

**NORTHEASTERN
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, 2016

NORTHEASTERN STATE UNIVERSITY
A DEPARTMENT OF THE REGIONAL UNIVERSITY SYSTEM OF OKLAHOMA

June 30, 2016

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AND THE UNIFORM GUIDANCE

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INDEPENDENT AUDITOR'S REPORT

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

Report on the Financial Statements

We have audited the accompanying financial statements of Northeastern State University (the "University"), a department of the Regional University System of Oklahoma ("RUSO"), which is a component unit of the State of Oklahoma, and its discretely presented component unit, as of and for the year ended June 30, 2016, and the related notes to the financial statements, which collectively comprise the University's basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

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

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

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

Opinions

In our opinion, based on our audit and the report of the other auditor, the financial statements referred to above present fairly, in all material respects, the respective financial position of the University and its discretely presented component unit as of June 30, 2016, and the respective changes in financial position and 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, 2016, the changes in its financial position, or its cash flows for the year then ended in conformity with accounting principles generally accepted in the United States of America. Our opinion is not modified with respect to this matter.

Other Matters

Supplementary Information

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

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated October 21, 2016, on our consideration of the University's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the University's internal control over financial reporting and compliance.



October 21, 2016

Management's Discussion and Analysis (Unaudited)
Northeastern State University
June 30, 2016

Introductory Synopsis

Founded on the rich educational heritage of the Cherokee Nation, the campuses of Northeastern State University provide its diverse communities with lifelong learning through a broad array of undergraduate, graduate, and professional doctoral degree programs. With high expectations for student success, the University provides quality teaching, challenging curricula, research and scholarly activities, immersive learning opportunities, and service to local and professional communities. The institution's dedicated faculty and staff offer a service-oriented, supportive learning environment where students prepare to achieve professional and personal success in a multicultural and global society.

On May 7, our historic and beloved institution turned 165 years old. The seeds planted by the Cherokee Nation on May 7, 1851, when the Female Seminary opened, continue to produce an abundant harvest in 2016.

In 2013, NSU's President Dr. Steve Turner introduced NSU Destination 2023, a ten year road map of distinction through degree completion. This plan established a series of goals, identified responsible leadership, and defined measures of progress to increase the number of graduating students through strategic efforts over a ten year period. NSU continues to strive to meet the goals identified for enrollment and retention.



Over the course of the year, a number of initiatives were undertaken or completed. In an effort to provide more physical resources to our students to enhance their academic experience, improvements to existing facilities and construction of new facilities were launched. These included the completion of the RiverHawks Wellness Center in Tahlequah, near completion of Isabell Cobb Hall, the new 344-bed residence hall and ongoing exterior restorations to Wilson Hall.

Privately funded scholarships for students have been and continue to be a major focus of the university. Country Music Artist, Josh Turner performed at the 2015 Emerald Ball raising much needed funds for student scholarships.

Due to a significant institution-wide effort, the *Preserve our past, ENSure Our Future* campaign received \$16.7 million in donations and pledges, almost 80% of our initial working goal of \$20,925,000. Additionally, NSU set a new record in employee giving. Our collective fundraising efforts could not have come at a more critical time to help support our mission and our students.

Overview of Financial Statements and Financial Analysis

The financial statements of Northeastern State University are presented for the fiscal year ended June 30, 2016. These statements include the financial activity of the Center for Regional and International Partnerships, Inc., which is a component unit, and the Northeastern State University Educational Foundation, which is a discretely presented component unit. The most recent financial statements of the NSU Foundation are included in this presentation under the heading *Component Unit*. Financial analysis data is presented within this discussion for fiscal years 2015 and 2016.

Management's discussion and analysis is designed to focus on current activities, resulting changes, and current known facts. It should be read in conjunction with the University's financial statements and footnotes. These financial statements are prepared in accordance with Governmental Accounting Standards Board (GASB) principles and focus on NSU as a whole.

Statement of Net Position

The Statement of Net Position presents current and non-current assets and liabilities, and net position (assets minus liabilities) as of the end of the fiscal year. The purpose of the Statement of Net Position is to present a fiscal snapshot of the university.

Net position is divided into three major categories. The first, Investment in Capital Assets, Net of Debt, provides the institution's equity in property, plant, and equipment. Expendable restricted net position is available for expenditure by the university, but must be spent for purposes as determined by donors and/or external entities. Unrestricted assets are available to the university for any lawful purpose.

Statement of Net Position		
(Thousands of Dollars)		
	2016	2015
Assets:		
Current assets	\$ 45,017	\$ 47,477
Capital assets, net	164,948	158,540
Other assets	15,884	30,058
Total Assets	\$225,849	\$236,075
Deferred Outflows of Resources:		
Deferred charge on OCIA lease restructure	\$ 0	\$ 0
Liabilities:		
Current liabilities	\$ 13,921	\$ 15,257
Noncurrent liabilities	60,247	67,524
Total Liabilities	\$ 74,168	\$ 82,781
Deferred Inflows of Resources		
Deferred gain on OCIA lease restructure	\$ 610	\$ 664

Net Position:		
Invested in capital assets	\$111,238	\$108,351
Restricted, expendable	14,958	18,201
Unrestricted	24,875	26,078
Total Net Position	\$151,071	\$152,630



Total net position of the University decreased \$1.5 million during fiscal year 2016. This decline is a result of state appropriation budget cuts during the fiscal year.

Current assets decreased \$2.4 million during fiscal year 2016 due to a decline in current unrestricted cash and cash equivalents. During the same period, noncurrent restricted cash and cash equivalents, which is a part of other assets in this schedule, declined \$13.1 million. Of this amount \$11.6 million was related to expenditures for capital construction, \$2.2 million related to the return of Perkin Loan excess cash and \$.7 million increase in debt service cash.

Capital assets are reflected net of depreciation. A schedule of capital assets including additions and retirements can be found in Note E to the financial statements. Net capital assets increased \$6.4 million during fiscal year 2016 as capital additions exceeded depreciation expense. The chart below provides further information. During fiscal year 2016, significant projects included the much improved and expanded RiverHawks Wellness Center, new construction of Dr. Isabell Cobb Hall and renovations to Wyly and Wilson Halls.

<u>Change in Capital Assets</u>	<u>2016</u>	<u>2015</u>
Additions: Buildings	\$ 9.9 million	\$ 1.8 million
Construction in Progress	3.9 million	4.3 million
Art	.2 million	0
Equipment	(.3 million)	.6 million
Land and Infrastructure	.5 million	.7 million
Library Materials	.4 million	.5 million
Deduction: Net Depreciation	(8.2 million)	(9.0 million)
Net Fiscal Year Change	(\$ 6.4 million)	(\$ 1.1 million)



Liabilities include both current liabilities such as accounts payable and noncurrent liabilities, such as bond and lease obligations. Total liabilities decreased \$8.6 million during fiscal year 2016. Current liabilities decreased \$2.1 million. This amount includes a reduction of \$.9 million in accounts payable, reduction of \$.6 million in accrued payroll and reduction of \$.5 million in current portion of noncurrent liabilities. Noncurrent liabilities decreased \$6.5 million as debt obligations were paid down. Further information about long-term liabilities can be found in Note F to the financial statements.

Deferred inflows of resources decreased minimally as the result of debt restructuring.

Statement of Revenues, Expenses, and Changes in Net Position

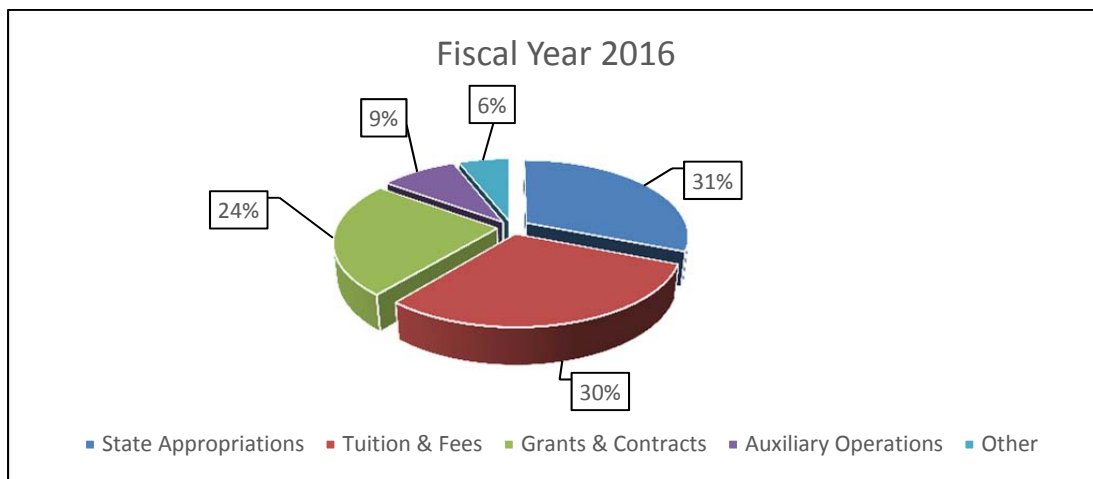
The Statement of Revenues, Expenses, and Changes in Net Position is used to display the sources and uses of funds of the university during the fiscal year. This information must be viewed over a period of time to determine if the goals of the institution are being met. Public institutions will normally have an excess of operating expenses over operating revenues as state appropriations are considered non-operating revenues under generally accepted accounting principles.

Statement of Revenues, Expenses, and Changes in Net Position		
(Thousands of Dollars)		
	Fiscal Year Ended June 30	
	2016	2015
Operating revenues	\$ 50,824	\$ 50,199
Employee compensation and benefits	(66,341)	(67,016)
Depreciation expense	(9,550)	(10,508)
Other operating expense	(34,150)	(35,932)
Operating Income (Loss)	(59,217)	(63,257)
Federal, state and local grants	20,825	21,507
State appropriations	32,520	37,428
On behalf payments, gifts, investments and interest exp.	(1,225)	(1,568)
Capital gifts	1,314	1,309
State appropriations for capital purposes	4,224	3,859
Change in Net Position	(1,559)	(722)
Net Position, beginning of year	152,630	153,352
Net Position, end of year	\$ 151,071	\$152,630

Operating revenue includes tuition and fees, state and federal grants and contracts, and revenue generated by auxiliary units. Total operating revenue increased \$.6 million in fiscal year 2016. Student tuition and fee revenue increased \$1.4 million as the result of a tuition increase of 5.0%. Revenue from Optometry clinics increased \$.9 million as that service continues to expand. Federal and state grants and contracts decreased \$1 million due to close out of grants and the remainder in other operating revenue.

The primary sources of non-operating revenue include federal and state grants related to financial aid and state appropriations. Financial aid revenue decreased \$.6 million during fiscal year 2016. State appropriations received several cuts resulting in a decreased of \$4.9 million. NSU received capital gifts totaling \$1.3 million from land reclamation work at the Broken Arrow campus and equipment donations.

The following is a graphical representation of the sources of NSU's revenue. State appropriations are 31% of total NSU revenue, while grants and financial aid revenue is 24% and student tuition and fees are 30%.



Operating expenses include employee compensation, student scholarships, depreciation, and other necessary supplies and service expenses. Total operating expenses decreased \$3.4 million in fiscal year 2016. \$.9 million of this amount was from a decreased in supplies and materials due to decrease in state appropriations. In addition to supplies and material, compensation decreased \$.6 million, contractual service increased \$.2 million, depreciation decreased \$.9 million, utilities decreased \$.2 million and other operating expenses decreased \$.7 million.

Change in net position reflects net income or loss for the year. The net loss for fiscal year 2016 is \$1.5 million.



