

The methods and assumptions used to estimate the fair value of assets and liabilities in the financial statements, including a description of the methodologies used for the classifications within the fair value hierarchy for financial instruments carried at fair value, are as follows:

Cash and cash equivalents, accounts receivable, interest receivable: The assets' carrying amounts approximate fair value due to their short maturities.

Cash surrender value of life insurance: The Foundation is the beneficiary of a number of life insurance policies. The carrying value of the life insurance policies is the cash surrender value on the policies and as such approximates fair value.

Accounts receivable: Accounts receivable are carried at cost due to its short maturity (less than one year).

Pledges receivable: The asset is carried at cost net of a discount to net present value using a rate which is commensurate with the risk involved on the gift date and an allowance for uncollectible accounts at the financial reporting date. Fair value is the price a market participant would pay to acquire the right to receive the cash flows inherent in the promise to pay the Foundation and due to inclusion of a discount to net present value and allowance for uncollectible accounts the carrying value approximates fair value.

NOTES TO FINANCIAL STATEMENTS--Continued

NORTHWESTERN OKLAHOMA STATE UNIVERSITY

June 30, 2014

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

Investments: Investments are carried at fair value and are based on quoted market prices, when available, or the best estimate of fair value as determined by the investment and/or fund manager. Generally, quoted market prices are available for cash and cash equivalents funds, common and preferred stocks, and exchange traded index and mutual funds and as such are classified as Level 1 in the fair value hierarchy. The fair values of certificates of deposit are determined using the income approach. The key inputs include interest rates, maturity dates, and yield curves and as such are classified as Level 1 or Level 2 depending on the maturity date. The fair value of the annuity contract is determined using the income approach and is based on the current cash surrender value as determined by the investment manager and is classified as Level 3. The Foundation's interest in the limited liability company and the pooled funds are based on net asset value ("NAV") per share as provided by the fund manager; however, in certain circumstances, such as when the fund is in liquidation, fair values are determined using the income approach (i.e. estimated future cash flows). If the fair value of the underlying assets are transparent and have readily determinable fair values and the Foundation can redeem the investment at NAV within ninety days of the measurement date, the funds are classified as Level 2 and in all other cases are classified as Level 3.

Structured investments in unsecured notes are valued using the market approach or the income approach and are provided to the Foundation by the investment manager. Whenever possible, fair values are determined using the market approach and the key inputs are based on an underlying index and maturity or by analysis of documented trade history in the exact security and as such are classified as Level 2. In all other cases, fair values are determined using the income approach and are valued using fundamental analysis of investments based on information provided by fund manager and are classified as Level 3.

NOTES TO FINANCIAL STATEMENTS--Continued

NORTHWESTERN OKLAHOMA STATE UNIVERSITY

June 30, 2014

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

Accounts payable and accrued liabilities: The carrying amount of current liabilities approximates fair value due to its short maturity.

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

| | As of June 30, 2014 | | | |
|---------------------------|----------------------|---------------------|-------------|----------------------|
| | Level 1 | Level 2 | Level 3 | Total |
| Uninvested cash | \$ 321,764 | \$ — | \$ — | \$ 321,764 |
| Certificates of deposits | — | 1,156,009 | — | 1,156,009 |
| Equity securities | 12,133,836 | — | — | 12,133,836 |
| Corporate and other bonds | — | 114,759 | — | 114,759 |
| Corporate and other bonds | — | 691,815 | — | 691,815 |
| Mutual funds | 3,189,582 | — | — | 3,189,582 |
| | <u>\$ 15,645,182</u> | <u>\$ 1,962,583</u> | <u>\$ —</u> | <u>\$ 17,607,765</u> |

NOTES TO FINANCIAL STATEMENTS--Continued

NORTHWESTERN OKLAHOMA STATE UNIVERSITY

June 30, 2014

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.

NOTES TO FINANCIAL STATEMENTS--Continued

NORTHWESTERN OKLAHOMA STATE UNIVERSITY

June 30, 2014

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

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.

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.

