

**SOUTHWESTERN 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**



INDEPENDENT AUDITOR'S REPORT

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

Report on the Financial Statements

We have audited the accompanying financial statements of Southwestern 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 aggregate discretely presented component units, the Southwestern Oklahoma State University Foundation, Inc. and the Southwestern Pharmacy Alumni Foundation, Inc. Those financial statements were audited by other auditors, whose reports have been furnished to us, and our opinion, insofar as it relates to the amounts included for the aggregate discretely presented component units, is based solely on the reports 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 component units 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 reports of the other auditors, 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 and the combining financial statements of the University's discretely presented component units, are presented for purposes of additional analysis and are not a required part of the financial statements.

The combining financial statements of the University's discretely presented component units are the responsibility of management and were derived from and relate directly to the underlying accounting and other records used to prepare the financial statements. Such information has been subjected to the auditing procedures applied in the audit of the financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements or to the financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the combining financial statements of the University's discretely presented component units are fairly stated, in all material respects, in relation to the financial statements as a whole.

Management's discussion and analysis, as listed in the table of contents, has not been subjected to 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

SOUTHWESTERN OKLAHOMA STATE UNIVERSITY (A Department of The Regional University System of Oklahoma)

June 30, 2017

INTRODUCTION

Southwestern Oklahoma State University, a Department of the Regional University System of Oklahoma, (the "University") has a long history of providing outstanding service to our region and the State of Oklahoma. Widely known for an excellent School of Pharmacy and 14 other nationally accredited academic programs, we are dedicated to continued improvement. This improvement process is currently being driven by "The Focus is you" strategic plan.

The plan focuses on a select number of initiatives to keep moving the university forward. These include increasing student retention and graduation rates, improving employee compensation and job satisfaction, upgrading technology services, diversifying our revenue sources, and addressing the integration of our additional location at Sayre.

Our strategically focused budgeting process enabled the university to move forward with our initiatives during fiscal year 2017. The budget priorities in FY 2017 addressed strengthening our retention efforts and improving our resident life facilities. Additionally, we continue to expand on-line our RN to BSN program, strengthen the out-reach efforts of the School of Pharmacy, and review the needs of the region as it relates to the development of new areas of study.

Our investment in capital projects continued in FY 2017. Improvements in student housing are on-going with the renovation of Rogers Hall, as are improvements to faculty offices and classrooms with the third and final renovation project of the Chemistry, Physics and Pharmacy building. We also continue to add and renovate additional space to support the needs of our staff, undergraduate research, the fine arts, and athletics. Relocation of the Assessment Center and the University Press began early in FY 2018.

The discussion and analysis of the University's financial statements provides an overview of the University's financial activities for the fiscal year ending June 30, 2017, with selected comparative information for the year ended June 30, 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.

These financial statements include those of the University and its discretely presented component units, Southwestern Pharmacy Alumni Foundation, Inc. and Southwestern Oklahoma State University Foundation, Inc. A component unit is a legally separate entity associated with the primary organization. However, this discussion only covers the University.

MANAGEMENT'S DISCUSSION AND ANALYSIS

SOUTHWESTERN OKLAHOMA STATE UNIVERSITY
(A Department of The Regional University System of Oklahoma)

June 30, 2017

OVERVIEW OF FINANCIAL STATEMENTS AND FINANCIAL ANALYSIS

The statement of net position and statement of revenues, expenses, and changes in net position report the University's net position and how it has changed. Assets are presented in two major classifications, current and non-current assets. Current assets represent resources that are available to meet current operational needs. Non-current assets represent resources that are not available to meet current obligations. Cash and investments designated for construction or other capital projects are included in this category. The major component of this category is the University's investment in property, buildings, and equipment. The financial statements contain a summary of capital asset activity.

Liabilities are also separated into current and non-current classifications. Current liabilities are those obligations that are due within the current year and will be paid from current resources. Non-current liabilities are primarily made up of long-term debt. The financial statements provide detail related to Long-Term Liabilities.

Net position - the difference between assets and liabilities - 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.

MANAGEMENT'S DISCUSSION AND ANALYSIS

SOUTHWESTERN OKLAHOMA STATE UNIVERSITY
(A Department of The Regional University System of Oklahoma)

June 30, 2017

CONDENSED STATEMENT OF NET POSITION

A Condensed Statement of Net Position is prepared from the University's statement of net position and summarizes the assets, liabilities, and net position as of June 30, 2017. Comparative data for years ending June 30, 2016, is provided.

Schedule A
Condensed Statements of Net Assets
as of June 30, 2017 and 2016
(In Millions)

	2017	2016	Increase (Decrease)	Percent Change
Current Assets	\$ 30.8	\$ 20.2	\$ 10.6	52.5%
Noncurrent Assets				
Capital Assets, Net of Depreciation	73.7	74.2	\$ (.6)	(.8)%
Other	4.2	5.8	(1.6)	(5.5)%
Total Assets	<u>\$ 108.7</u>	<u>100.0</u>	<u>8.6</u>	<u>8.6%</u>
Deferred Outflows of Resources	<u>\$ 0.0</u>	<u>\$ 0.0</u>	<u>\$ (0.0)</u>	<u>(0.0)%</u>
Current Liabilities	5.9	5.3	.6	11.3%
Noncurrent Liabilities	25.8	23.6	2.4	10.2%
Total Liabilities	<u>\$ 31.7</u>	<u>\$ 28.9</u>	<u>3.6</u>	<u>12.5%</u>
Deferred Inflows of Resources	0.3	0.3	-	-
Net Position				
Investment in Capital Assets	45.4	49.0	3.6	7.3%
Restricted	15.1	8.3	6.9	84.1%
Unrestricted	16.2	13.5	2.8	20.9%
Total Net Position	<u>\$ 76.7</u>	<u>\$ 70.8</u>	<u>\$ 5.8</u>	<u>8.2%</u>

MANAGEMENT'S DISCUSSION AND ANALYSIS

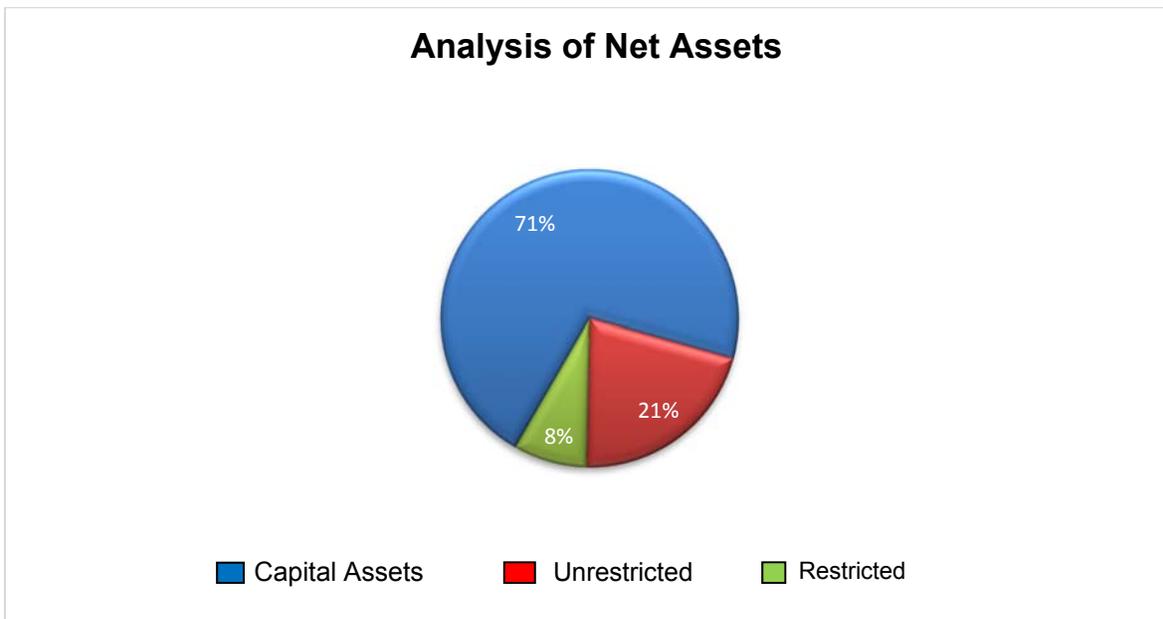
SOUTHWESTERN OKLAHOMA STATE UNIVERSITY (A Department of The Regional University System of Oklahoma)

June 30, 2017

ANALYSIS OF NET POSITION 2017

Current assets increased by \$10,630,536, due primarily to increased cash and cash equivalents because of increased enrollment and tuition and \$5,800,000 unspent bond proceeds at fiscal year-end. Net capital assets increased by \$5,818,046. This increase is due to increased enrollment and tuition, decreased operating expenses, and the construction in progress of the Rogers Hall renovation.

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



STATEMENT OF REVENUES, EXPENSES, AND CHANGES IN NET POSITION

The statement of revenues, expenses, and changes in net position presents the University's results of operation 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. Tuition and fees, sales of services and merchandise, and similar transactions are considered operating revenues, and all of the expenses required to provide these services are considered operating expenses. Non-operating revenue and expenses are characterized as non-exchange and include such items as gifts and contributions, investment income or expense, federal Pell grants, and most significantly, state appropriations.

MANAGEMENT'S DISCUSSION AND ANALYSIS

SOUTHWESTERN OKLAHOMA STATE UNIVERSITY
(A Department of The Regional University System of Oklahoma)

June 30, 2017

CONDENSED STATEMENTS OF REVENUES, EXPENSES, AND CHANGES IN NET POSITION

A Statement of Revenues, Expenses, and Changes in Net Position is prepared from the University's statement of revenues, expenses, and changes in net position.

Schedule B
Condensed Statements of Revenues, Expenses and Changes in Net Assets
Years Ended June 30, 2017 and 2016
(In Millions)

	2017	2016
Operating Revenue		
Student tuition and Fees	\$ 26.6	\$ 23.5
Federal, state and local grants and contracts	3.2	3.6
Auxiliary	7.1	7.0
Other	0.7	0.7
Total Operating Revenues	37.6	34.8
Operating Expenses		
Compensation and employee benefits	42.6	43.5
Contractual Services	4.0	3.1
Supplies and materials	3.6	4.0
Depreciation	4.2	4.1
Utilities	1.3	1.5
Communication expense	0.3	0.4
Scholarships and fellowships	5.5	5.0
Other Operating expense	2.9	2.9
Total Operating Expenses	64.4	64.6
Operating Income (Loss)	(26.8)	(29.8)
Nonoperating revenues (expenses)		
State appropriations	19.0	20.2
City sales tax revenue	0.7	0.7
Grant (Federal & State)	11.2	10.6
Investment income	0.2	0.2
Interest costs	(1.1)	(1.1)
Net Nonoperating Revenues	30.0	30.6
Income (loss) before other revenues, expenses, gains and losses	3.2	0.8
State appropriations restricted for capital purposes	1.2	1.2
Other	1.5	1.8
Change in Net Position	5.9	3.8
Net Position, Beginning of Year (after prior period adjustments)	70.8	67.0
Net Position, End of Year	\$ 76.7	\$ 70.8

MANAGEMENT'S DISCUSSION AND ANALYSIS

SOUTHWESTERN OKLAHOMA STATE UNIVERSITY (A Department of The Regional University System of Oklahoma)

June 30, 2017

Revenues 2017

Operating revenues include tuition and fees, certain federal, state, and local grants and contracts, and revenue generated by auxiliary units, including housing and food service. Non-operating revenues include state appropriations, investment income, and certain federal, state, and local grants and contracts.

Student tuition and fees, net of scholarships and allowances, are \$26.6 million, an increase of \$3.1 million over the previous year. The student full-time equivalent (FTE) enrollment for fiscal year 2017 and fiscal year 2016 was 5,354 and 4,676, respectively. This would indicate an FTE enrollment increase of 12.6%.

Operating Grants and Contracts activity is \$3.2 million, approximately \$.4 million less than the previous year. This reduction is a result of the final phase-out of the operation of the group homes for adjudicated youth. Significant federal grants, classified as non-operating revenue, are for Student Financial Aid and include Pell, Student Work Study, and Supplemental Education Opportunity Grants.

Auxiliary operations generated total revenues of \$7.1 million in fiscal year 2017 of which \$5.6 million is from housing and food services, as compared to fiscal year 2016 revenues of \$7 million, of which \$5.1 million is from housing and food services.

