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**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, 2018**

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

June 30, 2018

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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 aggregate discretely presented component units, as of and for the year ended June 30, 2018, 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 opinion.

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 aggregate discretely presented component units as of June 30, 2018, 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, 2018, the changes in its financial position, or, where applicable, its cash flows for the year then ended in conformity with accounting principles generally accepted in the United States of America. Our opinion is not modified with respect to this matter.

Other Matters

Required Supplementary Information

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

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated November 28, 2018, 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.



November 28, 2018

MANAGEMENT'S DISCUSSION AND ANALYSIS

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

June 30, 2018

INTRODUCTION

Southwestern Oklahoma State University (the "University"), a Department of the Regional University System of Oklahoma ("RUSO"), 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 2018. The budget priorities in FY 2018 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 2018. Improvements in student housing are on-going with the renovation of Mann Hall (formerly 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 was completed during FY 2018.

During FY 2018, the University contracted with a consulting firm and collaborated with two other RUSO schools, Northwestern Oklahoma State University and Southeastern Oklahoma State University, to select an enterprise resource planning (ERP) system. The three universities signed contracts with Colleague by Ellucian for ERP, student information systems (SIS), finance, human resources, and talent management solutions during the fourth quarter. By working in partnership, the three schools expect to realize \$2.7 million in savings and achieve process optimization, reporting improvements, enhanced visibility, and student-facing technology with mobile, responsive design and student planning functionality. Many of the modules will be implemented during FY 2019 with full implementation expected in FY 2020.

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, 2018, with selected comparative information for the year ended June 30, 2017. Management's Discussion and Analysis is designed

MANAGEMENT'S DISCUSSION AND ANALYSIS

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

June 30, 2018

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.

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, 2018

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, 2018. Comparative data for years ending June 30, 2017, is provided.

Schedule A
Condensed Statements of Net Assets
as of June 30, 2018 and 2017
(In Millions)

	2018	2017	Increase (Decrease)	Percent Change
Current Assets	\$ 26.9	\$ 30.8	\$ (3.9)	(12.7)%
Noncurrent Assets				
Capital Assets, Net of Depreciation	78.1	73.7	4.4	6.0 %
Other	4.9	4.2	.7	16.7 %
Total Assets	109.9	108.7	1.2	1.1%
Deferred Outflows of Resources	0.0	0.0	0.0	(0.0)%
Current Liabilities	8.2	7.6	.6	7.9%
Noncurrent Liabilities	22.5	25.8	(3.3)	(12.8)%
Total Liabilities, as restated	30.7	33.4	(2.7)	(8.1)%
Deferred Inflows of Resources	0.3	0.3	-	-
Net Position				
Investment in Capital Assets	52.9	45.4	7.5	16.5%
Restricted	10.0	15.1	(5.1)	(33.8)%
Unrestricted, as restated	16.0	14.5	1.5	10.3%
Total Net Position (after prior period adjustment)	\$ 78.9	\$ 75.0	\$ 3.9	5.2%

MANAGEMENT'S DISCUSSION AND ANALYSIS

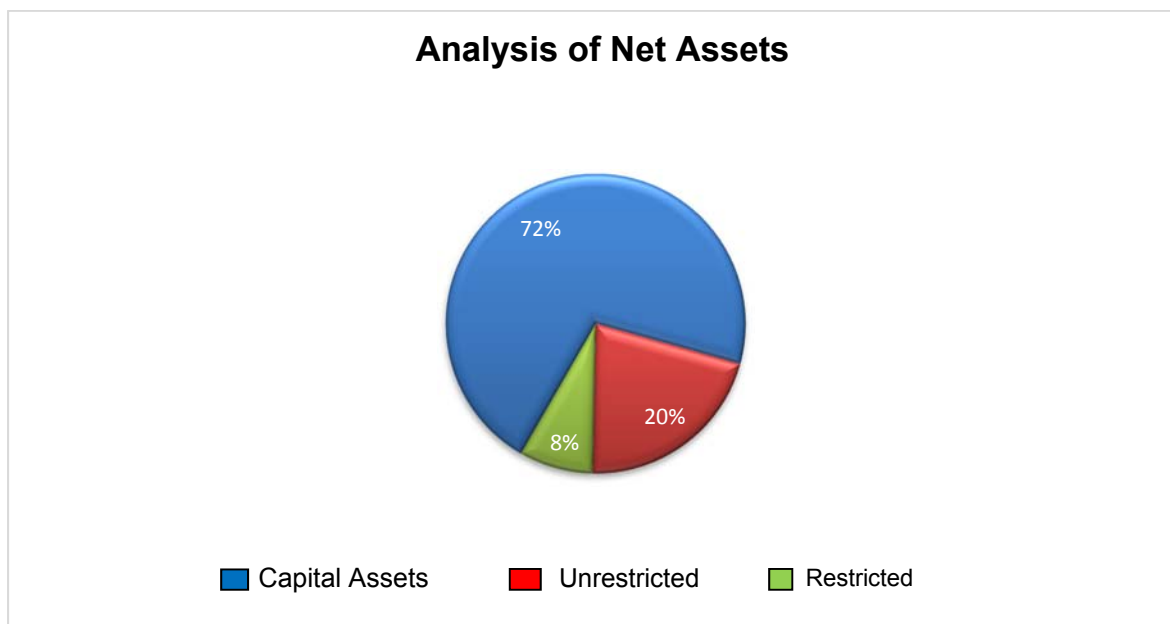
SOUTHWESTERN OKLAHOMA STATE UNIVERSITY (A Department of The Regional University System of Oklahoma)

June 30, 2018

ANALYSIS OF NET POSITION 2018

Current assets decreased by \$3,960,378 due primarily to decreased cash and cash equivalents. The majority of the \$5,800,000 unspent bond proceeds at fiscal year-end 2017 were disbursed and consulting fees for the new ERP system's preliminary project stage were incurred. Net Capital Assets increased by \$4,468,909, due to the nearly completed construction of the Mann Hall (formerly Rogers Hall) and the Chemistry, Physics, and Pharmacy building renovations and the introduction of the ERP system.

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, 2018

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, 2018 and 2017
(In Millions)

	2018	2017
Operating Revenue		
Student tuition and Fees	\$ 27.2	\$ 25.0
Federal, state and local grants and contracts	3.8	3.2
Auxiliary	7.1	7.0
Other	0.8	0.7
Total Operating Revenues	<u>38.9</u>	<u>35.9</u>
Operating Expenses		
Compensation and employee benefits	43.7	42.6
Contractual Services	4.7	4.0
Supplies and materials	4.3	3.6
Depreciation	4.1	4.2
Utilities	1.4	1.3
Communication expense	0.2	0.3
Scholarships and fellowships	5.7	5.5
Other Operating expense	2.7	2.9
Total Operating Expenses	<u>66.8</u>	<u>64.4</u>
Operating Income (Loss)	(27.9)	(28.5)
Non-operating revenues (expenses)		
State appropriations	17.6	19.0
City sales tax revenue	0.8	0.7
Grant (Federal & State)	11.6	11.2
Investment income	0.2	0.2
Interest costs	(1.1)	(1.1)
Net Non-operating Revenues	<u>29.1</u>	<u>30.0</u>
Income (loss) before other revenues, expenses, gains and losses	1.2	1.5
State appropriations restricted for capital purposes	1.2	1.2
Other	1.5	1.5
Change in Net Position	3.9	4.2
Net Position, Beginning of Year	<u>75.0</u>	<u>70.8</u>
Net Position, End of Year (after prior period adjustments)	<u>\$ 78.9</u>	<u>\$ 75.0</u>

MANAGEMENT'S DISCUSSION AND ANALYSIS

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

June 30, 2018

Revenues 2018

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 \$27.2 million, an increase of \$2.2 million over the previous year. The official Oklahoma State Regents for Higher Education student full-time equivalent (FTE) enrollment for fiscal year 2018 and fiscal year 2017 was 4,797 and 4,811, respectively. This would indicate an FTE enrollment decrease of .3%.

