

**SOUTHEASTERN OKLAHOMA  
STATE UNIVERSITY**

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

**ANNUAL FINANCIAL STATEMENTS  
AND INDEPENDENT AUDITOR'S  
REPORT AS OF AND FOR THE YEAR  
ENDED JUNE 30, 2018**

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

June 30, 2018

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## INDEPENDENT AUDITOR'S REPORT

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

### **Report on the Financial Statements**

We have audited the accompanying financial statements of Southeastern Oklahoma State University (the "University"), a department of the Regional University System of Oklahoma ("RUSO"), which is a component unit of the State of Oklahoma, and its discretely presented component unit, as of and for the year ended June 30, 2018, and the related notes to the financial statements, which collectively comprise the University's basic financial statements as listed in the table of contents.

### ***Management's Responsibility for the Financial Statements***

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

### ***Auditor's Responsibility***

Our responsibility is to express opinions on these financial statements based on our audit. We did not audit the financial statements of the University's discretely presented component unit, the Southeastern Oklahoma 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 not audited in accordance with *Governmental Auditing Standards*.

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

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

### ***Opinions***

In our opinion, based on our audit and the 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, 2018, and the respective changes in financial position, and, where applicable, cash flows thereof for the year then ended in accordance with accounting principles generally accepted in the United States of America.

### ***Emphasis of Matter***

As discussed in Note A, the financial statements of the University are intended to present the financial position, the changes in financial position, and, where applicable, cash flows of only that portion of RUSO that is attributable to the transactions of the University. They do not purport to, and do not present fairly the financial position of RUSO as of June 30, 2018, the changes in its financial position, or, where applicable, its cash flows for the year then ended in conformity with accounting principles generally accepted in the United States of America. Our opinion is not modified with respect to this matter.

### ***Other Matters***

#### ***Required Supplementary Information***

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

#### ***Other Reporting Required by Government Auditing Standards***

In accordance with *Government Auditing Standards*, we have also issued our report dated November 28, 2018, on our consideration of the University's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the University's internal control over financial reporting and compliance.



November 28, 2018

## MANAGEMENT'S DISCUSSION AND ANALYSIS

### SOUTHEASTERN OKLAHOMA STATE UNIVERSITY A Department of the Regional University System of Oklahoma

Year Ended June 30, 2018

#### *Introduction*

The discussion and analysis of Southeastern Oklahoma State University's (the "University") financial statements provides an overview of the University's financial activities for the fiscal year ending June 30, 2018, with selected comparative information for the year ended June 30, 2017. Management's discussion and analysis is designed to focus on current activities, resulting changes, and current known facts, so it should be read in conjunction with the University's financial statements and footnotes.

These financial statements include those of the University and its discretely presented component unit, Southeastern Foundation, Inc. A component unit is a legally separate entity associated with the primary organization.

#### *Financial Highlights*

The University's Total Net Position as of June 30, 2018 was \$36.6 million compared to \$31.9 million as of June 30, 2017. This is an increase of \$4.7 million or 14.8%. Total assets increased \$2.9 million and Total Liabilities decreased \$1.8 million.

Operating revenue and net non-operating revenue as of June 30, 2018 totaled \$55.0 million compared to \$50.6 million as of June 30, 2017. This is an increase of \$4.4 million or 8.7%.

Operating expenses and interest expense as of June 30, 2018 totaled \$52.9 million compared to \$48.4 million as of June 30, 2017. This is an increase of \$4.5 million or 9.3%.

One capital project, Cross Country Trail, was completed in fiscal year 2018. Four capital projects, Softball Facilities, Baseball Complex, Student Union Gym Floor, and Ellucian Colleague Software Implementation, are in the construction/implementation phase. The Softball Facilities and Baseball Complex are funded by external fund raising.

Bonds payable and capital lease obligations decreased by \$3.1 million, leaving a balance of \$16.3 million. This decrease was from debt service payments reducing debt by \$3.0 million and a decrease due to the refinancing of ODFA 2007B and issuance of ODFA 2017C totaling \$0.1 million.

# MANAGEMENT'S DISCUSSION AND ANALYSIS--Continued

## SOUTHEASTERN OKLAHOMA STATE UNIVERSITY A Department of the Regional University System of Oklahoma

Year Ended June 30, 2018

### *Statement of Net Position*

The Statement of Net Position presents current and noncurrent assets and liabilities, deferred outflows of resources and inflows of resources, and net position (assets and deferred outflows of resources minus liabilities and deferred inflows of resources) as of June 30, 2018.

Net Position is divided into three (3) major categories: (1) Invested in capital assets, the University's investment in property, plant, and equipment, (2) Restricted expendable, includes resources that are available for expenditure by the University to spend in accordance with restrictions imposed by external third parties, and (3) Unrestricted, represents resources to be 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.

#### CONDENSED STATEMENT OF NET POSITION

	June 30, (In Millions)			
	2018	2017	Increase (Decrease)	Percent Change
CURRENT ASSETS	\$ 17.6	\$ 12.6	\$ 5.0	39.7%
NONCURRENT ASSETS				
Capital Assets, Net of Depreciation	42.1	44.2	(2.1)	-4.8%
TOTAL ASSETS	<u>\$ 59.7</u>	<u>\$ 56.8</u>	<u>\$ 2.9</u>	5.1%
DEFERRED OUTFLOWS OF RESOURCES	<u>\$ 0.1</u>	<u>\$ 0.1</u>	<u>\$ -</u>	0.0%
CURRENT LIABILITIES	\$ 8.9	\$ 7.1	\$ 1.8	25.4%
NONCURRENT LIABILITIES	14.0	17.6	(3.6)	-20.5%
TOTAL LIABILITIES	<u>\$ 22.9</u>	<u>\$ 24.7</u>	<u>\$ (1.8)</u>	-7.3%
DEFERRED INFLOWS OF RESOURCES	<u>\$ 0.2</u>	<u>\$ 0.3</u>	<u>\$ (0.1)</u>	0.0%
NET POSITION				
Net Investment in Capital Assets	\$ 25.8	\$ 24.7	\$ 1.1	4.5%
Restricted	0.8	0.8	-	0.0%
Unrestricted	10.0	6.5	3.5	-53.8%
TOTAL NET POSITION	<u>\$ 36.6</u>	<u>\$ 32.0</u>	<u>\$ 4.6</u>	14.4%

