

**NORTHWESTERN OKLAHOMA STATE
UNIVERSITY**

**A DEPARTMENT OF THE REGIONAL
UNIVERSITY SYSTEM OF
OKLAHOMA**

**ANNUAL FINANCIAL STATEMENTS
AND INDEPENDENT AUDITOR'S
REPORT AS OF AND FOR THE YEAR
ENDED JUNE 30, 2017**

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

June 30, 2017

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AND THE UNIFORM GUIDANCE

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INDEPENDENT AUDITOR'S REPORT

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

Report on the Financial Statements

We have audited the accompanying financial statements of Northwestern Oklahoma State University (the "University"), a department of the Regional University System of Oklahoma ("RUSO"), which is a component unit of the State of Oklahoma, and its discretely presented component unit, as of and for the year ended June 30, 2017, and the related notes to the financial statements, which collectively comprise the University's basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

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

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

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

Opinions

In our opinion, based on our audit and the report of the other auditor, the financial statements referred to above present fairly, in all material respects, the respective financial position of the University and its discretely presented component unit as of June 30, 2017, 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 the RUSO as of June 30, 2017, 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

Supplementary Information

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

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated October 30, 2017, on our consideration of the University's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the University's internal control over financial reporting and compliance.



October 30, 2017

MANAGEMENT'S DISCUSSION AND ANALYSIS (UNAUDITED)

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

June 30, 2017

OVERVIEW OF FINANCIAL STATEMENTS AND FINANCIAL ANALYSIS

Northwestern Oklahoma State University is pleased to present its financial statements for fiscal year 2017, with selected comparative information for fiscal year 2016. Management's discussion and analysis is designed to focus on current activities, resulting changes, and current known facts, so it should be read in conjunction with the University's financial statements and footnotes. There are three financial statements presented: the Statement of Net Position; the Statement of Revenues, Expenses, and Changes in Net Position; and the Statement of Cash Flows. All dollar amounts in the tables in this MD&A are presented in millions of dollars. This discussion and analysis of the University's financial statements provides an overview of its financial activities for the year. Accounting standards require that financial statements for the Northwestern Oklahoma State University Foundation, Inc. be reported with the University's report.

STATEMENT OF NET POSITION

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

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

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

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

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

June 30, 2017

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, 2017, compared to the year ending June 30, 2016.

ANALYSIS OF NET POSITION

CONDENSED STATEMENT OF NET POSITION
(In Millions)

	June 30,		Increase
	2017	2016	(Decrease)
ASSETS			
Current assets	\$ 6.8	\$ 6.1	\$ 0.7
NONCURRENT ASSETS			
Capital assets, net of depreciation	27.0	27.0	-
Other assets	2.3	2.1	0.2
TOTAL ASSETS	<u>36.1</u>	<u>35.2</u>	<u>0.9</u>
LIABILITIES			
Current liabilities	2.3	2.9	-0.6
Noncurrent liabilities	6.5	6.3	0.2
TOTAL LIABILITIES	<u>8.8</u>	<u>9.2</u>	<u>-0.4</u>
DEFERRED INFLOWS OF RESOURCES			
	<u>0.1</u>	<u>0.2</u>	<u>-0.1</u>
NET POSITION			
Net investment in capital assets	19.3	19.6	-0.3
Restricted	2.7	1.7	1.0
Unrestricted	5.2	4.5	0.7
TOTAL NET POSITION	<u>\$ 27.2</u>	<u>\$ 25.8</u>	<u>\$ 1.4</u>

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

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

June 30, 2017

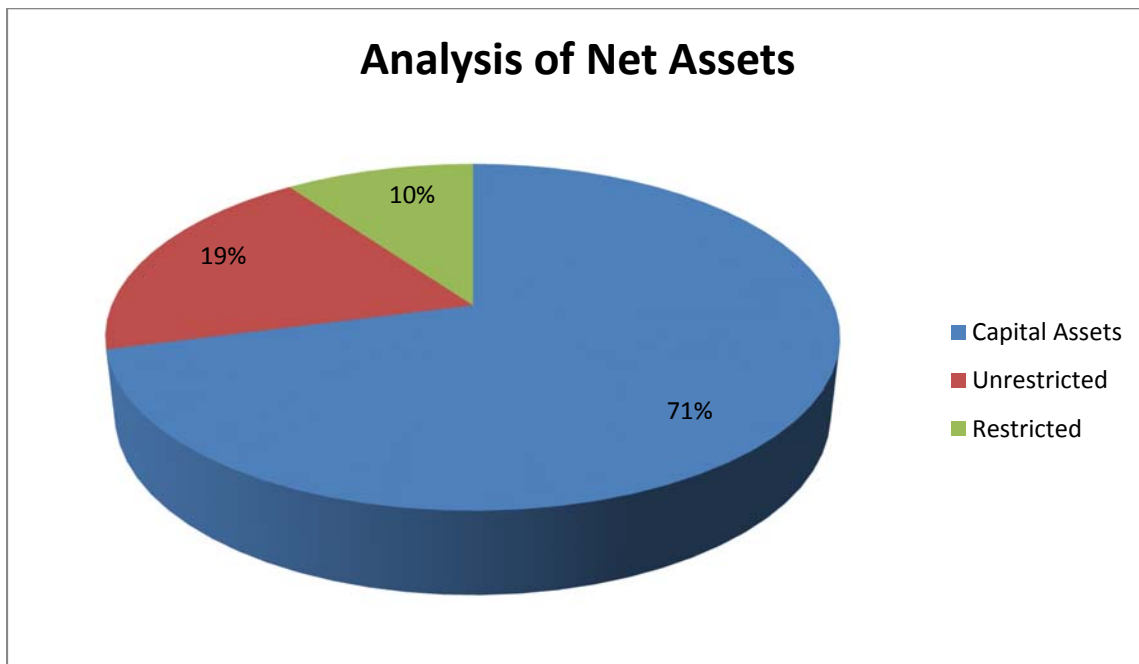
ANALYSIS OF NET POSITION 2017--Continued

There was an increase in the total assets of the University. The most notable changes in assets included an increase in current assets of \$0.7 million. The cash accounts held by the University were increased during FY17.

Liabilities saw a decrease as well with current liabilities showing the largest change. Accounts Payable decreased by \$0.7 million. This was the result of having no construction-in-progress projects accounts payable outstanding at the end of the fiscal year.

These changes caused an overall increase in net position of \$1.4 million. This increase was caused in large part by a strategic decision to increase the cash reserves for the upcoming year due to the State's budget revenue challenges.

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



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

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

June 30, 2017

STATEMENT OF REVENUES, EXPENSES, AND CHANGES IN NET POSITION

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

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

	<u>Years Ended June 30</u>		<u>Increase</u>
	<u>2017</u>	<u>2016</u>	<u>(Decrease)</u>
OPERATING REVENUE			
Student Tuition and Fees (net of scholarship allowance of \$7.6 and \$7.4)	\$ 8.6	\$ 7.3	\$ 1.3
Federal, State, and Local Grants/Contracts	1.1	1.3	(0.2)
Auxiliary	3.7	4.8	(1.1)
Other	0.3	0.5	(0.2)
TOTAL OPERATING REVENUE	<u>13.7</u>	<u>13.9</u>	<u>(0.2)</u>
OPERATING EXPENSES			
Compensation and Employee Benefits	17.9	18.1	(0.2)
Contractual Services	2.6	2.7	(0.1)
Supplies and Materials	1.6	5.1	(3.5)
Depreciation	2.0	1.9	0.1
Utilities	0.9	0.9	-
Communication Expense	0.3	0.3	-
Scholarships and Fellowships	2.0	1.9	0.1
Other Operating Expense	1.1	1.1	-
TOTAL OPERATING EXPENSES	<u>28.4</u>	<u>32.0</u>	<u>(3.6)</u>
OPERATING LOSS	<u>(14.7)</u>	<u>(18.1)</u>	<u>3.4</u>
NONOPERATING REVENUE (EXPENSES)			
State Appropriations	8.4	8.9	(0.5)
Federal and State Grants/Contracts	4.3	4.2	0.1
Gifts	0.6	0.3	0.3
Investment Income	0.3	0.3	-
Interest Expense	(0.3)	(0.4)	0.1
NET NONOPERATING REVENUE	<u>13.3</u>	<u>13.3</u>	<u>-</u>
LOSS BEFORE OTHER REVENUE/EXPENSE	<u>(1.4)</u>	<u>(4.8)</u>	<u>3.4</u>
OTHER REVENUE/EXPENSE	<u>2.8</u>	<u>5.1</u>	<u>(2.3)</u>
CHANGE IN NET POSITION	<u>1.4</u>	<u>0.3</u>	<u>1.1</u>
NET POSITION AT BEGINNING OF YEAR	<u>25.8</u>	<u>25.5</u>	<u>0.3</u>
NET POSITION AT END OF YEAR	<u>\$ 27.2</u>	<u>\$ 25.8</u>	<u>\$ 1.4</u>