Operating Grants and Contracts activity is \$3.8 million, an increase of approximately \$.6 million over the previous year. Fifty percent of this increase is attributable to increased general and university scholarships, and the remaining fifty percent is attributable to increased revenue from federal grants that operated for a full year, primarily the Department of Health's heart disease and stroke prevention grant and the Department of Agriculture Rural Development's distance learning and telemedicine grant. Significant federal grants, classified as non-operating revenue, are for Student Financial Aid and include Pell, Student Work Study, and Supplemental Education Opportunity Grants. The current year increase in non-operating grants and contracts is attributable to increased Pell Federal Grants.

Auxiliary operations generated total revenues of \$7.1 million in fiscal year 2018 of which \$5.7 million is from housing and food services, as compared to fiscal year 2017 revenues of \$7 million, of which \$5.6 million is from housing and food services.

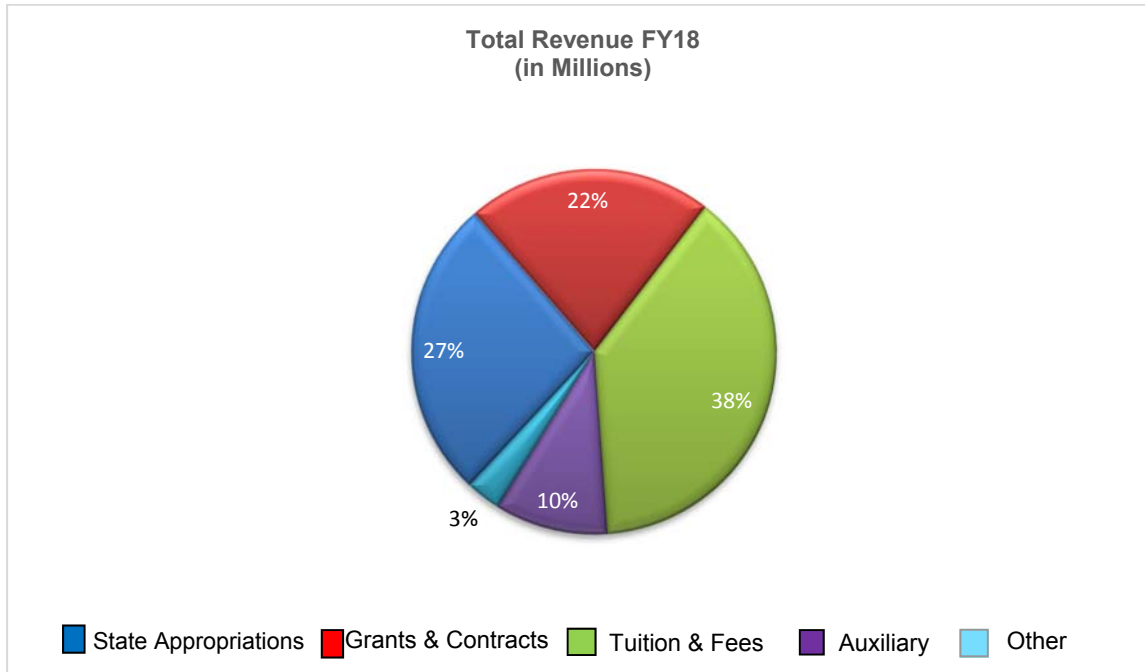
State appropriations for operations in fiscal year 2018 were \$17.6 million; state appropriations restricted for capital purposes, which comes from the Land Trust Reserves, were \$1.2 million; and OCIA on-behalf appropriations for payment of principal and interest were \$1.4 million. This amount no longer 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 \$1.4 million due to state revenue failures during FY18.

MANAGEMENT'S DISCUSSION AND ANALYSIS

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

June 30, 2018

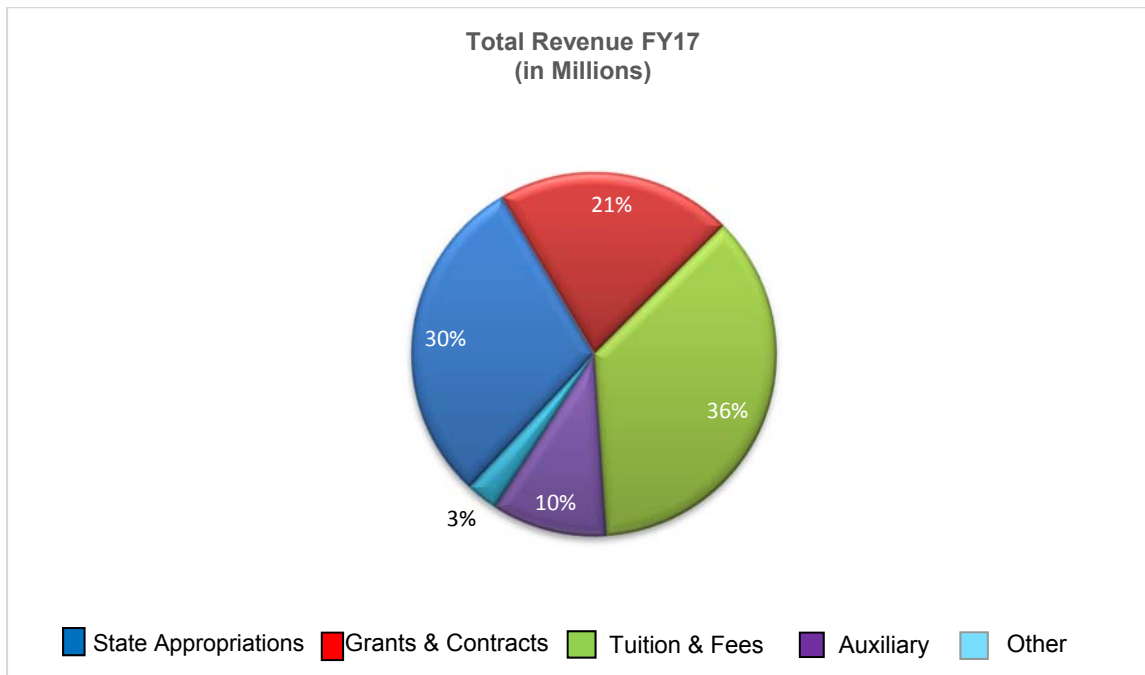
The following graphs represents sources and amounts of revenue.



MANAGEMENT'S DISCUSSION AND ANALYSIS

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

June 30, 2018



(After prior period adjustment)

MANAGEMENT'S DISCUSSION AND ANALYSIS

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

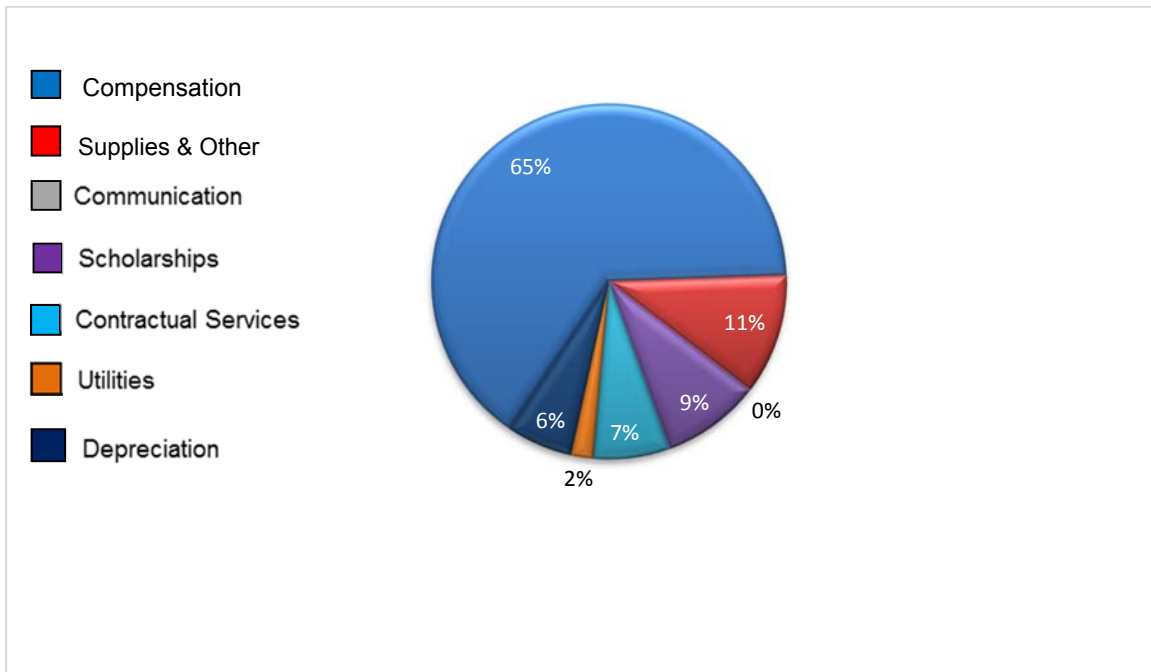
June 30, 2018

EXPENSES 2018

Operating expenses for the year are \$66.8 million, an increase of \$2.4 million.