## MANAGEMENT'S DISCUSSION AND ANALYSIS--Continued

### SOUTHEASTERN OKLAHOMA STATE UNIVERSITY A Department of the Regional University System of Oklahoma

Year Ended June 30, 2018

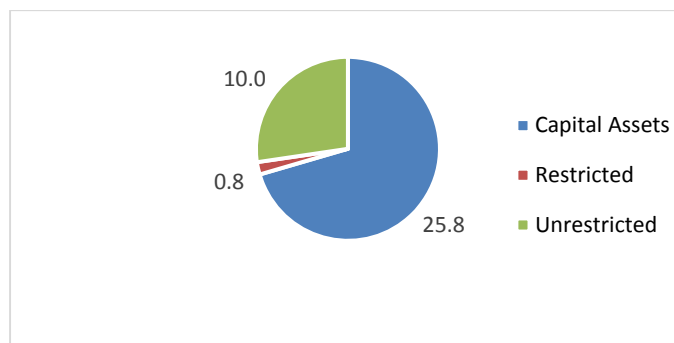
#### *Analysis of Net Position*

Total assets increased \$2.9 million with increases in cash and cash equivalents \$4.7 million, restricted cash and cash equivalents \$0.1 million, accounts receivable, net by \$0.2 million, and a decrease in capital assets, net by \$2.1 million.

Total liabilities decreased \$3.1 million with increases in accounts payable \$0.7 million, accrued payroll \$0.2 million, unearned revenue \$0.7 million, deposits held in custody for others \$0.1 million, and current portion of noncurrent liabilities \$0.2 million, and decreases in retirement incentive payout \$0.3 million, and outstanding debt by \$3.2 million.

The following graph indicates that the bulk of the University's net position at June 30, 2018, are capital assets invested in land, buildings, infrastructure, library, and equipment.

*Analysis of Net Position*



#### *Statement of Revenues, Expenses, and Changes in Net Position*

The statement of revenues, expenses, and changes in net position presents the University's results of operations for the year and the effect on net position. Operating revenues and expenses are generated from "exchange" transactions that arise in the course of normal activity for the organization. Tuition and fees, sales of services and merchandise, and similar transactions are considered operating revenues, and all of the expenses required to provide these services are considered operating expenses. Nonoperating revenue and expenses are characterized as non-exchange and include such items as gifts and contributions, investment income or expense, federal grants, and most significantly, state appropriations.

# MANAGEMENT'S DISCUSSION AND ANALYSIS--Continued

## SOUTHEASTERN OKLAHOMA STATE UNIVERSITY A Department of the Regional University System of Oklahoma

Year Ended June 30, 2018

### *Statement of Revenues, Expenses, and Changes in Net Position-Continued*

Condensed Statements of Revenues, Expenses, and Changes in Net Position are a summary for the year ended June 30, 2018, compared to the year ended June 30, 2017.

	Years Ended June 30, (in millions)		Increase (Decrease)
	2018	2017	
OPERATING REVENUES			
Student tuition and fees (net of scholarship discounts and allowances of \$11.9 and \$10.7, respectively)	\$ 22.4	\$ 17.8	\$ 4.6
Federal, state and local grants and contracts	5.5	6.2	(0.7)
Auxiliary operations	4.0	3.6	0.4
Other operating revenues	2.3	2.1	0.2
TOTAL OPERATING REVENUE	34.2	29.7	4.5
OPERATING EXPENSES			
Compensation and employee benefits	30.3	30.1	0.2
Contractual services	5.9	3.7	2.2
Supplies and materials	3.2	3.2	-
Depreciation	3.1	3.0	0.1
Utilities	1.3	1.4	(0.1)
Communication expense	0.1	0.1	-
Scholarships and fellowships	7.0	4.9	2.1
Other operating expense	2.0	2.0	-
TOTAL OPERATING EXPENSES	52.9	48.4	4.5
OPERATING INCOME (LOSS)	(18.7)	(18.7)	-
NONOPERATING REVENUE			
State appropriations	14.5	15.4	(0.9)
Financial aid grants	6.8	6.3	0.5
Other Gains and Losses	0.1	(0.1)	0.2
Investment income	0.1	0.1	-
Net gain on disposal of assets	-	-	-
Interest expense	(0.7)	(0.8)	0.1
NET NONOPERATING REVENUE (EXPENSES)	20.8	20.9	(0.1)
Income (loss) before other revenues, expenses, gains and losses	2.1	2.2	(0.1)
OTHER REVENUE/EXPENSES	2.6	2.6	-
CHANGE IN NET POSITION	4.7	4.8	(0.1)
NET POSITION, BEGINNING OF YEAR	31.9	27.2	4.7
NET POSITION, END OF YEAR	\$ 36.6	\$ 32.0	\$ 4.6



MANAGEMENT'S DISCUSSION AND ANALYSIS--Continued

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

Year Ended June 30, 2018

*Statement of Revenues, Expenses, and Changes in Net Position-Continued*

*Revenues 2018*

Total operating revenues increased by \$4.5 million and net non-operating revenue was consistent with the previous year, for a total increase of \$4.4 million.