Statement of Cash Flows

The Statement of Cash Flows presents detailed information about cash receipts and disbursements of the university during the year. The statement is divided into five parts. The first shows the net cash used by the operating activities of the university. The second reflects cash flows from non-capital financing activities. The primary source of revenue for non-capital financing activities is from state appropriations. The third section is cash flows from investing activities, which shows the purchase, proceeds, and interest received from investing activities. The fourth section deals with cash flows from capital and related financing activities, which includes the acquisition and construction of capital and related items. The fifth and final section reconciles the net cash used to the operating income reflected on the Statement of Revenues, Expenses, and Changes in Net Assets.

Statement of Cash Flows (Thousands of Dollars)	Fiscal Year Ended June 30	
	2016	2015
Cash provided (used) by		
Operating activities	\$(54,341)	\$(51,691)
Noncapital financing activities	54,203	59,684
Investing activities	288	290
Capital and related financing activities	(17,283)	(11,518)
Net Change in Cash	(17,133)	(3,235)
Cash, beginning of year	65,756	68,991
Cash, end of year	\$48,623	\$65,756

The net cash balance decreased \$17.1 million during fiscal year 2016. Of this amount \$14 million was used for capital assets.

Component Units

Northeastern State University has determined that the Center for Regional and International Partnerships Incorporated (CRIP) meets the criteria for inclusion in these financial statements. The inclusion of information related to this entity does not mean that Northeastern State University has access to the resources of this entity.

The University Foundation meets the criteria for inclusion as a discretely presented component unit of the university. The most recent financial statements of the University Foundation are included in this presentation under the heading *Component Unit*.

Economic Outlook



While the national economic recovery continues, Oklahoma's financial picture is not strong. Revenue from oil and natural gas production is a major component of Oklahoma state revenue. Current low market rates within this sector along with taxation limits have created a revenue shortfall that is projected to continue into the next fiscal year. State appropriations to the university for fiscal year 2017 were reduced 15.95% compared to the prior year budget.

Enrollment for the fall 2017 semester is slightly down compared to recent years. However, a great deal has been accomplished in the creation and implementation of new and revised academic programs that connect us with the professional workforce and align with Governor Fallin's *Oklahoma Works Initiative*.

In recent years NSU has been able to limit tuition increases, which helped position it as one of the lowest cost four-year universities in the state. This has provided a competitive edge to recruiting efforts. However, to offset inflation and enrollment revenue losses, tuition and mandatory fee rates rose for fiscal year 2017 by 11.9%. Due to additional state appropriations cuts, increases in tuition and fees were required. Even with the increase, NSU remains positioned as one of the lowest cost four-year universities in the state. The impact upon students' ability to pay for courses and upon their future debt load is of uppermost concern in the determination of future tuition and fee rates.

Northeastern's financial position remains strong. Conservative financial decisions will continue to be made to provide and protect the resources necessary to address critical needs and to enhance programs. The university will continue to take necessary actions to reduce costs and increase operating revenues to protect and grow critical academic programming.



STATEMENT OF NET POSITION

NORTHEASTERN STATE UNIVERSITY

A DEPARTMENT OF THE REGIONAL UNIVERSITY SYSTEM OF OKLAHOMA

	<u>University</u>	<u>Component Unit</u>
	<u>June 30, 2016</u>	<u>December 31, 2015</u>
ASSETS		
CURRENT ASSETS		
Cash and cash equivalents	\$ 30,821,584	\$ 4,042,577
Restricted cash and cash equivalents	4,935,144	-
Restricted investments	-	20,837,182
Accounts receivable, net	6,286,345	-
Receivable from state agencies	1,318,528	-
Interest receivable	761,814	7,402
Inventories and other current assets	394,376	68,171
Current portion of notes receivable, net	<u>500,000</u>	<u>-</u>
TOTAL CURRENT ASSETS	45,017,791	24,955,332
NONCURRENT ASSETS		
Restricted cash and cash equivalents	12,865,777	-
Notes receivable, net	3,017,996	-
Capital assets, net	<u>164,947,933</u>	<u>34,000</u>
TOTAL NONCURRENT ASSETS	<u>180,831,706</u>	<u>34,000</u>
TOTAL ASSETS	<u>\$ 225,849,497</u>	<u>\$ 24,989,332</u>

(Continued)

STATEMENT OF NET POSITION--Continued

NORTHEASTERN STATE UNIVERSITY
A DEPARTMENT OF THE REGIONAL UNIVERSITY SYSTEM OF OKLAHOMA

	<u>University</u>	<u>Component</u> <u>Unit</u>
	June 30, 2016	December 31, 2015
LIABILITIES AND NET POSITION		
CURRENT LIABILITIES		
Accounts payable	\$ 2,802,946	\$ 4,433
Accrued payroll	1,007,764	-
Unearned revenue	3,228,587	-
Deposits held in custody for others	117,802	-
Current portion of noncurrent liabilities	6,763,550	10,420
TOTAL CURRENT LIABILITIES	<u>13,920,649</u>	<u>14,853</u>
NONCURRENT LIABILITIES		
Accrued compensated absences	1,494,030	-
Other liabilities	-	4,922
Federal loan program contributions refundable	6,172,000	-
Unearned capital assets	200,000	-
Lease obligation payable to state agency	52,381,320	-
TOTAL NONCURRENT LIABILITIES	<u>60,247,350</u>	<u>4,922</u>
TOTAL LIABILITIES	<u>\$ 74,167,999</u>	<u>\$ 19,775</u>
DEFERRED INFLOWS OF RESOURCES		
Deferred gain on OCIA lease restructure	\$ 610,047	\$ -
NET POSITION		
Net investment in capital assets	\$ 111,237,383	\$ -
Restricted:		
Nonexpendable, primarily for Scholarships	-	15,359,667
Expendable:		
Scholarships, instruction and other	6,805,531	7,438,632
Loans	479,477	-
Capital projects	5,442,686	-
Debt service	2,230,712	-
Unrestricted	24,875,662	2,171,258
TOTAL NET POSITION	<u>\$ 151,071,451</u>	<u>\$ 24,969,557</u>

See notes to financial statements.

STATEMENT OF REVENUES, EXPENSES AND CHANGES IN NET POSITION

NORTHEASTERN STATE UNIVERSITY

A DEPARTMENT OF THE REGIONAL UNIVERSITY SYSTEM OF OKLAHOMA

	University	Component Unit
	Year Ended June 30 2016	Year Ended December 31 2015
OPERATING REVENUES		
Student tuition and fees, net of scholarship discounts and allowances of \$14,639,368	\$ 32,089,540	\$ -
Federal and state grants and contracts	4,228,829	-
Housing and food service, net of scholarship discounts and allowances of \$1,317,958	3,506,432	-
Optometry contracts and practice plan	6,373,494	-
Interest earned on loans to students	86,349	-
Gifts and contributions	-	4,236,952
Investment income (loss)	-	(160,724)
Other operating revenues	4,539,467	21,565
TOTAL OPERATING REVENUES	50,824,111	4,097,793
OPERATING EXPENSES		
Compensation	66,341,324	-
Contractual services	4,438,765	-
Supplies and materials	5,820,607	-
Depreciation	9,549,652	-
Utilities	3,728,324	-
Communication expense	363,804	-
Scholarships and fellowships	12,328,885	1,468,753
Other operating expenses	7,470,014	822,725
TOTAL OPERATING EXPENSES	110,041,375	2,291,478
OPERATING INCOME (LOSS)	(59,217,264)	1,806,315
NONOPERATING REVENUES (EXPENSES)		
Federal and state grants and contracts	20,824,871	-
State appropriations	32,520,356	-
Gifts and contributions	857,533	-
Investment income	313,220	-
Interest expense	(2,395,789)	-
NET NONOPERATING REVENUES	52,120,191	-
Income before other revenues, expenses, gains and losses	(7,097,073)	1,806,315
Capital grants and gifts	1,314,696	-
State appropriations restricted for capital purposes	4,223,798	-
CHANGE IN NET POSITION	(1,558,579)	1,806,315
NET POSITION AT BEGINNING OF YEAR	152,630,030	23,163,242
NET POSITION AT END OF YEAR	\$ 151,071,451	\$ 24,969,557

See notes to financial statements.

STATEMENTS OF CASH FLOWS

NORTHEASTERN STATE UNIVERSITY

A DEPARTMENT OF THE REGIONAL UNIVERSITY SYSTEM OF OKLAHOMA

Year Ended June 30, 2016

CASH FLOWS FROM OPERATING ACTIVITIES

Tuition and fees	\$ 31,981,807
Grants and contracts	4,150,072
Other operating receipts	14,007,562
Payments to employees for salaries and benefits	(66,904,032)
Payments to suppliers	(37,774,018)
Loans made to students	(585,735)
Collection of student loans	782,781
NET CASH USED IN OPERATING ACTIVITIES	<u>(54,341,563)</u>

CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES

State appropriations	32,520,356
Nonoperating grants, primarily student financial assistance	20,824,871
Direct loan/FFEL receipts	35,918,282
Direct loan/FFEL payments	(35,918,282)
Gifts for other than capital purposes	857,533
NET CASH PROVIDED BY NONCAPITAL FINANCING ACTIVITIES	<u>54,202,760</u>

CASH FLOWS FROM INVESTING ACTIVITIES

Investment income received	<u>287,976</u>
NET CASH PROVIDED BY INVESTING ACTIVITIES	287,976

CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES

Cash paid for capital assets	(14,051,306)
Capital appropriations received	1,467,372
Interest paid on capital debt and leases	(1,825,749)
Proceeds from capital debt and leases	4,904,292
Principal payments on capital debt and leases	<u>(7,777,251)</u>
NET CASH USED IN CAPITAL AND RELATED FINANCING ACTIVITIES	<u>(17,282,642)</u>

NET INCREASE (DECREASE) IN CASH EQUIVALENTS (17,133,469)

CASH AND CASH EQUIVALENTS, BEGINNING OF YEAR 65,755,974

CASH AND CASH EQUIVALENTS, END OF YEAR \$ 48,622,505

See notes to financial statements.

(Continued)

STATEMENTS OF CASH FLOWS--Continued

NORTHEASTERN STATE UNIVERSITY
A DEPARTMENT OF THE REGIONAL UNIVERSITY SYSTEM OF OKLAHOMA
Year Ended June 30, 2016

RECONCILIATION OF OPERATING LOSS TO
NET CASH USED IN OPERATING ACTIVITIES

Operating loss	\$ (59,217,264)
Adjustments to reconcile operating loss to net cash used by operating activities:	
Depreciation	9,549,652
Loss on the disposal of fixed assets	8,290
Changes in assets and liabilities:	
Accounts receivable	(628,355)
Inventories	(43,585)
Loans receivable	197,046
Accounts payable and accrued expenses	(1,587,324)
Accrued payroll	(576,796)
Deferred revenue	(56,315)
Federal loan program contributions refundable	(2,001,000)
Compensated absences	<u>14,088</u>
NET CASH USED IN OPERATING ACTIVITIES	<u>\$ (54,341,563)</u>

NONCASH INVESTING, NONCAPITAL FINANCING AND
CAPITAL AND RELATED FINANCING ACTIVITIES

Interest on capital debt paid by OCIA on behalf of the University	<u>\$ 828,010</u>
Principal on capital debt paid by OCIA on behalf of the University	<u>\$ 1,928,416</u>
Non-cash capital grants and gifts	<u>\$ 1,314,696</u>
Deferred gain on OCIA lease restructure	<u>\$ 610,047</u>

RECONCILIATION OF CASH AND CASH EQUIVALENTS
TO STATEMENTS OF NET ASSETS

Current assets:	
Cash and cash equivalents	\$ 30,821,584
Restricted cash and cash equivalents	4,935,144
Noncurrent assets:	
Restricted cash and cash equivalents	<u>12,865,777</u>
TOTAL CASH AND CASH EQUIVALENTS	<u>\$ 48,622,505</u>

See notes to financial statements.