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

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

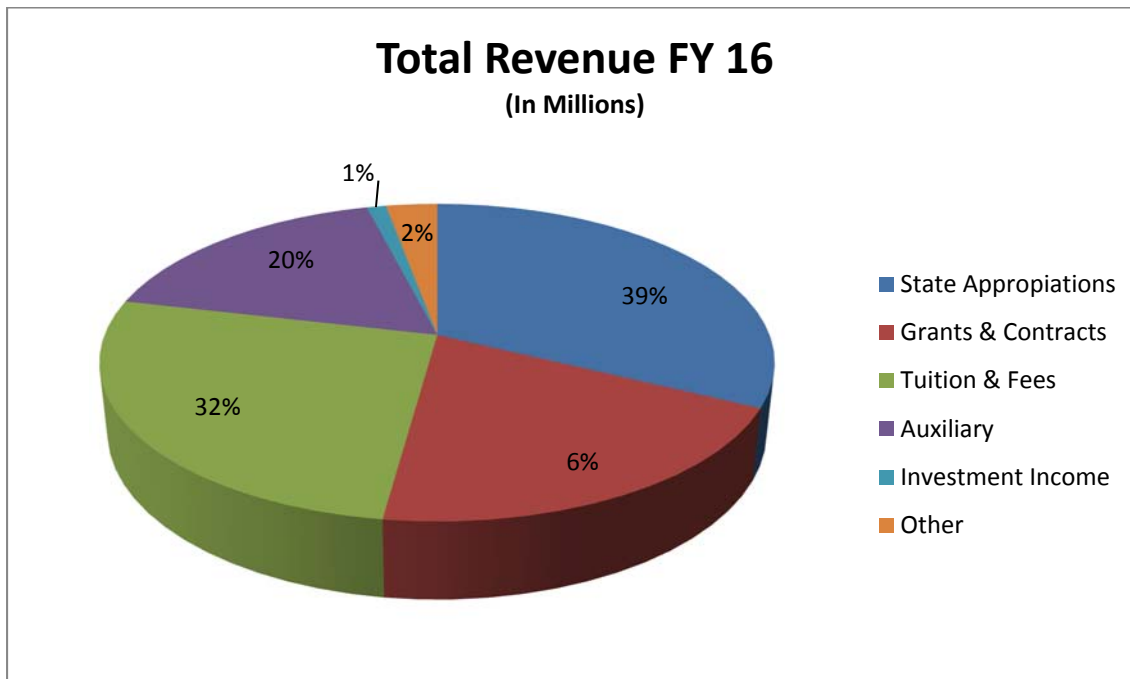
June 30, 2017

REVENUES 2017

Operating revenues as a whole were lower by \$0.2 million. Student tuition and fees were up from FY16 by \$1.3 million. This was due in large part to the increase in tuition and mandatory fees of 9.8% and a slight increase in credit hours. The other significant change took place in Auxiliary, which saw a decrease of \$1.1 million. This was due to a slight decrease in housing revenues.

Nonoperating revenues remained steady at \$13.3 million. State appropriations were down \$0.5 million. However gifts to the University were up \$0.3 million.

The following graphs represent the sources and percentages of revenue for the fiscal year 2017 as compared to fiscal year 2016. Overall percentages were very similar for the two years. However the largest shifts in revenue were from Auxiliary and Tuition & Fees.

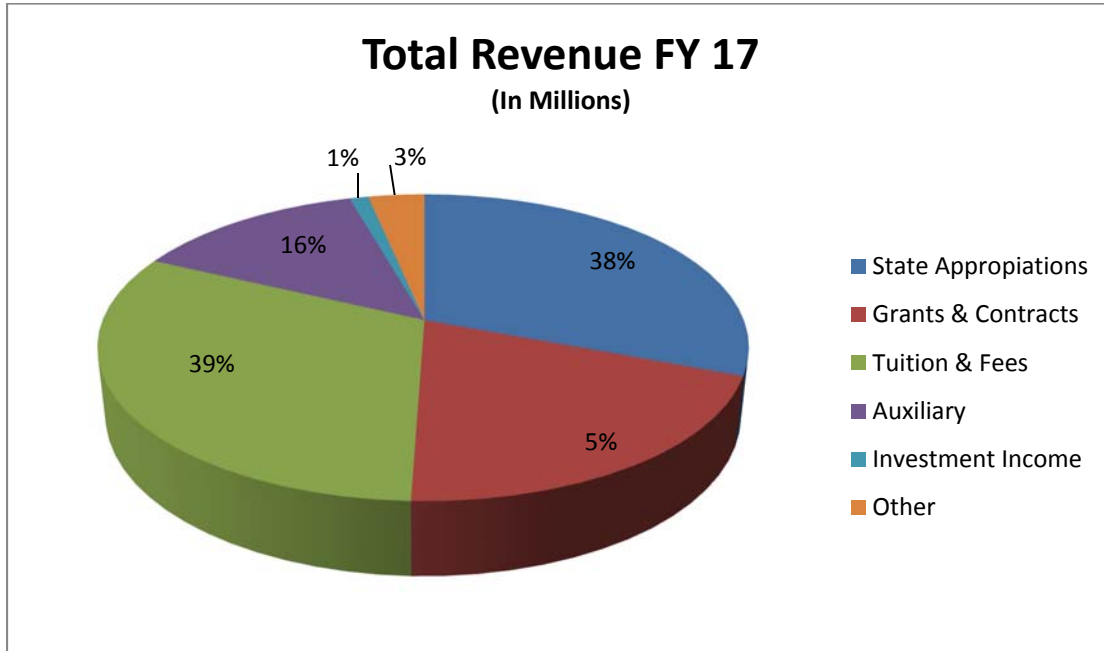


MANAGEMENT'S DISCUSSION AND ANALYSIS (UNAUDITED)--Continued

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

June 30, 2017

REVENUES 2017--Continued



EXPENSES 2017

Operating expenses for the year were \$28.4 million. This is a decrease of \$3.6 million from fiscal year 2016. The decrease of \$3.5 million in the supplies accounts makes up the majority of this difference. This large difference in supplies and materials was due to the decrease in renovation expenses on campus for the year as compared to FY16.

The decrease in expenses combined with overall revenue staying comparable to FY16 caused the net position of the University increase \$1.4 million in fiscal year 2017.