Student tuition and fees, net of scholarship discounts and allowances increased \$4.6 million. Rates for tuition and mandatory fees were increased by about 4.7% for resident students and about 2.1% for non-resident students. Student credit hours increased on average about 3% across all categories.

Federal, State, and local grants and contracts revenue is \$5.5 million, which was a decrease of approximately \$0.7 million.

Auxiliary operations generated total revenues of \$4.0 million of which \$2.8 million is from housing and food services and \$1.2 million is from aerospace operations. Housing revenue remained consistent with prior year revenue, while aerospace revenue increased \$0.4 million. Room rates remained at FY 2017 levels while board increased about 3%. Occupancy rates remained stable.

State appropriations for operations in fiscal year 2018 were \$14.5 million, resulting in a decrease of \$0.9 million or approximately 5.9%.

## MANAGEMENT'S DISCUSSION AND ANALYSIS--Continued

### SOUTHEASTERN OKLAHOMA STATE UNIVERSITY A Department of the Regional University System of Oklahoma

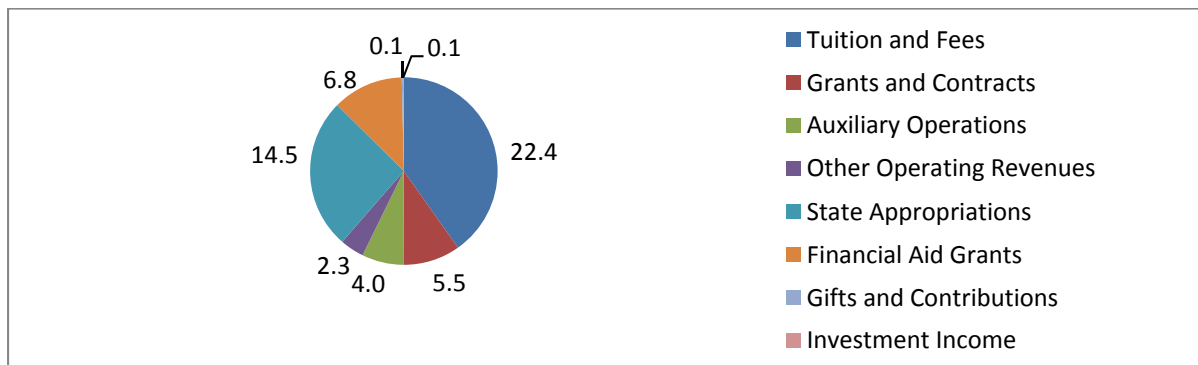
Year Ended June 30, 2018

#### *Statement of Revenues, Expenses, and Changes in Net Position-Continued*

##### *Revenues 2018--continued*

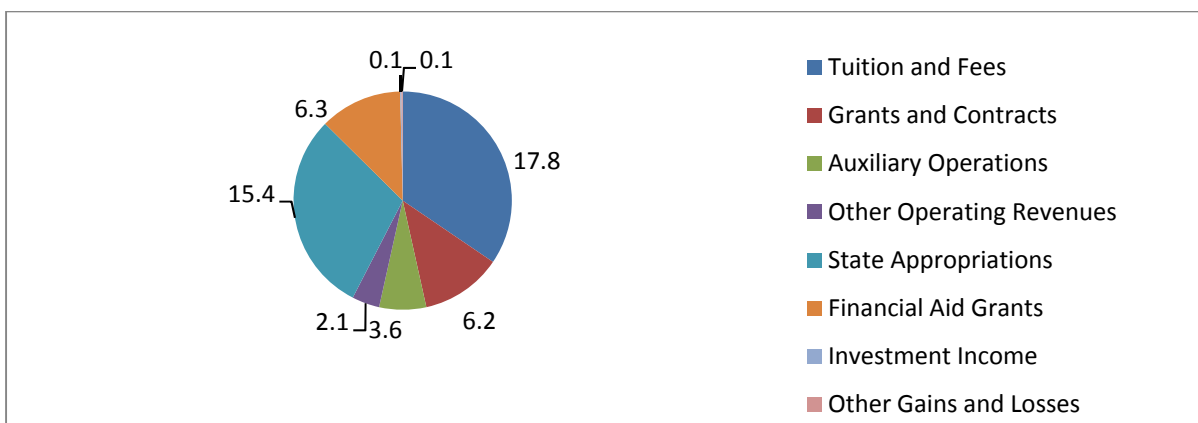
The following is a graphical representation of total operating and nonoperating revenue for the year ended June 30, 2018.

*Total Revenues 2018  
Operating and Nonoperating  
(In Millions)*



The following is a graphical representation of total operating and nonoperating revenue for the year ended June 30, 2017.

*Total Revenues 2017  
Operating and Nonoperating  
(In Millions)*



## MANAGEMENT'S DISCUSSION AND ANALYSIS--Continued

### SOUTHEASTERN OKLAHOMA STATE UNIVERSITY A Department of the Regional University System of Oklahoma

Year Ended June 30, 2018

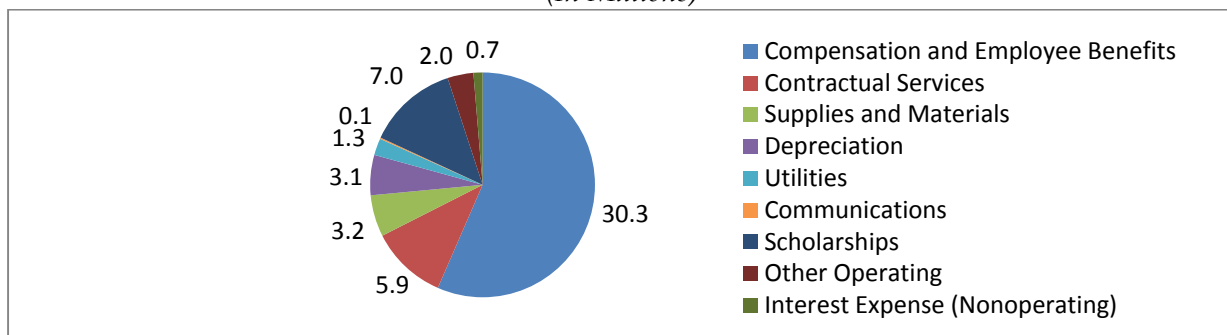
#### *Statement of Revenues, Expenses, and Changes in Net Position-Continued*