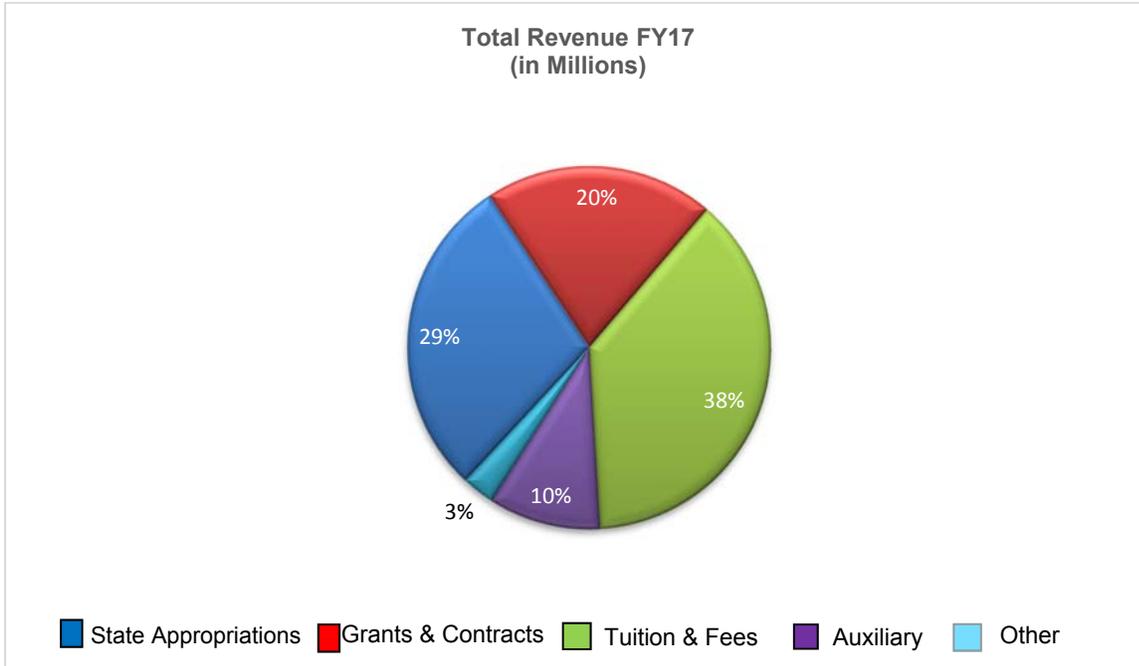
State appropriations for operations in fiscal year 2017 were \$19 million; state appropriations restricted for capital purposes, which comes from the Land Trust Reserves, was \$1.2 million; and OCIA on-behalf appropriations for payment of principal and interest is \$1.4 million. This amount no longer includes the Oklahoma Teachers Retirement System on-behalf contributions; these are reported at the RUSO level consolidation. State appropriations continued to decrease and were reduced by more than \$1 million due to state revenue failures during fiscal year 2017.

MANAGEMENT'S DISCUSSION AND ANALYSIS

SOUTHWESTERN OKLAHOMA STATE UNIVERSITY
(A Department of The Regional University System of Oklahoma)

June 30, 2017

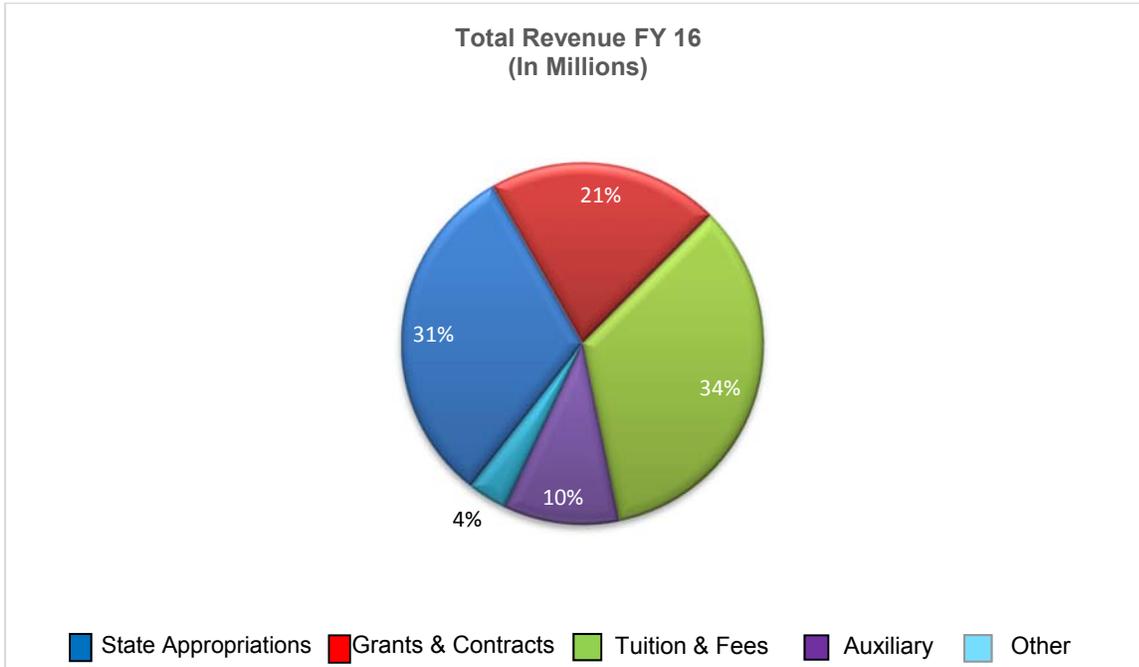
The following graphs represents sources and amounts of revenue.



MANAGEMENT'S DISCUSSION AND ANALYSIS

SOUTHWESTERN OKLAHOMA STATE UNIVERSITY
(A Department of The Regional University System of Oklahoma)

June 30, 2017



EXPENSES 2017

Operating expenses for the year are \$64.4 million, a decrease of \$.2 million.

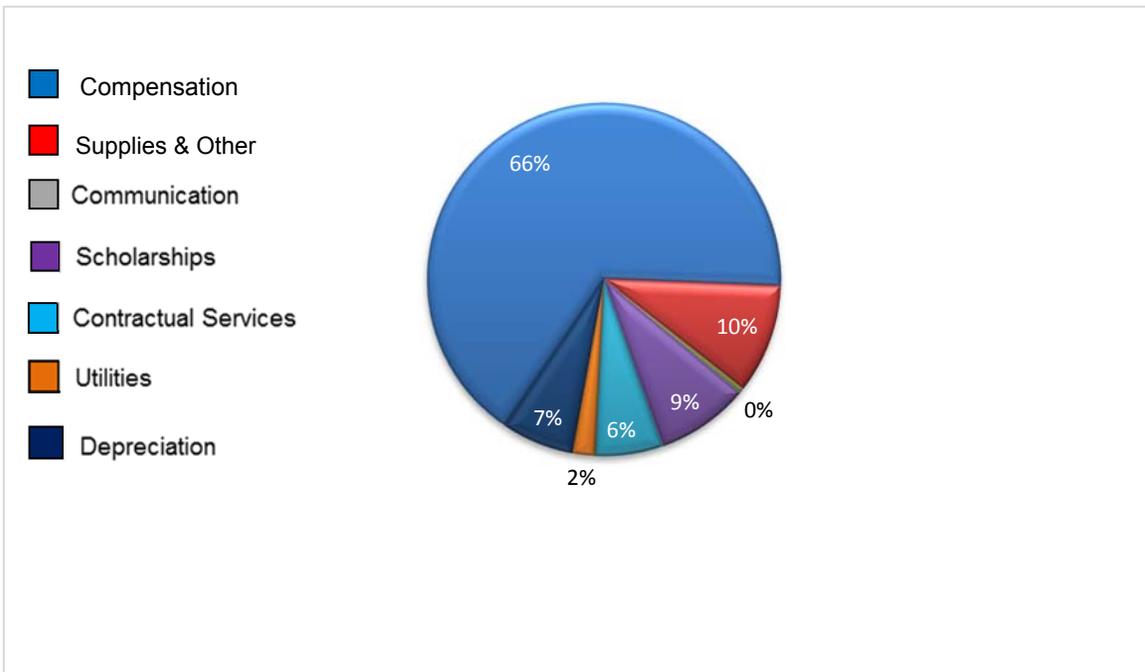
MANAGEMENT'S DISCUSSION AND ANALYSIS

SOUTHWESTERN OKLAHOMA STATE UNIVERSITY
(A Department of The Regional University System of Oklahoma)

June 30, 2017

The following are graphic representations of expenses during fiscal year 2017:

*FY 17 Expenses by Natural Classification
(In Millions)*

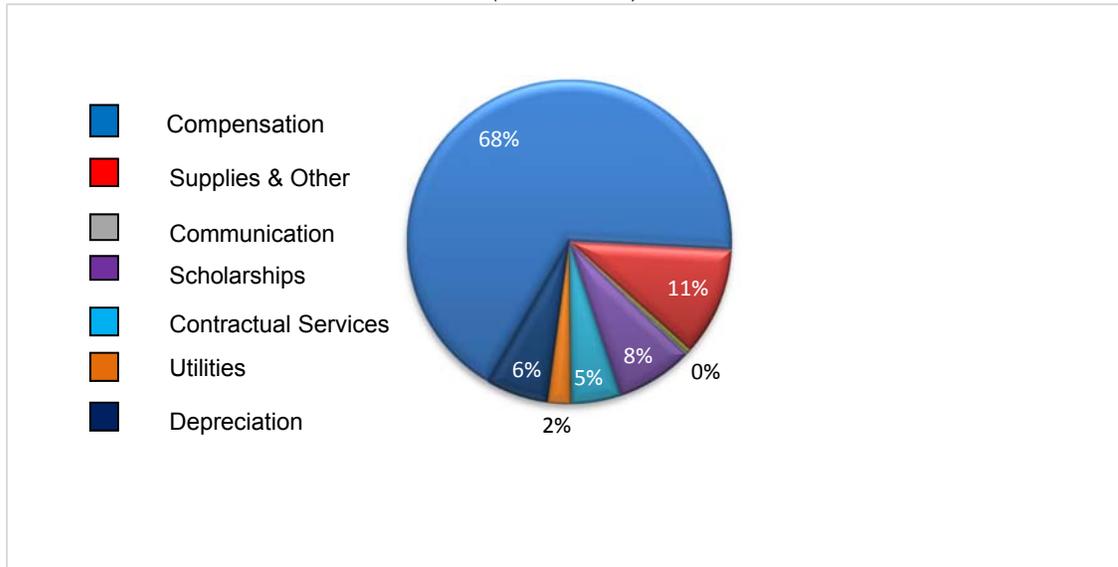


MANAGEMENT'S DISCUSSION AND ANALYSIS

SOUTHWESTERN OKLAHOMA STATE UNIVERSITY
(A Department of The Regional University System of Oklahoma)

June 30, 2017

*FY16 Expenses by Natural Classification
(In Millions)*



STATEMENT OF CASH FLOWS

The primary purpose of the Statement of Cash Flows is to provide information about the cash receipts and distributions 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.

This statement is a summary of the cash flows for the year ended June 30, 2017, compared to the year ended June 30, 2016, and is prepared from the Statement of Cash Flows.

MANAGEMENT'S DISCUSSION AND ANALYSIS

SOUTHWESTERN OKLAHOMA STATE UNIVERSITY
(A Department of The Regional University System of Oklahoma)

June 30, 2017

CONDENSED STATEMENT OF CASH FLOWS

Schedule C
Condensed Statements of Cash Flows
Years Ended June 30, 2017 and 2016
(In Thousands)

	2017	2016
Cash provided (used) by:		
Operating activities	\$ (23.2)	\$ (25.0)
Noncapital financing activities	30.9	31.7
Investing activities	.2	.8
Capital and related financing activities	.9	(9.3)
Net increase (decrease) in cash	\$ 8.8	\$ (1.8)
 Cash, beginning of the year	22.9	24.7
Cash, end of the year	\$ 31.7	\$ 22.9

MANAGEMENT'S DISCUSSION AND ANALYSIS

SOUTHWESTERN OKLAHOMA STATE UNIVERSITY (A Department of The Regional University System of Oklahoma)

June 30, 2017

CAPITAL ASSETS

At June 30, 2017, the University had approximately \$73.7 million invested in capital assets, net of accumulated depreciation of \$71.7 million. Depreciation charges totaled approximately \$4.2 million for the current fiscal year. This year's major addition to capital assets was the construction in progress for the renovation of Rogers Hall.

The University's fiscal-year 2018 capital budget calls for it to spend another \$5.3 million for capital projects, principally for the completion of the renovation of Rogers Hall and Chemistry, Physics, and Pharmacy. These projects are funded by student fees, master lease programs, and other sources.

At June 30, 2016, the University had approximately \$74.2 million invested in capital assets, net of accumulated depreciation of \$68.1 million. Depreciation charges totaled approximately \$4.1 million for the past fiscal year.

Details of balances of capital assets for the years ended June 30, 2017, and 2016 are shown below.

	June 30, (in Millions)	
	2017	2016
Land	\$ 1.1	\$ 1.1
Construction-in-progress	2.2	0.6
Infrastructure	0.6	0.7
Land improvements	0.6	0.7
Buildings	65.7	67.2
Furniture, fixtures, and equipment	1.9	2.2
Library materials	1.6	1.7
	<u>\$ 73.7</u>	<u>\$ 74.2</u>

MANAGEMENT'S DISCUSSION AND ANALYSIS

SOUTHWESTERN OKLAHOMA STATE UNIVERSITY (A Department of The Regional University System of Oklahoma)

June 30, 2017

DEBT

At June 30, 2017, the University had approximately \$27.2 million in debt outstanding compared to \$24.7 outstanding at June 30, 2016. The table below summarizes these amounts by type.

OUTSTANDING DEBT

	June 30, (in Millions)	
	2017	2016
OCIA Lease Obligations	\$ 7.7	\$ 8.7
ODFA Lease Obligations	19.5	16.0
	<u>\$ 27.2</u>	<u>\$ 24.7</u>

Southwestern is participating in the Master Lease program through the Oklahoma Development Finance Authority (ODFA) for \$2,000,000 for campus energy improvements; and \$1,000,000 for renovation at the Student Center. During 2011, there were two new bonds issued through ODFA: \$2,000,000 for improvements to renovate an unused dormitory to classrooms and \$13,000,000 for construction of the Weatherford Event Center. During fiscal year 2014, a master lease was added in the amount of \$4,610,000 for refinancing the Revenue Bond issued in 2004. Additionally, there was a \$2,000,000 master lease added for renovation of Black Kettle Hall. During 2015, the bond issue for the renovation of the Student Center was refinanced. During fiscal year 2017, a \$1,141,000 master lease was issued for refinancing the bond issue for the campus energy improvements. Additionally, a \$3,678,000 master lease for Rogers Hall and a \$1,636,000 master lease for the Chemistry, Physics, and Pharmacy building were added.

During 2006, OCIA issued lease purchase obligations of about \$11,640,758 for capital improvements. This is a 25-year lease agreement and includes several capital improvement projects. In August 2010, OCIA issued the 2010A and 2010B series bonds to partially refund the 2005F revenue bonds; therefore, no lease principal or interest payments were made on behalf of the University during 2011.