The following are graphic representations of expenses during fiscal year 2018:

*FY 18 Expenses by Natural Classification
(In Millions)*



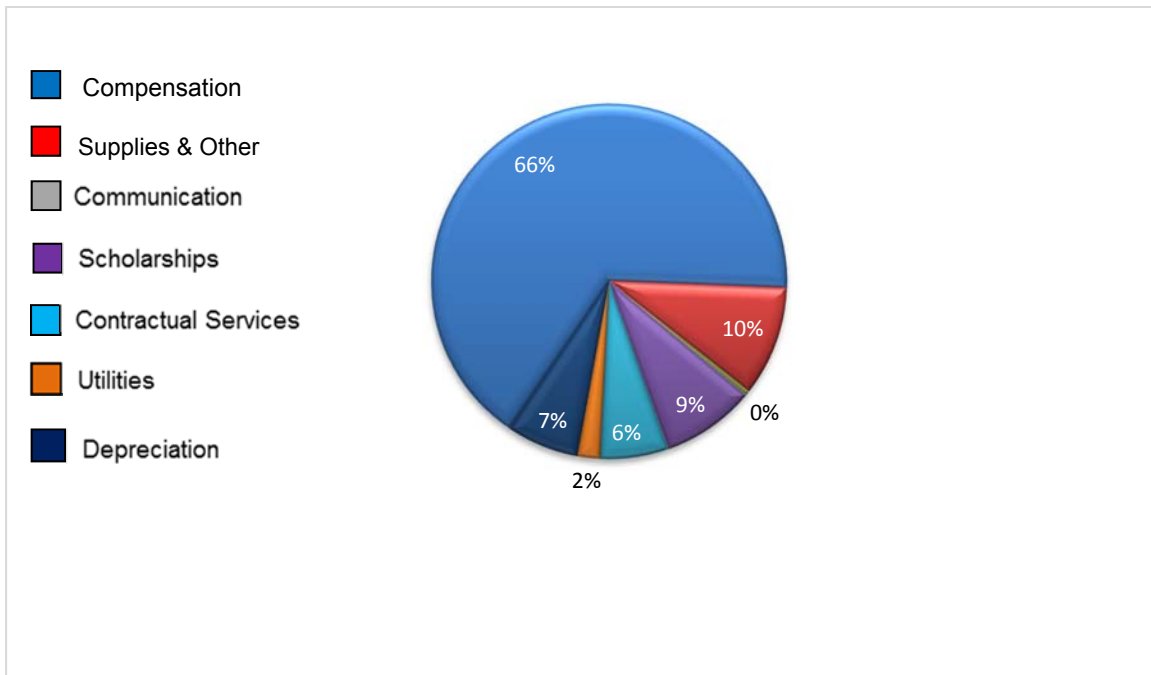
MANAGEMENT'S DISCUSSION AND ANALYSIS

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

June 30, 2018

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, 2018

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, 2018, compared to the year ended June 30, 2017, and is prepared from the Statement of Cash Flows.

CONDENSED STATEMENT OF CASH FLOWS

Schedule C
Condensed Statements of Cash Flows
Years Ended June 30, 2018 and 2017
(In Thousands)

	2018	2017
Cash provided (used) by:		
Operating activities	\$ (23.1)	\$ (23.2)
Noncapital financing activities	30.1	30.9
Investing activities	.2	.2
Capital and related financing activities	<u>(10.1)</u>	<u>.9</u>
Net increase (decrease) in cash	(2.9)	8.8
 Cash, beginning of the year	 <u>31.7</u>	 <u>22.9</u>
 Cash, end of the year	 <u><u>\$ 28.8</u></u>	 <u><u>\$ 31.7</u></u>

MANAGEMENT'S DISCUSSION AND ANALYSIS

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

June 30, 2018

CAPITAL ASSETS

At June 30, 2018, the University had approximately \$78.1 million invested in capital assets, net of accumulated depreciation of \$75.4 million. Depreciation charges totaled approximately \$4.1 million for the current fiscal year. This year's major additions to capital assets were the construction in progress for the renovation of Mann Hall (formerly Rogers Hall) and the Chemistry, Physics, and Pharmacy building, and the development costs incurred for the new ERP system.

The University's fiscal-year 2019 capital budget calls for it to spend another \$2.5 million for capital projects, principally for the completion of the renovation of Mann Hall and Chemistry, Physics, and Pharmacy, and the continued ERP development. These projects are funded by student fees, master lease programs, and other sources.

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 past fiscal year.

Details of balances of capital assets for the years ended June 30, 2018, and 2017 are shown below.

	June 30, (in Millions)	
	2018	2017
Land	\$ 1.1	\$ 1.1
Construction-in-progress	8.5	2.2
Infrastructure	0.8	0.6
Land improvements	0.6	0.6
Buildings	63.7	65.7
Furniture, fixtures, and equipment	1.9	1.9
Library materials	1.5	1.6
	<u>\$ 78.1</u>	<u>\$ 73.7</u>

MANAGEMENT'S DISCUSSION AND ANALYSIS

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

June 30, 2018

DEBT

At June 30, 2018, the University had approximately \$24.2 million in debt outstanding compared to \$27.2 outstanding at June 30, 2017. The table below summarizes these amounts by type.

OUTSTANDING DEBT

	June 30, (in Millions)	
	2018	2017
OCIA Lease Obligations	\$ 6.7	\$ 7.7
ODFA Lease Obligations	17.5	19.5
	<u>\$ 24.2</u>	<u>\$ 27.2</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.

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 years ended June 30, 2018, and 2017, lease principal and interest payments were made on behalf of the University totaling \$1,445,443 and \$1,411,606, respectively. 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, 2018

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 is completing a review and update of the strategic plan. The combination of revenue growth and expenditure controls in the future will allow us to continue our improvements. Continuous review of our academic programs and continuous diversification of our revenue base is an important part of stabilizing the enrollment cycle. The outlook for the University is very good.

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, 2018

ASSETS

CURRENT ASSETS

Cash and cash equivalents	\$ 23,823,334
Restricted cash and cash equivalents	606,875
Accounts receivable, net	2,149,544
Notes receivable, current portion	
net of allowance for uncollectibles	177,341
Interest receivable	23,871
Inventories	125,501
TOTAL CURRENT ASSETS	<u>26,906,466</u>

NONCURRENT ASSETS

Restricted cash and cash equivalents	4,374,838
Loans receivable, noncurrent portion	86,000
Funds held by others	405,138
Capital assets, net of accumulated depreciation	78,114,499
TOTAL NONCURRENT ASSETS	<u>82,980,475</u>
TOTAL ASSETS	<u>109,886,941</u>

(Continued)

STATEMENT OF NET POSITION--Continued

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

June 30, 2018

LIABILITIES AND NET ASSETS

CURRENT LIABILITIES

Accounts payable	\$ 1,698,624
Accrued payroll	307,526
Accrued interest payable	31,164
Unearned revenue	1,808,394
Deposits held in custody for others	382,749
Current portion of non current liabilities	<u>4,027,061</u>
TOTAL CURRENT LIABILITIES	8,255,518

NONCURRENT LIABILITIES

Unearned revenue from long-term contracts	86,000
Accrued compensated absences	553,677
Bond premium (net of amortization)	754,841
Lease obligations payable to state agency	<u>21,058,914</u>
TOTAL NONCURRENT LIABILITIES	<u>22,453,432</u>
TOTAL LIABILITIES	<u>30,708,950</u>

DEFERRED INFLOWS OF RESOURCES

243,816

NET POSITION

Invested in capital assets, net of related debt	52,950,566
Restricted:	
Expendable:	
Scholarships, instruction and other	6,167,354
Capital projects	3,851,231
Unrestricted	<u>15,965,024</u>
TOTAL NET POSITION	<u>\$ 78,934,175</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, 2018