NOTES TO FINANCIAL STATEMENTS

NORTHEASTERN STATE UNIVERSITY

A DEPARTMENT OF THE REGIONAL UNIVERSITY SYSTEM OF OKLAHOMA

June 30, 2016

NOTE A--SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

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

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

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

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

Blended Component Units: The financial reporting entity, as defined by Governmental Accounting Standards Board (GASB) Statement No. 14, *The Financial Reporting Entity*, and as amended by GASB Statement No. 61, *The Financial Reporting Entity: Omnibus*, includes the accounts and funds of the University and its component unit, the Center for Regional and International Partnerships, Inc. ("CRIPS").

The CRIPS was formed September 8, 2011 as a nonprofit corporation to engage in economic development activities within the region on behalf of the University, and in accordance with the Oklahoma State Regents for Higher Education's mandates under *Making Place Matter*. The primary focus of CRIPS is to impact job creation and capital infusion into the rural, high unemployment economies of the region. CRIPS is governed by a board of directors comprised primarily of management of the University. In addition, university employees and facilities are used for virtually all activities of the Center. Accordingly, CRIPS has been reported as a blended component unit in the financial statements

NOTES TO FINANCIAL STATEMENTS -- CONTINUED

NORTHEASTERN STATE UNIVERSITY
A DEPARTMENT OF THE REGIONAL UNIVERSITY SYSTEM OF OKLAHOMA

June 30, 2016

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

Discretely Presented Component Units: Northeastern State University Foundation, Inc. (the "University Foundation") is a component unit of the University under GASB 39 that should be discretely presented with the financial statements of the University. The University Foundation has a fiscal year ending December 31. The University is the beneficiary of the University Foundation. The Foundation is a separate legal entity with its own Board of Trustees. The University Foundation is administered to provide benefit to the University. The University Foundation uses all contributions, grants and other revenues to aid the University in charitable, benevolent, religious, educational, scientific and literary purposes.

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

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

Cash Equivalents: For purposes of the 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 statements of revenues, expenses and changes in net position.

NOTES TO FINANCIAL STATEMENTS -- CONTINUED

NORTHEASTERN STATE UNIVERSITY
A DEPARTMENT OF THE REGIONAL UNIVERSITY SYSTEM OF OKLAHOMA

June 30, 2016

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

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

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

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

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. Depreciation expense includes amortization of assets held under capital lease obligations.

Unearned Revenue: Unearned revenues include amounts received for tuition and fees and certain auxiliary activities prior to the end of the fiscal year but related to the subsequent accounting period. Amounts received from grant and contract sponsors that have not yet been earned, unless due to timing requirements, will be considered deferred revenue. Grant and contract sponsor amounts received but not recognized due to timing requirements will be reported as a deferred inflow of resources.

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 statements of net position, and as a component of compensation and benefit expense in the statements of revenues, expenses and changes in net position.

NOTES TO FINANCIAL STATEMENTS -- CONTINUED

NORTHEASTERN STATE UNIVERSITY
A DEPARTMENT OF THE REGIONAL UNIVERSITY SYSTEM OF OKLAHOMA

June 30, 2016

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

Noncurrent Liabilities: Noncurrent liabilities include (1) principal amounts of revenue bonds payable, notes payable, and capital lease obligations with contractual maturities greater than one year, (2) estimated amounts for accrued compensated absences and other liabilities that will not be paid within the next fiscal year, and (3) other liabilities including the federal portion of the Perkins Loan Program, that will not be paid within the next fiscal year.

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

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

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

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

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

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

NOTES TO FINANCIAL STATEMENTS -- CONTINUED

NORTHEASTERN STATE UNIVERSITY
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June 30, 2016

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

Use of Estimates: The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of 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.

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

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

Nonoperating revenues: Nonoperating revenues include activities that have the characteristics of nonexchange transactions, such as gifts and contributions, and other revenue sources that are defined as nonoperating revenues by GASB No. 9 *Reporting Cash Flows of Proprietary 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. Scholarship discounts and allowances are the difference between the stated charge for goods and services provided by the University and the amount that is paid by students and/or third parties making payments on the students' behalf. Certain governmental grants, such as Pell grants, and other federal, state or nongovernmental programs, are recorded as nonoperating revenues in the University's financial statements. To the extent that revenues from such programs are used to satisfy tuition and fees and other student charges, the University has recorded a scholarship discount and allowance.

Deferred Outflows of Resources: Deferred outflows are the consumption of net position by the University that are applicable to a future reporting period. At June 30, 2016, the University's had no deferred outflows of resources. The deferred outflows of resources the University has had was related to debt restructurings and are recognized as a component of interest expense over the remaining life of the old debt or the life of the new debt, whichever is shorter.

NOTES TO FINANCIAL STATEMENTS -- CONTINUED

NORTHEASTERN STATE UNIVERSITY
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June 30, 2016

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

Deferred Inflows of Resources: Deferred inflows are the acquisition of net position by the University that are applicable to a future reporting period. At June 30, 2016, the University deferred inflows of resources were comprised of deferred gains on the restructuring of certain long term debt.

New Accounting Pronouncements Adopted in Fiscal Year 2016: The University adopted the following new accounting pronouncement during the year ended June 30, 2016:

- *Statement No. 72, Fair Value Measurement and Application*
GASB Statement No. 72 addresses accounting and financial reporting issues related to fair value measurements. This Statement provides guidance for determining a fair value measurement for financial reporting purposes. This Statement also provides guidance for applying fair value to certain investments and disclosures related to all fair value measurements.
- *GASB Statement No. 76, The Hierarchy of Generally Accepted Accounting Principles for State and Local Governments*
GASB Statement No. 76 identifies, in the context of the current governmental financial reporting environment, the hierarchy of generally accepted accounting principles (GAAP). The "GAAP hierarchy" consists of the sources of accounting principles used to prepare financial statements of state and local governmental entities in conformity with GAAP and the framework for selecting those principles. This Statement reduces the GAAP hierarchy to two categories of authoritative GAAP and addresses the use of authoritative and nonauthoritative literature in the event that the accounting treatment for a transaction or other event is not specified within a source of authoritative GAAP.

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

NOTES TO FINANCIAL STATEMENTS -- CONTINUED

NORTHEASTERN STATE UNIVERSITY
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June 30, 2016

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

- *GASB Statement No. 73, Accounting and Financial Reporting for Pensions and Related Assets That Are Not within the Scope of GASB Statement 68, and Amendments to Certain Provisions of GASB Statements 67 and 68*

GASB No. 73 was issued in June 2015 and establishes requirements for defined benefit pensions that are not within the scope of Statement No. 68, *Accounting and Financial Reporting for Pensions*, as well as for the assets accumulated for purposes of providing those pensions. In addition, it establishes requirements for defined contribution pensions that are not within the scope of Statement 68. It also amends certain provisions of Statement No. 67, *Financial Reporting for Pension Plans*, and Statement 68 for pension plans and pensions that are within their respective scopes. The requirements of this Statement that address accounting and financial reporting by employers and governmental nonemployer contributing entities for pensions that are not within the scope of Statement 68 are effective for financial statements for fiscal years beginning after June 15, 2016, and the requirements of this Statement that address financial reporting for assets accumulated for purposes of providing those pensions are effective for fiscal years beginning after June 15, 2015. The requirements of this Statement is for pension plans that are within the scope of Statement 67 or for pensions that are within the scope of Statement 68 are effective for fiscal years beginning after June 15, 2015. The University has not yet determined the impact that implementation of GASB 75 will have on its net position.

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

GASB No. 74 was issued in June 2015, and replaces Statements No. 43, *Financial Reporting for Postemployment Benefit Plans Other Than Pension Plans*, as amended, and No. 57, *OPEB Measurements by Agent Employers and Agent Multiple-Employer Plans*. It also includes requirements for defined contribution OPEB plans that replace the requirements for those OPEB plans in Statement No. 25, *Financial Reporting for Defined Benefit Pension Plans and Note Disclosures for Defined Contribution Plans*, as amended, Statement 43, and Statement No. 50, *Pension Disclosures*. This Statement is effective for financial statements for fiscal years beginning after June 15, 2016. The University has not yet determined the impact that implementation of GASB 75 will have on its net position.

NOTES TO FINANCIAL STATEMENTS -- CONTINUED

NORTHEASTERN STATE UNIVERSITY
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NOTE A--SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES--Continued

- *GASB Statement No. 75, Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions*
GASB No. 75 was issued in June 2015, and addresses accounting and financial reporting for OPEB that is provided to the employees of state and local governmental employers. This Statement establishes standards for recognizing and measuring liabilities, deferred outflows of resources, deferred inflows of resources, and expense/expenditures. For a defined benefit OPEB, this Statement identifies the methods and assumptions that are required to be used to project benefit payments, discount projected benefit payments to their actuarial present value, and attribute that present value to periods of employee service. Note disclosure and required supplementary information requirements about defined benefit OPEB also are addressed. This Statement is effective for fiscal years beginning after June 15, 2017. The University has not yet determined the impact that implementation of GASB 75 will have on its net position.
- *GASB Statement No. 77, Tax Abatement Disclosures*
GASB 77 was issued in August 2015, and establishes financial reporting standards for tax abatement agreements entered into by state and local governments. The disclosures required by this Statement encompass tax abatements resulting from both (a) agreements that are entered into by the reporting government and (b) agreements that are entered into by other governments and that reduce the reporting government's tax revenues. The requirements of this Statement are effective for financial statements for periods beginning after December 15, 2015. The University has not yet determined the impact that implementation of GASB 75 will have on its net position.

NOTES TO FINANCIAL STATEMENTS -- CONTINUED

NORTHEASTERN STATE UNIVERSITY
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NOTE A--SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES--Continued

- *GASB Statement No. 78, Pensions Provided Through Certain Multiple-Employer Defined Benefit Pension Plans*

GASB 78 was issued in December 2015, and amends the scope and applicability of Statement 68 to exclude pensions provided to employees of state or local governmental employers through a cost-sharing multiple employer defined benefit pension plan that (1) is not a state or local governmental pension plan, (2) is used to provide defined benefit pensions both to employees of state or local governmental employers and to employees of employers that are not state or local governmental employers, and (3) has no predominant state or local governmental employer (either individually or collectively with other state or local governmental employers that provide pensions through the pension plan). This Statement establishes requirements for recognition and measurement of pension expense, expenditures, and liabilities; note disclosures; and required supplementary information for pensions that have the characteristics described above. The requirements of this Statement are effective for reporting periods beginning after December 15, 2015. The statement does not affect the University's financial statements.

- *GASB Statement No. 79, Certain External Investment Pools and Pool Participants*

GASB 79 was issued in December 2015, and addresses accounting and financial reporting for certain external investment pools and pool participants. Specifically, it establishes criteria for an external investment pool to qualify for making the election to measure all of its investments at amortized cost for financial reporting purposes. An external investment pool qualifies for that reporting if it meets all of the applicable criteria established in this Statement. The specific criteria address (1) how the external investment pool transacts with participants; (2) requirements for portfolio maturity, quality, diversification, and liquidity; and (3) calculation and requirements of a shadow price. Significant noncompliance prevents the external investment pool from measuring all of its investments at amortized cost for financial reporting purposes. Professional judgment is required to determine if instances of noncompliance with the criteria established by this Statement during the reporting period, individually or in the aggregate, were significant. The requirements of this Statement are effective for reporting periods beginning after June 15, 2015, except for certain provisions on portfolio quality, custodial credit risk, and shadow pricing. Those provisions are effective for reporting periods beginning after December 15, 2015. At this time, the impact to the University is unknown.