NOTES TO FINANCIAL STATEMENTS--Continued

NORTHWESTERN OKLAHOMA STATE UNIVERSITY

June 30, 2014

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

Endowment net asset composition as of June 30, 2014:

| | <u>Unrestricted</u> | <u>Temporarily Restricted</u> | <u>Permanently Restricted</u> | <u>Total</u> |
|----------------------------------|---------------------|-----------------------------------|-----------------------------------|----------------------|
| Donor-restricted endowment funds | \$ — | \$ 3,010,798 | \$ 18,303,799 | \$ 21,314,597 |
| Board-designated endowment funds | <u>—</u> | <u>—</u> | <u>—</u> | <u>—</u> |
| Total endowment funds | <u>\$ —</u> | <u>\$ 3,010,798</u> | <u>\$ 18,303,799</u> | <u>\$ 21,314,597</u> |

Changes in endowment net assets for the year ended June 30, 2014:

| | <u>Unrestricted</u> | <u>Temporarily Restricted</u> | <u>Permanently Restricted</u> | <u>Total</u> |
|---|---------------------|-----------------------------------|-----------------------------------|----------------------|
| Endowment net assets, beginning of year | \$ — | \$ 1,188,445 | \$ 17,141,193 | \$ 18,329,638 |
| Investment return | — | 805,455 | — | 805,455 |
| Contributions | — | 2,890,315 | 1,162,606 | 4,052,921 |
| Appropriation of endowment assets for expenditure | <u>—</u> | <u>(1,873,417)</u> | <u>—</u> | <u>(1,873,417)</u> |
| Endowment net assets, end of year | <u>\$ —</u> | <u>\$ 3,010,808</u> | <u>\$ 18,303,799</u> | <u>\$ 21,314,597</u> |

REQUIRED SUPPLEMENTARY INFORMATION

REQUIRED SUPPLEMENTARY INFORMATION--UNAUDITED

NORTHWESTERN OKLAHOMA STATE UNIVERSITY

June 30, 2014

SCHEDULE OF FUNDING PROGRESS FOR SUPPLEMENTAL RETIREMENT ANNUITY PLAN

| Actuarial Valuation Date | Actuarial Value of Assets (a) | Actuarial Accrued Liability (AAL) (b) | Unfunded AAL (UAAL) (b-a) | Funded Ratio (a/b) | Covered Payroll (c) | UAAL as a percentage of Covered Payroll (b-a)/(c) |
|--------------------------|-------------------------------|---------------------------------------|---------------------------|--------------------|---------------------|---|
| 6/30/2008 | \$ 645,180 | \$ 2,161,630 | \$ 1,516,450 | 29.8% | \$ 2,556,978 | 59.3% |
| 6/30/2009 | \$ 674,591 | \$ 2,457,468 | \$ 1,782,877 | 27.5% | \$ 2,328,722 | 76.6% |
| 6/30/2010 | \$ 837,245 | \$ 2,539,213 | \$ 1,701,968 | 33.0% | \$ 2,272,632 | 74.9% |
| 6/30/2011 | \$ 990,508 | \$ 2,626,856 | \$ 1,636,348 | 37.7% | \$ 1,911,390 | 85.6% |
| 6/30/2012 | \$ 991,709 | \$ 2,829,525 | \$ 1,837,816 | 35.0% | \$ 1,685,218 | 109.1% |
| 6/30/2013 | \$ 1,067,695 | \$ 3,411,172 | \$ 2,343,477 | 31.3% | \$ 1,448,214 | 161.8% |