In April 2014, OCIA issued the 2014A series bonds to partially refund the 2005F bonds.

The OCIA lease obligations provide that the University is to make specified monthly payments to OCIA for a bond issue in 2014. During the fiscal year ended June 30, 2017, lease principal and interest payments were made on behalf of the University totaling \$1,411,606. These on-behalf amounts have been recorded as OCIA on-behalf appropriations in the University's statement of revenues, expenses, and changes in net position.

MANAGEMENT'S DISCUSSION AND ANALYSIS

SOUTHWESTERN OKLAHOMA STATE UNIVERSITY (A Department of The Regional University System of Oklahoma)

June 30, 2017

More detailed information about the University's outstanding debt is presented in notes to financial statements.

DETERMINING WHETHER CERTAIN ORGANIZATIONS ARE COMPONENT UNITS

The Governmental Accounting Standards Board (GASB) published GASB Statement No. 39, *Determining Whether Certain Organizations Are Component Units*, which became effective June 2003, and which requires Universities to include in their financial statements component unit financial information.

Southwestern Oklahoma State University Foundation, Inc. and the Southwestern Pharmacy Alumni Foundation, Inc. are component units of Southwestern Oklahoma State University, and the most recent financial statements of the Foundations are included in this presentation.

ECONOMIC OUTLOOK

The University continued its implementation of the strategic plan with the strong results reflected in our financial performance. The combination of revenue growth and expenditure controls in the future will allow us to continue our improvements despite a continuing serious decline in projected state support. We expect to see slight enrollment and tuition rate increases in the next couple of years with selective academic program expansion, especially in our on-line programs. This continued diversification of our revenue base is an important part of stabilizing the enrollment cycle and becomes increasingly more important with the actual reduction in state allocations in FY17 and our forecast of weak appropriation support for FY 18.

The tuition and fee rates and our overall cost of attendance continue to be very competitive with our Oklahoma and IPED peer institutions.

STATEMENT OF NET POSITION

SOUTHWESTERN OKLAHOMA STATE UNIVERSITY
(A Department of the Regional University System of Oklahoma)

June 30, 2017

ASSETS

CURRENT ASSETS

Cash and cash equivalents	\$	22,210,518
Restricted cash and cash equivalents		6,054,441
Accounts receivable, net		2,215,026
Loans receivable, current portion net of allowance for uncollectibles		230,905
Interest receivable		19,654
Inventories		136,300
		<hr/>
TOTAL CURRENT ASSETS		30,866,844

NONCURRENT ASSETS

Restricted cash and cash equivalents		3,513,105
Loans receivable, noncurrent portion		140,000
Funds held by others		536,336
Capital assets, net of accumulated depreciation		73,645,590
		<hr/>
TOTAL NONCURRENT ASSETS		77,835,031
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TOTAL ASSETS	\$	<u>108,701,875</u>

(Continued)

STATEMENT OF NET POSITION--Continued

SOUTHWESTERN OKLAHOMA STATE UNIVERSITY
(A Department of the Regional University System of Oklahoma)

June 30, 2017

LIABILITIES AND NET ASSETS

CURRENT LIABILITIES

Accounts payable	\$ 1,043,457
Accrued payroll	445,417
Accrued interest payable	36,647
Unearned revenue	154,000
Deposits held in custody for others	378,917
Current portion of non current liabilities	<u>3,853,109</u>
TOTAL CURRENT LIABILITIES	5,911,547

NONCURRENT LIABILITIES

Unearned revenue from long-term contracts	140,000
Accrued compensated absences	691,729
Lease obligations payable to state agency	<u>25,001,568</u>
TOTAL NONCURRENT LIABILITIES	<u>25,833,297</u>

TOTAL LIABILITIES \$ 31,744,844

DEFERRED INFLOWS OF RESOURCES

Deferred gain on OCIA lease restructure	<u>\$ 264,000</u>
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NET POSITION

Invested in capital assets, net of related debt	\$ 45,376,320
Restricted:	
Expendable:	
Scholarships, instruction and other	6,052,849
Capital projects	9,061,791
Unrestricted	<u>16,202,071</u>
TOTAL NET POSITION	<u>\$ 76,693,031</u>

See notes to financial statements.

STATEMENTS OF REVENUES, EXPENSES, AND CHANGES IN NET POSITION

SOUTHWESTERN OKLAHOMA STATE UNIVERSITY

(A Department of the Regional University System of Oklahoma)

Year Ended June 30, 2017

OPERATING REVENUES

Student tuition and fees, net of scholarship discounts and allowances of \$16,350,390	\$ 26,574,521
Federal grants and contracts	1,757,851
State and local grants and contracts	1,484,910
Housing and food service, net of discounts and allowances of \$327,008	5,574,110
Other auxiliary operations	1,502,524
Other operating revenues	<u>696,378</u>
TOTAL OPERATING REVENUES	37,590,294

OPERATING EXPENSES

Compensation and employee benefits	42,628,475
Contractual services	4,006,947
Supplies and materials	3,606,965
Depreciation	4,236,493
Utilities	1,323,088
Communication expense	244,425
Scholarships and fellowships	5,529,166
Other operating expenses	<u>2,851,237</u>
TOTAL OPERATING EXPENSES	<u>64,426,796</u>

OPERATING LOSS

(26,836,502)

NONOPERATING REVENUES (EXPENSES)

State appropriations	19,046,947
City sales tax revenue	710,870
Federal grants and contracts	6,993,117
State and local grants and contracts	4,172,730
Investment income	213,338
Interest expense	(1,057,933)
Disposal of assets	(26,354)
Bond costs	<u>(67,262)</u>

NET NONOPERATING REVENUES 29,985,453

Income before other revenues, expenses, gains, and losses	3,148,951
Capital grants and gifts	52,806
State appropriations restricted for capital purposes	1,204,683
OCIA on-behalf appropriations	<u>1,411,606</u>
CHANGE IN NET POSITION	5,818,046
NET POSITION, BEGINNING OF YEAR	<u>70,874,985</u>
NET POSITION, END OF YEAR	<u>\$ 76,693,031</u>

See notes to financial statements.

STATEMENT OF CASH FLOWS

SOUTHWESTERN OKLAHOMA STATE UNIVERSITY
(A Department of the Regional University System of Oklahoma)

	Year Ended June 30, <u>2017</u>
CASH FLOWS FROM OPERATING ACTIVITIES	
Tuition and fees	\$ 26,325,872
Grants and contracts	3,105,037
Housing and food service and other receipts	7,733,785
Payments to employees for salaries and benefits	(42,723,497)
Payments to suppliers	<u>(17,620,415)</u>
NET CASH USED IN OPERATING ACTIVITIES	(23,179,218)
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES	
State appropriations	19,046,947
Grants and contracts	11,218,653
City sales tax received	<u>710,870</u>
NET CASH PROVIDED BY NONCAPITAL FINANCING ACTIVITIES	30,976,470
CASH FLOWS FROM INVESTING ACTIVITIES	
Interest income received	<u>211,429</u>
NET CASH PROVIDED BY (USED IN) INVESTING ACTIVITIES	211,429
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES	
Cash paid for capital assets	(3,672,977)
Capital appropriations received	1,204,683
Cash from bond proceeds	7,089,727
Debt issue costs	(67,262)
Repayment of capital debt and leases	(2,985,670)
Interest paid on capital debt and leases	<u>(708,280)</u>
NET CASH PROVIDED BY (USED IN) CAPITAL AND RELATED FINANCING ACTIVITIES	<u>860,221</u>
NET INCREASE IN CASH AND CASH EQUIVALENTS	8,868,902
CASH AND CASH EQUIVALENTS, BEGINNING OF YEAR	<u>22,909,162</u>
CASH AND CASH EQUIVALENTS, END OF YEAR	<u><u>\$ 31,778,064</u></u>

(Continued)

STATEMENTS OF CASH FLOWS--Continued

SOUTHWESTERN OKLAHOMA STATE UNIVERSITY
(A Department of the Regional University System of Oklahoma)

	Year Ended June 30, <u>2017</u>
RECONCILIATION OF OPERATING LOSS TO NET CASH USED IN OPERATING ACTIVITIES	
Operating loss	\$ (26,836,502)
Adjustments to reconcile operating loss to net cash used by operating activities:	
Depreciation expense	4,236,493
Changes in assets and liabilities:	
Accounts receivable	(234,386)
Notes receivable	(168,214)
Inventories	13,970
Funds held by others	(25,683)
Accounts payable and accrued payroll	(72,152)
Deposits held for others	74,631
Unearned revenue	(23,000)
Compensated absences	<u>(144,375)</u>
NET CASH USED IN OPERATING ACTIVITIES	<u>\$ (23,179,218)</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>\$ 398,860</u>
Principal on capital debt paid by State Agency on behalf of the University	<u>\$ 1,012,746</u>
RECONCILIATION OF CASH AND CASH EQUIVALENTS TO STATEMENTS OF NET ASSETS	
Current assets:	
Cash and cash equivalents	22,210,518
Restricted cash and cash equivalents	<u>6,054,441</u>
Total current cash and cash equivalents	28,264,959
Noncurrent restricted cash and cash equivalents	<u>3,513,105</u>
TOTAL CASH AND CASH EQUIVALENTS	<u>\$ 31,778,064</u>

See notes to financial statements.

STATEMENT OF FIDUCIARY NET POSITION

SOUTHWESTERN OKLAHOMA STATE UNIVERSITY
(A Department of the Regional University System of Oklahoma)

June 30, 2017

	FIDUCIARY FUNDS
ASSETS	
Cash	<u>\$ 803,047</u>
LIABILITIES	
Due to OKHEEI	<u>\$ 803,047</u>

See notes to financial statements.

AGGREGATE DISCRETELY PRESENTED COMPONENT UNITS
 COMBINED STATEMENT OF NET POSITION

SOUTHWESTERN OKLAHOMA STATE UNIVERSITY
 (A Department of the Regional University System of Oklahoma)

December 31, 2016 (Fiscal Year End of Component Units)

ASSETS

Cash and cash equivalents	\$ 567,459
Pledges receivable	5,500
Interest receivable	14,675
Contributions receivable	100,707
Investments	25,008,955
Cash value, life insurance	114,413
Beneficial interest in perpetual trust	1,214,956
Property and equipment	654,061
Other assets	<u>150</u>

TOTAL ASSETS \$ 27,680,876

LIABILITIES

Accounts payable	7,410
Payable to related party	<u>44,692</u>

TOTAL LIABILITIES 52,102

NET POSITION

Unrestricted	4,612,646
Expendable	4,766,318
Restricted nonexpendable	<u>18,249,810</u>

TOTAL NET POSITION 27,628,774

TOTAL LIABILITIES AND NET POSITION \$ 27,680,876

See notes to financial statements.

AGGREGATE DISCRETELY PRESENTED COMPONENT UNITS
 COMBINING STATEMENT OF ACTIVITIES AND CHANGES IN NET POSITION

SOUTHWESTERN OKLAHOMA STATE UNIVERSITY
 (A Department of the Regional University System of Oklahoma)
 Year Ended December 31, 2016 (Fiscal Year End of Component Units)

	<u>Total</u>
SUPPORT, REVENUES, GAINS AND OTHER ADDITIONS	
Contributions	\$ 846,278
In-kind contributions	652,496
Sponsorship revenue	200,000
Program service revenue	337,120
Interest and dividend income	18,015
Net appreciation on investments	872,660
Net appreciation on perpetual trust	172,417
Rental income	70,000
Other income	70,585
Other investment income	529,045
Continuing education	<u>42,308</u>
TOTAL SUPPORT, REVENUES, GAINS, AND OTHER ADDITIONS	3,810,924
EXPENSES	
Program services for university	1,655,461
Supporting services:	
Management and general	573,940
Fundraising	195,396
Continuing education expenses	32,563
Scholarships and grants	143,600
School of Pharmacy	<u>32,457</u>
TOTAL EXPENSES	<u>2,633,417</u>
NET INCREASE (DECREASE) IN NET POSITION	1,177,507
NET POSITION, BEGINNING OF YEAR	<u>26,451,267</u>
NET POSITION, END OF YEAR	<u>\$ 27,628,774</u>

See notes to financial statements.

NOTES TO FINANCIAL STATEMENTS

SOUTHWESTERN 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: Southwestern Oklahoma State University (the "University") is a regional University operating under the jurisdiction of the Regional University System of Oklahoma and the Oklahoma State Regents for Higher Education.

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

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

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

Discretely Presented Component Units: Southwestern Oklahoma State University Foundation, Inc. (the "University Foundation") and the Southwestern Pharmacy Alumni Foundation, Inc. (the "Pharmacy Foundation") are component units of the University under GASB 39 that should be discretely presented with the financial statements of the University. The University Foundation and the Pharmacy Foundation have a fiscal year ending December 31. The University is the beneficiary of the University Foundation and the Pharmacy Foundation, separate legal entities with their own Boards of Trustees. The University Foundation is organized for the benefit of the University and its faculty, student body, and programs. The University Foundation provides scholarships and support and enhances the further development of the University. The Pharmacy Foundation was formed to provide support for the School of Pharmacy at the University. The Pharmacy Foundation gives scholarships and makes loans available to pharmacy students. The Pharmacy Foundation also provides research grants to faculty and students.

NOTES TO FINANCIAL STATEMENTS--Continued

SOUTHWESTERN 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; a statement of revenues, expenses, and changes in net position, with separate presentation for operating and non-operating revenues and expenses; and a statement of cash flows using the direct method.

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

Cash Equivalents: For purposes of the statements 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.

Accounts Receivable: Accounts receivable consist 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 grant and contracts. Accounts receivable are recorded net of estimated uncollectible amounts.