##### *Expenses*

Operating expenses and interest expense for the year are \$53.6 million, an increase of \$4.4 million. Increases in compensation and employee benefits \$0.2 million, contractual services \$2.2 million, scholarships by \$2.1 million.

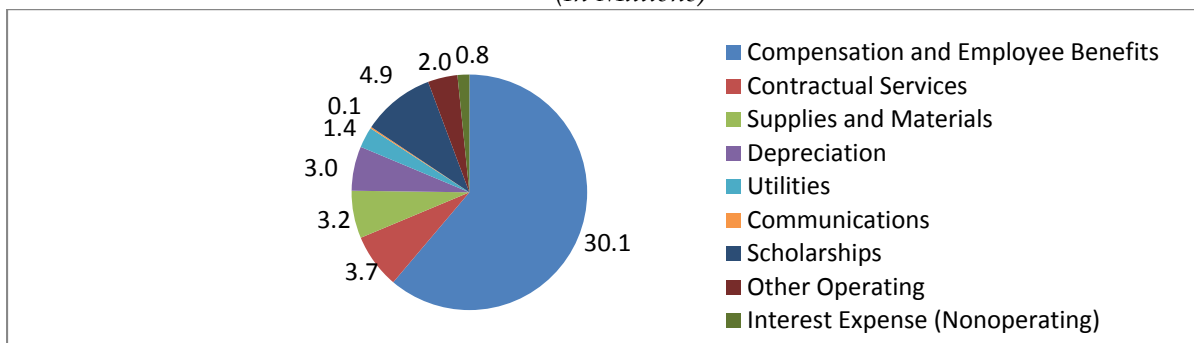
The following is a graphic illustration of expenses for the year ended June 30, 2018.

*Total Expenditures 2018  
(In Millions)*



The following is a graphic illustration of expenses for the year ended June 30, 2017.

*Total Expenditures 2017  
(In Millions)*



## MANAGEMENT'S DISCUSSION AND ANALYSIS--Continued

### SOUTHEASTERN OKLAHOMA STATE UNIVERSITY A Department of the Regional University System of Oklahoma

Year Ended June 30, 2018

#### *Statement of Cash Flows*

The Statement of Cash Flows presents information about the cash receipts and disbursements of the university during the year.

A condensed Statement of Cash Flows is a summary for the year ended June 30, 2018, compared to the year ended June 30, 2017.

	Years Ended June 30, (in Millions)	
	2018	2017
CASH PROVIDED BY (USED IN):		
Operating activities	\$ (14.6)	\$ (15.0)
Noncapital financing activities	21.4	21.8
Investing activities	0.1	0.1
Capital and related financing activities	(2.1)	(1.6)
NET INCREASE (DECREASE) IN CASH	4.8	5.3
CASH, BEGINNING OF YEAR	10.3	5.0
CASH, END OF YEAR	<u>\$ 15.1</u>	<u>\$ 10.3</u>

#### *Capital Assets*

At June 30, 2018, the University had approximately \$42.1 million invested in capital assets, net of accumulated depreciation of \$70.1 million. Depreciation charges totaled approximately \$3.0 million for the current fiscal year.

#### *Capital Assets, net*

	June 30, (in Millions)	
	2018	2017
Land	\$ 3.0	\$ 3.0
Capitalized collections	0.4	0.4
Construction in-progress	0.5	-
Infrastructure	1.7	2.3
Improvements	-	0.4
Buildings	36.1	37.4
Furniture, fixtures, and equipment	0.3	0.5
Library materials	0.1	0.2
TOTALS	<u>\$ 42.1</u>	<u>\$ 44.2</u>

## MANAGEMENT'S DISCUSSION AND ANALYSIS--Continued

### SOUTHEASTERN OKLAHOMA STATE UNIVERSITY A Department of the Regional University System of Oklahoma

Year Ended June 30, 2018

#### *Debt*

At June 30, 2018, the University had approximately \$16.3 million in debt outstanding compared to \$19.4 million at the end of the previous fiscal year. The table below summarizes these amounts by type.

<i>Outstanding Debt</i>		June 30, (in Millions)	
		2018	2017
OCIA Capital Lease Obligations	\$	6.5	\$ 7.6
ODFA Capital Lease Obligations		9.8	11.8
TOTALS	\$	16.3	\$ 19.4

#### *Oklahoma Capital Improvement Authority Leases*

In 2015, the University's remaining 2004 lease agreement with OCIA was restructured through a complete refunding of the Series 2004A bonds. OCIA issued new bonds, Series 2014B, to accomplish the refunding. As a result, the total liability of the remaining 2004A bonds refunded and the amount of the 2014B bonds acquired was a gain on restructuring of \$61,834, which was recorded as a deferred inflow of resources that will be amortized over a period of 5 years. As of June 30, 2018, the unamortized gain totaled \$15,948. The restructured lease agreement with OCIA secures the OCIA bond indebtedness and any future indebtedness that might be issued to refund earlier bond issues. The University's aforementioned lease agreement with OCIA was automatically restructured to secure the new bond issues. This refinancing resulted in an aggregate difference in principal and interest between the original lease agreement and the refinanced lease agreement of \$100,226, 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 \$264,697 at June 30, 2018.