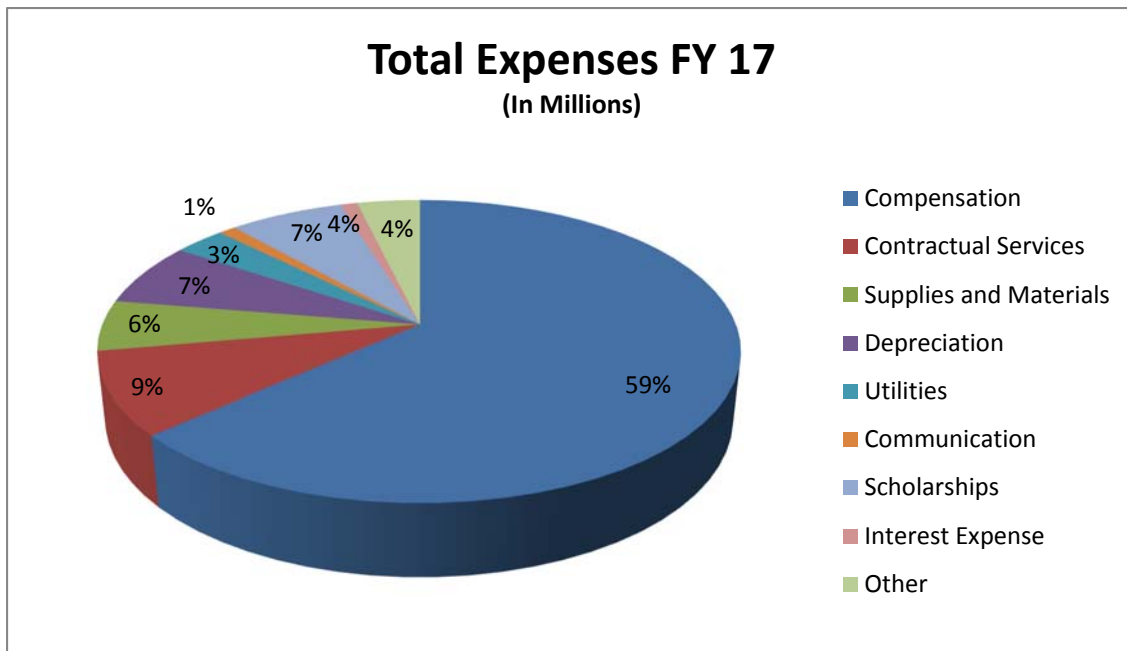
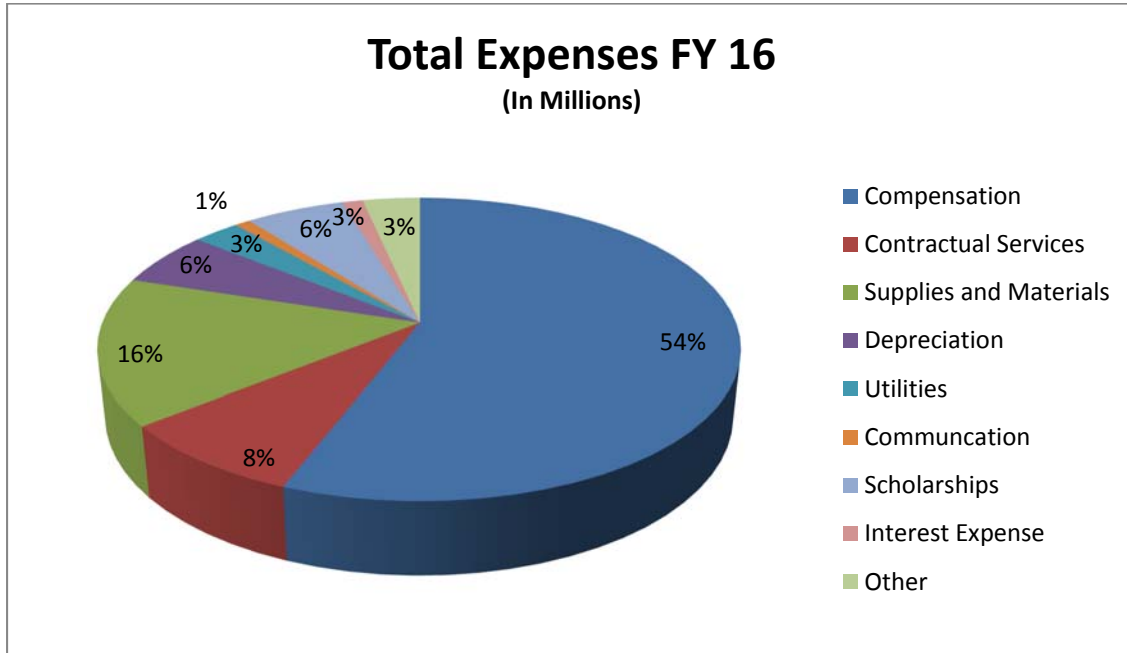
The following graph represents the percentages of expenses for the fiscal year 2017 compared to fiscal year 2016. Overall percentages remained relatively comparable year over year.

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

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

June 30, 2017

EXPENSES 2017--Continued



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

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

June 30, 2017

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.

	2017	2016	Increase (Decrease)
CASH PROVIDED BY (USED IN):			
Operating activities	\$ (12.6)	\$ (15.6)	\$ 3.0
Noncapital financing activities	13.4	13.4	-
Investing activities	0.3	0.3	-
Capital and related financing activities	0.0	1.8	(1.8)
NET INCREASE (DECREASE) IN CASH	<u>1.1</u>	<u>(0.1)</u>	<u>1.2</u>
CASH AT BEGINNING OF YEAR	<u>7.5</u>	<u>7.6</u>	<u>(0.1)</u>
CASH AT END OF YEAR	<u><u>\$ 8.6</u></u>	<u><u>\$ 7.5</u></u>	<u><u>\$ 1.1</u></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.

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

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

June 30, 2017

ECONOMIC OUTLOOK

The economic stability and future growth of the University is directly related to the State's economic stability. For several years Oklahoma had prospered due to abundant oil and natural gas activity. This activity has slowed in Oklahoma resulting in a reduction of state revenues. Consequently state agencies, including Northwestern Oklahoma State University, have seen their state appropriations drastically decreased over the past few years.

During FY17, Northwestern experienced a slight increase in enrollment showing a 2.2% increase in credit hours generated. A continued strategic direction for the University is to focus on student recruitment and retention. With the help of an aggressive enrollment management plan updated annually, the University faculty and staff works closely with all potential and current students in an effort to recruit and retain the very best. Northwestern continues to participate in the Academy for Student Persistence and Completion through the Higher Learning Commission. This participation enables the University to learn about and implement best practices in retention.

Northwestern has placed a high priority on the development of grants and sponsored programs. New grant opportunities are always being explored by faculty and staff. During FY17, Northwestern's Title III grant continued to focus on student retention of at-risk students as the sunset date of the grant approached. This effort directly ties into the retention goals for the University. Faculty in selected discipline areas receive additional professional development training. The grant also allows for equipment purchases to help enhance faculty teaching and student learning in the classroom. Northwestern was awarded a Student Support Services grant that began during the fall of FY16. Staff is currently in place to work with at-risk, first-time students in an effort to make their college transition successful. Faculty and staff will continue to explore new grant opportunities during FY18.

Construction and expansion projects continue to be a focus for Northwestern. During FY17, several projects were finished on campus. Coronado Hall, a male dorm, saw renovations conclude in August of 2016. All suites in Coronado saw the addition of new bathrooms, showers, and HVAC units. Some furniture was upgraded as well as updates to common areas. A new gymnasium floor and bleacher seating were installed in Percefull Fieldhouse during September of 2016. This facility also saw enhancements to the bathrooms as well as the newly painted walls and graphic window coverings. Funded through a private donation, the Dunning Performance Center was upgraded giving student athletes access to an un-paralleled practice environment.

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

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

June 30, 2017

ECONOMIC OUTLOOK--Continued

The Northwestern Oklahoma State University Foundation, Inc. plays a critical role in supporting the University and its mission. New contributions and endowments continue to be secured, which provides support for the operations of Northwestern. The Endowed Chair Program provides matching funds through the Oklahoma State Regents for Higher Education and the state of Oklahoma. As of June 30, 2017, Northwestern has 43 endowed chairs (23 waiting to be matched by the State), 2 professorship (1 unmatched), and 14 lectureships (12 unmatched). Once these accounts are fully matched, additional dollars of earnings will be available to Northwestern to help with faculty salaries. Northwestern announced the public phase of a comprehensive capital campaign in April of 2017. The University is working diligently to reach its goal of \$28 million.

During FY17, a historic development occurred at Northwestern. The Doctor of Nursing Practice program developed curriculum and accepted applications for admission. The inaugural class began with the fall 2017 semester. This new professional academic program is possible only through the generosity of the Wisdom Family Foundation and the Charles Morton Share Trust, which combined donated \$5 million dollars in Endowed Chairs to the university. At some point in the future these chairs will be matched with another \$5 million by the State of Oklahoma.

As mentioned at the beginning of this analysis, during FY17 the State of Oklahoma experienced significant financial challenges and funding shortfalls. All agencies, including Northwestern, received reductions in state appropriations. Northwestern alone saw its funding reduced by 15.95% during FY17 and saw an additional reduction of 6.08% for FY18. To combat this problem expenses were closely monitored and vacant positions were evaluated, with some not being refilled. When reviewing both FY17 and FY18 budgets, 16 full-time positions have been eliminated in an effort to offset state funding cuts.

The future of Northwestern Oklahoma State University is bright, but state funding and student enrollment continue to be focal points. If further budget shortfalls occur during FY18, additional aggressive measures will be needed to combat the reduction of funds. Enrollment for the fall 2017 semester showed a slight decrease over the fall of 2016 with a notable drop being from international students. Enrollment management efforts will continue to focus on ways to increase both recruitment of new students as well as retention of continuing students.