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

NOTES TO FINANCIAL STATEMENTS--Continued

SOUTHWESTERN OKLAHOMA STATE UNIVERSITY
(A Department of the Regional University System of Oklahoma)

June 30, 2017

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

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

Capital Assets: Capital assets are recorded at cost at the date of acquisition, or fair market value at the date of donation in the case of gifts. For equipment, the University's capitalization policy includes all items with a unit cost of \$2,500 or more and an estimated useful life of greater than one year. Renovations to buildings, infrastructure, and land improvements that significantly increase the value or extend the useful life of the structure are capitalized. Routine repairs and maintenance are charged to operating expense in the year in which the expense was incurred.

Depreciation is computed using the straight-line method over the estimated useful lives of the assets, generally 40 to 60 years for buildings, 20 to 30 years for infrastructure and land improvements, and 5 to 10 years for library materials and equipment.

Unearned Revenue: Deferred 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 and (2) estimated amounts for accrued compensated absences and other liabilities that will not be paid within the next fiscal year.

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

Invested in capital assets, net of related debt: This represents the University's total investment in capital assets, net of outstanding debt obligations related to those capital assets. To the extent debt has been incurred but not yet expended for capital assets, such amounts are not included as a component of invested in capital assets, net of related debt.

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

NOTES TO FINANCIAL STATEMENTS--Continued

SOUTHWESTERN OKLAHOMA STATE UNIVERSITY
(A Department of the Regional University System of Oklahoma)

June 30, 2017

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

Unrestricted net position: Unrestricted net position represent 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 non-operating 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) certain federal, state, or local grants and contracts; and (4) interest on institutional student loans.

Non-operating revenues: Non-operating revenues include activities that have the characteristics of non-exchange transactions, such as gifts and contributions, and other revenue sources that are defined as non-operating 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, certain governmental and other pass-through grants, and investment income.

Scholarship Discounts and Allowances: Student tuition and fee revenues and certain other revenues from students are reported net of scholarship discounts and allowances in the statements of revenues, expenses, and changes in net position.

NOTES TO FINANCIAL STATEMENTS--Continued

SOUTHWESTERN OKLAHOMA STATE UNIVERSITY
(A Department of the Regional University System of Oklahoma)

June 30, 2017

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

Certain governmental grants, such as Pell grants and other federal, state, or nongovernmental programs, are recorded as non-operating 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. 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.

Sales Tax Revenue: The University receives a 1% allocation of the City of Weatherford's sales tax revenue, which is restricted to pay against the bonds attributable to the Event Center. The City of Weatherford's agreement with the University expires in 2019. Revenues are recognized when collected.

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.

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 were comprised of deferred gains on capital lease restructure.

NOTE B--DEPOSITS AND INVESTMENTS

Deposits and investments are presented in the June 30, 2017 financial statements as follows:

Statement of Net Assets	
Cash and cash equivalents	\$22,210,518
Restricted cash and cash equivalents	9,567,546
Statement of Fiduciary Net Assets	<u>803,047</u>
Total Deposits and Investments	<u><u>\$32,581,111</u></u>

NOTES TO FINANCIAL STATEMENTS--Continued

SOUTHWESTERN OKLAHOMA STATE UNIVERSITY (A Department of the Regional University System of Oklahoma)

June 30, 2017

NOTE B--DEPOSITS AND INVESTMENTS--Continued

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.

Some deposits with the OST are placed in the OST's internal investment pool, *OK INVEST*. *OK INVEST* pools the resources of all state funds and agencies and invests them in (a) U.S. treasury securities explicitly backed by the full faith and credit of the U.S. government; (b) U.S. agency securities which carry an implicit guarantee of the full faith and credit of the U.S. government; (c) money market mutual funds which participates in investments, either directly or indirectly, in securities issued by the U.S. treasury and/or agency and repurchase agreements relating to such securities; and (d) investments related to tri-party repurchase agreements which are collateralized at 102% and, whereby, the collateral is held by a third party in the name of the OST; (e) collateralized certificates of deposit; (f) commercial paper; (g) obligations of state and local governments; and (h) foreign bonds.

At June 30, 2017, the carrying amount of all University cash and equivalents totaled \$32,581,111 of which \$803,047 represents amounts held in agency funds. This amount consisted of deposits with the OST (\$25,913,362), deposits with financial institutions and money market funds (\$6,624,874), and change funds (\$42,875). Included in the money market funds is \$5,800,000 master lease proceeds restricted for the use of capital improvements. Of funds on deposit with the OST, amounts invested in *OK INVEST* total \$13,751,271 in 2017.

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

NOTES TO FINANCIAL STATEMENTS--Continued

SOUTHWESTERN OKLAHOMA STATE UNIVERSITY (A Department of the Regional University System of Oklahoma)

June 30, 2017

NOTE B--DEPOSITS AND INVESTMENTS--Continued

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

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

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

Investments: *Investment credit risk* is the risk that an issuer or other counterparty to an investment will not fulfill its obligations. Generally, the University's investments are managed by the State Treasurer. In accordance with state statutes, the State Treasurer may only purchase and invest in (a) obligations of the United States government, its agencies, and instrumentalities; (b) prime banker's acceptances; (c) investment grade obligations of state and local governments; (d) money market funds; (e) collateralized or insured certificates of deposits;

NOTES TO FINANCIAL STATEMENTS--Continued

SOUTHWESTERN OKLAHOMA STATE UNIVERSITY
(A Department of the Regional University System of Oklahoma)

June 30, 2017

NOTE B--DEPOSITS AND INVESTMENTS--Continued

(f) negotiable certificates of deposits; (g) prime commercial paper; and (h) repurchase agreements.

Interest rate risk is the risk that changes in interest rates will adversely affect the fair value of an investment. Investments that are held for longer periods of time are subject to increased risk of adverse interest changes. Neither the University nor state statutes limit investment maturities as a means of managing exposure to fair value losses arising from increasing interest rates; however, the OST Investment policy limits the average maturity on its portfolio to four (4) years, with certain individual securities having more restrictive limits as defined in the policy. *Concentration of credit risk* is the risk of loss attributed to the magnitude of the University's investment in a single issuer. Neither the University's investment policy nor state statutes place limits on amounts that can be invested in any one issuer; however, the OST Investment Policy states that, with the exception of U.S. Treasury securities, no more than 50% of the State's total funds may be invested in a single security type or with a single financial institution, with diversification percentages being more restrictive on individual securities. *Custodial credit risk* for investments is the risk that, in the event of failure of the counterparty, the University will not be able to recover the value of its investments or collateral securities in the possession of an outside party. As of June 30, 2017, none of the University's investments were subject to custodial credit risk.

Bond fund cash and investments: Certain non-pooled cash and investments are restricted in purpose by policies incorporated in applicable bond indentures. *Credit risk* policy generally restricts investing to cash, investments fully insured by the FDIC, and U.S. government and agency securities or mutual funds investing in these types of securities. There may be some variance among the investments authorized by the specific bond indentures of University bond issues. The OST and/or a trustee bank generally provide the management of restricted, non-pooled investments. *Custodial credit risk* is not addressed by bond indentures. *Interest rate risk* in bond indentures provides that investments mature in no more than six to sixty months depending on the purpose of the funds and the requirements of the account in which the funds are deposited (i.e., construction, reserve, operations and maintenance, etc.). *Concentration of credit risk* is not addressed.

NOTES TO FINANCIAL STATEMENTS--Continued

SOUTHWESTERN OKLAHOMA STATE UNIVERSITY
(A Department of the Regional University System of Oklahoma)

June 30, 2017

NOTE C--ACCOUNTS RECEIVABLE

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

Student tuition and fees	\$ 2,232,571
Auxiliary enterprises and other operating activities	738,181
Federal, state, and private grants and contracts	<u>335,236</u>
	3,305,988
Less: allowance for doubtful accounts	<u>(1,090,962)</u>
NET ACCOUNTS RECEIVABLE	<u>\$ 2,215,026</u>

NOTE D--LOANS RECEIVABLE

The loans receivable balance at June 30, 2017 consists of sponsorships for the University's Event Center and Athletic Facilities and University funds loaned to students. The University does not participate in the Perkins Loan Program. The University has provided an allowance for uncollectible loans, which in management's opinion, is sufficient to absorb loans that will ultimately be written off.

At June 30, 2017, loans receivable consisted of the following:

Loans receivable	\$ 611,355
Less: allowance for uncollectible loans	<u>(240,450)</u>
NET LOANS RECEIVABLE	<u>\$ 370,905</u>

NOTES TO FINANCIAL STATEMENTS--Continued

SOUTHWESTERN OKLAHOMA STATE UNIVERSITY
(A Department of the Regional University System of Oklahoma)

June 30, 2017

NOTE E--CAPITAL ASSETS

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

	June 30, 2016	Additions	Transfers	Disposals	June 30, 2017
Capital assets not being depreciated					
Land	\$ 1,089,528	\$ -	\$ -	\$ (1,180)	\$ 1,088,348
Construction in progress	577,656	1,995,873	(353,919)	-	2,219,610
Total assets not being depreciated	1,667,184	1,995,873	(353,919)	(1,180)	3,307,958
Other Capital Assets					
Non-major infrastructure-networks	1,747,133	-	-	-	1,747,133
Land improvements	1,896,682	24,560	-	-	1,921,242
Buildings	104,089,518	364,414	353,919	(36,287)	104,771,564
Furniture, fixtures and equipment	15,661,498	706,297	-	(164,000)	16,203,795
Library materials	17,269,441	581,833	-	(491,771)	17,359,503
Total cost of other capital assets	140,664,272	1,677,104	353,919	(692,058)	142,003,237
Less: accumulated depreciation for					
Non-major infrastructure networks	(1,014,657)	(56,343)	-	-	(1,071,000)
Land improvements	(1,214,376)	(93,347)	-	-	(1,307,723)
Buildings	(36,754,771)	(2,498,335)	-	11,113	(39,241,993)
Furniture, fixtures and equipment	(13,495,965)	(941,775)	-	164,000	(14,273,740)
Library materials	(15,616,227)	(646,693)	-	491,771	(15,771,149)
Total accumulated depreciation	(68,095,996)	(4,236,493)	-	666,884	(71,665,605)
Other capital assets, net	\$ 72,568,276	\$ (2,559,389)	\$ 353,919	\$ (25,174)	\$ 70,337,632
Capital assets summary:					
Capital assets not being depreciated	\$ 1,667,184	\$ 1,995,873	\$ (353,919)	\$ (1,180)	\$ 3,307,958
Other capital assets, at cost	140,664,272	1,677,104	353,919	(692,058)	142,003,237
Total cost of capital assets	142,331,456	3,672,977	-	(693,238)	145,311,195
Less accumulated depreciation	(68,095,996)	(4,236,493)	-	666,884	(71,665,605)
Capital assets, net	\$ 74,235,460	\$ (563,516)	\$ -	\$ (26,354)	\$ 73,645,590

At June 30, 2017, the cost and related accumulated depreciation of assets held under capital lease obligations were \$36,953,484 and \$10,775,475, respectively.

The University maintains various collection of inexhaustible assets for which no value can be determined. Such collections include works of art, historical treasures, and literature.

NOTES TO FINANCIAL STATEMENTS--Continued

SOUTHWESTERN OKLAHOMA STATE UNIVERSITY
(A Department of the Regional University System of Oklahoma)

June 30, 2017

NOTE F--LONG-TERM LIABILITIES

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

	Balance June 30, 2016	Additions	Reductions	Balance June 30, 2017	Amounts due within one year
Bonds and Capital Leases					
OCIA lease obligations	\$ 8,744,913	\$ -	\$ (1,012,746)	\$ 7,732,167	\$ 1,069,953
ODFA master lease obligations	15,978,836	6,455,000	(2,985,670)	19,448,166	1,933,749
Premium on lease obligations	229,723	634,727	(39,513)	824,937	-
TOTAL BONDS AND CAPITAL LEASES	<u>24,953,472</u>	<u>7,089,727</u>	<u>(4,037,929)</u>	<u>28,005,270</u>	<u>3,003,702</u>
Other liabilities					
Accrued compensated absences	1,685,511	673,285	(817,660)	1,541,136	849,407
TOTAL OTHER LIABILITIES	<u>1,685,511</u>	<u>673,285</u>	<u>(817,660)</u>	<u>1,541,136</u>	<u>849,407</u>
TOTAL LONG-TERM LIABILITIES	<u>\$ 26,638,983</u>	<u>\$ 7,763,012</u>	<u>\$ (4,855,589)</u>	<u>\$ 29,546,406</u>	<u>\$ 3,853,109</u>

Capital Lease Obligations:

Oklahoma Capital Improvement Authority Lease Obligations

In September 1999, the Oklahoma Capital Improvement Authority (OCIA) issued its OCIA Bond Issues, which was refinanced by Bond Issue Series 2014B. Of the total bond indebtedness, the State Regents for Higher Education allocated \$1,200,000 to the University. Concurrently with the allocation, the University entered into four individual lease agreements with OCIA, representing the four individual projects 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 agreements, ranging from 4 to 20 years. The proceeds of the bonds and subsequent leases are to provide for capital improvements at the University.

In April 2014, the University's 2005F lease agreement with the OCIA was restructured through a partial refunding of OCIA's 2005F bond debt; OCIA issued one new bond, Series 2014A. OCIA issued this new debt to reduce the interest paid on this bond. The University has recorded a deferred inflow of \$329,586, which will be amortized over the life of the bond. As of June 30, 2017, the unamortized cost totaled \$264,000.

During the year ended June 30, 2017, the State of Oklahoma made lease principal and interest payments to OCIA totaling \$1,411,606 on behalf of the University. These on-behalf payments have been recorded as restricted state appropriations in the statements of revenues, expenses, and changes in net position.