NOTES TO FINANCIAL STATEMENTS -- CONTINUED

NORTHEASTERN STATE UNIVERSITY
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NOTE A--SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES--Continued

- *GASB Statement No. 80, Blending Requirements for Certain Component Units*
An Amendment of GASB Statement No. 14 – GASB 80 was issued in January 2016, and amends the blending requirements for the financial statement presentation of component units of all state and local governments. The additional criterion requires blending of a component unit incorporated as a not-for profit corporation in which the primary government is the sole corporate member. The additional criterion does not apply to component units included in the financial reporting entity pursuant to the provisions of Statement No. 39, Determining Whether Certain Organizations Are Component Units. The requirements of this Statement are effective for reporting periods beginning after June 15, 2016. At this time, the impact to the University is unknown.
- *GASB Statement No. 81, Irrevocable Split-Interest Agreements*
GASB 81 was issued in March 2016, to improve accounting and financial reporting for irrevocable split-interest agreements by providing recognition and measurement guidance for situations in which a government is a beneficiary of the agreement. The University does not believe that GASB No. 81 will have significant impact on its financial statements.

NOTE B--DEPOSITS AND INVESTMENTS

Deposits: *Custodial credit risk* for deposits is the risk that in the event of a bank failure, the University's deposits may not be returned or the University will not be able to recover collateral securities in the possession of an outside party. The University deposits its funds with the Office of the State Treasurer (OST). Oklahoma statutes require OST to ensure that all state funds either be insured by Federal Deposit Insurance, collateralized by securities held by the cognizant Federal Reserve Bank, or invested in U.S. government obligations. The University's deposits with the State Treasurer are pooled with the funds of other State agencies and then, in accordance with statutory limitations, placed in financial institutions or invested as the Treasurer may determine, in the State's name.

NOTES TO FINANCIAL STATEMENTS -- CONTINUED

NORTHEASTERN STATE UNIVERSITY
A DEPARTMENT OF THE REGIONAL UNIVERSITY SYSTEM OF OKLAHOMA

June 30, 2016

NOTE B--DEPOSITS AND INVESTMENTS--Continued

Of the \$43,782,443 in cash and cash equivalents on deposit with the State Treasurer as of June 30, 2016, \$17,722,682 represent amounts held within *OK INVEST* an internal investment pool. Agencies and funds that are considered to be part of the State's reporting entity in the State's Comprehensive Annual Financial Report are allowed to participate in *OK INVEST*. Oklahoma statutes and the State Treasurer establish the primary objectives and guidelines governing the investment of funds in *OK INVEST*. Safety, liquidity, and return on investment are the objectives that establish the framework for the day to day *OK INVEST* management with an emphasis on safety of the capital and the probable income to be derived and meeting the State's daily cash flow requirements. Guidelines in the State Treasurer's Investment Policy address credit quality requirements, diversification percentages and the types and maturities of allowable investments. The specifics regarding these policies can be found on the State Treasurer's website at <http://www.ok.gov/treasurer/>. An evaluation of the use and purpose of the University's participation in the internal investment pool the amount on deposit with *OK INVEST* are treated as demand accounts and reported as cash equivalents.

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

NOTES TO FINANCIAL STATEMENTS -- CONTINUED

NORTHEASTERN STATE UNIVERSITY
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June 30, 2016

NOTE B--DEPOSITS AND INVESTMENTS—Continued

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. The University does not have a policy addressing credit risk.

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, 2016, the University did not have any qualifying investments.

NOTES TO FINANCIAL STATEMENTS -- CONTINUED

NORTHEASTERN STATE UNIVERSITY
 A DEPARTMENT OF THE REGIONAL UNIVERSITY SYSTEM OF OKLAHOMA

June 30, 2016

NOTE C--ACCOUNTS RECEIVABLE

Accounts receivable consisted of the following at June 30, 2016:

Student tuition and fees	\$ 4,156,884
Auxiliary enterprises and other operating activities	1,155,503
Federal, state, and private grants and contracts	1,072,156
Cancelled Perkins loans	<u>2,003,639</u>
	8,388,182
Less: allowance for doubtful accounts	<u>(2,101,837)</u>
Net accounts receivable	<u>\$ 6,286,345</u>

The receivable from state agencies consists of a receivable from the Oklahoma State Regents for Higher Education (OSRHE). The receivable is \$1,318,528 in 2016 that represents endowment revenue earned by the University that is invested at OSRHE.

NOTE D--NOTES RECEIVABLE

Student loans made through the Federal Perkins Loan Program (the "Program") comprise substantially all of the loans receivable at June 30, 2016. Under this program, the federal government provides funds for approximately 75% of the total contribution for student loans with the University providing the balance. Under certain conditions such loans can be forgiven at annual rates of 10% to 30% of the original balance up to maximums of 50% to 100% of the original loan. The federal government reimburses the University for the amounts forgiven. Amounts refundable to the U.S. Government upon cessation of the Program of \$6,172,000 at June 30, 2016, are reflected in the accompanying statements of net position as noncurrent liabilities.

As the University determines loans are uncollectible and not eligible for reimbursement by the federal government, the loans are written off and assigned to the U.S. Department of Education. The allowance for uncollectible loans only applies to University funded loans and the University portions of federal student loans, as the University is not obligated to fund the federal portion of uncollected student loans. The University has provided an allowance for uncollectible loans that, in management's opinion, is sufficient to absorb loans that will ultimately be written off.

At June 30, 2016 loans receivable consisted of the following:

Perkins loans receivable	\$ 3,781,896
Less: Allowance for uncollectible loans	<u>(263,900)</u>
Net loans receivable	<u>\$ 3,517,996</u>

NOTES TO FINANCIAL STATEMENTS -- CONTINUED

NORTHEASTERN STATE UNIVERSITY
A DEPARTMENT OF THE REGIONAL UNIVERSITY SYSTEM OF OKLAHOMA

June 30, 2016

NOTE E--CAPITAL ASSETS

Following are the changes in capital assets for the year ended June 30, 2016:

	Balance June 30, 2015	Additions	Transfers	Retirements/ Adjustments	Balance June 30, 2016
Capital assets not being depreciated					
Land	\$ 7,824,535	\$ 87,703	\$ -	\$ -	\$ 7,912,238
Construction in progress	11,730,844	11,344,817	(7,373,007)	-	15,702,654
Total assets not being depreciated	<u>\$ 19,555,379</u>	<u>\$ 11,432,520</u>	<u>\$ (7,373,007)</u>	<u>\$ -</u>	<u>\$ 23,614,892</u>
Other capital assets					
Non-major infrastructure networks	\$ 7,658,861	\$ 429,543	\$ -	\$ -	\$ 8,088,404
Buildings and improvements	206,664,208	2,608,632	7,373,007	-	216,645,847
Art	-	250,000	-	-	250,000
Furniture, fixtures and equipment	22,651,802	877,737	-	(899,210)	22,630,329
Library materials	14,099,391	367,127	-	(398,838)	14,067,680
Total other capital assets	251,074,262	4,533,039	7,373,007	(1,298,048)	261,682,260
Less: accumulated depreciation for					
Non-major infrastructure networks	3,404,517	350,408	-	-	3,754,925
Buildings and improvements	78,136,694	7,230,363	-	-	85,367,057
Art	-	12,500	-	-	12,500
Furniture, fixtures and equipment	19,983,763	1,189,453	-	(890,920)	20,282,296
Library materials	10,564,351	766,928	-	(398,838)	10,932,441
Total accumulated depreciation	<u>112,089,325</u>	<u>9,549,652</u>	<u>-</u>	<u>(1,289,758)</u>	<u>120,349,219</u>
Other capital assets, net	<u>\$ 138,984,937</u>	<u>\$ (5,016,613)</u>	<u>\$ 7,373,007</u>	<u>\$ (8,290)</u>	<u>\$ 141,333,041</u>
Capital asset summary:					
Capital assets not being depreciated	\$ 19,555,379	\$ 11,432,520	\$ (7,373,007)	\$ -	\$ 23,614,892
Other capital assets, at cost	251,074,262	4,533,039	7,373,007	(1,298,048)	261,682,260
Total cost of capital assets	270,629,641	15,965,559	-	(1,298,048)	285,297,152
Less: accumulated depreciation	<u>112,089,325</u>	<u>9,549,652</u>	<u>-</u>	<u>(1,289,758)</u>	<u>120,349,219</u>
Capital assets, net	<u>\$ 158,540,316</u>	<u>\$ 6,415,907</u>	<u>\$ -</u>	<u>\$ (8,290)</u>	<u>\$ 164,947,933</u>

At June 30, 2016, the cost and related accumulated depreciation of assets held under capital lease obligations and included in the above amounts were \$56,282,298 and \$22,071,472 respectively.

NOTES TO FINANCIAL STATEMENTS -- CONTINUED

NORTHEASTERN STATE UNIVERSITY
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June 30, 2016

NOTE F--LONG-TERM LIABILITIES

Long-term liability activity for the year ended June 30, 2016 was as follows:

	Balance June 30, 2015	Additions	Reductions	Balance June 30, 2016	Amounts due within one year
Bonds payable					
Revenue bonds payable	\$ 5,320,000	\$ -	\$ (5,320,000)	\$ -	\$ -
Total bonds payable	5,320,000	-	(5,320,000)	-	-
Capital lease obligations					
ODFA Master Lease	36,447,584	4,509,000	(2,457,251)	38,499,333	2,984,000
Premium on ODFA lease obligation	1,030,159	395,292	(100,584)	1,324,867	145,877
OCIA lease obligation	19,779,071	-	(1,928,416)	17,850,655	2,163,658
Total capital leases	57,256,814	4,904,292	(4,486,251)	57,674,855	5,293,535
Other liabilities					
Unearned capital assets	300,000	-	(50,000)	250,000	50,000
Federal loan program contributions	8,173,000	7,878	(2,008,878)	6,172,000	-
Accrued compensated absences	2,899,956	1,441,529	(1,427,440)	2,914,045	1,420,015
Total other liabilities	11,372,956	1,449,407	(3,486,318)	9,336,045	1,470,015
Total long-term liabilities	\$ 73,949,770	\$ 6,353,699	\$ (13,292,569)	\$ 67,010,900	\$ 6,763,550

Revenue Bonds Payable:

Board of Regents of Oklahoma Colleges Northeastern State University Revenue Bonds Series 2004

On April 1, 2004, the Board of Regents of Oklahoma Colleges issued Northeastern State University Revenue Bonds Series 2004 (the "Bonds") for \$10,000,000 to be used for constructing, furnishing and equipping a new science building on the main campus of the University. The Bonds are due in annual principal installments through April 2024, plus semiannual interest at rates from 2% to 4.30%. The Bonds are callable for redemption at the option of the University's management in whole or in part on any interest payment date of the principal amount and accrued interest to date plus a specified premium for each \$5,000 of Bonds redeemed prior to maturity. The Bonds are secured by the gross receipts from a portion of two specific student fees (i.e., facility and technology fees) and all monies in funds and accounts held by the trustee bank are available for debt service payments. The University has obtained insurance coverage that covers the debt service fund requirements of the Bonds. These bonds were refinanced during the year see ODFA note Series 2016B for more information.

NOTES TO FINANCIAL STATEMENTS -- CONTINUED

NORTHEASTERN STATE UNIVERSITY
A DEPARTMENT OF THE REGIONAL UNIVERSITY SYSTEM OF OKLAHOMA

June 30, 2016

NOTE F--LONG-TERM LIABILITIES--Continued

Capital Lease Obligations:

Oklahoma Capital Improvement Authority Leases

In November 2005, OCIA issued its OCIA Bond Issues, 2005 Series F and G. Of the total bond indebtedness, the Oklahoma State Regents for Higher Education allocated the University \$22,876,760 and \$96,640 for the Series 2005F and 2005G, respectively. Concurrently with the allocation, the University entered into a lease agreement with OCIA for those amounts. The lease agreement provides for the University to make specified monthly payments to OCIA over the terms of the agreements. The proceeds of the bonds and subsequent leases are to provide for capital improvements at the University.