OPERATING REVENUES

Student tuition and fees, net of scholarship discounts and allowances of \$16,748,401	\$ 27,210,563
Federal grants and contracts	2,129,833
State and local grants and contracts	1,683,020
Housing and food service, discounts and allowances of \$341,804	5,662,932
Other auxiliary operations	1,444,066
Other operating revenues	<u>806,661</u>
TOTAL OPERATING REVENUES	38,937,075

OPERATING EXPENSES

Compensation and employee benefits	43,723,497
Contractual services	4,652,626
Supplies and materials	4,318,014
Depreciation	4,069,946
Utilities	1,438,537
Communication expense	220,296
Scholarships and fellowships	5,729,491
Other operating expenses	<u>2,687,944</u>
TOTAL OPERATING EXPENSES	66,840,351

OPERATING LOSS (27,903,276)

NONOPERATING REVENUES (EXPENSES)

State appropriations	17,638,199
City sales tax revenue	830,557
Federal grants and contracts	7,652,071
State and local grants and contracts	3,926,360
Investment income	248,652
Interest expense	<u>(1,157,270)</u>

NET NONOPERATING REVENUES 29,138,569

Income before other revenues, expenses, gains, and losses 1,235,293

Capital grants and gifts	13,218
State appropriations restricted for capital purposes	1,214,697
OCIA on-behalf appropriations	<u>1,445,443</u>

CHANGE IN NET POSITION 3,908,651

NET POSITION, BEGINNING OF YEAR 76,693,031

Deferred Revenue Prior Period Adjustment (1,667,507)

NET POSITION, BEGINNING OF YEAR AS RESTATED 75,025,524

NET POSITION, END OF YEAR \$ 78,934,175

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, 2018

CASH FLOWS FROM OPERATING ACTIVITIES

Tuition and fees	\$ 27,306,282
Grants and contracts	3,799,465
Housing and food service and other receipts	7,937,261
Payments to employees for salaries and benefits	(43,928,147)
Payments to suppliers	<u>(18,245,912)</u>
NET CASH USED IN OPERATING ACTIVITIES	(23,131,051)

CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES

State appropriations	17,638,199
Grants and contracts	11,591,649
City sales tax received	830,557
Direct loan/FFEL receipts	22,274,855
Direct loan/FFEL payments	<u>(22,274,855)</u>
NET CASH PROVIDED BY NONCAPITAL FINANCING ACTIVITIES	30,060,405

CASH FLOWS FROM INVESTING ACTIVITIES

Interest income received	<u>244,435</u>
NET CASH PROVIDED BY INVESTING ACTIVITIES	244,435

CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES

Cash paid for capital assets	(8,538,855)
Capital appropriations received	1,214,697
Repayment of capital debt and leases	(1,933,998)
Interest paid on capital debt and leases	<u>(888,650)</u>
NET CASH USED IN CAPITAL AND RELATED FINANCING ACTIVITIES	<u>(10,146,806)</u>

NET DECREASE IN CASH AND CASH EQUIVALENTS (2,973,017)

CASH AND CASH EQUIVALENTS, BEGINNING OF YEAR 31,778,064

CASH AND CASH EQUIVALENTS, END OF YEAR \$ 28,805,047

(Continued)

STATEMENTS OF CASH FLOWS--Continued

SOUTHWESTERN OKLAHOMA STATE UNIVERSITY
(A Department of the Regional University System of Oklahoma)
Year Ended June 30, 2018

RECONCILIATION OF OPERATING LOSS TO
NET CASH USED IN OPERATING ACTIVITIES

Operating loss	\$ (27,903,276)
Adjustments to reconcile operating loss to net cash used by operating activities:	
Depreciation expense	4,069,946
Changes in assets and liabilities:	
Accounts receivable	65,482
Notes receivable	107,564
Inventories	10,799
Funds held by others	131,198
Accounts payable and accrued payroll	517,276
Unearned revenue	(67,113)
Compensated absences	(66,759)
Deposits held for others	<u>3,832</u>
NET CASH USED IN OPERATING ACTIVITIES	<u>\$ (23,131,051)</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>\$ 364,384</u>
Principal on capital debt paid by State Agency on behalf of the University	<u>\$ 1,081,059</u>

RECONCILIATION OF CASH AND CASH
EQUIVALENTS TO STATEMENTS OF NET ASSETS

Current assets:	
Cash and cash equivalents	\$ 23,823,334
Restricted cash and cash equivalents	<u>606,875</u>
Total current cash and cash equivalents	24,430,209
Noncurrent restricted cash and cash equivalents	<u>4,374,838</u>
TOTAL CASH AND CASH EQUIVALENTS	<u>\$ 28,805,047</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, 2018

ASSETS

Cash

Due to OKHEEI

FIDUCIARY FUNDS

\$ 535,123

\$ 535,123

See notes to financial statements.

AGGREGATE DISCRETELY PRESENTED COMPONENT UNITS
COMBINED STATEMENTS OF FINANCIAL POSITION

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

December 31, 2017 (Fiscal Year End of Component Units)

ASSETS

Cash and cash equivalents	\$ 612,900
Pledges receivable	3,135
Interest receivable	18,008
Contributions receivable	73,305
Investments	28,629,461
Cash value, life insurance	119,926
Beneficial interest in perpetual trust	1,309,533
Property and equipment	600,784
Other assets	<u>11,916</u>

TOTAL ASSETS \$ 31,378,968

LIABILITIES

Accounts payable	3,162
Payable to related party	<u>134,183</u>

TOTAL LIABILITIES 137,345

NET POSITION

Unrestricted	5,478,209
Restricted Expendable	6,673,441
Restricted Nonexpendable	<u>19,089,973</u>

TOTAL NET POSITION 31,241,623

TOTAL LIABILITIES AND NET POSITION \$ 31,378,968

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, 2017 (Fiscal Year End of Component Units)

SUPPORT, REVENUE, GAINS,
AND OTHER ADDITIONS

Contributions	\$ 1,104,149
In-kind contributions	521,437
Sponsorship revenue	200,000
Program service revenue	417,221
Interest and dividend income	19,772
Net appreciation on investments	3,102,889
Net appreciation on perpetual trust	164,577
Rental income	70,000
Other income	61,060
Other investment income	571,114
Continuing education	73,440
TOTAL SUPPORT, REVENUES, GAINS, AND OTHER ADDITIONS	<u>6,305,659</u>

EXPENSES

Program services for university	1,650,489
Supporting services:	
Management and general	511,149
Fundraising	300,909
Continuing education expenses	49,211
Scholarships and grants	149,700
School of Pharmacy	31,352
TOTAL EXPENSES	<u>2,692,810</u>

NET INCREASE IN NET POSITION 3,612,849

NET POSITION, BEGINNING OF YEAR 27,628,774

NET POSITION, END OF YEAR \$ 31,241,623

See notes to financial statements.

NOTES TO FINANCIAL STATEMENTS

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

June 30, 2018

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 ("RUSO" or the "System") and the Oklahoma State Regents for Higher Education.

Reporting Entity: The University is one of six institutions of higher education in Oklahoma that comprise part of RUSO, 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 RUSO. 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, the University is considered an organizational unit of RUSO 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, 2018

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

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

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

NOTES TO FINANCIAL STATEMENTS (Continued)

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

June 30, 2018

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

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.

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 include amounts received for tuition and fees and certain auxiliary activities prior to the end of the fiscal year, but related to the subsequent accounting period. 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.

NOTES TO FINANCIAL STATEMENTS (Continued)

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

June 30, 2018

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

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.

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, a department of RUSO which is 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.

NOTES TO FINANCIAL STATEMENTS (Continued)

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

June 30, 2018

NOTE A--SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES—Continued

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.

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, 2018, the University does not report any deferred outflows.

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, 2018, the University's deferred inflows of resources were comprised of deferred gains on capital lease restructure.

NOTES TO FINANCIAL STATEMENTS (Continued)

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

June 30, 2018

NOTE B--DEPOSITS AND INVESTMENTS

Deposits and investments are presented in the June 30, 2018 financial statements as follows:

Statement of Net Assets	
Cash and cash equivalents	\$23,823,334
Restricted cash and cash equivalents	4,981,713
Statement of Fiduciary Net Assets	<u>535,123</u>
Total Deposits and Investments	<u>\$29,340,170</u>

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.