NOTES TO FINANCIAL STATEMENTS--Continued

SOUTHWESTERN OKLAHOMA STATE UNIVERSITY
(A Department of the Regional University System of Oklahoma)

June 30, 2017

NOTE F--LONG-TERM LIABILITIES--Continued

Capital Lease Obligations--Continued:

Oklahoma Development Finance Authority Master Lease Program

In May 2005, the ODFA issued its ODFA Master Lease Revenue Bonds, Series 2005B. Of the total bond indebtedness, the State Regents for Higher Education allocated \$1,000,000 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 31, 2025. The proceeds of the bonds and subsequent leases are to provide for capital improvements to the University. In 2015, the ODFA issued Bond Series 2015B that refunded the outstanding balance of the 2005B Series. Concurrent 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 June 1, 2025. The remaining lease obligation is \$329,833 at June 30, 2017.

In May 2007, the ODFA issued its ODFA Master Lease Revenue Bonds, Series 2007A. Of the total bond indebtedness, the State Regents for Higher Education allocated \$2,023,000 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 payment to ODFA over the respective terms of the agreement, which is through June 1, 2027. The proceeds of the bonds and subsequent leases are to provide for capital improvements to the University. In 2017, the ODFA issued Bond Series 2017C that refunded the outstanding balance of the 2007A Series. ODFA issued this new debt to reduce the interest paid on this bond. Concurrent with the allocation, the University entered into a lease agreement with ODFA for the project being funded by the ODFA bonds. The difference between the reacquisition price of the new debt and the carrying value of the old debt is \$3,341. Due to the de minimis amount, it was recorded as an offset to bond costs. 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, 2027. The bond bears interest at variable rates ranging from 2.0% to 4.0%. The remaining lease obligation is \$1,133,417 at June 30, 2017.

In September 2010, the ODFA issued its ODFA Master Lease Revenue Bonds, Series 2010A. Of the total bond indebtedness, the State Regents for Higher Education allocated \$2,002,000 to the University. The lease agreement provides for the University to make specified monthly payment to ODFA over the respective terms of the agreement, which is through June 1, 2025. The proceeds of the bonds and subsequent leases are to provide for capital improvements to the University. The remaining lease obligation payable pursuant to this capital lease obligation is \$1,170,833 at June 30, 2017.

NOTES TO FINANCIAL STATEMENTS--Continued

SOUTHWESTERN OKLAHOMA STATE UNIVERSITY
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NOTE F--LONG-TERM LIABILITIES--Continued

Capital Lease Obligations--Continued:

Oklahoma Development Finance Authority Master Lease Program--Continued

In December 2010, the ODFA issued its ODFA Master Lease Revenue Bonds, Series 2010D. Of the total bond indebtedness, the State Regents for Higher Education allocated \$13,110,000 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 November 15, 2030. The proceeds of the bonds and subsequent leases are to provide for capital improvements to the University. The remaining lease obligation payable pursuant to this capital lease obligation is \$6,567,917 at June 30, 2017.

In December 2013, the ODFA issued its ODFA Master Lease Revenue Bonds, Series 2013B. Of the total bond indebtedness, the State Regents for Higher Education allocated \$4,610,000 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 payment to ODFA over the respective terms of the agreement, which is through May 15, 2024. The proceeds of the bonds and subsequent leases are to retire the Revenue Bond issued in 2004 to construct the Wellness Center. The remaining lease obligation payable pursuant to this capital lease obligation is \$3,294,750 at June 30, 2017.

In March 2014, the ODFA issued its ODFA Master Lease Revenue Bonds, Series 2014C. Of the total bond indebtedness, the State Regents for Higher Education allocated \$1,972,000 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 payment to ODFA over the respective terms of the agreement, which is through May 15, 2034. The proceeds of the bonds and subsequent leases are to provide for capital improvements to the University. The remaining lease obligation payable pursuant to this capital lease obligation is \$1,751,500 at June 30, 2017.

In September 2016, the ODFA issued its ODFA Master Lease Revenue Bonds, Series 2016F. Of the total bond indebtedness, the State Regents for Higher Education allocated \$3,678,000 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 payment to ODFA over the respective terms of the agreement, which is through May 15, 2036. The bond bears interest at variable rates ranging from 0.55% to 4.0%. The proceeds of the bonds and subsequent leases are to provide for capital improvements to the University. The remaining lease obligation payable pursuant to this capital lease obligation is \$3,563,916 at June 30, 2017.

NOTES TO FINANCIAL STATEMENTS--Continued

SOUTHWESTERN OKLAHOMA STATE UNIVERSITY
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June 30, 2017

NOTE F--LONG-TERM LIABILITIES--Continued

Capital Lease Obligations--Continued:

Oklahoma Development Finance Authority Master Lease Program--Continued

In June 2017, the ODFA issued its ODFA Master Lease Revenue Bonds, Series 2017A. Of the total bond indebtedness, the State Regents for Higher Education allocated \$1,636,000 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 payment to ODFA over the respective terms of the agreement, which is through May 15, 2032. The bond bears interest at variable rates ranging from 1.0% to 4.0%. The proceeds of the bonds and subsequent leases are to provide for capital improvements to the University. The remaining lease obligation payable pursuant to this capital lease obligation is \$1,636,000 at June 30, 2017.

Future minimum lease payments under the University's capital lease obligations to OCIA and ODFA are as follows:

	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
Year Ending June 30:			
2018	\$ 3,003,702	\$ 1,122,443	4,126,145
2019	3,134,791	1,007,209	4,142,000
2020	1,749,000	888,675	2,637,675
2021	1,478,417	829,845	2,308,262
2022	1,976,842	777,030	2,753,872
2023-2027	8,925,123	2,637,974	11,563,097
2028-2032	5,710,291	858,868	6,569,159
2033-2037	1,202,167	109,501	1,311,668
	<u>\$ 27,180,333</u>	<u>\$ 8,231,545</u>	<u>\$ 35,411,878</u>

NOTE G--RETIREMENT PLANS

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

NOTES TO FINANCIAL STATEMENTS--Continued

SOUTHWESTERN OKLAHOMA STATE UNIVERSITY
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NOTE G--RETIREMENT PLAN--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.

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.

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. The University paid the entire amount of employee's contributions directly to OTRS.

The University's contributions to the OTRS for the years ended June 30, 2017, 2016, and 2015, was \$2,332,786, \$2,297,104, and \$2,364,412, respectively, equal to the required contributions for

NOTES TO FINANCIAL STATEMENTS--Continued

SOUTHWESTERN OKLAHOMA STATE UNIVERSITY
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NOTE G--RETIREMENT PLAN--Continued:

each year. 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. Beginning in 2015, the State of Oklahoma contribution was 5% of state revenues from sales and use taxes and individual income taxes, to the OTRS on behalf of participating employers. These amounts and other system-wide related amounts are reported in the Regional University System of Oklahoma financial statements and not at the individual department level.

Supplemental Retirement Annuity (SRA)

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

The SRA is included in the financial report of the Regional University System of Oklahoma reporting entity, and does not issue separate, stand-alone financial statements.

Funding Policy: The authority to establish and amend eligible employees' and employer contribution obligations to the SRA rests with the University's Board of Regents. Eligible employees are not required to make contributions to the SRA. The University is required to contribute to the SRA an actuarially determined amount on an annual basis. Under a policy 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 \$500,000, \$900,000, and \$610,000, 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

SOUTHWESTERN OKLAHOMA STATE UNIVERSITY (A Department of the Regional University System of Oklahoma)

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NOTE H--OTHER POST-EMPLOYMENT INSURANCE BENEFITS

Plan Description: The University's postemployment healthcare plan is a single employer defined benefit plan administered by the Regional University System of Oklahoma Board of Regents (the University's Board). The plan provides medical and life insurance benefits to eligible retired employees until age 65. A retiring employee must have been employed full-time in the Regional University System of Oklahoma for not less than ten years immediately preceding the date of retirement; been a member of the OTRS during that time; and elected to receive a vested benefit under the provision of the Oklahoma Teachers' Retirement System. As of June 30, 2014, there were 618 active 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 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 made from current operating funds. The plan is included in the financial report of the Regional University System of Oklahoma reporting entity and does not issue separate, stand-alone financial statements.

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

The University's contributions to the plan for the years ended June 30, 2017, 2016, and 2015, were approximately \$237,000, \$111,000, and \$390,000, respectively.

NOTE I--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 Southwestern Oklahoma State University's "New College Fund." The University received \$1,204,683 during the year ended June 30, 2017 which is restricted to the construction or acquisition of buildings, equipment, or other capital items. This amount is recorded as state appropriations restricted for capital purposes in the statement of revenues, expenses, and changes in net position. State law prohibits the distribution of any corpus

NOTES TO FINANCIAL STATEMENTS--Continued

SOUTHWESTERN OKLAHOMA STATE UNIVERSITY (A Department of the Regional University System of Oklahoma)

June 30, 2017

NOTE I--FUNDS HELD IN TRUST BY OTHERS--Continued:

of these funds to the beneficiaries. The total trust reserve for Southwestern Oklahoma State University, held in trust by the commissioners of Land Office, was \$19,122,282 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 program. The state match amount, plus any retained accumulated earnings, totaled approximately \$3,661,791 at June 30, 2016, and are invested by the Oklahoma State Regents on behalf of the University. The University is entitled to receive an annual distribution of earnings on these funds. As legal title of the match amount is retained by the Oklahoma State Regents, only the funds available for distribution, estimated to be \$536,336 at June 30, 2017, have been reflected as assets in the statements of net position.

NOTE J--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 does not anticipate any significant losses as the result of any such asserted claims.

NOTE K--RISK MANAGEMENT

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

The University, along with other state agencies and political subdivisions, participates in the State of Oklahoma Risk Management Program and the State Insurance Fund, public entity risk pools currently operating as a common risk management and insurance program for its members. The University pays annual premiums to the pools for tort, property, and liability insurance coverage.

The Oklahoma Risk Management Pool's governing agreement specifies that the pool will be self-sustaining through member premiums and will reinsure through commercial carriers for claims in excess of specified stop-loss amounts.

NOTES TO FINANCIAL STATEMENTS--Continued

SOUTHWESTERN OKLAHOMA STATE UNIVERSITY (A Department of the Regional University System of Oklahoma)

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NOTE K--RISK MANAGEMENT--Continued:

The University also participates in the College Association of Liability Management (CALM) Workers' Compensation Plan for its workers' compensation coverage. CALM is an Interlocal Cooperative Act Agency that was organized to provide workers' compensation insurance coverage for participating colleges and universities through the State Insurance Fund. 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 University also began participating, during fiscal year 2017, in the Oklahoma Higher Education Employee Interlocal Group Health Insurance Pool "OKHEEI". University 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 University pays monthly health insurance premiums to OKHEEI for employee health insurance coverage based on the health coverage elected by the employee and the maximum benefit provide by the University for health coverage. Amounts of premiums exceeding benefits are payable by the employee. The governing agreement for OKHEEI specifies that the pool will be self-sustaining through premiums received and with additional stop-loss coverages obtained. If health care claims exceed reserves and reinsurance coverages, additional assessments may be made to participating colleges and universities. As of June 30, 2017 additional assessments did not occur.

The Oklahoma Higher Education Employee Interlocal Group (OKHEEI) was organized in October 2016 to more effectively and economically secure employee benefits for its Members' employees. The Members include the Regional University System of Oklahoma, the six universities it governs, and seven Oklahoma colleges. The Agreement continues from year to year, without renewal by any Member. Any Oklahoma college, university, or auxiliary institution, may apply to become a Member no later than six months prior to the Agreement's renewal date. Any Member may withdraw from the Group after at least sixty days' notice is given in writing to the chairman of the Board. The OKHEEI Agreement may be terminated by a vote of a majority of the Members before sixty days before the renewal date.

The chief financial officer or equivalent position of each member comprises a Board of Trustees. The Board establishes and oversees the operations of the Plans, Policies, and Services provided in the Agreement. The Board may appoint an Administrator and other staff necessary for the conduct of the Board's business for the group and may contract for actuaries, consultants, auditors and accounting, and/or claims and legal services, as it deems necessary to administer the plans, policies, or services pursuant to its Agreement.

The Board voted on a self-funded plan for group health insurance benefits provided to employees, beginning in January 2017. Each institution processes their monthly payroll and remittances for insurance premiums and deposits the amount in each Member's individual bank

NOTES TO FINANCIAL STATEMENTS--Continued

SOUTHWESTERN OKLAHOMA STATE UNIVERSITY (A Department of the Regional University System of Oklahoma)

June 30, 2017

NOTE K--RISK MANAGEMENT--Continued:

account. Payment of premiums, costs, or administrative expenses attributable to its Employees' participation in any Plan, Policy or Service established under this Agreement are paid from Member's individual bank account.

OKHEEI has both specific and aggregate stop-loss coverage to limit the financial risk of self-insuring. The specific stop-loss takes effect after a certain threshold has been exceeded in claims for any one individual, and the aggregate stop loss provides a ceiling on the dollar amount of eligible expenses during the contract period. OKHEEI believes the stop-loss coverage is adequate to minimize the risk of catastrophic (specific) or numerous (aggregate) claims to protect the financial reserves of the self-funded plan.

The University deposited \$2,548,973 for health insurance benefits and related costs, including stop-loss coverage, from January 1, 2016 through June 30, 2017. Premiums and costs paid to vendors totaled \$1,745,926. The remaining \$803,047 is a liability to OKHEEI.

NOTE L--RELATED PARTY TRANSACTIONS

The University leases a building from the Foundation. The lease provides for an annual rental of \$70,000 payable in monthly installments of \$5,833. The lessor is to provide for any significant repairs and maintenance. The lessee is to provide for all utilities, services, and other operating costs, including general repairs and maintenance. The lessee has the sole option to renew for a 10-year period. Terms and conditions of the lease are to be reviewed annually. The University has renewed the lease through June 30, 2018.