STATEMENT OF NET POSITION

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

June 30, 2017

	<u>University</u>	<u>Component Unit</u>
ASSETS		
CURRENT ASSETS		
Cash and cash equivalents	\$ 5,847,425	\$ 259,448
Restricted cash and cash equivalents	390,522	-
Accounts receivable, net	331,312	-
Receivable from state agencies	218,475	-
Interest and other receivables	5,379	-
Inventories	15,724	-
TOTAL CURRENT ASSETS	<u>6,808,837</u>	<u>259,448</u>
NONCURRENT ASSETS		
Restricted cash and cash equivalents	2,339,699	-
Investments	-	25,063,778
Other assets	113	736,792
Land and mineral rights	-	2,848,624
Capital assets, net	27,037,543	268,337
TOTAL NONCURRENT ASSETS	<u>29,377,355</u>	<u>28,917,531</u>
TOTAL ASSETS	<u>\$ 36,186,192</u>	<u>\$ 29,176,979</u>
DEFERRED OUTFLOWS OF RESOURCES		
Deferred charge on ODFA lease restructure	\$ 24,775	\$ -
TOTAL DEFERRED OUTFLOWS OF RESOURCES	<u>\$ 24,775</u>	<u>\$ -</u>

(Continued)

STATEMENT OF NET POSITION--Continued

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

June 30, 2017

	<u>University</u>	<u>Component Unit</u>
LIABILITIES AND NET POSITION		
CURRENT LIABILITIES		
Accounts payable	\$ 171,752	\$ 55,639
Accrued payroll	218,798	-
Unearned revenue	131,907	-
Deposits held in custody for others	201,289	-
Current portion of noncurrent liabilities	1,613,489	-
TOTAL CURRENT LIABILITIES	<u>2,337,235</u>	<u>55,639</u>
NONCURRENT LIABILITIES		
Accrued compensated absences	125,282	-
ODFA master lease program	2,434,334	-
Lease obligation payable to state agency	3,816,419	-
Other noncurrent liabilities	116,464	-
TOTAL NONCURRENT LIABILITIES	<u>6,492,499</u>	<u>-</u>
TOTAL LIABILITIES	<u>\$ 8,829,734</u>	<u>\$ 55,639</u>
DEFERRED INFLOWS OF RESOURCES		
Deferred gain on OCIA lease restructure	<u>\$ 149,242</u>	<u>\$ -</u>
NET POSITION		
Net investment in capital assets	\$ 19,329,094	\$ -
Restricted:		
Nonexpendable:		
Grants, bequests and contributions	-	26,147,300
Expendable:		
Scholarships, instruction and other	336,000	2,448,321
Capital projects and debt service	2,342,850	-
Unrestricted	<u>5,224,047</u>	<u>525,719</u>
TOTAL NET POSITION	<u>\$ 27,231,991</u>	<u>\$ 29,121,340</u>

See notes to financial statements.

STATEMENT OF REVENUES, EXPENSES, AND CHANGES IN NET POSITION

NORTHWESTERN OKLAHOMA STATE UNIVERSITY

A Department of the Regional University System of Oklahoma

Year Ended June 30, 2017

	University	Component Unit
OPERATING REVENUES		
Student tuition and fees, net of scholarship discounts and allowances of \$7,609,000	\$ 8,563,415	\$ -
Federal and state grants and contracts	1,098,255	-
Housing and food service, net of scholarship discounts and allowances of \$248,000	3,748,507	-
Contributions	-	2,371,175
Other operating revenues	315,367	1,990,728
TOTAL OPERATING REVENUES	13,725,544	4,361,903
OPERATING EXPENSES		
Compensation and employee benefits	17,862,248	-
Contractual services	2,648,061	-
Supplies and materials	1,587,939	-
Depreciation	2,012,609	-
Utilities	865,783	-
Communication expense	265,991	-
Scholarships and fellowships	2,022,967	1,049,837
Other operating expenses	1,125,116	2,476,279
TOTAL OPERATING EXPENSES	28,390,714	3,526,116
OPERATING INCOME (LOSS)	(14,665,170)	835,787
NONOPERATING REVENUES (EXPENSES)		
State appropriations	8,447,209	-
Federal and state grants and contracts	4,320,698	-
Gifts	613,903	-
Investment income	274,693	2,972,197
Interest expense	(337,200)	-
NET NONOPERATING REVENUE	13,319,303	2,972,197
INCOME (LOSS) BEFORE OTHER REVENUES, EXPENSES, GAINS AND LOSSES	(1,345,867)	3,807,984
Private gifts for capital assets	777,458	-
State appropriations restricted for capital purposes	1,112,010	-
OCIA on-behalf state appropriations	864,187	-
Capital assets earned	38,821	-
CHANGE IN NET POSITION	1,446,609	3,807,984
NET POSITION, BEGINNING OF YEAR	25,785,382	25,313,356
NET POSITION, END OF YEAR	\$ 27,231,991	\$ 29,121,340

See notes to financial statements.

STATEMENT OF CASH FLOWS

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

Year Ended June 30, 2017

CASH FLOWS FROM OPERATING ACTIVITIES

Tuition and fees	\$ 8,541,947
Grants and contracts	1,195,791
Auxiliary enterprise charges and other operating receipts	4,079,479
Payments to employees for salaries and benefits	(17,881,117)
Payments to suppliers	<u>(8,492,443)</u>
NET CASH USED IN OPERATING ACTIVITIES	(12,556,343)

CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES

State appropriations	8,447,209
Nonoperating grants	4,320,698
Direct student loans received	5,787,208
Direct student loan payments	(5,787,208)
Gifts for other than capital purposes	<u>613,903</u>
NET CASH PROVIDED BY NONCAPITAL FINANCING ACTIVITIES	13,381,810

CASH FLOWS FROM INVESTING ACTIVITIES

Interest income received	<u>276,469</u>
NET CASH PROVIDED BY INVESTING ACTIVITIES	276,469

CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES

Cash paid for capital assets	(1,903,791)
Capital appropriations received	1,112,009
Interest paid on capital debt and leases	(106,516)
Repayment of capital debt and leases	(495,007)
Proceeds of capital debt and leases	<u>1,416,000</u>
NET CASH PROVIDED BY CAPITAL AND RELATED FINANCING ACTIVITIES	<u>22,695</u>

NET CHANGE IN CASH AND CASH EQUIVALENTS 1,124,631

CASH AND CASH EQUIVALENTS, BEGINNING OF YEAR 7,453,015

CASH AND CASH EQUIVALENTS, END OF YEAR \$ 8,577,646

Continued next page.

STATEMENT OF CASH FLOWS--Continued

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

Year Ended June 30, 2017

RECONCILIATION OF OPERATING LOSS TO
NET CASH USED IN OPERATING ACTIVITIES

Operating loss	\$ (14,665,170)
Adjustments to reconcile operating loss to net cash used in operating activities:	
Depreciation expense	2,012,609
Changes in assets and liabilities:	
Accounts receivable	104,642
Inventories	(2,662)
Accounts payable and accrued expenses	(22,576)
Unearned revenue	(12,969)
Deposits held in custody for others	3,470
Compensated absences	26,313
	<u>26,313</u>
NET CASH USED IN OPERATING ACTIVITIES	<u>\$ (12,556,343)</u>

NONCASH INVESTING, NONCAPITAL FINANCING
AND CAPITAL AND RELATED FINANCING ACTIVITIES

Interest on capital debt paid by state agency on behalf of the University	<u>\$ 233,782</u>
Principal on capital debt paid by state agency on behalf of the University	<u>\$ 630,405</u>

RECONCILIATION OF CASH AND CASH EQUIVALENTS
TO STATEMENT OF NET ASSETS

Current assets:	
Cash and cash equivalents	\$ 5,847,425
Restricted cash and cash equivalents	390,522
Noncurrent assets:	
Restricted cash and cash equivalents	<u>2,339,699</u>
TOTAL CASH AND CASH EQUIVALENTS	<u>\$ 8,577,646</u>

See notes to financial statements.

STATEMENT OF FIDUCIARY NET POSITION

NORTHWESTERN OKLAHOMA STATE UNIVERSITY

A Department of the Regional University System of Oklahoma

June 30, 2017

		<u>Fiduciary Funds</u>
ASSETS		
Cash and cash equivalents		\$ 408,616
TOTAL ASSETS		<u>\$ 408,616</u>
LIABILITIES		
Due to OKHEEI		\$ 408,616
TOTAL LIABILITIES		<u>\$ 408,616</u>

NOTES TO FINANCIAL STATEMENTS

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

June 30, 2017

NOTE A--SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

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

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

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

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

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

NOTES TO FINANCIAL STATEMENTS--Continued

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

June 30, 2017

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

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

Basis of Accounting: For financial reporting purposes, the University is considered a department of a special-purpose government engaged only in business-type activities. Accordingly, the University's financial statements have been presented using the economic resources measurement focus and the accrual basis of accounting. Under the accrual basis, revenues are recognized when earned, and expenses are recorded when an obligation has been incurred. All significant intra-agency transactions have been eliminated.