NOTES TO FINANCIAL STATEMENTS (Continued)

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

June 30, 2018

NOTE B--DEPOSITS AND INVESTMENTS—continued

At June 30, 2018, the carrying amount of all University cash and cash equivalents totaled \$29,340,170 of which \$535,123 represents amounts held in agency funds. This amount consisted of deposits with the OST (\$28,384,634), deposits with financial institutions and money market funds (\$923,061), and change funds (\$32,475). Included in the funds deposited with financial institutions is \$355,953 master lease proceeds restricted for the use of capital improvements. Of funds on deposit with the OST, amounts invested in *OK INVEST* total \$13,632,977 as of June 30, 2018 (market value of \$13,598,667).

Agencies and funds that are considered to be part of the State's reporting entity in the State's Comprehensive Annual Financial Report are allowed to participate in *OK INVEST*. Oklahoma Statutes and the OST establish the primary objectives and guidelines governing the investment of funds in *OK INVEST*. Safety, liquidity, and return on investment are the objectives which establish the framework for the day to day *OK INVEST* management with an emphasis on safety of the capital and the probable income to be derived and meeting the State and its funds' and agencies' daily cash flow requirements.

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

NOTES TO FINANCIAL STATEMENTS (Continued)

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

June 30, 2018

NOTE B--DEPOSITS AND INVESTMENTS--Continued

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; (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, 2018, the University was not 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

NOTES TO FINANCIAL STATEMENTS (Continued)

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

June 30, 2018

NOTE B – DEPOSITS AND INVESTMENT – continued

(i.e., construction, reserve, operations and maintenance, etc.). *Concentration of credit risk* is not addressed.

NOTE C--ACCOUNTS RECEIVABLE

Accounts receivable consisted of the following at June 30, 2018:

Student tuition and fees	\$ 2,155,756
Auxiliary enterprises and other operating activities	730,951
Federal, state, and private grants and contracts	<u>348,624</u>
	3,235,331
Less: allowance for doubtful accounts	<u>(1,085,787)</u>
NET ACCOUNTS RECEIVABLE	<u>\$ 2,149,544</u>

NOTE D--NOTES RECEIVABLE

The loans receivable balance at June 30, 2018 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, 2018, loans receivable consisted of the following:

Loans receivable	\$ 507,439
Less: allowance for uncollectible loans	<u>(244,098)</u>
NET LOANS RECEIVABLE	<u>\$ 263,341</u>

NOTES TO FINANCIAL STATEMENTS (Continued)

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

June 30, 2018

NOTE E--CAPITAL ASSETS

Following are the changes in capital assets for the year ended June 30, 2018:

	June 30, 2017	Additions	Transfers	Deletions	June 30, 2018
Capital assets not being depreciated					
Land	\$ 1,088,348	\$ 52,624	\$ -	\$ (42,625)	\$ 1,098,347
Construction in Progress	2,219,610	6,277,441	-	-	8,497,051
Total assets not being depreciated	3,307,958	6,330,065	-	(42,625)	9,595,398
Other Capital Assets					
Non Major Infrastructure-networks	1,747,133	181,139	-	-	1,928,272
Land Improvements	1,921,242	32,875	-	-	1,954,117
Buildings	104,771,564	696,094	-	-	105,467,658
Furniture, Fixtures and Equipment	16,203,795	746,403	-	(157,000)	16,793,198
Library Materials	17,359,503	594,904	-	(180,004)	17,774,403
Total cost of other capital assets	142,003,237	2,251,415	-	(337,004)	143,917,648
Accumulated depreciation					
Non-major infrastructure networks	(1,071,000)	(65,400)	-	-	(1,136,400)
Land Improvements	(1,307,723)	(94,142)	-	-	(1,401,865)
Buildings	(39,241,993)	(2,496,140)	-	-	(41,738,133)
Furniture, Fixtures and Equipment	(14,273,740)	(773,631)	-	157,000	(14,890,371)
Library materials	(15,771,149)	(640,633)	-	180,004	(16,231,778)
Total accumulated depreciation	(71,665,605)	(4,069,946)	-	337,004	(75,398,547)
Other Capital Assets, Net	70,337,632	(1,818,531)	-	-	68,519,101
Capital assets summary:					
Capital assets not being depreciated	3,307,958	6,330,065	-	(42,625)	9,595,398
Other capital assets, at cost	142,003,237	2,251,415	-	(337,004)	143,917,648
Total cost of capital assets	145,311,195	8,581,480	-	(379,629)	153,513,046
Less accumulated depreciation	(71,665,605)	(4,069,946)	-	337,004	(75,398,547)
Capital assets, net	\$ 73,645,590	\$ 4,620,051	\$ -	\$ (42,625)	\$ 78,114,499

At June 30, 2018, the cost and related accumulated depreciation of assets held under capital lease obligations were \$36,953,484 and \$12,509,026, 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, 2018

NOTE F--LONG-TERM LIABILITIES

Long-term liability activity for the years ended June 30, 2018, was as follows:

	Balance June 30, 2017	Additions	Reductions	Balance June 30, 2018	Amounts due within one year
Bonds and Capital Leases					
OCIA lease obligations	\$ 7,732,167	\$ -	\$ (1,081,059)	\$ 6,651,108	\$ 1,106,112
ODFA master lease obligations	19,448,166	-	(1,933,998)	17,514,168	2,000,250
Premium on lease obligations	824,937	-	(70,096)	754,841	-
TOTAL BONDS AND CAPITAL LEASES	28,005,270	-	(3,085,153)	24,920,117	3,106,362
Other liabilities					
Accrued compensated absences	1,541,136	731,224	(797,984)	1,474,376	920,699
TOTAL OTHER LIABILITIES	1,541,136	731,224	(797,984)	1,474,376	920,699
TOTAL LONG-TERM LIABILITIES	\$ 29,546,406	\$ 731,224	\$ (3,883,137)	\$ 26,394,493	\$ 4,027,061

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. At June 30, 2018, the outstanding balance of the 2014 Series B lease obligations was \$31,699.

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 \$243,816. At June 30, 2018, the outstanding balance of the 2014 Series C lease obligation was \$5,541,250.

The University issued its series 2010A bond issue for purposes of capital outlays with annual payments due through fiscal 2019. As of June 30, 2018, the balance totaled \$1,078,159.

During the year ended June 30, 2018, the State of Oklahoma made lease principal and interest payments to OCIA totaling \$1,445,443 on behalf of the University. These on-behalf payments have been recorded as OCIA on-behalf appropriations in the University's 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, 2018

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 \$291,833 at June 30, 2018.

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 \$1,041,667 at June 30, 2018.

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 \$1,036,583 at June 30, 2018.

NOTES TO FINANCIAL STATEMENTS--Continued

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

June 30, 2018

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 \$5,646,667 at June 30, 2018.

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 \$2,858,667 at June 30, 2018.

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 \$1,673,417 at June 30, 2018.

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 \$3,418,667 at June 30, 2018.

NOTES TO FINANCIAL STATEMENTS--Continued

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

June 30, 2018

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 \$1,546,667 at June 30, 2018.

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

	Principal	Interest	Total
Year Ending June 30:			
2019	\$ 3,106,362	\$ 1,006,977	\$ 4,113,339
2020	1,772,201	888,611	2,660,812
2021	1,479,250	829,262	2,308,512
2022	1,462,833	776,336	2,239,169
2023	2,037,259	718,245	2,755,504
2024-2028	8,268,624	2,382,185	10,650,809
2028-2032	5,195,747	700,815	5,896,562
2033-2037	843,000	62,055	905,055
	<u>\$ 24,165,276</u>	<u>\$ 7,364,486</u>	<u>\$ 31,529,762</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 (A Department of the Regional University System of Oklahoma)

June 30, 2018

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. These liabilities relate to the participation of System employees in the OTRS, the SRA, and the Postemployment Healthcare Plan.

The accounting and financial reporting for OTRS, the SRA, and the OPEB plans are recorded at the reporting entity level in the System's 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.

Oklahoma Teachers' Retirement System (OTRS).