NOTE M--ACCOUNTING STANDARDS ISSUED

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

NOTES TO FINANCIAL STATEMENTS--Continued

SOUTHWESTERN OKLAHOMA STATE UNIVERSITY
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NOTE M--ACCOUNTING STANDARDS ISSUED--Continued:

requirements for those OPEB plans in Statement No. 25, *Financial Reporting for Defined Benefit Pension Plans and Note Disclosures for Defined Contribution Plans*, as amended, Statement 43, and Statement No. 50, *Pension Disclosures*. This statement 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*

NOTES TO FINANCIAL STATEMENTS--Continued

SOUTHWESTERN OKLAHOMA STATE UNIVERSITY
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NOTE M--ACCOUNTING STANDARDS ISSUED--Continued:

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

NOTES TO FINANCIAL STATEMENTS--Continued

SOUTHWESTERN OKLAHOMA STATE UNIVERSITY
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NOTE M--ACCOUNTING STANDARDS ISSUED--Continued:

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.

- *GASB Statement 87, Leases*

GASB No. 87 was issued June 2017, the primary objective of this Statement is to increases the usefulness of governments' financial statements by requiring recognition of certain lease assets and liabilities for leases that previously were classified as operating leases and recognized as inflows of resources or outflows of resources based on the payment provisions of the contract. It establishes a single model for lease accounting based on the foundational principle that leases are financings of the right to use an underlying asset. Under this Statement, a lessee is required to recognize a lease liability and an intangible right-to-use lease asset, and a lessor is required to recognize a lease receivable and a deferred inflow of resources, thereby enhancing the relevance and consistency of information about activities. The 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.

NOTES TO FINANCIAL STATEMENTS--Continued

SOUTHWESTERN OKLAHOMA STATE UNIVERSITY (A Department of the Regional University System of Oklahoma)

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NOTE N--DISCRETE COMPONENT UNITS

Southwestern Oklahoma State University Foundation, Inc.: The following are significant disclosures of Southwestern University Foundation, Inc.

Organization

Southwestern Oklahoma State University Foundation, Inc. (the "Foundation") is organized for the benefit of Southwestern Oklahoma State University (the "University"), Weatherford, Oklahoma, branch campus in Sayre, Oklahoma, its faculty, its student body, and its programs. The Foundation provides scholarships and support and enhances the further development of the University. The Foundation receives contributions from the public which are generally to be used for the benefit of the University. The Foundation also receives certain program service revenues which support the various departmental activities at the University.

The Foundation acts primarily as a fundraising organization, soliciting, receiving, managing, and disbursing contributions on behalf of the University. Distributions of amounts held in the funds of the Foundation are subject to the approval of the Foundation and the availability of monies. Accordingly, the accompanying financial statements generally reflect expenditures which have been submitted to and approved by the Foundation as of the financial reporting date.

Although the University does not control the timing or amount of receipts from the Foundation, the majority of the Foundation's resources and related income are restricted by donors for the benefit of the University. Because these restricted resources held by the Foundation can only be used by, or for the benefit of, the University, the Foundation is considered a component unit of the University and is discretely presented in the University's financial statements.

Accounting Standards Codification

The Foundation follows the Financial Accounting Standards Board ("FASB") Accounting Standards Codification ("ASC"). The ASC provides the single source of authoritative accounting principles generally accepted in the United States of America ("U.S. GAAP") for nongovernmental entities.

Basis of Presentation

The Foundations financial statements have been prepared on the accrual basis of accounting in accordance with U.S. GAAP, and accordingly reflect all significant receivables, payables and other assets and liabilities. To ensure the observance of limitations and restrictions placed on the set of available resources, the Foundation maintains its accounts in accordance with the principles and practices of fund accounting. Fund accounting is the process by which resources for various purposes are classified for accounting purposes into funds that are maintained in accordance with the activities or objectives of the Foundation.

NOTES TO FINANCIAL STATEMENTS--Continued

SOUTHWESTERN OKLAHOMA STATE UNIVERSITY
(A Department of the Regional University System of Oklahoma)

June 30, 2017

NOTE N--DISCRETE COMPONENT UNITS--Continued:

Southwestern Oklahoma State University Foundation, Inc.--Continued

Net Position Classifications

The Uniform Prudent Management of Institutional Funds Act of 2006 ("UPMIFA") was enacted in the state of Oklahoma effective November 1, 2007 ("OK UPMIFA"). The Foundation's Board of Trustees' (the "Trustees") interpretation of the OK UPMIFA and other required endowment disclosures are included in Note 8.

Net assets, revenues, and gains and losses are classified based on the existence or absence of donor-imposed restrictions. The Foundation is required to report information regarding its financial position and activities according to three classes of net assets as follows:

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

Expendable net position: Net position subject to donor-imposed stipulations that may or will be met, either by actions of the Foundation and/or the passage of time. When a restriction expires, expendable net position is reclassified to unrestricted net position.

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

Beneficial Interest in Perpetual Trust

The Foundation is the beneficiary of a perpetual trust which is not in the possession of the Foundation. The Foundation has an irrevocable right to a portion of the net income from the trust. The Foundation's interest in the trust is recorded at fair value of the estimated future cash flows, which is measured using the fair value of the underlying trust assets adjusted for the Foundation's beneficial interest percentage of the total trust. Under the terms of the trust agreement, the trust generally distributes 50% of the annual income to the beneficiaries and the other 50% is reinvested and added to the trust's corpus. The beneficial interest is classified as permanently restricted net assets, and distributions are classified as temporarily restricted investment income from perpetual trust in accordance with the donor's restriction. Changes in the fair market value of the beneficial interest are recorded as permanently restricted gain or loss on beneficial interest in perpetual trust in the statement of activities.

NOTES TO FINANCIAL STATEMENTS--Continued

SOUTHWESTERN OKLAHOMA STATE UNIVERSITY
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June 30, 2017

NOTE N--DISCRETE COMPONENT UNITS--Continued:

Southwestern Oklahoma State University Foundation, Inc.--Continued

Contributions

Contributions, including unconditional promises to give, are recognized as revenues in the period received by the Foundation. Conditional promises to give are not recognized until the conditions on which they depend are substantially met. Transfers of assets under conditional promises, which are received by the Foundation prior to fulfilling these conditions, are recorded as a liability (i.e. unearned revenue) until the conditions are substantially met. Contributions of assets other than cash are recorded at the estimated fair value on the gift date. Contributions to be received after one year are recorded at the present value of their estimated future cash flows using a discount rate which will commensurate with the risks involved. Amortization of the discount is recorded as additional contribution revenue in the same net asset class and fund as the original contribution. An allowance is made for uncollectable contributions based upon management's judgment and analysis of the creditworthiness of the donors, past collection experience, and other relevant factors.

Contributions are reported as increases in the appropriate net asset category. Expenses are reported as decreases in unrestricted net assets. Temporary restrictions on gifts to acquire long lived assets are considered met in the period in which the assets are acquired or placed in service. Gifts of property and equipment are recorded as unrestricted support unless explicit donor stipulations specify how the assets must be used or how long the assets must be held, in which case the gift is recorded as restricted support. Expirations of temporary restrictions (i.e., the donor-stipulated purpose has been fulfilled and/or the stipulated time period has elapsed) are reported as net assets released from restrictions.

Contributed services are recognized when (1) they create or enhance a nonfinancial asset and/or (2) required specialized skills, are provided by individuals possessing those skills and would typically need to be purchased had they not been provided by contributions. Many individuals volunteer their time and perform a variety of tasks that assist the Foundation, but these services do not meet the criteria for recognition as contributed services. The Foundation received no significant contributed services meeting the specified criteria in 2016. In addition, according to FASB ASU no. 2016-06, \$652,496 was recorded for 2016 as an in-kind contribution for the value of the support received from the University.

Investments

Investments consist of cash and cash equivalent funds, certificates of deposit, mutual funds, common and preferred stock, structured investments in unsecured notes, an annuity contract, and an investment in private equity real estate. Investments are stated at fair value as

NOTES TO FINANCIAL STATEMENTS--Continued

SOUTHWESTERN OKLAHOMA STATE UNIVERSITY
(A Department of the Regional University System of Oklahoma)

June 30, 2017

NOTE N--DISCRETE COMPONENT UNITS--Continued:

Southwestern Oklahoma State University Foundation, Inc.--Continued

determined by the fund and/or investment manager and realized gains and losses on sales of investments are computed on the first-in, first-out basis or the average cost basis. Interest and dividend income in the statements of activities is reported net of the investment management and custodial fees which totaled \$116,531.

Investment Revenue

Income and gains on investments are reported as increases in non-expendable net position if the terms of the gift that gave rise to the investment require such amounts be added to the permanent endowment. Income and gains are reported as increases in expendable net position if the terms of the gift or applicable law imposed restrictions on the use of the income and as increases in unrestricted net position in all other cases, except in the case of income earned on donor-restricted endowment funds which is classified as expendable or non-expendable dependent upon the donors' restriction(s).

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

Office Facility and Staff Support

The Foundation and University operate under an agreement that the University will provide for the housing of the Foundation records, administrative and secretarial support, as well as office space and support services. According to FASB ASU no. 2016-06 for 2016, \$652,496 was recorded as management and general expense for the value of support received from the University. The foundation also provides monies for scholarship support and other program needs of the University which is in excess of the benefits provided by the University. All costs incurred for University programs are included in program expenses.

Cash and Cash Equivalents

The Foundation considers all highly liquid investments with a maturity of three months or less when purchased, excluding cash and cash equivalent funds held in the Foundation's investment portfolio, to be cash equivalents.

NOTES TO FINANCIAL STATEMENTS--Continued

SOUTHWESTERN OKLAHOMA STATE UNIVERSITY
(A Department of the Regional University System of Oklahoma)

June 30, 2017

NOTE N--DISCRETE COMPONENT UNITS--Continued:

Southwestern Oklahoma State University Foundation, Inc.--Continued

Marketable Securities

Marketable securities are stated at fair value. Fair values are generally determined based upon quoted market prices. Realized gains and losses on sales of marketable securities are computed on the first-in, first-out basis. The Foundation utilizes various investment instruments. Marketable securities, in general, are exposed to various risks, such as interest rate, credit, and overall market volatility. Due to the level of risk associated with certain investment securities, it is reasonably possible that changes in the values of marketable securities will occur in the near term and that such changes could materially affect the amounts reported in the statements of financial position. Significant fluctuations in fair values could occur from year to year and the amounts the Foundation will ultimately realize could differ materially.

Income Taxes

The Foundation is exempt from federal income tax under Section 501(c) (3) of the Internal Revenue Code and is classified by the Internal Revenue Service as other than a private foundation. Generally, all revenue earned outside the purpose for which the Foundation is created is taxable as earned income.

Property and Equipment

It is the Foundation's policy to capitalize property and equipment additions with a cost basis, or fair value on the gift date if donated, which exceed \$5,000. Property and equipment is depreciated using the straight-line methods as follows:

Office equipment	10 years
Buildings	44 years
Software	5 years

Administrative Fee

In October 2013, the foundation board of Trustees approved the assessment of an annual Fund Management fee ("Fee"). The Fee is charged to all funds, endowed or otherwise, and is used to defray general and administrative expenses of the Foundation. The fee will be assessed annually at a rate of .625 % (.00625) of the January 1st fund balances. For the endowed and temporarily restricted funds, this fee is accounted for as a transfer between permanently restricted and temporarily restricted net assets to unrestricted net assets.

NOTES TO FINANCIAL STATEMENTS--Continued

SOUTHWESTERN OKLAHOMA STATE UNIVERSITY
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June 30, 2017

NOTE N--DISCRETE COMPONENT UNITS--Continued:

Southwestern Oklahoma State University Foundation, Inc.--Continued

Fair Value Measurements

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

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

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

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

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 cannot redeem its investment within ninety days of the measurement date, the Foundation categorizes the asset as a Level 3 measurement.

Financial assets and liabilities carried at fair value on a recurring basis 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 December 31, 2016 or 2015.

NOTES TO FINANCIAL STATEMENTS--Continued

SOUTHWESTERN OKLAHOMA STATE UNIVERSITY
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June 30, 2017

NOTE N--DISCRETE COMPONENT UNITS--Continued:

Southwestern Oklahoma State University Foundation, Inc.--Continued

Adoption of Accounting Principals

FASB Accounting Standards Update No. 2016-06 became effective for fiscal years beginning after June 15, 2014. The standard requires the financial statements to reflect the value of services received from personnel of an affiliate. During the year ended December 31, 2016, the value of services received by the Foundation was \$652,496.

Accounting for Uncertain Tax Positions

Management has evaluated the Foundation's tax positions and concluded that the Foundation has taken no uncertain tax positions that required adjustment or disclosure in the financial statements to comply with the provisions of this guidance. With few exceptions, the Foundation is no longer subject to income tax examinations by the U.S. federal, state or local tax authorities for years ending on or before December 31, 2012.

Concentrations of Credit Risk

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

Management Estimates

The preparation of financial statements in conformity with accounting principles generally accepted in the United State of America requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosed contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

Estimates that are particularly susceptible to significant change include the valuation of investments, beneficial interest in perpetual trust, and contributions receivable. Investments and beneficial interest in perpetual trust are exposed to various risks, such as interest rate, credit, and overall market volatility. Due to the level of risk associated with these financial instruments, it is reasonably possible that changes in the values of these assets will occur in the near term and that such changes could materially affect the amounts reported in the statement of financial position. Significant fluctuations in fair values could occur from year to year and the amounts the Foundation will ultimately realize could differ materially. Management's estimate of contributions receivable and the related allowance for doubtful accounts is based on

NOTES TO FINANCIAL STATEMENTS--Continued

SOUTHWESTERN OKLAHOMA STATE UNIVERSITY
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NOTE N--DISCRETE COMPONENT UNITS--Continued:

Southwestern Oklahoma State University Foundation, Inc.--Continued

considerations of all relevant available information and an analysis of the collectability of individual contributions, which arise primarily from pledges at the financial statement date.