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

Investments: The University accounts for its investments at fair value in accordance with GASB Statement No. 31, *Accounting and Financial Reporting for Certain Investments and for External Investment Pools*. Changes in unrealized gain (loss) on the carrying value of investments are reported as a component of investment income in the statement of revenues, expenses, and changes in net position. At June 30, 2017, all of the University's investments were considered cash equivalents.

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

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

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.

NOTES TO FINANCIAL STATEMENTS--Continued

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

June 30, 2017

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

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

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

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

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

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.

NOTES TO FINANCIAL STATEMENTS--Continued

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

June 30, 2017

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

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

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

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

Income Taxes: The University, 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.

NOTES TO FINANCIAL STATEMENTS--Continued

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

June 30, 2017

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

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.

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, 2017, the University's deferred outflows of resources were comprised of deferred charges on ODFAs 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, 2017, the University's deferred inflows of resources is comprised of a deferred gain on the restructuring of an OCIA lease.

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

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

New Accounting Pronouncements Effective in Fiscal Year 2017: The following new accounting pronouncements became effective during the year ended June 30, 2017:

- *GASB Statement No. 74, Financial Reporting for Postemployment Benefit Plans Other Than Pension Plans*

GASB Statement No. 74 was issued in June 2015, and replaces Statements No. 43, *Financial Reporting for Postemployment Benefit Plans Other Than Pension Plans*, as amended, and No. 57, *OPEB Measurements by Agent Employers and Agent Multiple-Employer Plans*. It also includes requirements for defined contribution OPEB plans that replace the requirements for those OPEB plans in Statement No. 25, *Financial Reporting for Defined Benefit Pension Plans and Note Disclosures for Defined Contribution Plans*, as amended, Statement 43, and Statement No. 50,

NOTES TO FINANCIAL STATEMENTS--Continued

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

June 30, 2017

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

Pension Disclosures. This statement applies primarily to the general purpose external financial reports of state and local government OPEB plans. For OPEB plans that do not issue separate stand-alone general purpose financial statements, additional disclosures are required by the new standard in the sponsoring government's financial statements. However, this new standard applies only to the System and not to each individual department of the System.

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

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

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

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

GASB No. 83 was issued December 2016, under this statement a government that has legal obligations to perform future asset retirement activities related to its tangible capital assets is required to recognize a liability and a corresponding deferred outflow of resources. The Statement identifies the circumstances that trigger the recognition of these transactions. The Statement also requires the measurement of an asset retirement obligation to be based on the best estimate of the current value of outlays expected to be incurred while the deferred outflow of resources associated with the asset retirement obligation will be measured at the amount of the corresponding liability upon initial measurement and generally recognized as an expense during the reporting periods that the asset provides service. The Statement requires disclosures including a general description of the asset retirement obligation and

NOTES TO FINANCIAL STATEMENTS--Continued

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

June 30, 2017

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

associated tangible capital assets; the source of the obligation to retire the assets; the methods and assumptions used to measure the liability; and other relevant information. The requirements of this Statement are effective for reporting periods beginning after June 15, 2018. Earlier application is encouraged. The University has not yet determined the impact that implementation of GASB 83 will have on its net position.

- *GASB Statement 84, Fiduciary Activities*

GASB No. 84 was issued January 2017, this Statement establishes criteria for identifying fiduciary activities of all state and local governments. The focus of the criteria generally is on (1) whether a government is controlling the assets of the fiduciary activity and (2) the beneficiaries with whom a fiduciary relationship exists. Separate criteria are included to identify fiduciary component units and postemployment benefit arrangements that are fiduciary activities. The requirements of this Statement are effective for Reporting periods beginning after December 15, 2018. Earlier application is encouraged. The University has not yet determined the impact that implementation of GASB 84 will have on its net position.

- *GASB Statement 85, Omnibus 2017*

GASB No. 85 issued March 2017, this Statement address a variety of topics including issues related to blending component units, goodwill, fair value measurement and application, and postemployment benefits. The requirements of this Statement are effective for reporting periods beginning after June 15,2017. Earlier application is encouraged. The University has not yet determined the impact that implementation of GASB 85 will have on its net position.

- *GASB Statement 86, Certain Debt Extinguishment Issues*

GASB No. 86 issued May 2017 the primary objective of this Statement is to improve the consistency in accounting and financial reporting for in-substance defeasance of debt by providing guidance for transactions in which cash and other monetary assets acquired with only existing resources – resources other than the proceeds of refunding debt – are placed in an irrevocable trust for the sole purpose of extinguishing debt. This Statement also improves accounting and financial reporting for prepaid insurance on debt that is extinguished and notes to financial statements for debt that is defeased in substance. The requirements of this Statement are effective for reporting periods beginning after June 15, 2017. Earlier application is encouraged. The University has not yet determined the impact that implementation of GASB 86 will have on its net position.

NOTES TO FINANCIAL STATEMENTS--Continued

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

June 30, 2017

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

- *GASB Statement 87, Leases*

GASB No. 87 was issued June 2017, the primary objective of this Statement is to increase the usefulness of governments' financial statements by requiring recognition of certain lease assets and liabilities for leases that previously were classified as operating leases and recognized as inflows of resources or outflows of resources based on the payment provisions of the contract. It establishes a single model for lease accounting based on the foundational principle that leases are financings of the right to use an underlying asset. Under this Statement, a lessee is required to recognize a lease liability and an intangible right-to-use lease asset, and a lessor is required to recognize a lease receivable and a deferred inflow of resources, thereby enhancing the relevance and consistency of information about activities. The requirements of this Statement are effective for reporting periods beginning after December 15, 2019. Earlier application is encouraged. The University has not yet determined the impact that implementation of GASB 87 will have on its net position.

NOTE B--DEPOSITS AND INVESTMENTS

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

There is \$8,981,713 in cash and cash equivalents on deposit with the State Treasurer as of June 30, 2017, of which \$408,616 represents amounts held in agency funds. Of the \$8,981,713 on deposit with the State Treasurer, \$3,614,209 represents amounts held within *OK INVEST*, an internal investment pool. State Agencies and funds that are considered to be part of the State's reporting entity in the State's Comprehensive Annual Financial Report are allowed to participate in *OK INVEST*. Oklahoma statutes and the State Treasurer establish the primary objectives and guidelines governing the investment of funds in *OK INVEST*. Safety, liquidity, and return on investment are the objectives that establish the framework for the day-to-day *OK INVEST* management of funds with an emphasis on safety of the capital and the probable income to be derived while also meeting the State's daily cash flow requirements. Guidelines in the State Treasurer's Investment Policy address credit quality requirements, diversification percentages

NOTES TO FINANCIAL STATEMENTS--Continued

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

June 30, 2017

NOTE B--DEPOSITS AND INVESTMENTS--Continued

and the types and maturities of allowable investments. The specifics regarding these policies can be found on the State Treasurer's website at <http://www.ok.gov/treasurer/>. An evaluation of the use and purpose of the various State Agencies and funds participation in the internal investment pool has determined that the amount on deposit with *OK INVEST* are treated as demand accounts and reported as cash equivalents. For financial reporting purposes, deposits with the OST that are invested in *OK INVEST* are classified as cash equivalents.