Plan Description: The University contributes to the 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 up the death of eligible member. 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 2018, 2017, and 2016, 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 2018, 2017, and 2016. 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, 2018, 2017, and 2016, were \$2,378,611, \$2,332,786, and \$2,297,104, respectively, equal to the required contributions for 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.

NOTES TO FINANCIAL STATEMENTS--Continued

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

June 30, 2018

NOTE G--RETIREMENT PLAN—continued:

These amounts and other system-wide related amounts are reported in the System's 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, 2018, 2017, and 2016, were \$600,000, \$500,000, and \$900,000, 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, 2018, 2017, and 2016.

NOTES TO FINANCIAL STATEMENTS--Continued

SOUTHWESTERN OKLAHOMA STATE UNIVERSITY

(A Department of the Regional University System of Oklahoma)

June 30, 2018

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 Board of Regents. 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 System 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 OTRS. As of June 30, 2018, there were 540 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 the System 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 RUSO 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 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, 2018, 2017, and 2016, were \$131,040, \$237,000, and \$111,000, 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 the University's "New College Fund." The University received \$1,214,697 during the year ended June 30, 2018 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 of these funds to the beneficiaries. The total trust reserve for the University, held in trust by the commissioners of Land Office, was \$19,815,655 at June 30, 2018.

NOTES TO FINANCIAL STATEMENTS--Continued

SOUTHWESTERN OKLAHOMA STATE UNIVERSITY

(A Department of the Regional University System of Oklahoma)

June 30, 2018

NOTE I—FUNDS HELD IN TRUST BY OTHERS—continued:

Oklahoma State Regents Endowment Trust Fund: In connection with the Oklahoma State Regents' Endowment Program (the Endowment Program), the State of Oklahoma has matched contributions received under the program. The state match amount, plus any retained accumulated earnings, totaled approximately \$4,100,000 at June 30, 2018, 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 \$405,138 at June 30, 2018, have been reflected as assets in the statement 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 which is a 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)

June 30, 2018

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 CompSource Mutual. CALM is a political subdivision of the State of Oklahoma and is governed by a board of trustees elected from members of the participating colleges and universities.

The University also participates 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 provided 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, 2018 additional assessments did not occur.

NOTE L--RELATED PARTY TRANSACTIONS

The University leases a building from the University 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, 2019.

NOTE M--NEW ACCOUNTING STANDARDS

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

GASB Statement 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.

NOTES TO FINANCIAL STATEMENTS--Continued

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

June 30, 2018

NOTE M – NEW ACCOUNTING STANDARDS--continued

For 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. The application of this new accounting standard is effective for the University's year ended June 30, 2018. However, the University, as a department of the System, has determined this standard is applicable to the System but not to the individual Universities or departments of the System. Therefore, the accounting and reporting requirements of this standard has been adopted by the System, but not the University.

NOTE N –PRIOR PERIOD ADJUSTMENT

A portion of summer tuition and related charges are generally recognized by member institutions of RUSO as revenue in the current period and a portion is recorded as deferred revenue and recognized as revenue in the subsequent period as it is earned in accordance with generally accepted accounting principles. During 2018, the University determined it had not deferred a portion of this revenue at June 30, 2017. As a result, the University has recorded a prior period adjustment reducing previously reported net assets by \$1,667,507 to report these revenues consistent with other RUSO universities and to conform with generally accepted accounting principles.

NOTE O – 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.

NOTES TO FINANCIAL STATEMENTS--Continued

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

June 30, 2018

NOTE O – DISCRETE COMPONENT UNITS – Continued

Southwestern Oklahoma State University Foundation, Inc. – Continued

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.

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 in the Foundation's statements.

Net position, 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.

NOTES TO FINANCIAL STATEMENTS--Continued

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

June 30, 2018

NOTE O - DISCRETE COMPONENT UNITS - Continued

Southwestern Oklahoma State University Foundation, Inc. - Continued

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 100% of the annual income to the beneficiaries. 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.

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.

NOTES TO FINANCIAL STATEMENTS--Continued

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

June 30, 2018

NOTE O - DISCRETE COMPONENT UNITS - Continued

Southwestern Oklahoma State University Foundation, Inc. - Continued

Contributions are reported as increases in the appropriate net position category. Expenses are reported as decreases in unrestricted net position. 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 contributed services meeting the specified criteria totaling \$13,127 in 2017.

The Foundation recognizes all services received from personnel of the University that directly benefit the Foundation. The amount of in-kind contributions was determined based on the cost recognized for services and facilities provided by the University. The Foundation recorded \$521,437 for in-kind contributions and related in-kind expenses for fiscal 2017.

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 and real estate investment trusts. Investments are stated at fair value as 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 statement of activities is reported net of the investment management and custodial fees which totaled \$158,627.

NOTES TO FINANCIAL STATEMENTS--Continued

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

June 30, 2018

NOTE O - DISCRETE COMPONENT UNITS - Continued

Southwestern Oklahoma State University Foundation, Inc.- Continued

Investment Revenue

Income and gains on investments are reported as increases in permanently restricted 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 temporarily restricted net assets if the terms of the gift or applicable law imposed restrictions on the use of the income and as increases in unrestricted net assets in all other cases, except in the case of income earned on donor-restricted endowment funds which is classified as temporarily or permanently restricted dependent upon the donors' restriction(s).

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

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.

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.

NOTES TO FINANCIAL STATEMENTS--Continued

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

June 30, 2018

NOTE O - DISCRETE COMPONENT UNITS - Continued

Southwestern Oklahoma State University Foundation, Inc. - Continued

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

Income Taxes

The Foundation is exempt from federal income tax under Section 501(c) (3) of the Internal Revenue Code (the "Code") and has been determined not to be a private foundation under Section 509(a) of the Code. Generally, all revenue earned outside the purpose for which the Foundation is created is taxable as earned income.

Administrative Fee

The Foundation assesses 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 is assessed annually at a rate of .625 % (.00625) of the January 1st fund balances greater than or equal to \$1,000. For the endowed and temporarily restricted funds, this fee is accounted for as a transfer between permanently restricted and temporarily restricted net position to unrestricted net position.

Fair Value Measurements

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

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

NOTES TO FINANCIAL STATEMENTS--Continued

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

June 30, 2018

NOTE O – DISCRETE COMPONENT UNITS – Continued

Southwestern Oklahoma State University Foundation, Inc. – Continued

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

- Level 1: Unadjusted quoted prices for identical assets, or liabilities in active markets that the Foundation has the ability to access.
- Level 2: Quoted prices for similar assets or liabilities in active markets; quoted prices for identical assets or liabilities in inactive markets; inputs other than quoted prices that are observable for the asset or liability; and inputs that are derived principally from, or corroborated by, observable market data by correlation to other means. If the asset or liability has a specified (contractual) term, the Level 2 input must be observable for substantially the full term of the asset or liability.
- Level 3: Unobservable and significant to the fair value 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 will never have the ability to redeem its investment with the investee at NAV or 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 and beneficial interest in perpetual trust. The Foundation had no assets or liabilities carried at fair value on a non-recurring basis at December 31, 2017.

Adoption of Accounting Principals

The FASB issued ASU 2016-14, *Not-for-Profit Entities (Topic 958): Presentation of Financial Statements of Not-for-Profit Entities*, which is effective for Not-for-Profit organizations for annual financial statements issued for fiscal years beginning after December 15, 2018. Application to interim financial statements is permitted but not required in the initial year of application. Early application of the amendments is permitted. These amendments change presentation and disclosure requirements for not-for-profits entities to provide more relevant information about their resources (and the changes in those resources) to donors, grantors, creditors, and other users. The Foundation is currently evaluating the impact of implementation of ASU 2016-14 on its financial statements.

NOTES TO FINANCIAL STATEMENTS--Continued

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

June 30, 2018

NOTE O - DISCRETE COMPONENT UNITS - Continued

Southwestern Oklahoma State University Foundation, Inc. - Continued

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, 2013.

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 in securities 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 and beneficial interests, 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 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.