In August 2010, the University's 2005F lease agreement with the OCIA was restructured through a partial refunding of OCIA's 2005F bond debt. OCIA issued two new bonds, Series 2010A and 2010B. The University's lease agreements with OCIA secure the OCIA bond debt and any future debt that might be issued to refund earlier bond issues. OCIA issued this new debt to provide budgetary relief for fiscal years 2011 and 2012 by extending and restructuring debt service. Consequently, the University's lease agreement with OCIA automatically restructured to secure the new bond issues.

During the year ended June 30, 2016, OCIA made lease principal and interest payments totaling \$1,384,625 on behalf of the University. These on-behalf payments have been recorded as restricted state appropriations in the University's statements of revenues, expenses and change in net position.

In 2014, the OCIA restructured the 2005F by issuing new bonds 2014 Series A. This restructuring was a partial refunding of the 2005F issue. The restructured lease agreement with OCIA secures the OCIA bond indebtedness and any future indebtedness that might be issued to refund earlier bond issues. The College's aforementioned lease agreement with OCIA was automatically restructured to secure the new bond issues. The University has recorded a lease obligation payable to OCIA for the total amount of the allotment, less payments made on the University's behalf, which is \$11,927,254 at June 30, 2016.

NOTES TO FINANCIAL STATEMENTS -- CONTINUED

NORTHEASTERN STATE UNIVERSITY
A DEPARTMENT OF THE REGIONAL UNIVERSITY SYSTEM OF OKLAHOMA

June 30, 2016

NOTE F--LONG-TERM LIABILITIES--Continued

Capital Lease Obligations--Continued:

Oklahoma Capital Improvement Authority Leases--Continued

During the year ended June 30, 2016, OCIA made principal and interest payments totaling \$1,227,203 behalf of the University for the 2014A and remaining 2005F issues. These on-behalf payments have been recorded as restricted state appropriations in the University's statements of revenues, expenses and change in net position.

In 2015, the OCIA restructured the 2004A by issuing new bonds 2014 Series B. This restructuring was a full refunding and resulted in a gain of \$63,418 between the remaining liability of 2004A and the new liability of 2014B. This gain on restructuring was recorded as a deferred inflow of resources that will be amortized over a period of 5 years. As of June 30, 2015, the unamortized cost totaled \$52,484. The restructured lease agreement with OCIA secures the OCIA bond indebtedness and any future indebtedness that might be issued to refund earlier bond issues. The College's aforementioned lease agreement with OCIA was automatically restructured to secure the new bond issues. This refinancing resulted in an aggregate difference in principal and interest between the original lease agreement and the refinanced lease agreement of \$104,023, which approximates the economic savings of the transaction. The University has recorded a lease obligation payable to OCIA for the total amount of the allotment, less payments made on the University's behalf, which is \$405,560, at June 30, 2016.

During the year ended June 30, 2016, OCIA made lease principal and interest payments totaling \$144,598 on behalf of the University for the restricted 2014B. These on-behalf payments have been recorded as restricted state appropriations in the University's statements of revenues, expenses and change in net position

Oklahoma Development Finance Authority Master Lease Program

Series 2003B, 2003C and 2004A

The Oklahoma Development Finance Authority (ODFA) issued the ODFA Master Lease Revenue Bonds, Series 2003B, 2003C, and 2004A (Bonds) in the University's fiscal year that ended June 30, 2004. The Bonds were issued to fund capital improvements at several state colleges and universities in Oklahoma. ODFA allocated the Bonds' proceeds to colleges and universities in the form of financing leases. The University's portion of this allocation was \$1,650,000, \$2,226,000 and \$7,445,000 for the 2003B Bonds, 2003C Bonds and 2004A Bonds, respectively. The University has recorded capital improvements funded by the lease and the resulting capital lease obligation in its statement of net position.

NOTES TO FINANCIAL STATEMENTS -- CONTINUED

NORTHEASTERN STATE UNIVERSITY
A DEPARTMENT OF THE REGIONAL UNIVERSITY SYSTEM OF OKLAHOMA

June 30, 2016

NOTE F--LONG-TERM LIABILITIES--Continued

Capital Lease Obligations--Continued:

Oklahoma Development Finance Authority Master Lease Program--Continued

Series 2003B, 2003C and 2004A

The lease agreement calls for monthly payments to ODFA in an amount that equals debt service requirements on the portion of the bonds used to finance the lease. The final payments on the leases are June 18, 2018, and June 1, 2024, respectively. After payment of bond closing costs, the net proceeds were \$10,850,000. Through June 30, 2014, the University has drawn down the entire balance for expenditures incurred in connection with specified projects. During fiscal year 2014 the Series 2003A and 2003B were refinanced with the ODFA Series 2014A; and the Series 2013C was paid off during 2014.

Series 2010A

The ODFA issued the ODFA Master Lease Revenue Bonds, Series 2010A in the University's fiscal year that ended June 30, 2010. The Bonds were issued to fund capital improvements at several state colleges and universities in Oklahoma. ODFA allocated the Bonds' proceeds to colleges and universities in the form of financing leases. Northeastern State University's portion of this allocation was \$3,000,000.

The lease agreement calls for monthly payments to ODFA in an amount that equals debt service requirements on the portion of the bonds used to finance the lease. The final payment on the leases is June 1, 2017. After payment of bond closing costs, the net proceeds were \$3,000,000. Through June 30, 2014, the University has spent all net proceeds in connection with specified projects.

Series 2011

The ODFA issued the ODFA Master Real Property Lease Revenue Bonds, Series 2011 in the University's fiscal year that ended June 30, 2012. The Bonds were issued to fund capital improvements at several state colleges and universities in Oklahoma. ODFA allocated the Bonds' proceeds to colleges and universities in the form of financing leases. Northeastern State University's portion of this allocation was \$5,990,000 to fund the constructions of a new Multi-Purpose Events Center.

NOTES TO FINANCIAL STATEMENTS -- CONTINUED

NORTHEASTERN STATE UNIVERSITY
A DEPARTMENT OF THE REGIONAL UNIVERSITY SYSTEM OF OKLAHOMA

June 30, 2016

NOTE F--LONG-TERM LIABILITIES--Continued

Capital Lease Obligations--Continued:

Oklahoma Development Finance Authority Master Lease Program--Continued

Series 2011--Continued

The lease agreement calls for monthly payments to ODFA in an amount that equals debt service requirements on the portion of the bonds used to finance this lease. The final payment on the lease is May 15, 2031. After payment of bond closing costs, the net proceeds were \$6,000,000 to the project fund. Through June 30, 2015, the University has spent all of the net proceeds in connection with the specified project.

Series 2013B

In January 2014, the University entered into capital lease obligation Series 2013B in the amount of \$2,832,000 to refinance the University Center Revenue Bonds Series 1996. Total lease payments over the term of the agreement, beginning January 23, 2014 through May 15, 2021, will be \$3,202,465. Payments will be made monthly ranging from \$33,910 to \$86,681.

Series 2014A - Equipment Courtside

In January 2014, the University entered into capital lease obligation Series 2014A in the amount of \$290,000 to refinance the ODFA Master Lease Revenue Bond Series 2003B. Total lease payments over the term of the agreement, beginning January 23, 2014 through May 15, 2018, will be \$313,984. Payments will be made monthly ranging from \$6,333 to \$7,395.

Series 2014A - Equipment Energy

In June 2014, the University entered into capital lease obligation Series 2014A in the amount of \$4,139,000 to refinance the ODFA Master Lease Revenue Bond Series 2004A. Total lease payments over the term of the agreement, beginning January 23, 2014 through May 15, 2024, will be \$4,967,513. Payments will be made monthly ranging from \$41,089 to \$46,000.

NOTES TO FINANCIAL STATEMENTS -- CONTINUED

NORTHEASTERN STATE UNIVERSITY
A DEPARTMENT OF THE REGIONAL UNIVERSITY SYSTEM OF OKLAHOMA

June 30, 2016

NOTE F--LONG-TERM LIABILITIES--Continued

Capital Lease Obligations--Continued:

Series 2014A

In February 2014, the University entered into capital lease obligation Series 2014A in the amount of \$14,517,000 for the construction of student housing. Lease payments over the term of the agreement, including interest, total \$21,055,975. Payments began March 15, 2014, and go through May 15, 2033, and will range from \$91,009 to \$95,407 annually. As of June 30, the University has approximately \$5,613,980 of its allotment available to be drawn.

Series 2014B

In February 2014, the University entered into capital lease obligation Series 2014B in the amount of \$11,115,000 to refinance Cherokee County Economic Development Authority 2003 Series A tax-exempt Revenue Bonds and Series B taxable Revenue Bonds. Lease payments over the term of the agreement, including interest, total \$15,604,957. Payments began March 20, 2014, and go through November 15, 2033, and will range from \$65,604 to \$69,348 annually.

Series 2016B

In June 2016, the University entered into capital lease obligation Series 2016B in the amount of \$4,509,000 to refinance Board of Regents of Oklahoma Colleges Northeastern State University Revenue Bonds Series 2004. Lease payments over the term of the agreement, including interest, total \$5,246,160. Payments begin July 15, 2016, and go through May 15, 2024, and will range from \$58,251 to \$54,388 monthly. The economic gain of the refinance was \$513,368.

NOTES TO FINANCIAL STATEMENTS -- CONTINUED

NORTHEASTERN STATE UNIVERSITY
A DEPARTMENT OF THE REGIONAL UNIVERSITY SYSTEM OF OKLAHOMA

June 30, 2016

NOTE F--LONG-TERM LIABILITIES--Continued

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

Year Ending June 30:	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2017	\$ 5,147,658	\$ 2,194,084	\$ 7,341,742
2018	4,891,506	2,054,636	6,946,142
2019	4,983,031	1,867,547	6,850,578
2020	2,759,056	1,665,488	4,424,544
2021	2,806,167	1,570,344	4,376,511
2022-2026	15,683,379	6,082,813	21,766,192
2027-2031	16,336,775	2,934,722	19,271,497
2032-2036	3,742,416	243,007	3,985,423
	<u>\$ 56,349,988</u>	<u>\$ 18,612,641</u>	<u>\$ 74,962,629</u>

Unearned Capital Assets

In April 2010, the University entered into a management agreement with an unrelated third party (the "Contractor"). In connection with the agreement, the Contractor agreed to provide the University \$500,000 for equipment and renovation of the University's food service facilities. The equipment and related capital assets are owned by the University; however, if the agreement is terminated prior to completion (10 years), the University must reimburse the Contractor for the unamortized portion of the capital assets, and is amortizing it over the 10 year term of the agreement. The annual amortization for fiscal year 2016 was \$50,000.

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

NORTHEASTERN STATE UNIVERSITY
A DEPARTMENT OF THE REGIONAL UNIVERSITY SYSTEM OF OKLAHOMA

June 30, 2016

NOTE G--RETIREMENT PLANS--Continued

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

All payments made to these plans by the University are accounted for as compensation expense in the accompanying financial statements.

Oklahoma Teachers' Retirement System (OTRS)

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

Funding Policy: The University is required by state statute to contribute a fixed percentage of annual compensation on behalf of active members. The employer contribution rate, as determined by state statute, was 8.55% for 2016, 2015, and 2014, 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 2016, 2015, and 2014. For compensation in excess of \$25,000, the employee's contributions are paid directly by the University to the OTRS.

The University's contributions to the OTRS for the years ended June 30, 2016, 2015, and 2014, were approximately \$6,233,000, \$6,135,000, and \$5,899,000, 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.