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

NOTE C--ACCOUNTS RECEIVABLE

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

Student tuition and fees	\$ 386,395
Auxiliary enterprises and other operating activities	112,334
Federal, state, and private grants and contracts	<u>155,193</u>
	653,922
Less: allowance for doubtful accounts	<u>(322,610)</u>
NET ACCOUNTS RECEIVABLE	<u>\$ 331,312</u>

NOTES TO FINANCIAL STATEMENTS--Continued

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

June 30, 2017

NOTE D--CAPITAL ASSETS

Following are the changes in capital assets for the year ended June 30, 2017:

	Balance June 30, 2016	Additions	Transfers	Retirements/ Adjustments	Balance June 30, 2017
Capital assets not being depreciated					
Land	\$ 1,077,242	\$ 71,800	\$ -	\$ -	\$ 1,149,042
Construction in progress	1,043,741	2,577	(1,043,740)	-	2,578
Total assets not being depreciated	<u>\$ 2,120,983</u>	<u>\$ 74,377</u>	<u>\$ (1,043,740)</u>	<u>\$ -</u>	<u>\$ 1,151,620</u>
Other capital assets					
Land improvements	\$ 4,562,711	\$ -	\$ 29,315	\$ -	\$ 4,592,026
Leasehold improvements	154,946	-	(29,315)	-	125,631
Buildings	45,873,863	1,587,581	1,043,740	-	48,505,184
Furniture, fixtures and equipment	3,907,112	201,236	-	-	4,108,348
Library materials	1,506,534	9,235	-	(559,650)	956,119
Art	-	133,333	-	-	133,333
Total other capital assets	<u>56,005,166</u>	<u>1,931,385</u>	<u>1,043,740</u>	<u>(559,650)</u>	<u>58,420,641</u>
Less accumulated depreciation for					
Land improvements	2,300,749	383,682	7,329	-	2,691,760
Leasehold improvements	54,823	8,225	(7,329)	-	55,719
Buildings	24,134,996	1,268,668	-	-	25,403,664
Furniture, fixtures and equipment	3,190,582	308,440	-	-	3,499,022
Library materials	1,400,609	43,594	-	(559,650)	884,553
Total accumulated depreciation	<u>31,081,759</u>	<u>2,012,609</u>	<u>-</u>	<u>(559,650)</u>	<u>32,534,718</u>
Other capital assets, net	<u>\$ 24,923,407</u>	<u>\$ (81,224)</u>	<u>\$ 1,043,740</u>	<u>\$ -</u>	<u>\$ 25,885,923</u>
Capital asset summary:					
Capital assets not being depreciated	\$ 2,120,983	\$ 74,377	\$ (1,043,740)	\$ -	\$ 1,151,620
Other capital assets, at cost	56,005,166	1,931,385	1,043,740	(559,650)	58,420,641
Total cost of capital assets	58,126,149	2,005,762	-	(559,650)	59,572,261
Less: accumulated depreciation	31,081,759	2,012,609	-	(559,650)	32,534,718
Capital assets, net	<u>\$ 27,044,390</u>	<u>\$ (6,847)</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 27,037,543</u>

At June 30, 2017, the cost and related accumulated depreciation of assets held under capital lease obligations totaled approximately \$14,713,599 and \$6,013,959 respectively.

NOTES TO FINANCIAL STATEMENTS--Continued

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

June 30, 2017

NOTE E--LONG-TERM LIABILITIES

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

	Balance June 30, 2016	Additions	Reductions	Balance June 30, 2017	Amounts due within one year
Capital lease obligations:					
ODFA master lease	\$ 1,832,000	\$ 1,416,000	\$ 395,750	\$ 2,852,250	\$ 417,916
OCIA lease obligation	5,104,024	-	630,405	4,473,619	657,200
Lease purchase obligation	202,086	-	99,256	102,830	102,830
Total capital lease obligations	7,138,110	1,416,000	1,125,411	7,428,699	1,177,946
Other liabilities:					
Accrued compensated absences	495,693	384,207	357,895	522,005	396,723
Unearned capital assets	194,107	-	38,821	155,286	38,820
Total other liabilities	689,800	384,207	396,716	677,291	435,543
Total long-term liabilities	<u>\$ 7,827,910</u>	<u>\$ 1,800,207</u>	<u>\$ 1,522,127</u>	<u>\$ 8,105,990</u>	<u>\$ 1,613,489</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, 2017, the University has drawn down its total allotment of \$850,000 for expenditures incurred in connection with specified projects. These expenditures have been capitalized as capital assets or recorded as non-capitalized operating expenses, in accordance with University policy. The University has recorded a lease obligation payable to OCIA for the total amount of the allotment, less repayments made during the fiscal year.

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

NOTES TO FINANCIAL STATEMENTS--Continued

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

June 30, 2017

NOTE E--LONG-TERM LIABILITIES--Continued

Capital Lease Obligations--Continued:

Oklahoma Capital Improvement Authority Lease Obligation--Continued

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, 2017, the University has drawn down the total of \$6,813,432 for expenditures incurred in connection with specified projects. These expenses have been capitalized as investment in capital assets in accordance with University policy. The University has recorded a lease obligation payable to OCIA for the total amount of the allotment, less repayments made on the University's behalf.

In 2014, the OCIA restructured the 2005F series bond debt by issuing new 2014A series bonds. This restructuring was a partial refunding and resulted in a gain of \$186,313 between the remaining liability of the 2005F series and the new liability of the 2014A series. This gain on restructuring was recorded as a deferred inflow of resources and is being amortized over a period of 18 years. As of June 30, 2017, the deferred gain, net of amortization, was \$149,242. 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, 2017.

During the year ended June 30, 2011, the 2005 lease agreement with OCIA was restructured through a partial refunding of OCIA's 2005F bond debt. OCIA issued two new bonds, Series 2010A and 2010B. The lease agreements with OCIA secure the OCIA bond debt and any future debt that might be issued to refund earlier bond issues. OCIA issued this new debt to provide budgetary relief for fiscal years 2011 and 2012 by extending and restructuring debt service. Consequently, the lease agreement with OCIA automatically restructured to secure the new bond issues. This lease restructuring has extended certain principal payments into the future, resulting in a charge or cost on restructuring. A charge of \$602,010 was recorded as a deferred outflow that is being amortized over a period of 6 years. As of June 30, 2017, the University completed its required payments for the Series 2010B lease and the agreement ended as scheduled in July 2015. This restructuring resulted in an aggregate debt service difference for principal

NOTES TO FINANCIAL STATEMENTS--Continued

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

Capital Lease Obligations--Continued:

Oklahoma Capital Improvement Authority Lease Obligation--Continued

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, 2017, the State of Oklahoma made lease principal and interest payments totaling \$864,187 to OCIA on behalf of the University. These on-behalf payments have been recorded as restricted state appropriations in the statement of revenues, expenses, and changes in net position.

Oklahoma Development Finance Authority Master Lease Program

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

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

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

In August 2016, the ODFA issued its ODFA Master Real Property Lease Revenue Bonds, Tax-Exempt Series 2016D. Of the total bond indebtedness, the State Regents for Higher Education allocated \$1,033,000 and \$383,000 to the University. Concurrently with the allocation, the University entered into a lease agreement with ODFA for the project being funded by the ODFA bonds. The lease agreement provides for the University to make specified monthly payments to ODFA over the respective terms of the agreement, which is through May 15, 2031 and June 23, 2023 respectively. The proceeds of the bonds and subsequent leases are to provide for capital improvements to the University.

NOTES TO FINANCIAL STATEMENTS--Continued

NORTHWESTERN OKLAHOMA STATE UNIVERSITY
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June 30, 2017

NOTE E--LONG-TERM LIABILITIES--Continued

Capital Lease Obligations--Continued:

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:			
2018	1,177,946	313,457	1,491,403
2019	1,109,700	265,147	1,374,847
2020	436,757	218,757	655,514
2021	172,417	202,802	375,219
2022	177,417	198,244	375,661
2023-2027	2,287,132	772,264	3,059,396
2028-2032	2,067,330	238,046	2,305,376
	<u>\$ 7,428,699</u>	<u>\$ 2,208,716</u>	<u>\$ 9,637,415</u>

NOTE F--RETIREMENT PLANS

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

The accounting and financial reporting for OTRS, the SRA, and the OPEB plans are recorded at the reporting entity level in the Regional University System of Oklahoma financial statements. That report may be obtained by writing to the Regional University System of Oklahoma, 3555 N.W. 58th Street, Suite 320, Oklahoma City, Oklahoma 73112, or by calling (405) 924-8817. All payments made to these plans by the University are accounted for as compensation expense in the accompanying financial statements.

NOTES TO FINANCIAL STATEMENTS--Continued

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

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

Oklahoma Teachers' Retirement System (OTRS)

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

Funding Policy: The University is required by state statute to contribute a fixed percentage of annual compensation on behalf of active members. The employer contribution rate, as determined by state statute, was 8.55% for 2017, 2016, and 2015, and was applied to annual compensation.

Employees' contributions are also determined by state statute. For all employees, the contribution rate was 7% of covered salaries and fringe benefits in 2017, 2016, and 2015. For compensation in excess of \$25,000, the employee's contributions are paid directly by the University to the OTRS.

The University's contributions to the OTRS for the year ended June 30, 2017, 2016, and 2015 was approximately \$1,056,147, \$965,000, and \$2,331,000. These contributions included the University's statutory contribution and the share of the employee's contribution paid directly by the University.