NOTES TO FINANCIAL STATEMENTS--Continued

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

June 30, 2018

NOTE O - DISCRETE COMPONENT UNITS - Continued

Southwestern Oklahoma State University Foundation, Inc. - Continued

Fair Value Measurements

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

	Level 1	As of December 31, 2017		Total
		Level 2	Level 3	
Assets				
<i>Assets recorded at fair value on a recurring basis</i>				
Investments:				
Cash and cash equivalents	\$ 1,513,849	\$ —	\$ —	\$ 1,513,849
Certificates of deposits	—	---	---	---
Common and preferred stock				
Domestic	6,359,562	—	—	6,359,562
International	3,897,839	—	—	3,897,839
Equity mutual funds	—	—	—	—
Fixed income (notes, bonds, mutual funds)	4,696,553	—	—	4,696,553
Index Funds	2,992,109	—	—	2,992,109
Annuity Contract	—	—	274,900	274,900
Pooled funds	—	—	—	—
Interest in limited liability company	—	—	441,926	441,926
Structured investments	—	965,911	—	965,911
Real estate investment trust (REIT) funds	545,025	—	383,108	928,133
Total Investments	20,004,937	965,911	1,099,934	22,070,782
Beneficial interest in perpetual trust	—	—	1,309,533	1,309,533
<i>Assets recorded at fair value on a non-recurring basis</i>				
Assets held for sale	—	—	---	---
Total assets carried at fair value	<u>\$20,004,937</u>	<u>\$ 965,911</u>	<u>\$2,409,467</u>	<u>\$23,380,315</u>
Liabilities				
Funds held for others	\$ —	\$ —	\$ —	\$ —
Total liabilities carried at fair value	<u>\$ —</u>	<u>\$ —</u>	<u>\$ —</u>	<u>\$ —</u>

NOTES TO FINANCIAL STATEMENTS--Continued

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

June 30, 2018

NOTE O -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, 2017:

	<u>2017</u>
Land	\$ 120,000
Buildings	729,549
Leasehold improvements	4,185
Office equipment	32,720
Software	<u>95,136</u>
	981,590
Less accumulated depreciation	<u>(380,806)</u>
	<u>\$ 600,784</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 \$134,183 at December 31, 2017 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, 2018. 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, 2017, the University is committed to pay rentals, which total \$35,000 through June 30, 2018.

NOTES TO FINANCIAL STATEMENTS--Continued

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

June 30, 2018

NOTE O –DISCRETE COMPONENT UNITS – Continued

Southwestern Oklahoma State University Foundation, Inc. – Continued

Net Position

Restricted net assets consist of the following at December 31, 2017:

Scholarships	\$ 17,747,040
Foundation operations	597,477
General University support	983,506
Endowned chairs	3,668,768
Athletic support	<u>329,906</u>
	<u><u>\$ 23,326,697</u></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 assets 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, 2018

NOTE O –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 and spending policies for endowment funds that attempt to provide a predictable stream of funding to programs supported by its endowment while seeking to maintain the purchasing power of the endowment assets. Under this policy, as approved by the Board of Trustees, the endowment assets are invested in a manner that is intended to produce results which generate a dependable, increasing source of income and appreciation while assuming a moderate level on investment risk. The stated return objective of this policy is the Consumer Price Index plus three percent net of fees. Actual returns in any given year may vary from this amount.

Strategies for Achieving Objectives

To satisfy its long-term rate-of-return objectives, the Foundation relies on a 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%).

Spending Policy

In general, for 2017, the Foundation has a policy of appropriating for distribution each year, eighty-five percent of the net earnings from each endowment fund for the donor-restricted purpose, if any. The remaining fifteen percent of the net earnings 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

NOTES TO FINANCIAL STATEMENTS--Continued

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

June 30, 2018

NOTE O –DISCRETE COMPONENT UNITS— Continued

Southwestern Oklahoma State University Foundation, Inc. – Continued

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.

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, 2017 was 4.0%.

NOTES TO FINANCIAL STATEMENTS--Continued

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

June 30, 2018

NOTE O -DISCRETE COMPONENT UNITS— Continued

Southwestern Pharmacy Alumni Foundation, Inc. – Continued

Cost, unrealized gain or loss and carrying amounts which are at the lower of cost or market of investments are summarized as follows:

	Cost	Gain or Loss	Fair Value
<u>December 31, 2017</u>			
Mutual Funds	\$ 3,919,901	\$ 451,199	\$ 4,371,100
Equities	604,601	329,208	933,809
Certificates of deposit	1,257,000	(3,230)	1,253,770
Total	<u>\$ 5,781,502</u>	<u>\$ 777,177</u>	<u>\$ 6,558,679</u>

Net Position

Restricted net position consist of the following at December 31, 2017:

Scholarships	\$ 2,060,388
Special net assets	373,194
Support Fund	<u>3,135</u>
	<u>\$ 2,436,717</u>

Fair Market Value Measurement

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

NOTES TO FINANCIAL STATEMENTS--Continued

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

June 30, 2018

NOTE O -DISCRETE COMPONENT UNITS— Continued

Southwestern Pharmacy Alumni Foundation, Inc. – Continued

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.

Fair Value Measurements at Reporting Date Using:

		Quoted Prices in Active Markets for Identical Assets Level 1	Other Observable Inputs Level 2	Significant Unobservable Inputs Level 3
	Fair Value			
December 31, 2017				
Mutual Funds - equited relate	\$ 3,126,894	\$ 3,126,894	\$ -	\$ -
Mutual Funds - fixed income	1,244,206	1,244,206	-	-
Equity Securities	933,809	933,809	-	-
Certificates of Deposit	1,253,770	-	-	1,253,770
Total	<u>\$ 6,558,679</u>	<u>\$ 5,304,909</u>	<u>\$ -</u>	<u>\$ 1,253,770</u>

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

NOTES TO FINANCIAL STATEMENTS--Continued

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

June 30, 2018

NOTE O -DISCRETE COMPONENT UNITS – Continued

Southwestern Pharmacy Alumni Foundation, Inc. – Continued

Endowment

The Foundation's endowment consists of multiple 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.

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, 2017 (Fiscal Year End of Component Units)

	University Foundation	Pharmacy Foundation	Total
ASSETS			
Cash and cash equivalents	\$ 401,302	\$ 211,598	\$ 612,900
Pledges receivable	-	3,135	3,135
Interest receivable	-	18,008	18,008
Contributions receivable	73,305	-	73,305
Investments	22,070,782	6,558,679	28,629,461
Cash value, Life insurance	119,926	-	119,926
Beneficial interest in perpetual trust	1,309,533	-	1,309,533
Property and equipment	600,784	-	600,784
Other assets	10,416	1,500	11,916
	<u>24,586,048</u>	<u>6,792,920</u>	<u>31,378,968</u>
TOTAL ASSETS	\$ 24,586,048	\$ 6,792,920	\$ 31,378,968
LIABILITIES			
Accounts payable	\$ 3,162	\$ -	\$ 3,162
Payable to related party	134,183	-	134,183
	<u>137,345</u>	<u>-</u>	<u>137,345</u>
TOTAL LIABILITIES	137,345	-	137,345
NET POSITION			
Unrestricted			
Board designated endowment			
Specific purposes	764,948	-	764,948
General	11,785	-	11,785
Undesignated	345,273	4,356,203	4,701,476
Restricted Expendable	5,722,561	950,880	6,673,441
Restricted Nonexpendable	17,604,136	1,485,837	19,089,973
	<u>24,448,703</u>	<u>6,792,920</u>	<u>31,241,623</u>
TOTAL NET POSITION	24,448,703	6,792,920	31,241,623
TOTAL LIABILITIES AND NET POSITION	\$ 24,586,048	\$ 6,792,920	\$ 31,378,968

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, 2017 (Fiscal Year End of Component Units)

	University Foundation	Pharmacy Foundation	Total
SUPPORT, REVENUES, GAINS AND OTHER ADDITIONS			
Contributions	\$ 908,484	\$ 195,665	\$ 1,104,149
In-kind contributions	521,437	-	521,437
Sponsorship revenue	200,000	-	200,000
Program service revenue	417,221	-	417,221
Interest and dividend income	-	19,772	19,772
Net appreciation on investments	2,742,199	360,690	3,102,889
Net appreciation on perpetual trust	164,577	-	164,577
Rental income	70,000	-	70,000
Other income	12,134	48,926	61,060
Other investment income	342,287	228,827	571,114
Continuing education	-	73,440	73,440
TOTAL SUPPORT, REVENUES, GAINS, AND OTHER ADDITIONS	5,378,339	927,320	6,305,659
EXPENSES			
Program services for university	1,477,419	173,070	1,650,489
Supporting services:			
Management and general	481,023	30,126	511,149
Fundraising	300,909	-	300,909
Continuing education expenses	-	49,211	49,211
Scholarships and grants	-	149,700	149,700
School of Pharmacy	-	31,352	31,352
TOTAL EXPENSES	2,259,351	433,459	2,692,810
NET INCREASE (DECREASE) IN NET POSITION	3,118,988	493,861	3,612,849
NET ASSETS, BEGINNING OF YEAR	21,329,715	6,299,059	27,628,774
NET POSITION, END OF YEAR	\$ 24,448,703	\$ 6,792,920	\$ 31,241,623

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, 2018, 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 November 28, 2018. 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. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. However, material weakness may exist that have not been identified.