NOTES TO FINANCIAL STATEMENTS -- CONTINUED

NORTHEASTERN STATE UNIVERSITY
A DEPARTMENT OF THE REGIONAL UNIVERSITY SYSTEM OF OKLAHOMA

June 30, 2016

NOTE G--RETIREMENT PLANS--Continued

Oklahoma Teachers' Retirement System (OTRS)--Continued

Funding Policy--Continued: The State of Oklahoma is also required to contribute to the OTRS on behalf of the participating employers. For 2016, the State of Oklahoma contribution was 5% of state revenues from sales and use taxes and individual income taxes, to the OTRS on behalf of participating employers. These amounts and other system-wide related amounts are reported in the Regional University System of Oklahoma financial statements and not at the individual department level.

Supplemental Retirement Annuity (SRA)

Plan Description: The University's SRA plan is a single employer, defined benefit pension plan administered by the University's Board of Regents. The SRA was established by the University's Board of Regents to provide supplemental retirement and death benefits to University employees who were hired prior to July 1, 1987, or to those eligible employees' beneficiaries. Effective December 1, 2002, the SRA was amended to provide supplemental retirement and death benefits to University employees who were hired between July 1, 1987 and June 30, 1995. Effective October 1, 2003, the SRA plan was changed to eliminate the TIAA offset in the benefit calculation. The authority to amend the SRA's benefit provisions rests with the University's Board of Regents. The SRA is included in the financial report of the Regional University System of Oklahoma reporting entity, and does not issue separate, stand-alone financial statements.

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

The University's contributions to the SRA for the years ended June 30, 2016, 2015, and 2014, were approximately \$-0-, \$866,000, and \$866,000, 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, 2016, 2015, and 2014.

NOTES TO FINANCIAL STATEMENTS -- CONTINUED

NORTHEASTERN STATE UNIVERSITY
A DEPARTMENT OF THE REGIONAL UNIVERSITY SYSTEM OF OKLAHOMA

June 30, 2016

NOTE H--OTHER POST-EMPLOYMENT INSURANCE BENEFITS

Plan Description: The University's postemployment healthcare plan is a single employer defined benefit plan administered by the Regional University System of Oklahoma Board of Regents (the University's Board). The plan provides medical and life insurance benefits to eligible retired employees until age 65. A retiring employee must have been employed full-time in the Regional University of Oklahoma for not less than ten years immediately preceding the date of retirement; been a member of the OTRS during that time; and elected to receive a vested benefit under the provision of the Oklahoma Teachers' Retirement System. As of June 30, 2016, there were 497 active participants in the plan. The retirement insurance program was adopted by the Board of Regents in 1985. In March of 2008, the Retiree Medical Trust for Regional University System of Oklahoma was established to hold assets and pay benefits on behalf of the University's postemployment healthcare plan, and was administered by The Bank Oklahoma, N.A. Prior to the establishment of the trust, the insurance benefits were accounted for on a pay-as-you-go basis so that premiums were made from current operating funds. The plan is included in the financial report of the Regional University System of Oklahoma reporting entity. 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.

Funding Policy: The contribution requirements of the University are established and may be amended by the Regional University System of Oklahoma Board of Regents. The University is required to contribute the *annual required contribution of the employer* (ARC), in an amount actuarially determined in accordance with the parameters of GASB Statement 45. The ARC represents a level of funding that, if paid on an ongoing basis, is projected to cover normal cost each year and amortize any unfunded actuarial liabilities (or funding excess) over a period not to exceed thirty years. The current ARC is \$436,711 and represents 1.1% (percent) of covered payroll.

The University's contributions to the plan for the years ended June 30, 2016, 2015, and 2014, were approximately \$342,000, \$1,149,000, and \$807,000, respectively

NOTES TO FINANCIAL STATEMENTS -- CONTINUED

NORTHEASTERN STATE UNIVERSITY
A DEPARTMENT OF THE REGIONAL UNIVERSITY SYSTEM OF OKLAHOMA

June 30, 2016

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 approximately \$1,036,000 during the year ended June 30, 2016, which is restricted to the construction or acquisition of buildings, equipment, or other capital items. These amounts are recorded as state appropriations for capital purposes in the statement of revenues, expenses and changes in net position. State law prohibits the distribution of any corpus of these funds to the beneficiaries. The total trust reserve for the University, held in trust by the commissioners of Land Office, was approximately \$18,325,000 at June 30, 2016.

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 \$1,905,000 at June 30, 2016, and is invested by the Oklahoma State Regents on behalf of the University. The University is entitled to receive an annual distribution of 5% of the market value at year end on these funds. As legal title of the State Regents matching endowment funds is retained by the Oklahoma State Regents, only the funds available for distribution, approximately \$508,000 at June 30, 2016, have been reflected as assets in the statements of net position. In connection with the program, private contributions totaling approximately \$1,921,000 as of June 30, 2016, are being held by the University Foundation for the benefit of the University. Additional private contributions of approximately \$519,000 as of June 30, 2016, are included in the financial statements of the University.

Additional amounts held and considered a receivable by the University by the Oklahoma State Regents' for the Endowed Chair and Herb Rozell in the amount of \$810,463

NOTE J--RELATED PARTY TRANSACTIONS

The University is beneficiary of the Northeastern Oklahoma Public Facilities Authority (the "Authority"), a public trust created under Title 60, Section 176, of the Oklahoma statutes. The University received \$150,000 for the year ended June 30, 2016.

NOTES TO FINANCIAL STATEMENTS -- CONTINUED

NORTHEASTERN STATE UNIVERSITY
A DEPARTMENT OF THE REGIONAL UNIVERSITY SYSTEM OF OKLAHOMA

June 30, 2016

NOTE K--COMMITMENTS AND CONTINGENCIES

The University had outstanding commitments under construction contracts of approximately \$2,999,000 at June 30, 2016.

The University participates in a number of federally assisted grant and contract programs. These programs are subject to financial and compliance audits by the grantor or their representatives. Such audits could lead to requests for reimbursements to the grantor agency for expenditures disallowed under terms of the grant. The amount of expenditures that may be disallowed by the granting agencies cannot be determined at this time, although it is believed by the University that the amount, if any, would not be significant.

The University began participation in the Federal Direct Loan Program on July 1, 2010. For the year ended June 30, 2016 approximately \$35,918,000 of Direct Loan funds were disbursed to University students.

During the ordinary course of business, the University may be subjected to various lawsuits and civil action claims. Management believes that resolution of any such matters pending at June 30, 2016, will not have material adverse impact to the University.

NOTE L--RISK MANAGEMENT

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

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

NOTES TO FINANCIAL STATEMENTS -- CONTINUED

NORTHEASTERN STATE UNIVERSITY
A DEPARTMENT OF THE REGIONAL UNIVERSITY SYSTEM OF OKLAHOMA

June 30, 2016

NOTE L--RISK MANAGEMENT – Continued

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

NOTES TO FINANCIAL STATEMENTS -- CONTINUED

NORTHEASTERN STATE UNIVERSITY
A DEPARTMENT OF THE REGIONAL UNIVERSITY SYSTEM OF OKLAHOMA

June 30, 2016

NOTE M--CONDENSED COMBINING FINANCIAL INFORMATION

As noted in the reporting entity section above, the University's financial statements contain a blended component unit, CRIPS. Condensed combining financial information of the University and CRIPS is presented below (in thousands):

Condensed Statements of Net Position (000's)

	June 30, 2016		
	<u>University</u>	<u>CRIPS</u>	<u>Total</u>
ASSETS			
Current assets	\$ 45,018	\$ -	\$ 45,018
Capital assets, net	164,948	-	164,948
Other assets	<u>15,883</u>	<u>-</u>	<u>15,883</u>
TOTAL ASSETS	<u>\$ 225,849</u>	<u>\$ -</u>	<u>\$ 225,849</u>
LIABILITIES			
Current liabilities	\$ 13,121	\$ -	\$ 13,121
Non-current liabilities	<u>61,047</u>	<u>-</u>	<u>61,047</u>
TOTAL LIABILITIES	<u>\$ 74,168</u>	<u>\$ -</u>	<u>\$ 74,168</u>
DEFERRED INFLOWS			
OF RESOURCES	<u>\$ 610</u>	<u>\$ -</u>	<u>\$ 610</u>
NET POSITION			
Net investment in capital assets	\$ 111,237	\$ -	\$ 111,237
Restricted-expendable	14,959	-	14,959
Unrestricted	<u>24,875</u>	<u>-</u>	<u>24,875</u>
TOTAL NET POSITION	<u>\$ 151,071</u>	<u>\$ -</u>	<u>\$ 151,071</u>

NOTES TO FINANCIAL STATEMENTS -- CONTINUED

NORTHEASTERN STATE UNIVERSITY
A DEPARTMENT OF THE REGIONAL UNIVERSITY SYSTEM OF OKLAHOMA

June 30, 2016

NOTE M--CONDENSED COMBINING FINANCIAL INFORMATION--Continued

Condensed Statements of Revenues,
Expenses and Changes in Net Position (000's)

	June 30, 2016		
	<u>University</u>	<u>CRIPS</u>	<u>Total</u>
Operating Revenues			
Student tuition and fees, net	\$ 32,090	\$ -	\$ 32,090
Grants and contracts	4,229	-	4,229
Other	<u>14,505</u>	<u>-</u>	<u>14,505</u>
Total Operating Revenues	50,824	-	50,824
Operating Expenses			
Compensation and benefits	66,341	-	66,341
Depreciation	9,550	-	9,550
Other	<u>31,941</u>	<u>2,209</u>	<u>34,150</u>
Total Operating Expenses	<u>107,832</u>	<u>2,209</u>	<u>110,041</u>
Operating Income (Loss)	(57,008)	(2,209)	(59,217)
Nonoperating Revenues (Expenses)			
State appropriations	32,520	-	32,520
Grants and contributions	20,825	-	20,825
Interest expense	(2,396)	-	(2,396)
Other	<u>1,171</u>	<u>-</u>	<u>1,171</u>
Net Nonoperating Revenues	52,120	-	52,120
Capital and Other Restricted			
Appropriations	4,224	-	4,224
Other	<u>1,314</u>	<u>-</u>	<u>1,314</u>
Change in Net Position	650	(2,209)	(1,559)
Net Position at Beginning of Year	<u>150,421</u>	<u>2,209</u>	<u>152,630</u>
Net Position at End of Year	<u>\$ 151,071</u>	<u>\$ -</u>	<u>\$ 151,071</u>

NOTES TO FINANCIAL STATEMENTS -- CONTINUED

NORTHEASTERN STATE UNIVERSITY
 A DEPARTMENT OF THE REGIONAL UNIVERSITY SYSTEM OF OKLAHOMA

June 30, 2016

NOTE M--CONDENSED COMBINING FINANCIAL INFORMATION--Continued

Condensed Statements of Cash Flows (000's)

	June 30, 2016		
	<u>University</u>	<u>CRIPS</u>	<u>Total</u>
Net Cash Provided (Used) By			
Operating activities	\$ (54,339)	\$ (2)	\$ (54,341)
Noncapital financing activities	54,203	-	54,203
Capital and related financing activities	(17,283)	-	(17,283)
Investing activities	<u>288</u>	<u>-</u>	<u>288</u>
Net Increase (Decrease)	(17,131)	(2)	(17,133)
Beginning cash and cash equivalents	<u>65,754</u>	<u>2</u>	<u>65,756</u>
Ending cash and cash equivalents	<u>\$ 48,623</u>	<u>\$ -</u>	<u>\$ 48,623</u>

NOTES TO FINANCIAL STATEMENTS -- CONTINUED

NORTHEASTERN STATE UNIVERSITY
A DEPARTMENT OF THE REGIONAL UNIVERSITY SYSTEM OF OKLAHOMA

June 30, 2016

NOTE N--NORTHEASTERN STATE UNIVERSITY, FOUNDATION, INC.