Functional Allocation of Expenses

The costs of providing various programs and other activities have been summarized in the statements of activities. Costs are allocated between program services, management and general, and fundraising based on management's evaluation of the resources expended in the related activities. Management and general expenses include those expenses that are not directly identifiable with any other specific function, but provide for the overall support and direction of the Foundation.

Fair Value Measurements

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

Assets	As of December 31, 2016			Total
	Level 1	Level 2	Level 3	
<i>Assets recorded at fair value on a recurring basis</i>				
Investments:				
Cash and cash equivalents	\$ 546,109	\$ —	\$ —	\$ 546,109
Certificates of deposits	—	767	—	767
Common and preferred stock				
Domestic	5,802,077	—	—	5,802,077
International	3,180,066	—	—	3,180,066
Equity mutual funds	—	—	—	—
Fixed income (notes, bonds, mutual funds)	4,337,001	—	—	4,337,001
Index Funds	1,892,203	—	—	1,892,203
Annuity Contract	—	—	238,018	238,018
Pooled funds	—	—	—	—
Interest in limited liability company	—	—	483,780	483,780
Structured investments	—	1,807,867	—	1,807,867
Real estate investment trust (REIT) funds	—	—	727,529	727,529
Total Investments	<u>15,757,456</u>	<u>1,808,634</u>	<u>1,449,327</u>	<u>19,015,417</u>
Beneficial interest in perpetual trust	—	—	1,214,956	1,214,956
<i>Assets recorded at fair value on a non-recurring basis</i>				
Assets held for sale	—	—	20,000	20,000
Total assets carried at fair value	<u>\$15,757,456</u>	<u>\$ 1,808,634</u>	<u>\$2,684,283</u>	<u>\$20,250,373</u>

NOTES TO FINANCIAL STATEMENTS--Continued

SOUTHWESTERN OKLAHOMA STATE UNIVERSITY
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June 30, 2017

NOTE N--DISCRETE COMPONENT UNITS--Continued:

Southwestern Oklahoma State University Foundation, Inc.--Continued

Land, Building, and Equipment

Property and equipment consist of the following at December 31, 2016:

	2016
Land	\$ 120,000
Buildings	729,549
Leasehold improvements	32,720
Office equipment	37,205
Software	95,136
	<u>1,014,610</u>
Less accumulated depreciation	<u>(360,549)</u>
	<u>\$ 654,061</u>

Related Party Transactions

Substantially all expenditures are incurred for the benefit of the University. University management and faculty are very much involved in the operations of the Foundation and are considered related parties. Accounts payable to related party of \$44,692 at December 31, 2016 reflect amounts to be paid to the University.

Rental Property: The Foundation acquired property and completed construction of a building during 2003. The Foundation has a lease agreement with the University to lease the property for a one-year term expiring on June 30, 2017. The lease provides for annual rental payments of \$70,000 payable in monthly installments of \$5,833. The Foundation is to provide for any significant repairs and maintenance. The University is to provide for all utilities, services and other operating costs including general repair and maintenance. Terms and conditions of the lease are to be reviewed annually. At December 31, 2016, the University is committed to pay rentals, which total \$35,000 through June 30, 2017.

NOTES TO FINANCIAL STATEMENTS--Continued

SOUTHWESTERN OKLAHOMA STATE UNIVERSITY
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June 30, 2017

NOTE N--DISCRETE COMPONENT UNITS--Continued:

Southwestern Oklahoma State University Foundation, Inc.--Continued

Net Position

Restricted net position consists of the following at December 31, 2016:

Scholarships	\$ 15,531,416
Foundation operations	496,466
General University support	1,029,280
Endowed chairs	3,293,628
Athletic support	<u>315,743</u>
	<u>\$ 20,666,533</u>

Endowment Disclosures

The Foundation's endowment consists of approximately 180+ 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 position associated with endowment funds including funds designated by the Trustee to function as endowments are classified and reported 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.

NOTES TO FINANCIAL STATEMENTS--Continued

SOUTHWESTERN OKLAHOMA STATE UNIVERSITY (A Department of the Regional University System of Oklahoma)

June 30, 2017

NOTE N--DISCRETE COMPONENT UNITS--Continued:

Southwestern Oklahoma State University Foundation, Inc.--Continued

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 policies for endowment funds that facilitate the Foundation's ability to provide funding for programs and provide adequate returns for invested funds. Endowment assets include those assets of donor-restricted funds that the Foundation must

hold in perpetuity or for a donor-specified period as well as board-designated funds. Under this policy, the endowment assets are invested in a manner that is intended to attain a minimum return of seven percent compounded annually after deducting all expenses and advisory fees over the period of a full market cycle in order to achieve a relative rate of return of three percent over the inflation rate and to earn a real rate of return defined by the endowment spending of the fund plus the inflation rate. The Foundation has established an investment committee to monitor the rates of returns of endowment funds in order to maximize earnings. Actual returns in any given year are dependent on market conditions and other factors, and may vary from time to time.

Strategies for Achieving Objectives

To satisfy its long-term rate-of-return objectives, the Foundation relies on a strategy in which investment returns are achieved through both capital appreciation (realized and unrealized) and current yield (interest and dividends). The Foundation formally adopted a revised investment policy statement on December 1, 2016, which includes the following diversified asset allocation and ranges: equities (range between 40% up to 75%); fixed income (range between 10% up to 50%); cash equivalents (range between 0% up to 20%); and alternative investments (range between 0% up to 30%).

NOTES TO FINANCIAL STATEMENTS--Continued

SOUTHWESTERN OKLAHOMA STATE UNIVERSITY
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June 30, 2017

NOTE N--DISCRETE COMPONENT UNITS--Continued:

Southwestern Oklahoma State University Foundation, Inc.--Continued

Spending Policy

The Foundation has a policy of appropriating for distribution each year, eighty-five percent of the earnings from each endowment fund for the donor-restricted purpose, if any. The remaining fifteen percent of the earnings plus all of the realized gains or losses are held in the endowment fund in order to provide for inflation and future growth. The Foundation honors the specific requests of each donor, recognizes all investment income, realized and unrealized gains and/or losses as temporarily or permanently restricted based on donor-restrictions, and makes distributions accordingly. In the absence of donor-restrictions on investment income all earnings from donor-restricted endowment funds are classified as temporarily restricted until appropriated for expenditure. All earnings on board-designated endowment funds are classified as unrestricted.

Southwestern Pharmacy Alumni Foundation, Inc.

Southwestern Pharmacy Alumni Foundation, Inc. (Foundation), was formed in November, 1974 to provide support for the School of Pharmacy at Southwestern Oklahoma State University (University); to give scholarships and make loans available to pharmacy students; and to provide research grants to faculty and students.

The organization is supported primarily by contributions from the general public, proceeds from sponsoring continuing education courses, and income earned from invested funds.

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

Investments

The Foundation has valued its investments based on Financial Accounting Standards Board Accounting Standards Codification 958 (FASB ASC 958), Accounting for Certain Investments Held by Not-for-Profit Organizations. Under FASB ASC 958, the Foundation is required to report investments in equity securities with readily determinable fair values and all investments in debt securities in the statement of financial position at fair value and report realized and unrealized gains and losses in the statement of activities.

Investment return is reflected in the statement of activities as unrestricted, temporarily restricted or permanently restricted based upon the existence and nature of any donor or legally imposed restrictions.

NOTES TO FINANCIAL STATEMENTS--Continued

SOUTHWESTERN OKLAHOMA STATE UNIVERSITY
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June 30, 2017

NOTE N--DISCRETE COMPONENT UNITS--Continued

Southwestern Pharmacy Alumni Foundation, Inc.--Continued:

The Foundation maintains pooled investment accounts for its endowments and special funds. A target earning percentage of five percent is to be posted annually to all funds based on the average balance of each fund. This target earning percentage may be adjusted based on Management's review of the economic and other conditions as approved by the Board of Director's. The earnings percentage used for the years ended December 31, 2016 was 4.0%. Cost, unrealized gain or loss and carrying amounts which are at the lower of cost or market of investments are summarized as follows:

	<u>Cost</u>	<u>Unrealized Gain or Loss</u>	<u>Fair Value</u>
<u>December 31, 2016</u>			
Mutual funds	\$ 3,824,073	\$ 194,533	\$ 4,018,606
Equities	517,933	201,332	719,265
Certificates of deposit	<u>1,257,000</u>	<u>(1,333)</u>	<u>1,255,667</u>
Total	<u>\$ 5,599,006</u>	<u>\$ 394,532</u>	<u>\$ 5,993,538</u>

Net Position

Restricted net assets consist of the following at December 31, 2016:

Scholarships	\$ 1,989,326
Special net assets	354,769
Support Fund	<u>5,500</u>
	<u>\$ 2,349,595</u>

NOTES TO FINANCIAL STATEMENTS--Continued

SOUTHWESTERN OKLAHOMA STATE UNIVERSITY
(A Department of the Regional University System of Oklahoma)

June 30, 2017

NOTE N--DISCRETE COMPONENT UNITS--Continued

Southwestern Pharmacy Alumni Foundation, Inc.--Continued:

Fair Market Value Measurement

The Organization has determined the fair value of certain assets and liabilities through application FASB ASC 820, Fair Value Measurements.

Financial assets and liabilities valued using level 1 inputs are based on unadjusted quoted prices for identical assets and liabilities in active markets that are accessible at the measurement date. Financial assets and liabilities valued using level 2 inputs are based primarily on quoted prices for similar assets or liabilities in active or inactive markets. Financial assets and liabilities using level 3 inputs were primarily valued using management's assumptions about the assumptions market participants would utilize in pricing the asset or liability. Valuation techniques utilized to determine fair value are consistently applied.

Financial assets and liabilities carried at fair value on a recurring basis include common stocks (equities), mutual funds with equity related investment, mutual funds with fixed income related investments, unit trust with fixed income related investments, and certificates of deposit held as investment. The Foundation has no financial assets or liabilities carried at fair value on a non-recurring basis.

NOTES TO FINANCIAL STATEMENTS--Continued

SOUTHWESTERN OKLAHOMA STATE UNIVERSITY
(A Department of the Regional University System of Oklahoma)

June 30, 2017

NOTE N--DISCRETE COMPONENT UNITS--Continued

Southwestern Pharmacy Alumni Foundation, Inc.--Continued:

Fair Value Measurements at Reporting Date Using:

	Fair Value	Quoted Prices in active Markets for Identical Assets Level 1	Other Observable Inputs Level 2	Significant Unobservable Inputs Level 3
December 31, 2016				
Mutual funds - equity related	\$ 2,562,470	\$ 2,562,470	\$ -	\$ -
Mutual funds - fixed income	1,456,136	1,456,136	-	-
Equity Securities	719,265	719,265	-	-
Certificates of Deposit	1,255,667	-	-	1,255,667
Total	<u>\$ 5,993,538</u>	<u>\$ 4,737,871</u>	<u>\$ -</u>	<u>\$ 1,255,667</u>

All assets have been valued using a market approach. There have been no changes in valuation techniques and related inputs.

Endowment

The Foundation's endowment consists of approximately 56 individual funds established for a variety of purposes. The endowment includes both donor-restricted endowment funds and funds designated by the governing body to function as endowments (board-designated endowment funds). Net assets associated with endowment funds, including board-designated endowment funds, are classified and reported based on the existence or absence of donor-imposed restrictions.

NOTES TO FINANCIAL STATEMENTS--Continued

SOUTHWESTERN OKLAHOMA STATE UNIVERSITY
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June 30, 2017

NOTE N--DISCRETE COMPONENT UNITS--Continued

Southwestern Pharmacy Alumni Foundation, Inc.--Continued:

The Foundations' governing body has interpreted the State of Oklahoma Prudent Management of Institutions Funds Act (SPMIFA) as requiring preservation of the fair value of the original gift as of the gift date of the donor-restricted endowment funds absent explicit donor stipulations to the contrary. As a result of this interpretation, the Foundation classifies as permanently restricted net assets the original value of the gift, the subsequent gifts and accumulations of all investment return to the permanent endowment made in accordance with the direction of the applicable donor gift instrument at the time the accumulation is added. The remaining portion of the endowment fund is classified as temporarily restricted until they are appropriated for expenditure by the Foundation in a manner consistent with the standard of prudence prescribed by SPMIFA. In accordance with SPMIFA, the Foundation considers the following factors in making a determination to appropriate or accumulate donor-restricted endowment funds:

1. Duration and preservation of the fund
2. Purposes of the Foundation and the fund
3. General economic conditions
4. Possible effect of inflation and deflation
5. Expected total return from investment income and appreciation or depreciation of investments
6. Other resources of the Foundation
7. Investment policies contained herein

The Foundation spends monies on an annual basis for scholarships as directed by the donor. The amounts funded by each individual endowment may vary from year to year and if funds are not available then no scholarship shall be awarded.