During the year ended June 30, 2018, OCIA made lease principal and interest payments totaling \$1,516,080 on behalf of the University. These on-behalf payments have been recorded as restricted state appropriations in the statement of revenues, expenses, and changes in net position.

## MANAGEMENT'S DISCUSSION AND ANALYSIS--Continued

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

Year Ended June 30, 2018

### *Oklahoma Development Finance Authority Master Lease Program*

During fiscal 2017, the ODFA refinanced ODFA 2006A and issued new Bond Series 2016G totaling \$748,000. The University has recorded a lease obligation payable in the accompanying financial statements with an outstanding balance of \$521,833 at June 30, 2018.

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

### *Component Unit*

The Southeastern Foundation, Inc. (the "Foundation") meets the criteria for inclusion as a discretely presented component unit of Southeastern Oklahoma State University. The most recent financial statements of the Foundation are included in this presentation under the heading Component Unit. A complete set of financial statements may be obtained from the Foundation.

### *Economic Outlook*

The economic stability of the University is directly related to the state's economic stability. The state's economy is clearly showing the direct and indirect impact of low oil and gas prices, with monthly gross production and sales taxes collections down. The University will continue to maintain rigorous processes and controls to limit expenditures in the uncertain revenue climate.

Enrollment data for the Fall 2018 period reflects about a 13% increase from the Fall 2017. Enrollment has grown noticeably in the last year mostly in new freshman, transfers, and graduate students. Expansion and growth in the graduate school has exceeded expectations. The partnership with a third-party marketing firm has made tremendous progress in expanding enrollment in the University's MBA program. Starting with the Fall 2017, three additional graduate degree programs were brought online. During the fall 2018 semester, six undergraduate degree programs came online.

Other key initiatives that have shown promise include strengthening ties with community colleges and transfer students as well as providing a wider array of scholarship opportunities across the board. These efforts will continue along with new or expanded initiatives to promote student enrichment experiences, improve the University's regional image, optimize the learning environment, and enhance collaboration and partnerships.

MANAGEMENT'S DISCUSSION AND ANALYSIS--Continued

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

Year Ended June 30, 2018

*Economic Outlook--continued*

The current budgetary climate is challenging and the University is relying on the experience of our management team and our team approach to problem solving to meet these challenges. We believe that many of the actions that have been taken in the recent past and those planned for the future will help us weather the current crisis and result in a stronger more efficient and effective organization. We realize that serving our students and maintaining quality academic programs is dependent on receiving an adequate level of state and federal appropriations in the future and we plan to work diligently toward that objective.

# STATEMENT OF NET POSITION

## SOUTHEASTERN OKLAHOMA STATE UNIVERSITY A Department of the Regional University System of Oklahoma

June 30, 2018

	<u>University</u>	<u>Component Unit</u>
ASSETS		
CURRENT ASSETS		
Cash and cash equivalents	\$ 14,674,134	\$ 2,901,357
Restricted cash and cash equivalents	427,019	646,012
Accounts receivable, net	2,049,477	42,790
Interest receivable	7,547	57,443
Receivable from state agencies	423,951	-
Other assets	-	107,431
Current portion of notes receivable, net	8,858	-
TOTAL CURRENT ASSETS	<u>17,590,986</u>	<u>3,755,033</u>
NONCURRENT ASSETS		
Investments	-	23,269,948
Other assets	-	210,682
Capital assets, net	42,113,342	6,047,934
TOTAL NONCURRENT ASSETS	<u>42,113,342</u>	<u>29,528,564</u>
TOTAL ASSETS	<u>59,704,328</u>	<u>33,283,597</u>
DEFERRED OUTFLOWS OF RESOURCES		
Deferred charge on ODFA Master lease restructure	<u>\$ 82,644</u>	<u>\$ -</u>

(Continued)



## STATEMENT OF NET POSITION--Continued

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

June 30, 2018

	University	Component Unit
LIABILITIES AND NET POSITION		
CURRENT LIABILITIES		
Accounts payable	\$ 1,180,942	\$ 1,019,043
Accrued payroll	281,324	-
Accrued interest payable	-	35,164
Unearned revenue	2,866,788	57,388
Deposits held in custody for others	398,162	-
Current portion of noncurrent liabilities	4,189,431	248,743
TOTAL CURRENT LIABILITIES	<u>8,916,647</u>	<u>1,360,338</u>
NONCURRENT LIABILITIES		
Accrued compensated absences	316,454	-
Retirement incentive payout	57,919	-
Notes payable	-	7,355,790
Capital lease obligation	13,269,663	-
Premium on leases	333,947	-
TOTAL NONCURRENT LIABILITIES	<u>13,977,983</u>	<u>7,355,790</u>
TOTAL LIABILITIES	<u>22,894,630</u>	<u>8,716,128</u>
DEFERRED INFLOWS OF RESOURCES		
Deferred gain on OCIA lease restructure	<u>249,956</u>	<u>-</u>
NET POSITION		
Invested in capital assets, net of related debt	25,783,757	-
Restricted:		
Nonexpendable	-	13,457,169
Expendable:		
Scholarships, instruction and other	-	10,973,408
Loans	-	-
Capital projects and debt service	812,757	-
Unrestricted	10,045,872	136,892
TOTAL NET POSITION	<u>\$ 36,642,386</u>	<u>\$ 24,567,469</u>