The State of Oklahoma is also required to contribute to the OTRS on behalf of the participating employers. For 2017, the State of Oklahoma contribution was 5% of state revenues from sales and use taxes and individual income taxes, to the OTRS on behalf of participating employers. These amounts and other system-wide related amounts are reported in the Regional University System of Oklahoma financial statements and not at the individual department level.

NOTES TO FINANCIAL STATEMENTS--Continued

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

Supplemental Retirement Annuity (SRA)

Plan Description: The University's SRA plan is a single employer, defined benefit pension plan administered by the University's Board of Regents. The SRA was established by the University's Board of Regents to provide supplemental retirement and death benefits to University employees who were hired prior to July 1, 1987, or to those eligible employees' beneficiaries. Effective December 1, 2002, the SRA was amended to provide supplemental retirement and death benefits to University employees who were hired between July 1, 1987 and June 30, 1995. Effective October 1, 2003, the SRA plan was changed to eliminate the TIAA offset in the benefit calculation. The authority to amend the SRA's benefit provisions rests with the University's Board of Regents. The SRA is included in the financial report of the

Plan Description--Continued: Regional University System of Oklahoma reporting entity, and does not issue separate, stand-alone financial statements.

Funding Policy: The authority to establish and amend eligible employees' and employer contribution obligations to the SRA rests with the University's Board of Regents. Eligible employees are not required to make contributions to the SRA. The University is required to contribute to the SRA an actuarially determined amount on an annual basis. Under a policy adopted in December 2002, the Plan must achieve 80% funding of the pension benefit obligation by December 1, 2022.

The University's contributions to the SRA for the years ended June 30, 2017, 2016, and 2015, were approximately \$271,655, \$295,000, and \$260,000, respectively.

Defined Contribution Plan

The University also has a defined contribution 403(b) plan (DCP) available to full-time employees. The DCP is administered by the RUSO System, and the plan provisions are established and may be amended by the Board of Regents. Plan members may make voluntary contributions in accordance with IRS regulations. The University has no contribution requirements, and no contributions were made during the years ended June 30, 2017, 2016, and 2015.

NOTES TO FINANCIAL STATEMENTS--Continued

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

June 30, 2017

NOTE G--OTHER POST-EMPLOYMENT INSURANCE BENEFITS

Post-employment Healthcare Plan

Plan Description: The University's post-employment healthcare plan is a single-employer defined benefit plan administered by the Regional University System of Oklahoma Board of Regents (the University's Board). The plan provides medical and life insurance benefits to eligible retired employees until age 65. A retiring employee must have been employed full-time in the Regional University System of Oklahoma for not less than ten years immediately preceding the date of retirement, been a member of the Oklahoma Teachers' Retirement System during that time, and elected to receive a vested benefit under the provision of the Oklahoma Teachers' Retirement System. As of June 30, 2017, there were 108 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 is included in the financial report of the Regional University System of Oklahoma reporting entity and does not issue separate, stand-alone financial statements.

Funding Policy: The contribution requirements of the University are established and may be amended by the Regional University System of Oklahoma Board of Regents. The University is required to contribute the *annual required contribution ("ARC") of the employer*, in an amount actuarially determined in accordance with the parameters of GASB Statement 45. The ARC represents a level of funding that, if paid on an ongoing basis, is projected to cover normal cost each year and amortize any unfunded actuarial liabilities (or funding excess) over a period not to exceed thirty years. For the year ended June 30, 2017 the ARC is approximately \$75,000. The University made no contributions to the plan in fiscal 2017 or fiscal 2016. The contributions for the year ended June 30, 2015, was approximately \$35,000.

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 \$1,099,000 during the year ended June 30, 2017, which is restricted to the construction or acquisition of buildings, equipment, or other capital items.

NOTES TO FINANCIAL STATEMENTS--Continued

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

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

Beneficial Interest in State School Land Funds--Continued: 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 cost basis of the total trust reserve for Northwestern Oklahoma State University, held in trust by the Commissioners of Land Office, was approximately \$19,122,000 at June 30, 2017.

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 \$4,907,080 at June 30, 2017, 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, \$218,475 at June 30, 2017, 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, 2017, 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.

NOTES TO FINANCIAL STATEMENTS--Continued

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

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.

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.

The College also began participating, during fiscal year 2017, in the Oklahoma Higher Education Employee Interlocal Group Health Insurance Pool "OKHEEI". College employees are provided health insurance coverage through OKHEEI. OKHEEI is an Interlocal Cooperative Act Agency organized as a public entity risk pool health insurance program for participating Colleges and Universities in the State. The College pays monthly health insurance premiums to OKHEEI for employee health insurance coverage based on the health coverage elected by the employee and the maximum benefit provided by the College for health coverage. Amount of premiums exceeding benefits are payable by the employee. The governing agreement for OKHEEI specifies that the pool will be self-sustaining through premiums

NOTE J--RISK MANAGEMENT--Continued

received and with additional stop-loss coverages obtained. If health care claims exceed reserves and reinsurance coverages, additional assessments may be made to participating Colleges and Universities. As of June 30, 2017, additional assessments did not occur.

NOTES TO FINANCIAL STATEMENTS--Continued

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

June 30, 2017

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
A Department of the Regional University System of Oklahoma

June 30, 2017

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

FAIR VALUE MEASUREMENTS ACCOUNTING POLICY--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, 2017 not 2016.

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).

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.

NOTES TO FINANCIAL STATEMENTS--Continued

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

FAIR VALUE MEASUREMENT--Continued

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.

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.

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, 2017			
	Level 1	Level 2	Level 3	Total
Uninvested cash	\$ 918,890	\$ -	\$ -	\$ 918,890
Certificates of deposit	-	1,154,350	-	1,154,350
Equity securities	17,466,187	-	-	17,466,187
Corporate and other bonds	-	179,421	-	179,421
Mutual funds	5,344,930	-	-	5,344,930
	<u>\$ 23,730,007</u>	<u>\$ 1,333,771</u>	<u>\$ -</u>	<u>\$ 25,063,778</u>

NOTES TO FINANCIAL STATEMENTS--Continued

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

ENDOWMENT DISCLOSURES

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

Interpretation of Relevant Law

The Trustees of the Foundation have chosen to preserve the fair value of the original gift as of the gift date of the donor-restricted endowment funds absent explicit donor stipulations to the contrary. As a result of this interpretation, the Foundation classifies as permanently restricted net assets (a) the original value of gifts donated to the permanent endowment, (b) the original value of subsequent gifts to the permanent endowment, and (c) accumulations to the permanent endowment made in accordance with the direction of the applicable donor gift instrument at the time the accumulation is added to the fund.

The remaining portion of the donor-restricted endowment fund that is not classified in permanently restricted net assets is classified as temporarily restricted net assets until those amounts are appropriated for expenditure by the Foundation in a manner consistent with the standard of prudence prescribed by OK UPMIFA. In accordance with OK UPMIFA, the Foundation considers the following factors in making a determination to appropriate or accumulate donor-restricted endowment funds:

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

Return Objectives and Risk Parameters

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

NOTES TO FINANCIAL STATEMENTS--Continued

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

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

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

Endowment net asset composition as of June 30, 2017:

	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Permanently Restricted</u>	<u>Total</u>
Donor-restricted endowment funds	\$ -	\$ 2,448,321	\$ 26,147,300	\$ 28,595,621
Board-designated endowment funds	-	-	-	-
Total endowment funds	<u>\$ -</u>	<u>\$ 2,448,321</u>	<u>\$ 26,147,300</u>	<u>\$ 28,595,621</u>

NOTES TO FINANCIAL STATEMENTS--Continued

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

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

Changes in endowment net assets for the year ended June 30, 2017 are as follows:

	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Permanently Restricted</u>	<u>Total</u>
Endowment net assets, beginning of year	\$ -	\$ 1,004,418	\$ 24,143,593	\$ 25,148,011
Investment Return	-	1,361,649	842,250	2,203,899
Contributions	-	2,621,981	1,618,457	4,240,438
Appropriation of endowment assets for expenditure	-	<u>(2,539,727)</u>	<u>(457,000)</u>	<u>(2,996,727)</u>
Endowment net assets, end of year	<u>\$ -</u>	<u>\$ 2,448,321</u>	<u>\$ 26,147,300</u>	<u>\$ 28,595,621</u>

REPORTS REQUIRED BY
GOVERNMENT AUDITING STANDARDS
AND THE UNIFORM GUIDANCE



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

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

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of Northwestern Oklahoma State University (the "University"), a department of the Regional University System of Oklahoma ("RUSO"), which is a component unit of the State of Oklahoma, and its discretely presented component unit, that comprise the statement of net position as of June 30, 2017, and the related statements of revenue, expenses, and changes in net position and cash flows for the year then ended, and the related notes to the financial statements, which collectively comprise the University's basic financial statements, and have issued our report thereon dated October 30, 2017. Our report includes a reference to other auditors who audited the financial statements of Northwestern Oklahoma State University Foundation, Inc. and Alumni Association (the "Foundation"), the University's discretely presented component unit, as described in our report on the University's financial statements. The financial statements of the Foundation were not audited in accordance with *Government Auditing Standards* and accordingly this report does not include reporting on internal control over financial reporting or instances of reportable noncompliance associated with the Foundation.