SCHEDULE OF FUNDING PROGRESS FOR OTHER POST EMPLOYMENT INSURANCE BENEFITS PLAN

| Actuarial Valuation Date | Actuarial Value of Assets (a) | Actuarial Accrued Liability (AAL) (b) | Unfunded AAL (UAAL) (b-a) | Funded Ratio (a/b) | Covered Payroll (c) | UAAL as a percentage of Covered Payroll (b-a)/(c) |
|--------------------------|-------------------------------|---------------------------------------|---------------------------|--------------------|---------------------|---|
| 6/30/2009 | \$ 266,191 | \$ 1,390,862 | \$ 1,124,671 | 19.1% | \$ 11,248,169 | 10.0% |
| 6/30/2010 | \$ 348,724 | \$ 1,671,673 | \$ 1,322,949 | 20.9% | \$ 12,012,999 | 11.0% |
| 6/30/2011 | \$ 459,782 | \$ 1,897,324 | \$ 1,437,542 | 24.2% | \$ 12,497,331 | 11.5% |
| 6/30/2012 | \$ 524,165 | \$ 1,961,561 | \$ 1,437,396 | 26.7% | \$ 12,858,361 | 11.2% |
| 6/30/2013 | \$ 606,496 | \$ 1,798,551 | \$ 1,192,055 | 33.7% | \$ 13,320,395 | 8.9% |
| 6/30/2014 | \$ 709,651 | \$ 1,781,740 | \$ 1,072,089 | 39.8% | \$ 13,632,445 | 7.9% |

The actuarial accrued liability is based on the projected unit credit cost method.

The actuarial valuation for the Supplemental Retirement Annuity Plan as of June 30, 2013, reflects changes in actuarial assumptions used to more accurately reflect management's expectation of the actuarial accrued liability based upon current economic conditions. See Note G for a description of assumptions used.

REPORTS REQUIRED BY
GOVERNMENT AUDITING STANDARDS
AND OMB CIRCULAR A-133



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

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

We have audited 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, that comprise the statement of net position as of June 30, 2014, and the related statements of revenues, expenses, and changes in net position and cash flows for the year then ended, and the related notes to the financial statements, which collectively comprise the University's basic financial statements, and have issued our report thereon dated October 31, 2014. We conducted our audit 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. Our report includes a reference to other auditors who audited the Northwestern Oklahoma State University Foundation, Inc. and Alumni Association (the "Foundation"), the University's discretely presented component unit, as described in our report on the University's financial statements. The financial statements of the Foundation were not audited in accordance with *Government Auditing Standards* and accordingly this report does not include reporting on internal control over financial reporting or instances of reportable noncompliance associated with the Foundation.

Internal Control over Financial Reporting

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

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

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

Compliance and Other Matters

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

Purpose of this Report

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

Arledge & Associates, P.C.

October 31, 2014



INDEPENDENT AUDITOR'S REPORT ON COMPLIANCE FOR EACH MAJOR PROGRAM
AND ON INTERNAL CONTROL OVER COMPLIANCE REQUIRED BY OMB CIRCULAR A-133;
AND REPORT ON THE SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
REQUIRED BY OMB CIRCULAR A-133

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

Report on Compliance for Each Major Federal Program

We have audited Northwestern Oklahoma State University's (the "University"), a department of the Regional University System of Oklahoma (RUSO), which is a component unit of the State of Oklahoma, compliance with the types of compliance requirements described in the *OMB Circular A-133 Compliance Supplement* that could have a direct and material effect on each of the University's major federal programs for the year ended June 30, 2014. 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 the requirements of laws, regulations, contracts, and grants applicable to its federal programs.

Auditor's Responsibility

Our responsibility is to express an opinion on compliance for each of the 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 OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. Those standards and OMB Circular A-133 require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about the University's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances.

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

Opinion on Each Major Federal Program

In our opinion, the University, complied, in all material respects, with the types of compliance requirements referred to above that could have a direct and material effect on each of its major federal programs for the year ended June 30, 2014.

Report on Internal Control over Compliance

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

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

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

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

Report on Schedule of Expenditures of Federal Awards Required by OMB Circular A-133

We have audited the financial statements of the University as of and for the year ended June 30, 2014, 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, 2014, which contained an unmodified opinion on the financial statements. Our audit was conducted for the purpose of forming our 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 OMB Circular A-133 and is not a required part of the basic financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the basic financial statements. The information has been subjected to the auditing procedures applied in the audit of the financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic financial statements or to the basic financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the schedule of expenditures of federal awards is fairly stated in all material respects in relation to the basic financial statements as a whole.

Arledge & Associates, P.C.