See notes to financial statements

## STATEMENT OF REVENUES, EXPENSES AND CHANGES IN NET POSITION

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

Year Ended June 30, 2018

	University	Component Unit
OPERATING REVENUES		
Student tuition and fees, net of scholarship discounts and allowances of \$11,912,962	\$ 22,358,932	\$ -
Federal grants and contracts	4,477,117	-
State and local grants and contracts	1,021,371	-
Housing and food service	2,793,845	-
Aerospace operations	1,209,469	-
Investment income	-	1,191,207
Contributions	-	1,980,796
Other operating revenues	2,289,343	1,618,383
TOTAL OPERATING REVENUES	34,150,077	4,790,386
OPERATING EXPENSES		
Compensation and employee benefits	30,281,247	-
Contractual services	5,941,110	-
Supplies and materials	3,162,305	-
Depreciation	3,085,594	-
Utilities	1,334,001	-
Communications expense	133,775	-
Scholarships and fellowships	6,965,379	1,739,399
Other operating expenses	2,007,074	1,895,553
TOTAL OPERATING EXPENSES	52,910,485	3,634,952
OPERATING INCOME (LOSS)	(18,760,408)	1,155,434
NONOPERATING REVENUES (EXPENSES)		
State appropriations	14,489,916	-
Financial aid grants	6,782,133	-
Other gains and (losses)	135,079	-
Investment income	110,778	-
Net gain on disposal of assets	776	-
Interest expense	(693,315)	-
NET NONOPERATING REVENUE	20,825,367	-
Income before other revenues, expenses, gains and losses	2,064,959	1,155,434
State appropriations restricted for capital purposes	1,128,993	-
OCIA on-behalf payments	1,516,080	-
CHANGE IN NET POSITION	4,710,032	1,155,434
NET POSITION, BEGINNING OF YEAR	31,932,354	23,412,035
NET POSITION, END OF YEAR	\$ 36,642,386	\$ 24,567,469

See notes to financial statements

# STATEMENT OF CASH FLOWS

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

Year Ended June 30, 2018

## CASH FLOWS FROM OPERATING ACTIVITIES

Tuition and fees	\$ 23,166,212
Grants and contracts	5,370,452
Other operating receipts	6,095,469
Payments to employees for salaries and benefits	(30,467,484)
Payments to suppliers	<u>(18,770,195)</u>

NET CASH USED IN OPERATING ACTIVITIES (14,605,546)

## CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES

State appropriations	14,489,916
Gifts and contributions	152,614
Financial aid grants	6,782,133
Direct Loan receipts	15,352,315
Direct Loan payments	<u>(15,352,315)</u>

NET CASH PROVIDED BY NONCAPITAL FINANCING ACTIVITIES 21,424,663

## CASH FLOWS FROM INVESTING ACTIVITIES

Interest income received	<u>109,198</u>
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NET CASH PROVIDED BY INVESTING ACTIVITIES 109,198

## CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES

Cash paid for capital assets	(958,696)
Capital appropriations received	1,128,993
Interest paid on capital debt and leases	(452,172)
Proceeds from capital debt and leases	1,006,860
Principal payments on capital debt and leases	<u>(2,856,500)</u>

NET CASH USED IN CAPITAL AND RELATED FINANCING ACTIVITIES (2,131,515)

NET CHANGE IN CASH AND CASH EQUIVALENTS 4,796,800

CASH AND CASH EQUIVALENTS, BEGINNING OF YEAR 10,304,353

CASH AND CASH EQUIVALENTS, END OF YEAR \$ 15,101,153

(Continued)

STATEMENT OF CASH FLOWS--Continued

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

Year Ended June 30, 2018

RECONCILIATION OF OPERATING LOSS TO  
NET CASH USED IN OPERATING ACTIVITIES

Operating loss	\$ (18,760,408)
Adjustments to reconcile operating loss to net cash used in operating activities	
Depreciation	3,085,594
Loss on disposal of assets	776
Changes in assets and liabilities	
Accounts receivable	(227,676)
Loans receivable	(8,643)
Accounts payable and student deposits	772,673
Accrued payroll	155,373
Unearned revenues	718,375
Retirement incentive	(338,435)
Compensated absences	(3,175)

NET CASH USED IN OPERATING ACTIVITIES \$ (14,605,546)

NONCASH INVESTING, NONCAPITAL FINANCING  
AND CAPITAL AND RELATED FINANCING ACTIVITIES

Interest on capital debt paid by State Agency on behalf of the University	<u>\$ 359,883</u>
Principal on capital debt paid by State Agency on behalf of the University	<u>\$ 1,156,197</u>
Deferred gain on OCIA lease restructure	<u>\$ 249,956</u>

RECONCILIATION OF CASH AND CASH EQUIVALENTS  
TO STATEMENT OF NET POSITION

Current assets	
Cash and cash equivalents	\$ 14,674,134
Restricted cash and cash equivalents	<u>427,019</u>

TOTAL CASH AND CASH EQUIVALENTS \$ 15,101,153

See notes to financial statements

STATEMENT OF FIDUCIARY NET POSITION

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

June 30, 2018

	Fiduciary Funds
ASSETS	
Cash and cash equivalents	\$ 136,741
Total assets	<u>\$ 136,741</u>
LIABILITIES	
Due to OKHEEI	\$ 136,741
Total liabilities	<u>\$ 136,741</u>

See notes to financial statements

## NOTES TO FINANCIAL STATEMENTS

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

Year Ended June 30, 2018

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

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

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

The Board of Regents has constitutional authority to govern, control and manage RUSO, 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, and appoint or hire all necessary officers, supervisors, instructors, and employees for member institutions.

Accordingly, the University is considered a department of RUSO for financial reporting purposes due to the significance of its legal, operational, and financial relationships with the Board of Regents as defined in Section 2100 of the Governmental Accounting Standards Board (GASB) Codification of Governmental Accounting and Financial Reporting Standards.