Internal Control over Financial Reporting

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

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

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

Compliance and Other Matters

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

Purpose of this Report

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

Arlidge & Associates, P.C.

October 30, 2017



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

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

Report on Compliance for Each Major Federal Program

We have audited Northwestern Oklahoma State University's (the "University"), a department of the Regional University System of Oklahoma ("RUSO"), which is a component unit of the State of Oklahoma, compliance with the types of compliance requirements described in the *OMB Compliance Supplement* that could have a direct and material effect on each of the University's major federal programs for the year ended June 30, 2017. The University's major federal programs are identified in the summary of auditor's results section of the accompanying schedule of findings and questioned costs.

Management's Responsibility

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

Auditor's Responsibility

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

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

Opinion on Each Major Federal Program

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

Other Matters

The results of our auditing procedures disclosed an instance of noncompliance, which is required to be reported in accordance with the Uniform Guidance and which is described in the accompanying schedule of findings and questioned costs as item 2017-001. Our opinion on each major federal program is not modified with respect to these matters.

The University's response to the noncompliance finding identified in our audit is described in the accompanying schedule of findings and questioned costs. The University's response was not subjected to the auditing procedures applied in the audit of compliance and, accordingly, we express no opinion on the response.

Report on Internal Control over Compliance

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

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

Our consideration of internal control over compliance was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over compliance that might be material weaknesses or significant deficiencies and therefore, material weaknesses or significant deficiencies may exist that have not been identified. No material weaknesses were identified. However, we identified a deficiency in internal control over compliance, as described in the accompanying schedule of findings and questioned costs as item 2017-001, that we consider to be a significant deficiency.

The University's response to the internal control over compliance finding identified in our audit is described in the accompanying schedule of findings and questioned costs. The University's response was not subjected to the auditing procedures applied in the audit of compliance and, accordingly, we express no opinion on the response.

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

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

We have audited the financial statements of the University as of and for the year ended June 30, 2017, and the related notes to the financial statements, which collectively comprise the University's basic financial statements. We issued our report thereon dated October 30, 2017, which contained an unmodified opinion on those financial statements. Our audit was conducted for the purpose of forming an opinion on the financial statements that collectively comprise the basic financial statements. The accompanying schedule of expenditures of federal awards is presented for purposes of additional analysis as required by the Uniform Guidance and is not a required part of the basic financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the basic financial statements. The information has been subjected to the auditing procedures applied in the audit of the financial statements and certain 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.

Arlidge & Associates, P.C.

October 30, 2017

SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS

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

Year Ended June 30, 2017

<i>Federal Grantor/Pass-Through Grantor/Program Title</i>	<i>Federal CFDA Number</i>	<i>Pass-Through Entity Identifying Number</i>	<i>Federal Expenditures</i>
U.S. DEPARTMENT OF EDUCATION			
Student financial assistance cluster			
Federal Pell Grants	84.063	N/A	\$ 3,040,971
Federal Supplemental Education Opportunity Grants	84.007	N/A	48,592
Federal Work Study Program	84.033	N/A	123,704
Federal Direct Loan Program	84.268	N/A	5,787,208
<i>Total Student Financial Assistance Cluster</i>			<u>9,000,475</u>
TRIO program cluster			
TRIO--Upward Bound	84.047A	N/A	223,851
TRIO--Upward Bound - Math & Science	84.047M	N/A	219,238
TRIO--Student Support Services	84.042A	N/A	212,503
<i>Total TRIO program cluster</i>			<u>655,592</u>
Other Programs			
Higher Education Institutional Aid	84.031	N/A	166,547
<i>Total Other Programs</i>			<u>166,547</u>
TOTAL U.S. DEPARTMENT OF EDUCATION			<u><u>9,822,614</u></u>
Research and Development (R&D) Cluster			
NATIONAL SCIENCE FOUNDATION			
Pass-through Oklahoma State University			
Education and Human Resources	47.076	AA-5-64291	9,551
<i>Total National Science Foundation</i>			<u>9,551</u>
TOTAL FOR RESEARCH AND DEVELOPMENT CLUSTER			<u><u>9,551</u></u>
TOTAL EXPENDITURES OF FEDERAL AWARDS			<u><u>\$ 9,832,165</u></u>

See notes to schedule of expenditures of federal awards.

NOTES TO SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS

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

Year Ended June 30, 2017

NOTE A--BASIS OF PRESENTATION

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

NOTE B--SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

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

NOTE C--FEDERAL DIRECT STUDENT LOAN PROGRAM

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

NOTE D--SUBRECIPIENTS

During the year ended June 30, 2017, the University did not provide any federal awards to subrecipients.

SCHEDULE OF FINDINGS AND QUESTIONED COSTS

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

Year Ended June 30, 2017

Section I--Summary of Auditor's Results

Financial statements

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

Unmodified

Internal control over financial reporting:

- Material weakness(es) identified? yes no
- Significant deficiency(ies) identified? yes none reported

Noncompliance material to financial statements noted?

yes no

Federal Awards

Internal control over major federal programs:

- Material weakness(es) identified? yes no
- Significant deficiency(ies) identified? yes none reported

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

Unmodified

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

yes no

Identification of major federal programs:

Program

Student Financial Assistance Cluster

CFDA Number

*

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

Dollar threshold used to distinguish between type A and type B programs:

\$750,000

Auditee qualified as low-risk auditee?

yes no

SCHEDULE OF FINDINGS AND QUESTIONED COSTS--Continued

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

Year Ended June 30, 2017

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

None to report for the June 30, 2017 period.

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

Finding 2017-001: Special Tests and Provisions – Enrollment Reporting

Federal Program: CFDA # 84.063, 84.007, 84.033, 84.268 – Student Financial Assistance Cluster

Criteria: The University must complete the Enrollment Reporting roster file that is placed in their Student Aid Internet Gateway (SAIG) and return the file to the U.S. Department of Education (DOE) within 15 days. At a minimum, the College must receive the file every 60 days, update the file for changes in student status, report the date the enrollment status was effective, enter the new anticipated completion date and submit the changes back to DOE either electronically through the batch method or through the NSLDS website. (FPL, 34 CFR § 674.19; Pell, 34 CFR §690.83(b)(2); FFEL, 34 CFR § 682.610; and Direct Loan 34 CFR § 685.309).

Condition: In our withdrawal testing, in a sampling population of seven students, we noted one withdrawn student that did not have their enrollment status change reported to the NSLDS via the National Student Clearinghouse (NCS) within sixty days.

Questioned Costs: None

Cause and Effect: The Registrar and Financial Aid Office are responsible for reporting all students' enrollment status. The reporting errors were caused by lack of adherence to the University's policy for reporting unofficial student withdrawals through the proper channels at the University, and ultimately to the NCS. Untimely reporting of student enrollment status does not allow the Department of Education to properly track and monitor students, including initiation of the loan repayment process.

Recommendation: We recommend the institution monitor adherence to the procedures that need to be followed when a student unofficially withdraws from classes at the University. This will allow the University to report enrollment changes to the NSLDS within the appropriate period of sixty days from the date the institution determined the status change. It is recommended the University consider evaluating the procedure regarding reporting unofficial student withdrawals to the NSLDS and update the procedure as necessary to ensure compliance with enrollment reporting requirements.

Management's response: Upon review of the one student cited in the financial aid sample, we believe this was a result of human error. Procedures have been reviewed to ensure that the current policy in place confirms the timely reporting of all NSLDS data including students that completely withdraw from Northwestern Oklahoma State University.

SUMMARY SCHEDULE OF PRIOR AUDIT FINDINGS AND QUESTIONED COSTS

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

Year Ended June 30, 2017

No matters were reportable.