SUPPLEMENTARY
INFORMATION

OTHER SUPPLEMENTARY INFORMATION
DISCRETELY PRESENTED COMPONENT UNITS'
COMBINING STATEMENT OF FINANCIAL POSITION

SOUTHWESTERN OKLAHOMA STATE UNIVERSITY
(A Department of the Regional University System of Oklahoma)
December 31, 2016 (Fiscal Year End of Component Units)

	University Foundation	Pharmacy Foundation	Total
ASSETS			
Cash and cash equivalents	\$ 280,125	\$ 287,334	\$ 567,459
Pledges receivable	-	5,500	5,500
Interest receivable	-	14,675	14,675
Contributions receivable	100,707	-	100,707
Investments	19,015,417	5,993,538	25,008,955
Cash value, Life insurance	114,413	-	114,413
Beneficial interest in perpetual trust	1,214,956	-	1,214,956
Property and equipment	654,061	-	654,061
Other assets	-	150	150
	<u>-</u>	<u>150</u>	<u>150</u>
TOTAL ASSETS	<u>\$ 21,379,679</u>	<u>\$ 6,301,197</u>	<u>\$ 27,680,876</u>
LIABILITIES			
Accounts payable	\$ 5,272	\$ 2,138	\$ 7,410
Payable to related party	44,692	-	44,692
Funds held for others	-	-	-
	<u>-</u>	<u>-</u>	<u>-</u>
TOTAL LIABILITIES	49,964	2,138	52,102
NET POSITION			
Unrestricted			
Board designated endowment			
Specific purposes	674,546	-	674,546
General	5,948	-	5,948
Undesignated	(17,312)	3,949,464	3,932,152
Expendable	3,847,176	919,142	4,766,318
Non expendable	<u>16,819,357</u>	<u>1,430,453</u>	<u>18,249,810</u>
TOTAL NET POSITION	<u>21,329,715</u>	<u>6,299,059</u>	<u>27,628,774</u>
TOTAL LIABILITIES AND NET POSITION	<u>\$ 21,379,679</u>	<u>\$ 6,301,197</u>	<u>\$ 27,680,876</u>

OTHER SUPPLEMENTARY INFORMATION
DISCRETELY PRESENTED COMPONENT UNITS'
COMBINING STATEMENT OF ACTIVITIES AND CHANGES IN NET POSITION

SOUTHWESTERN OKLAHOMA STATE UNIVERSITY
(A Department of the Regional University System of Oklahoma)
Year Ended December 31, 2016 (Fiscal Year End of Component Units)

	University Foundation	Pharmacy Foundation	Total
SUPPORT, REVENUES, GAINS AND OTHER ADDITIONS			
Contributions	\$ 617,269	\$ 229,009	\$ 846,278
In-kind contributions	652,496		652,496
Sponsorship revenue	200,000		200,000
Program service revenue	337,120	-	337,120
Interest and dividend income	-	18,015	18,015
Net appreciation on investments	626,570	246,090	872,660
Net appreciation on perpetual trust	172,417	-	172,417
Rental income	70,000	-	70,000
Other income	7,859	62,726	70,585
Other investment income	358,043	171,002	529,045
Continuing education	-	42,308	42,308
Net assets released from restrictions	-	-	-
TOTAL SUPPORT, REVENUES, GAINS, AND OTHER ADDITIONS	3,041,774	769,150	3,810,924
EXPENSES			
Program services for university	1,463,413	192,048	1,655,461
Supporting services:			
Management and general	544,000	29,940	573,940
Fundraising	195,396	-	195,396
Continuing education expenses	-	32,563	32,563
Scholarships and grants	-	143,600	143,600
School of Pharmacy	-	32,457	32,457
TOTAL EXPENSES	2,202,809	430,608	2,633,417
NET INCREASE (DECREASE) IN NET POSITION	838,965	338,542	1,177,507
NET ASSETS, BEGINNING OF YEAR	20,490,750	5,960,517	26,451,267
NET ASSETS, END OF YEAR	<u>\$ 21,329,715</u>	<u>\$ 6,299,059</u>	<u>\$ 27,628,774</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
Southwestern 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 Southwestern 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 units, 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 aggregate discretely presented component units, as described in our report on the University's financial statements. The financial statements of the Foundations 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 with the Foundations.

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 and therefore, material weaknesses or significant deficiencies may exist that were not identified. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. We did identify certain deficiencies in internal control, described in the accompanying schedule of findings and questioned costs as findings 2017-001 and 2017-002 that we consider to be significant deficiencies.

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*.

The University's Response to Findings

The University's responses to the findings identified in our audit are described in the accompanying schedule of findings and questioned costs. The University's responses were not subjected to the auditing procedures applied in the audit of the financial statements and, accordingly, we express no opinion on them.

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.



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
Southwestern Oklahoma State University
Oklahoma City, Oklahoma

Report on Compliance for Each Major Federal Program

We have audited Southwestern 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 2017-003. 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 2017-003, 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 opinions 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

SOUTHWESTERN 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	\$ 6,704,293
Federal Supplemental Education Opportunity Grants	84.007	N/A	102,878
Federal Work Study Program	84.033	N/A	192,561
Federal Direct Loan Program	84.268	N/A	21,801,456
<i>Total Student Financial Assistance Cluster</i>			28,801,188
TRIO program cluster			
TRIO--Upward Bound	84.047	N/A	357,390
<i>Total TRIO program cluster</i>			357,390
Other Programs			
Supporting Effective Instruction State Grant	84.367	N/A	125,622
<i>Total Other Programs</i>			125,622
TOTAL U.S. DEPARTMENT OF EDUCATION			29,284,200
Research and Development (R&D) Cluster			
U.S. DEPARTMENT OF HEALTH AND HUMAN SERVICES			
Pass-through OU Health Science Center			
National Center for Research Resources	93.389	N/A	25,000
<i>Subtotal for CFDA #93.389</i>			25,000
Biomedical Research and Research Training	93.859	N/A	2,000
Biomedical Research and Research Training	93.859	N/A	1,324
Biomedical Research and Research Training	93.859	N/A	4,562
Biomedical Research and Research Training	93.859	N/A	2,192
Biomedical Research and Research Training	93.859	N/A	1,760
Biomedical Research and Research Training	93.859	N/A	29,282
Biomedical Research and Research Training	93.859	N/A	7,480
Biomedical Research and Research Training	93.859	N/A	1,249
<i>Subtotal for CFDA #93.859</i>			49,849
State and Local Public Health Actions to Prevent Obesity, Diabetes, Heart Disease and Stroke (PPHF)	93.757	N/A	8,721
TOTAL U.S. DEPARTMENT OF HEALTH AND HUMAN SERVICES			83,570
NATIONAL SCIENCE FOUNDATION			
Education and Human Resources	47.076	N/A	58,203
Mathematical and Physical Sciences	47.079	N/A	10,000
TOTAL NATIONAL SCIENCE FOUNDATION			68,203
TOTAL RESEARCH AND DEVELOPMENT CLUSTER			151,773

(Continued)

SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS--Continued

SOUTHWESTERN 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 Identification Number</i>	<i>Federal Expenditures</i>
Other Federal Programs			
U.S. DEPARTMENT OF VETERANS AFFAIRS			
Post-9/11 Veterans Educational Assistance	64.028	N/A	406,241
TOTAL U.S. DEPARTMENT OF VETERANS AFFAIRS			<u>406,241</u>
NATIONAL AERONAUTICS AND SPACE ADMINISTRATION			
Science	43.001	N/A	56,183
Education	43.008	N/A	14,924
Education	43.008	N/A	30,978
Education	43.008	N/A	7,007
<i>Subtotal for CFDA #43.008</i>			<u>52,909</u>
TOTAL NATIONAL AERONAUTICS AND SPACE ADMINISTRATION			<u>109,092</u>
U.S. DEPARTMENT OF COMMERCE			
Economic Development Technical Assistance	11.303	N/A	108,737
TOTAL U.S. DEPARTMENT OF COMMERCE			<u>108,737</u>
U.S. DEPARTMENT OF AGRICULTURE			
Summer Food Services Program for Children	10.559	N/A	7,565
TOTAL U.S. DEPARTMENT OF AGRICULTURE			<u>7,565</u>
U.S. DEPARTMENT OF AGRICULTURE RURAL DEVELOPMENT			
Distance Learning and Telemedicine Loans and Grants	10.855	N/A	220,366
TOTAL U.S. DEPARTMENT OF AGRICULTURE RURAL DEVELOPMENT			<u>220,366</u>
U.S. DEPARTMENT OF INTERIOR			
Indian Education Higher Education Grant	15.114	N/A	335,126
Indian Education Higher Education Grant	15.114	N/A	8,539
TOTAL U.S. DEPARTMENT OF INTERIOR			<u>343,665</u>
TOTAL EXPENDITURES OF FEDERAL AWARDS			<u>\$ 30,631,639</u>

See notes to schedule of expenditures of federal awards.

NOTES TO THE SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS

SOUTHWESTERN 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 Southwestern 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 minimus 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

SOUTHWESTERN 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:

<u>Program</u>	<u>CFDA Number</u>
Student Financial Assistance Cluster	*
Post-9/11 Veterans Educational Assistance	64.028

*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

SOUTHWESTERN 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*:

Finding 2017-001: Student Account Adjustments

Criteria: Internal control best practices seeks to separate incompatible duties, including control of or access to the asset, authorization, and recordkeeping responsibilities. When selecting and developing control activities, duties should be divided or segregated among employees to reduce the risk of errors, inappropriate activities or fraudulent actions.

Condition: The Bursar's Office is responsible for generating and paying refunds to students, including financial aid, overpayments, or withdrawals. The Bursar generates the refunds to be paid, approves the list, and requests payment from the Office of the Controller without obtaining any independent approval or review.

In addition, the Bursar's Office has the ability to make manual adjustments, such as for credits and waivers, to the student accounts without independent approval.

Cause and Effect: The procedures for paying refunds or making manual adjustments do not include an independent review or approval process. Mistakes could occur and not be corrected in a timely manner.

Recommendation: We recommend that policies and procedures be developed to require an independent approval process prior to issuing student refunds and that procedures regarding manual adjustments to the student's accounts be reviewed to ensure adequate segregation of duties.

Management's Response: Management will implement a process where the Controller or Vice-President for Administration and Finance will review and approve the refund, including a detail list of students receiving the refunds, prior to the wire transfer transaction being processed.

The system provides a daily report of manual adjustments to student accounts, the Vice-President for Administration and Finance will review these reports weekly.

SWOSU will be implementing a new ERP system within the next 18 to 24 months, management will insure that internal controls related to student accounts include these safeguards.

SCHEDULE OF FINDINGS AND QUESTIONED COSTS--Continued

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

Year Ended June 30, 2017

Finding 2017-002: Departmental Cash Collections and Deposits

Criteria: When transferring cash from one department to another, effective controls would include both departments counting the cash with the receiving department providing a written receipt to the paying department.

Condition: Currently, when a department or University organization collects cash, the money is delivered to the bursar for deposit into the appropriate bank account. However, the Bursar's Office does not count the proceeds in front of the other department or issue the department a written receipt.

Cause and Effect: Inadequate controls over the cash receipts process and deposit process of University departments may result in a misappropriation of assets and makes it difficult to identify where or when an error or irregularity occurred.

Recommendation: We recommend the Bursar's office develop policies and procedures regarding cash collections from other departments. This policy should include counting the cash collections and both departments agreeing to the amount enclosed in the deposit bag, with a written receipt provided whenever the cash collections are turned over to another department.

Management's Response: Management will insure the Bursar's Office Cashiers will count and verify the cash and checks received while the depositor is present at the cashier's window; once verified, the depositor will receive a receipt which will include identifiers such as the date and amount deposited and department or account credited. Departmental deposits generally have two signatures verifying the amount to be deposited prior to arriving at the Bursar's office. The Bursar's office retains the departmental checkup sheet with the receipt number for future reference.

SCHEDULE OF FINDINGS AND QUESTIONED COSTS--Continued

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

Year Ended June 30, 2017

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

**Finding 2017-003: Post-9/11 Veterans Educational Assistance-Reporting
CFDA 64.028**

Criteria: The University is required to report any changes in a student/participant's status to the Department of Veteran Affairs ("VA") within 30 days of receiving that notification.

Condition: Of the ten student/participants selected for testing, one participant that required notification to the VA had not occurred.

Cause and Effect: Changes in the student/participant's status would result in a liability by the student/participant to the VA. Failure by the University to notify the VA of this change in status would preclude the VA from taking necessary steps to begin its collection efforts from the participant.

Questioned Costs: None

Recommendation: We recommend that the University review its controls to ensure that all required communications occur within the specified timeframe.

Management's Response: Management is aware of this error and it has been corrected. A change in personnel occurred around the time of this error. The new employee is receiving extensive training regarding the Veterans Affairs education benefits requirements and the Registrar will provide oversight, and cross training, for this employee.

SUMMARY SCHEDULE OF PRIOR AUDIT FINDINGS AND QUESTIONED COSTS

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

Year Ended June 30, 2017

Finding 2016-01: Cash Account Reconciliations

Criteria: All state agencies are required to perform reconciliations with the Office of Management and Enterprise Services (OMES) and the Oklahoma State Treasurer (OST) related to the agency clearing accounts. Title 62, O.S. §34.11 establishes the Division of Central Accounting and Reporting (DCAR) within OMES, and DCAR is responsible for prescribing the State accounting policy and the forms for reconciliations. DCAR requires that OMES Form 11 and 11A be prepared and submitted each month no later than the 20th day of the month following the report. In addition, Chapter 60 of the OMES Statewide Accounting Manual states “All reconciling items should be documented. Plug numbers are not acceptable. If there is a remaining unreconciled amount, it should be listed as such, not plugged to force balancing”.

Condition: During testwork we noted that while the University performs timely reconciliations of its general ledger clearing account cash balance with the OST, the University does not reconcile the difference between OMES and the University’s general ledger as required on Form 11. As of June 30, 2016, the difference totaled approximately \$120,000 with no explanation as to what the difference included.

Cause and Effect: Because the University does not reconcile amounts reported by OMES, inaccurate reporting by OMES may exist and not be detected on a timely basis.

Recommendation: We recommend that the clearing account be reconciled in accordance with State policy with reconciliations performed on a monthly basis and that all reconciling amounts be investigated and documented.

University’s response:

The University will perform this reconciliation on a monthly basis as required.

Current year status: This finding has been resolved in the current period.