Discretely Presented Component Units: Southeastern Foundation, Inc. (the "Foundation") is a component unit of the University under GASB 39 that is required to be discretely presented with the financial statements of the University. The University is the beneficiary of the Foundation, a separate legal entity with its own Board of Trustees. The Foundation is organized for the benefit of the University, and its faculty, student body and programs. The Foundation provides scholarships and support and enhances the further development of the University. Additional and selected disclosures for the Foundation are located in this report in Note M. A complete report of the Foundation's financial statements and footnotes can be requested from the Foundation's director.

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

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

## NOTES TO FINANCIAL STATEMENTS--Continued

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

Year Ended June 30, 2018

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

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

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

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

Investments: The University accounts for its investments at fair value in accordance with GASB Statement No. 72, *Fair Value Measurement and Application*. In accordance with GASB Statement No. 40, *Deposit and Investment Risk Disclosures*, the University has disclosed its deposit and investment policies related to the risks identified in GASB Statement No. 40. Changes in unrealized gain (loss) on the carrying value of investments are reported as a component of investment income in the statement of revenues, expenses and changes in net position.

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 statement of net position.

## NOTES TO FINANCIAL STATEMENTS--Continued

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

Year Ended June 30, 2018

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

Accounts Receivable: Accounts receivable consists of tuition and fee charges to students and to auxiliary enterprise services provided to students, faculty and staff, the majority of each residing in the State of Oklahoma. Student accounts receivable are carried at the unpaid balance of the original amount billed to students, less an estimate made for doubtful accounts based on a review of all outstanding amounts. Management determines the allowance for doubtful accounts by identifying troubled accounts and by using historical experience applied to an aging of accounts. A student account receivable is considered to be past due if any portion of the receivable balance is outstanding after the end of the semester.

Accounts receivable also include amounts due from the federal government, state and local governments, or private sources, in connection with reimbursement of allowable expenditures made pursuant to the University's grant and contracts. Other accounts receivable also include the distribution from the Oklahoma State Regents' endowment trust fund and amounts due from the Oklahoma Capital Improvement Authority ("OCIA") for proceeds from the capital bond improvement program allocated to the University. No allowance for doubtful accounts has been provided for other receivables.

Capital Assets: Capital assets are recorded at cost at the date of acquisition, or acquisition value at the date of donation in the case of gifts. For equipment, the University's capitalization policy includes all items with a unit cost of \$5,000 or more, and an estimated useful life of one year or greater. 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, 10 to 30 years for infrastructure, land improvements, and building renovations, and 5 to 10 years for library materials and equipment.

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



NOTES TO FINANCIAL STATEMENTS--Continued

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

Year Ended June 30, 2018

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

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

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

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

Invested in Capital Assets, Net of Related Debt: This represents the University's total investment in capital assets, net of outstanding debt obligations related to those capital assets. 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 invested in capital assets, net of related debt.

Restricted Net Position – Expendable: Restricted expendable net position includes resources in which the University is legally or contractually obligated to spend 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. The included auxiliary enterprises are substantially self-supporting activities that provide services for students, faculty, and staff.

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

NOTES TO FINANCIAL STATEMENTS--Continued

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

Year Ended June 30, 2018

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

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

Use of Estimates: The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect certain reported amounts and disclosures. Accordingly, actual results could differ from 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, and (3) certain grants and contracts.

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

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

## NOTES TO FINANCIAL STATEMENTS--Continued

### SOUTHEASTERN OKLAHOMA STATE UNIVERSITY A Department of the Regional University System of Oklahoma

Year Ended June 30, 2018

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

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, 2018, the University's deferred outflows of resources were comprised of deferred charges on the restructuring of certain long term debt. These deferred outflows of resources are recognized as a component of interest expense over the remaining term of the old debt or the life of the new debt, whichever is shorter.

Deferred Inflows of Resources: Deferred inflows are the acquisition of net position by the University that are applicable to a future reporting period. At June 30, 2018 the University's deferred inflows of resources were comprised of deferred gains on the restructuring of certain long term debt.

#### 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.

At June 30, 2018, the carrying amount of all University deposits with the OST and other financial institutions was \$15,237,894 of which \$136,741 represents amounts held in agency funds. This amount consisted of deposits with the OST (\$15,096,603), and change funds (\$4,550). Funds on deposit with OST include \$3,660,166 with *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/>. After evaluation of the use and purpose of the University's participation in the internal investment pool, the amount on deposit with *OK INVEST* is treated as demand accounts and reported as cash equivalents.

## NOTES TO FINANCIAL STATEMENTS--Continued

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

Year Ended June 30, 2018

### 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.

*Interest rate risk* is the risk that changes in interest rates will adversely affect the fair value of an investment. Investments that are held for longer periods of time are subject to increased risk of adverse interest changes. Neither the University nor state statutes limit investment maturities as a means of managing exposure to fair value losses arising from increasing interest rates; however, the OST Investment Policy limits the average maturity on its portfolio to four (4) years, with certain individual securities having more restrictive limits as defined in the policy. *Concentration of credit risk* is the risk of loss attributed to the magnitude of the University's investment in a single issuer. Neither the University's investment policy nor state statutes place limits on amounts that can be invested in any one issuer; however, the OST Investment Policy states that, with the exception of U.S. Treasury securities, no more than 50% of the State's total funds may be invested in a single security type or with a single financial institution, with diversification percentages being more restrictive on individual securities.

*Custodial credit risk* for investments is the risk that, in the event of failure of the counterparty, the University will not be able to recover the value of its investments or collateral securities in the possession of an outside party. As of June 30, 2018, none of the University's investments were subject to custodial credit risk.