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

SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Fair Value Measurements: The Foundation accounts for its financial assets and liabilities in accordance with ASC 820.10. This codified standard defines fair value measurement based on an exit price. An exit price, the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. The codified standards also establishes a fair value hierarchy that prioritizes the inputs to valuation techniques used to measure fair value into three levels:

- Level 1: Quoted prices in active markets for identical assets or liabilities. These include, but are not limited to, cash and cash equivalents, common and preferred stocks, and mutual funds;
- Level 2: Inputs that are derived principally from or corroborated by observable market data. These include but are not limited to government agency issues, corporate bonds and municipal securities;
- Level 3: Inputs that are unobservable and significant to the overall fair value measurement. These include but are not limited to non-public common stocks.

Financial assets and liabilities are carried at fair value on a recurring basis and therefore currently subject to the codified standard which include investments and beneficial interest in assets, if any, held by others. All financial instruments of the Foundation are valued using inputs qualifying as Level 1 and Level 2 in the above-defined hierarchy.

NOTES TO FINANCIAL STATEMENTS -- CONTINUED

NORTHEASTERN STATE UNIVERSITY
 A DEPARTMENT OF THE REGIONAL UNIVERSITY SYSTEM OF OKLAHOMA

June 30, 2016

NOTE N--NORTHEASTERN STATE UNIVERSITY, FOUNDATION, INC.--Continued

INVESTMENTS

Investments are composed of stocks, bonds and mutual funds investing in debt and equity securities and are carried at fair value. See the explanation of fair value measurements included in the Summary of Significant Accounting Policies. These investments are overseen by investment advisors. The advisors are provided with the investment policy adopted by the Board of Trustees and directed to follow that policy. Additionally, the Foundation maintains an investment committee that provides oversight with regard to the investments.

Investments consist of the following at December 31, 2015:

Description	12/31/2015	Prices in Active Markets for Identical Assets (Level 1)	Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
Cash & Cash				
Equivalents	\$ 145,863	\$ -	\$ 145,863	\$ -
Investment Securities	<u>20,691,319</u>	<u>20,691,319</u>	<u>-</u>	<u>-</u>
Total	<u>\$ 20,837,182</u>	<u>\$ 20,691,319</u>	<u>\$ 145,863</u>	<u>\$ -</u>

(The Foundation has no liabilities measured at fair value on a recurring basis.)

The Foundation's overall investment objective is "Growth and income". The intent of the objective is to provide both current income and future growth to accommodate the Foundation's spending policy plus normal inflation; thereby, preserving the constant dollar value and purchasing power of the Foundation for future generations. Investment performance is judged over a three to five year time frame. The goal of each asset class is to achieve the total return of its benchmark while maintaining a risk level less than that of the benchmark. The overall goal for the Foundation is to achieve a 5% annual real rate of return after inflation.

NOTES TO FINANCIAL STATEMENTS -- CONTINUED

NORTHEASTERN STATE UNIVERSITY
 A DEPARTMENT OF THE REGIONAL UNIVERSITY SYSTEM OF OKLAHOMA

June 30, 2016

NOTE N--NORTHEASTERN STATE UNIVERSITY, FOUNDATION, INC.--Continued

INVESTMENTS--Continued

The Foundation aims for the equity investments portion of its portfolio to constitute a minimum of 50% and a maximum of 70% of total endowment assets. The fixed income portion is expected to constitute a minimum of 30% and a maximum of 50% of total endowment assets. The alternative investment portion is expected to constitute no more than 15% of total endowment assets. In order to achieve these goals, the investment committee meets with the investment advisors at least once a year. The investment advisors are required to provide periodic statements reporting transactions involving fund assets and current fund asset values. The investment committee reports on the performance and holdings of the fund once a year to the board.

The Foundation allocates investment return only on endowment funds. No investment return is allocated on custodial or pass through accounts. The return on investment attributable to individual endowment accounts is allocated to the account annually. An annual service fee is charged to each individual endowment account and this fee is transferred to unrestricted funds. The service fee rate is as follows:

Endowment Asset Value	Annual Service Fee
\$0 to \$99,999	0.8% of endowment asset value
\$100,000 and above	0.5% of endowment asset value

Generally, income generated from investments, regardless of restrictions, is available for either general use or restricted use.

The following schedule summarizes the investment return and its classification in the statement of revenues, expenses, and changes in net position for the year ended December 31, 2015:

Interest & Dividends	\$ 416,945
Realized gain (loss)	533,748
Unrealized gain (loss)	<u>(1,111,417)</u>
Total investment return	<u>\$ (160,724)</u>

NOTES TO FINANCIAL STATEMENTS -- CONTINUED

NORTHEASTERN STATE UNIVERSITY
A DEPARTMENT OF THE REGIONAL UNIVERSITY SYSTEM OF OKLAHOMA

June 30, 2016

NOTE N--NORTHEASTERN STATE UNIVERSITY, FOUNDATION, INC.--Continued

INVESTMENTS--Continued

The Foundation makes available for spending each year 5% of the average of five market values of its total endowment - the value six months before the beginning of the fiscal year, the value 18 months before the beginning of the year, the value 30 months before the beginning of the year, the value 42 months before the beginning of the year and the value 54 months before the beginning of the year. Individual endowments must have been placed with the Foundation at least six months prior to the beginning of the fiscal year to be eligible to participate for that year. Eligible individual endowments share in the amount available to be spent on a pro rata basis.

ENDOWMENT DISCLOSURES

The Foundation's endowment consists of 225 individual donor-restricted funds which are managed and controlled by the Foundation and are primarily established for scholarships, programs, or capital projects. As required by GAAP, net position associated with endowment funds are classified and reported based on the existence or absence of donor-imposed restrictions.

Interpretation of Relevant Law: The Board of Trustees of the Foundation has interpreted the State Prudent Management of Institutional Funds Act ("SPMIFA") as requiring the 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 position (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. In accordance with SPMIFA, the Foundation considers the following factors in making a determination to appropriate or accumulate donor-restricted endowment funds.

- (1) The duration and preservation of the fund
- (2) The purposes of the organization and the donor-restricted endowment fund
- (3) General economic conditions
- (4) The possible effect of inflation and deflation
- (5) The expected total return from income and the appreciation of investments
- (6) Other resources of the organization
- (7) The investment policies of the organization

NOTES TO FINANCIAL STATEMENTS -- CONTINUED

NORTHEASTERN STATE UNIVERSITY
A DEPARTMENT OF THE REGIONAL UNIVERSITY SYSTEM OF OKLAHOMA

June 30, 2016

NOTE N--NORTHEASTERN STATE UNIVERSITY, FOUNDATION, INC.--Continued

ENDOWMENT DISCLOSURES--Continued

Endowment net position composition by type of fund as of December 31, 2015

<u>Description</u>	<u>Unrestricted</u>	<u>Expendable</u>	<u>Nonexpendable</u>	<u>Total</u>
Donor-restricted endowment funds	\$ -	\$ 2,215,600	\$ 15,303,782	\$ 17,519,382
Board-designated endowment funds	<u>1,092,481</u>	<u>-</u>	<u>-</u>	<u>1,092,481</u>
Total funds invested	<u>\$ 1,092,481</u>	<u>\$ 2,215,600</u>	<u>\$ 15,303,782</u>	<u>\$ 18,611,863</u>

Change in endowment net position for the year ended December 31, 2015:

	<u>Unrestricted</u>	<u>Expendable</u>	<u>Nonexpendable</u>	<u>Total</u>
Endowment net assets, beginning of year	\$ 1,099,396	\$ 3,475,270	\$ 14,034,590	18,609,256
Investment return:				
Investment income	19,384	14,733	300,225	334,342
Investment fees	(16,967)	(12,946)	(252,702)	(282,615)
Net realized and unrealized loss on investments	<u>(34,146)</u>	<u>(3,833)</u>	<u>(539,505)</u>	<u>(577,484)</u>
Total investment return	(31,729)	(2,046)	(491,982)	(525,757)
Contributions	-	16,649	1,007,925	1,024,574
Appropriation of endowment assets for expenditures	(44,942)	(40,459)	(664,773)	(750,174)
Transfer to move investment appreciation (depreciation)	-	(1,188,357)	1,188,357	-
Transfer to add/remove board or donor designated endowment funds	<u>69,756</u>	<u>(45,457)</u>	<u>229,663</u>	<u>253,962</u>
Endowment net assets, end of year	<u>\$ 1,092,481</u>	<u>\$ 2,215,600</u>	<u>\$ 15,303,780</u>	<u>\$ 18,611,861</u>

NOTES TO FINANCIAL STATEMENTS -- CONTINUED

NORTHEASTERN STATE UNIVERSITY
 A DEPARTMENT OF THE REGIONAL UNIVERSITY SYSTEM OF OKLAHOMA

June 30, 2016

NOTE N--NORTHEASTERN STATE UNIVERSITY, FOUNDATION, INC.--Continued

ENDOWMENT DISCLOSURES--Continued

Expendable Net Position - Temporarily restricted net assets were available for the following purposes for the year ended December 31, 2015. The portion of perpetual endowment funds subject to time restriction under SPMIFA.

Without purpose restrictions	\$ -
With purpose restrictions:	
Capital projects	-
Scholarships & Programs	697,600
Changes in market value on endowments	<u>1,518,000</u>
Total endowment funds classified as temporarily restricted net assets	<u>2,215,600</u>
Contributions received with donor restricted purpose:	
Capital projects	1,588,218
Scholarships and programs	<u>3,634,814</u>
Total contributions held for donor restricted purpose	<u>5,223,032</u>
Total expendable net position	<u>\$ 7,438,632</u>

NOTES TO FINANCIAL STATEMENTS -- CONTINUED

NORTHEASTERN STATE UNIVERSITY
 A DEPARTMENT OF THE REGIONAL UNIVERSITY SYSTEM OF OKLAHOMA

June 30, 2016

NOTE N--NORTHEASTERN STATE UNIVERSITY, FOUNDATION, INC.--Continued

ENDOWMENT DISCLOSURES--Continued

Nonexpendable Net Position - Permanently restricted net assets were available for the following purposes for the year ended December 31, 2015. The portion of perpetual endowment funds that are required to be retained permanently either by explicit donor stipulation or by SPMIFA.

Nonexpendable net position - cash:	
Scholarships & Programs	\$ 15,122,500
Capital projects	<u>181,282</u>
Total endowment funds classified as permanently restricted net assets - cash	<u>15,303,782</u>
Nonexpendable net position - non cash:	
Cash surrender value of life insurance policies	46,885
Land	<u>9,000</u>
Total endowment funds classified as permanently restricted net assets - non-cash	<u>55,885</u>
Total nonexpendable net position	<u>\$ 15,359,667</u>

Funds with Deficiencies - From time to time, the fair value of assets associated with individual donor-restricted endowment funds may fall below the level that the donor or SPMIFA requires the NSU Foundation to retain as a fund of perpetual duration. In accordance with GAAP, using the total of endowment funds, there was no deficiency of this nature at December 31, 2015.

Spending Policy and How the Investment Objectives Relate to Spending Policy - The Foundation has a policy of appropriating for distribution each year amounts up to, but not to exceed 5% of market value averaged over the last five years. Since the Foundation has a policy of designating unrestricted funds each year for investment, it feels that this policy protects the purchasing power of the endowment. In light of current market fluctuations and the future needs of the Foundation, it evaluates the spending policy annually to ensure that it remains in accordance with the long-term objectives of the Foundation.