Compliance and Other Matters

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

Purpose of this Report

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

A handwritten signature in black ink that reads "Arledge & Associates, P.C." in a cursive script.

November 28, 2018



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, 2018. 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, 2018.

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 finding 2018-001. Our opinion on each major federal program is not modified with respect to these matters.

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

Report on Internal Control over Compliance

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

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

Our consideration of internal control over compliance was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over compliance that might be material weaknesses or significant deficiencies and therefore, material weaknesses or significant deficiencies may exist that have not been identified. We did not identify any deficiencies in internal control over compliance that we consider to be material weakness. However, we identified a deficiency in internal control over compliance, as described in the accompanying schedule of findings and questioned costs as finding 2018-001, that we consider to be a significant deficiency.

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

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

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

We have audited the financial statements of the University as of and for the year ended June 30, 2018, and the related notes to the financial statements, which collectively comprise the University's basic financial statements. We issued our report thereon dated November 28, 2018, 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.

November 28, 2018

SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS

SOUTHWESTERN OKLAHOMA STATE UNIVERSITY

A Department of the Regional University System of Oklahoma

Year Ended June 30, 2018

<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	\$ 7,388,044
Federal Supplemental Education Opportunity Grants	84.007	N/A	88,208
Federal Work Study Program	84.033	N/A	173,316
Federal Direct Loan Program	84.268	N/A	22,274,855
<i>Total Student Financial Assistance Cluster</i>			<u>29,924,423</u>
TRIO program cluster			
TRIO--Upward Bound	84.047	N/A	361,696
<i>Total TRIO program cluster</i>			<u>361,696</u>
Other Programs			
Supporting Effective Instruction State Grant	84.367	N/A	100,994
<i>Total Other Programs</i>			<u>100,994</u>
TOTAL U.S. DEPARTMENT OF EDUCATION			<u>30,387,113</u>
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	20,000
<i>Subtotal for CFDA #93.389</i>			<u>20,000</u>
Biomedical Research and Research Training	93.859	N/A	5,000
Biomedical Research and Research Training	93.859	N/A	21,368
Biomedical Research and Research Training	93.859	N/A	5,757
Biomedical Research and Research Training	93.859	N/A	21,393
<i>Subtotal for CFDA #93.859</i>			<u>53,518</u>
State and Local Public Health Actions to Prevent Obesity, Diabetes, Heart Disease and Stroke (PPHF)	93.757	N/A	97,963
TOTAL U.S. DEPARTMENT OF HEALTH AND HUMAN SERVICES			<u>171,481</u>
NATIONAL SCIENCE FOUNDATION			
Computer and Information Science and Engineering	47.070	N/A	27,530
Education and Human Resources	47.076	N/A	35,866
Office of International Science and Engineering	47.079	N/A	10,000
Office of International Science and Engineering	47.079	N/A	4,650
Office of International Science and Engineering	47.079	N/A	9,512
TOTAL NATIONAL SCIENCE FOUNDATION			<u>87,558</u>
TOTAL RESEARCH AND DEVELOPMENT CLUSTER			<u>259,039</u>

(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, 2018

<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			
Vovational Rehabilitation for Disabled Veterns	64.116	N/A	417,179
TOTAL U.S. DEPARTMENT OF VETERANS AFFAIRS			417,179
NATIONAL AERONAUTICS AND SPACE ADMINISTRATION			
Science	43.001	N/A	94,184
Education	43.008	N/A	18,809
Education	43.008	N/A	932
Subtotal for CFDA #43.008			19,741
TOTAL NATIONAL AERONAUTICS AND SPACE ADMINISTRATION			113,925
U.S. DEPARTMENT OF COMMERCE			
Economic Development Technical Assistance	11.303	N/A	122,393
TOTAL U.S. DEPARTMENT OF COMMERCE			122,393
U.S. DEPARTMENT OF AGRICULTURE			
Summer Food Services Program for Children	10.559	N/A	7,004
TOTAL U.S. DEPARTMENT OF AGRICULTURE			7,004
U.S. DEPARTMENT OF AGRICULTURE RURAL DEVELOPMENT			
Distance Learning and Telemedicine Loans and Grants	10.855	N/A	190,267
TOTAL U.S. DEPARTMENT OF AGRICULTURE RURAL DEVELOPMENT			190,267
U.S. DEPARTMENT OF INTERIOR			
Indian Education Higher Education Grant	15.114	N/A	468,328
Indian Education Higher Education Grant	15.114	N/A	22,501
TOTAL U.S. DEPARTMENT OF INTERIOR			490,829
NATIONAL ENDOWMENT FOR THE ARTS			
Promotion of the Arts Grants to Organizations and Individuals	45.024	N/A	708
TOTAL U.S. DEPARTMENT OF AGRICULTURE			708
U.S. DEPARTMENT OF HOMELAND SECURITY			
Hazard Mitigation Grant	97.039	N/A	17,158
TOTAL U.S. DEPARTMENT OF HOMELAND SECURITY			17,158
TOTAL EXPENDITURES OF FEDERAL AWARDS			\$ 32,005,615

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, 2018

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, 2018. 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 the cost principles contained in the Uniform Guidance, 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, 2018, 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, 2018

Section I--Summary of Auditor's Results

Financial statements

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

Unmodified

Internal control over financial reporting:

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

Noncompliance material to financial statements noted?

☐ yes ☒ no

Federal Awards

Internal control over major federal programs:

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

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

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

☒ yes ☐ no

Identification of major federal programs:

Program

Student Financial Assistance Cluster

CFDA Number

*

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

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

Auditee qualified as low-risk auditee? ☒ yes ☐ no

SCHEDULE OF FINDINGS AND QUESTIONED COSTS--Continued

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

Year Ended June 30, 2018

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

None to report for the June 30, 2018 period.

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

Finding 2018-001: Special Tests and Provisions – Enrollment Reporting

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

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

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

Questioned Costs: None

Cause and Effect: The University has utilized technology to automate some of its reporting. The automated reports used for clearinghouse uploads did not include all of the necessary criteria to adhere to the reporting requirement for graduates.

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

SCHEDULE OF FINDINGS AND QUESTIONED COSTS--Continued

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

Year Ended June 30, 2018

Finding 2018-001: Special Tests and Provisions – Enrollment Reporting--continued

Management's Response: Management agrees with this finding. SWOSU regularly reports all graduate data electronically to NSLDS through the National Student Clearinghouse. Reporting begins after submitting our final enrollment report at the conclusion of the semester. SWOSU will typically send graduate reports within one week after the end of the semester following final degree checks and officially awarding degrees and continue to send graduate reports weekly until the graduation process is completed each semester. Graduation reporting is processed within 30 days of certification of a student's graduation. As noted in the official findings, previously unknown reporting errors were discovered from the student sample taken; the Registrar's Office staff responsible for enrollment and graduation reporting took immediate action and worked with both the National Student Clearinghouse and SWOSU IT department to resubmit the necessary graduation files to resolve all graduation reporting errors and made changes to insure we will not encounter the same reporting discrepancies again.

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, 2018

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.

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

SUMMARY SCHEDULE OF PRIOR AUDIT FINDINGS AND QUESTIONED COSTS--
Continued

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

Year Ended June 30, 2018

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.

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

SUMMARY SCHEDULE OF PRIOR AUDIT FINDINGS AND QUESTIONED COSTS--
Continued

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

Year Ended June 30, 2018

**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.

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