October 31, 2014

SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS

NORTHWESTERN OKLAHOMA STATE UNIVERSITY

Year Ended June 30, 2014

| Federal Grantor/Pass-Through Grantor/Program Title | CFDA Number | Pass-Through Entity Identification Number | Amount Expended |
|--|----------------|--|---------------------|
| U.S. Department of Education: | | | |
| Student Financial Aid Cluster: | | | |
| Federal Pell Grant Program | 84.063 | N/A | \$ 3,267,289 |
| Federal Work Study Program | 84.033 | N/A | 141,681 |
| Federal Supplemental Education Opportunity Grants | 84.007 | N/A | 46,959 |
| Federal Direct Loan Program | 84.268 | N/A | <u>5,438,705</u> |
| Total Student Financial Aid Cluster | | | 8,894,634 |
| TRIO Program Cluster: | | | |
| Upward Bound | 84.047A | N/A | 240,259 |
| Upward Bound - Math & Science | 84.047M | N/A | <u>238,150</u> |
| Total TRIO Program Cluster | | | <u>478,409</u> |
| Total U.S. Department of Education | | | 9,373,043 |
| USDA Telemedicine and Distance Learning | 10.855 | N/A | 61,342 |
| Small Business Administration: | | | |
| Passed through Southeastern Oklahoma State University | | | |
| Veteran's Assistance Service Program | 59.037 | 1-7620-0038-17 | 31,817 |
| Small Business Development Center | 59.037 | 1-7620-0038-17 | 148,744 |
| National Science Foundation: | | | |
| Passed through Oklahoma State University | | | |
| Oklahoma State alliance for Minority Engineering and Technology | 47.096 | AA-5-64291 | 12,500 |
| Title III | 84.031 | N/A | <u>326,970</u> |
| TOTAL EXPENDITURES OF FEDERAL AWARDS | | | <u>\$ 9,954,416</u> |

See notes to schedule of expenditures of federal awards.

NOTES TO SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS

NORTHWESTERN OKLAHOMA STATE UNIVERSITY

June 30, 2014

NOTE A--SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The schedule of expenditures of federal awards includes the federal awards activity of Northwestern Oklahoma State University (the "University") and is presented on the accrual basis of accounting. The information in this schedule is presented in accordance with the requirements of OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. Therefore, some amounts presented in the schedule may differ from amounts presented in, or used in the preparation of, the basic financial statements.

NOTE B--FEDERAL DIRECT STUDENT LOAN PROGRAM

Under the Federal Direct Student Loan Program ("Direct Loan Program"), the U.S. Department of Education makes loans to enable a student or parent to pay the costs of the student's attendance at a postsecondary school. The Direct Loan Program enables an eligible student or parent to obtain a loan to pay for the student's cost of attendance directly from the U.S. Department of Education rather than through private lenders. The University began participation in the Direct Loan Program on July 1, 2010. 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.

NOTE C--SUBRECIPIENTS

During the year ended June 30, 2014, the University did not provide any federal awards to subrecipients.

SCHEDULE OF FINDINGS AND QUESTIONED COSTS

NORTHWESTERN OKLAHOMA STATE UNIVERSITY

June 30, 2014

Section I--Summary of Auditor's Results

Financial statements

Type of auditor's report issued: *Unmodified*

Internal control over financial reporting:

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

Noncompliance material to financial statements noted? yes no

Federal Awards

Internal control over major programs:

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

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

Any audit findings disclosed that are required to be reported in accordance with section 510(a) of Circular A-133? yes no

Identification of major programs:

| <u>Program / Cluster</u> | <u>CFDA Number</u> |
|-------------------------------|--------------------|
| Student Financial Aid Cluster | * |

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

Dollar threshold used to distinguish between type A and type B programs: \$300,000

Auditee qualified as low-risk auditee? yes no

SCHEDULE OF FINDINGS AND QUESTIONED COSTS--Continued

NORTHWESTERN OKLAHOMA STATE UNIVERSITY

June 30, 2014

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

None to report for the June 30, 2014 period.

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

None to report for the June 30, 2014 period.

SUMMARY SCHEDULE OF PRIOR AUDIT FINDINGS

NORTHWESTERN OKLAHOMA STATE UNIVERSITY

June 30, 2014

No matters were reportable.