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
Northeastern 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 Northeastern State University (the "University"), a department of the Regional University System of Oklahoma ("RUSO"), which is a component unit of the State of Oklahoma, and its discretely presented component unit, that comprise the statement of net position as of June 30, 2016, and the related statements of revenue, expenses, and changes in net position and cash flows for the year then ended, and the related notes to the financial statements, which collectively comprise the University's basic financial statements, and have issued our report thereon dated October 21, 2016. Our report includes a reference to other auditors who audited the financial statements of Northeastern State University Foundation, Inc. (the "Foundation"), the University's discretely presented component unit, as described in our report on the University's financial statements. The financial statements of the Foundation were not audited in accordance with *Government Auditing Standards* and accordingly this report does not include reporting on internal control over financial reporting or instances of reportable noncompliance associated with the Foundation.

Internal Control over Financial Reporting

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

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

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

Compliance and Other Matters

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

Purpose of this Report

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

Arlidge & Associates, P.C.

October 21, 2016



INDEPENDENT AUDITOR'S REPORT ON COMPLIANCE FOR EACH MAJOR 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
Northeastern State University
Oklahoma City, Oklahoma

Report on Compliance for Each Major Federal Program

We have audited Northeastern 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, 2016. 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, 2016.

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. We did not identify any deficiencies in internal control over compliance that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

The purpose of this report on internal control over compliance is solely to describe the scope of our testing of internal control over compliance and the results of that testing based on the requirements of 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, 2016, and the related notes to the financial statements, which collectively comprise the University's basic financial statements. We issued our report thereon dated October 21, 2016, which contained an unmodified opinion on those financial statements. Our audit was conducted for the purpose of forming an opinion on the financial statements that collectively comprise the basic financial statements. The accompanying schedule of expenditures of federal awards is presented for purposes of additional analysis as required by the Uniform Guidance and is not a required part of the basic financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the basic financial statements. The information has been subjected to the auditing procedures applied in the audit of the financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic financial statements or to the basic financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the schedule of expenditures of federal awards is fairly stated in all material respects in relation to the basic financial statements as a whole.



October 21, 2016

SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS

NORTHEASTERN STATE UNIVERSITY
 A Department of the Regional University System of Oklahoma

Year Ended June 30, 2016

<i>Federal Grantor/Pass-Through Grantor/Program Title</i>	<i>Federal CFDA Number</i>	<i>Pass-Through Entity Identifying Number</i>	<i>Passed Through to Subrecipients</i>	<i>Federal Expenditures</i>
U.S. DEPARTMENT OF EDUCATION				
Student financial aid cluster				
Federal Pell Grants	84.063	N/A		\$ 14,138,420
Federal Supplemental Education Opportunity Grants	84.007	N/A		340,744
Federal TEACH Grant	84.379	N/A		320,191
Federal Work Study Program	84.033	N/A		267,793
Federal Perkins Loans	84.038	N/A		4,300,477
Federal Direct Loan Program	84.268	N/A		35,918,282
<i>Total Student Financial Aid Cluster</i>				55,285,907
TRIO program cluster				
TRIO--Talent Search	84.044	P044A110142-349		455,405
TRIO--Student Support Services	84.042	P042A100730		297,651
<i>Total TRIO program cluster</i>				753,056
Other Programs				
Special Education - Personnel Development to Improve Services and Results for Children with Disabilities	84.325	H325K100320		858
Higher Education Institutional Aid	84.031	P031A110217-15		315,284
Strengthening Minority-Serving Institutions	84.382	P382C110005-15		466,025
Pass-through Maryetta Public Schools				
Fund for the Improvement of Education	84.299	S299A140053		3,136
Improving Teacher Quality ESEA	84.367B	N/A		48,825
<i>Total Other Programs</i>				834,128
TOTAL U.S. DEPARTMENT OF EDUCATION				56,873,091
Research and Development (R&D) Cluster				
U.S. DEPARTMENT OF THE INTERIOR				
Fish and Wildlife Service				
State Wildlife Grants (North Dakota Game and Fish)	15.634	N/A		3,831
TOTAL U.S. DEPARTMENT OF THE INTERIOR				3,831
NATIONAL SCIENCE FOUNDATION				
Pass-through Oklahoma State University				
Education and Human Resources	47.076	AA-5-56595-NSU		1,440
Education and Human Resources	47.076	1-5-56595-NSU		27,972
<i>Subtotal for CFDA #47.076</i>				29,412
Office of Experimental Program to Stimulate Competitive Research	47.079	EPSCoR-2015-1		9,370
Office of Experimental Program to Stimulate Competitive Research	47.079	EPSCoR-2015-5		9,717
Office of Experimental Program to Stimulate Competitive Research	47.079	EPSCoR-2015-2		10,243
Office of Experimental Program to Stimulate Competitive Research	47.079	EPSCoR-2015-16		5,171
Office of Experimental Program to Stimulate Competitive Research	47.079	EPSCoR-2015-22		2,763
Office of Experimental Program to Stimulate Competitive Research	47.079	EPSCoR-2016-3		609
<i>Subtotal for CFDA #47.079</i>				37,873
TOTAL FOR NATIONAL SCIENCE FOUNDATION				67,285

(Continued)

SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS--Continued

NORTHEASTERN STATE UNIVERSITY
A Department of the Regional University System of Oklahoma

Year Ended June 30, 2016

<i>Federal Grantor/Pass-Through Grantor/Program Title</i>	<i>Federal CFDA Number</i>	<i>Pass-Through Entity Identification Number</i>	<i>Passed Through to Subrecipients</i>	<i>Federal Expenditures</i>
Research and Development (R&D) Cluster - Continued				
U.S. DEPARTMENT OF HEALTH AND HUMAN SERVICES				
National Institute for Health				
Pass-through OU Health Science Center				
Biomedical Research and Research Training	93.859	RS20132225-11		22,851
Biomedical Research and Research Training	93.859	RS20132225-16		18,284
Biomedical Research and Research Training	93.859	RS20132225-08		5,108
Biomedical Research and Research Training	93.859	RS20132225-26		1,024
Biomedical Research and Research Training	93.859	RS20132225-37		23,787
Biomedical Research and Research Training	93.860	RS20132225-38		22,673
Biomedical Research and Research Training	93.861	5P20GM103447-15		2,804
Biomedical Research and Research Training	93.862	RS20132225-45		77,815
Biomedical Research and Research Training	93.863	RS20132225-46		73,131
Biomedical Research and Research Training	93.864	RS20132225-75		24,985
Biomedical Research and Research Training	93.865	RS20132225-85		11,683
Biomedical Research and Research Training	93.866	RS20132225-84		13,549
Biomedical Research and Research Training	93.867	RS20132225-92		162
Biomedical Research and Research Training	93.859	RS20132225-83		7,992
Biomedical Research and Research Training	93.859	N/A		6,728
Biomedical Research and Research Training	93.859	5P20GM103447-16		6,813
<i>Subtotal for CFDA #93.859</i>				<u>319,389</u>
Pass-through Washington State Univ/NIH				
Minority Health and Health Disparities Research Extramural Research Programs in Neurosciences & Neurological Disorders	93.307	116801G003464		4,828
	93.853	1R03NS095246-01		30,203
Pass-through Mayo Clinic Arizona				
Network Among Tribal Organizations for Clean Air Policies	93.393	NOR-193301		13,876
TOTAL FOR NATIONAL INSTITUTE FOR HEALTH				<u>368,296</u>
ENVIRONMENTAL PROTECTION AGENCY				
Pass-through Oklahoma Conservation Commission				
Water Pollution Control State, Interstate, and Tribal Program Support	15.634	N/A		3,458
TOTAL FOR ENVIRONMENTAL PROTECTION AGENCY				<u>3,458</u>
TOTAL RESEARCH AND DEVELOPMENT CLUSTER				<u>442,870</u>
Other Federal Programs				
U.S. SMALL BUSINESS ADMINISTRATION				
Pass-through Southeastern Oklahoma State University				
Small Business Development Centers	59.037	Prime-SBAHQ-14-B-0052		17,635
Small Business Development Centers	59.037	SBAHQ-14-B-0052		4,649
TOTAL U.S. SMALL BUSINESS ADMINISTRATION				<u>22,284</u>
U.S. DEPARTMENT OF HEALTH AND HUMAN SERVICES				
Pass-through University of New York				
Child Welfare Research Training or Demonstration	93.648	RF-1120721-16-69467		83,251
Child Welfare Research Training or Demonstration	93.648	RF-1128024-16-72851		108,096
TOTAL U.S. DEPARTMENT OF HEALTH AND HUMAN SERVICES				<u>191,347</u>
U.S. DEPARTMENT OF JUSTICE				
Grants to Reduce Domestic Violence, Dating Violence, Sexual Assault, and Stalking on Campus				
	16.525	2012-WA-AX-0012		78,124
TOTAL U.S. DEPARTMENT OF JUSTICE				<u>78,124</u>

(Continued)

SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS--Continued

NORTHEASTERN STATE UNIVERSITY
 A Department of the Regional University System of Oklahoma

Year Ended June 30, 2016

<i>Federal Grantor/Pass-Through Grantor/Program Title</i>	<i>Federal CFDA Number</i>	<i>Pass-Through Entity Identification Number</i>	<i>Passed Through to Subrecipients</i>	<i>Federal Expenditures</i>
NATIONAL ENDOWMENT FOR THE HUMANITIES				
Pass-through Oklahoma Humanities Council				
Promotion of the Humanities - Federal/State Partnership	45.024	Y14.101		1,275
TOTAL NATIONAL ENDOWMENT FOR THE HUMANITIES				1,275
U.S. DEPARTMENT OF COMMERCE				
Pass-through Okla Alliance for Manufacturing Excellence				
Promotion of the Humanities - Federal/State Partnership	45.129	Y14.062		25,809
TOTAL U.S. DEPARTMENT OF COMMERCE				25,809
TOTAL EXPENDITURES OF FEDERAL AWARDS				\$ 57,634,800

See notes to schedule of expenditures of federal awards.

NOTES TO THE SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS

NORTHEASTERN STATE UNIVERSITY

A Department of the Regional University System of Oklahoma

Year Ended June 30, 2016

NOTE A—BASIS OF PRESENTATION

The accompanying schedule of expenditures of federal awards (“SEFA”) includes the federal award activity of Northeastern State University (the “University”) under programs of the federal government for the year ended June 30, 2016. The information in this SEFA 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 SEFA 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 assets, or cash flows of the University.

NOTE B—SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

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

NOTE C --FEDERAL DIRECT STUDENT LOAN PROGRAM

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

NOTE D—SUBRECIPIENTS

During the year ended June 30, 2016, the University did not provide any federal awards to subrecipients.

SCHEDULE OF FINDINGS AND QUESTIONED COSTS

NORTHEASTERN STATE UNIVERSITY
A Department of the Regional University System of Oklahoma

Year Ended June 30, 2016

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 that are not considered to be material weakness(es)? yes none reported

Noncompliance material to financial statements noted? yes no

Federal Awards

Internal control over major programs:

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

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

Any audit findings disclosed that are required to be reported in accordance with 2 CFR 200.516(a)? yes no

Identification of major programs:

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

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

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

Auditee qualified as low-risk auditee? yes no

SCHEDULE OF FINDINGS AND QUESTIONED COSTS--Continued

NORTHEASTERN STATE UNIVERSITY

A Department of the Regional University System of Oklahoma

Year Ended June 30, 2016

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

None to report for the June 30, 2016 period.

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

None to report for the June 30, 2016 period.

SUMMARY SCHEDULE OF PRIOR AUDIT FINDINGS AND QUESTIONED COSTS

NORTHEASTERN STATE UNIVERSITY

A Department of the Regional University System of Oklahoma

Year Ended June 30, 2016

No matters were reportable.