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

NOTES TO FINANCIAL STATEMENTS--Continued

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

Year Ended June 30, 2018

NOTE C--ACCOUNTS RECEIVABLE

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

Student tuition and fees	\$ 2,512,666
Auxiliary enterprises and other operating activities	499,075
Federal, state, and private grants and contracts	<u>466,595</u>
	3,478,336
Less: allowance for doubtful accounts	<u>(1,428,859)</u>
Net accounts receivable	<u>\$ 2,049,477</u>

NOTES TO FINANCIAL STATEMENTS--Continued

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

Year Ended June 30, 2018

NOTE D--CAPITAL ASSETS

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

	Balance June 30, 2017	Additions	Transfers	Retirements/ Adjustments	Balance June 30, 2018
Capital assets not being depreciated					
Land	\$ 2,956,480	\$ -	\$ -	\$ -	\$ 2,956,480
Capitalized collections	401,385	-	-	-	401,385
Construction in progress	15,145	614,979	(57,744)	-	572,380
Total capital assets not being depreciated	<u>\$ 3,373,010</u>	<u>\$ 614,979</u>	<u>\$ (57,744)</u>	<u>\$ -</u>	<u>\$ 3,930,245</u>
Other capital assets					
Non-major infrastructure networks	\$ 13,309,910	\$ -	\$ -	\$ -	\$ 13,309,910
Improvements	3,237,308	-	57,744	-	3,295,052
Buildings	75,822,985	-	-	-	75,822,985
Furniture, fixtures and equipment	8,742,820	235,435	-	(44,082)	8,934,173
Library materials	6,892,369	108,282	-	(8,952)	6,991,699
Total other capital assets	108,005,392	343,717	57,744	(53,034)	108,353,819
Less: accumulated depreciation for					
Non-major infrastructure networks	(10,972,180)	(581,422)	-	-	(11,553,602)
Improvements	(2,791,058)	(74,063)	-	-	(2,865,121)
Buildings	(38,463,533)	(1,915,946)	-	-	(40,379,479)
Furniture, fixtures and equipment	(8,189,152)	(426,515)	-	44,080	(8,571,587)
Library materials	(6,721,463)	(87,648)	-	8,178	(6,800,933)
Total accumulated depreciation	(67,137,386)	(3,085,594)	-	52,258	(70,170,722)
Other capital assets, net	<u>\$ 40,868,006</u>	<u>\$ (2,741,877)</u>	<u>\$ 57,744</u>	<u>\$ (776)</u>	<u>\$ 38,183,097</u>
Capital asset summary:					
Capital assets not being depreciated	\$ 3,373,010	\$ 614,979	\$ (57,744)	\$ -	\$ 3,930,245
Other capital assets, at cost	108,005,392	343,717	57,744	(53,034)	108,353,819
Total cost of capital assets	111,378,402	958,696	-	(53,034)	112,284,064
Less: accumulated depreciation	(67,137,386)	(3,085,594)	-	52,258	(70,170,722)
Capital assets, net	<u>\$ 44,241,016</u>	<u>\$ (2,126,898)</u>	<u>\$ -</u>	<u>\$ (776)</u>	<u>\$ 42,113,342</u>

Capital assets acquired with funds under capital lease programs are included in the above capital assets.

## NOTES TO FINANCIAL STATEMENTS--Continued

### SOUTHEASTERN OKLAHOMA STATE UNIVERSITY A Department of the Regional University System of Oklahoma

Year Ended June 30, 2018

#### NOTE E--LONG-TERM LIABILITIES

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

	Balance June 30, 2017	Additions	Reductions/ Adjustments	Balance June 30, 2018	Amounts due within one year
Bonds payable and capital lease obligations:					
OCIA Leases	\$ 7,634,115	\$ -	\$ (1,156,197)	\$ 6,477,918	\$ 1,178,172
ODFA Leases	11,762,167	946,000	(2,856,500)	9,851,667	1,881,750
Premiums on Leases	411,346	60,860	(67,133)	405,073	71,126
Total bonds and capital leases	19,807,628	1,006,860	(4,079,830)	16,734,658	3,131,048
Other liabilities:					
Retirement incentive payout	745,426	-	(338,435)	406,991	349,072
Accrued compensated absences	1,028,940	650,981	(654,156)	1,025,765	709,311
Total other liabilities	1,774,366	650,981	(992,591)	1,432,756	1,058,383
Total long-term liabilities	<u>\$ 21,581,994</u>	<u>\$ 1,657,841</u>	<u>\$ (5,072,421)</u>	<u>\$ 18,167,414</u>	<u>\$ 4,189,431</u>

#### Capital Lease Obligations:

##### *Oklahoma Capital Improvement Authority Leases*

In 2004, the OCIA issued bond series 2004A that refunded a significant portion of the 1999A bonds. The amortization of the 1999A bond issue ended in 2010. The lease agreement no longer secures the 1999A bond issue but now acts as security for the 2004A bond issue over the term of the lease through the year 2020.

In 2015, the University's remaining 2004 lease agreement with OCIA was restructured through a complete refunding of the Series 2004A bonds. OCIA issued new bonds, Series 2014B, to accomplish the refunding. As a result, the total liability of the remaining 2004A bonds refunded and the amount of the 2014B bonds acquired was a gain on restructuring of \$61,834, which was recorded as a deferred inflow of resources that will be amortized over a period of 5 years. As of June 30, 2018, the unamortized gain totaled \$15,948. The restructured lease agreement with OCIA secures the OCIA bond indebtedness and any future indebtedness that might be issued to refund earlier bond issues. The University's aforementioned lease agreement with OCIA was automatically restructured to secure the new bond issues. This refinancing resulted in an aggregate difference in principal and interest between the original lease agreement and the refinanced lease agreement of \$100,226, 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 \$136,992 at June 30, 2018.

NOTES TO FINANCIAL STATEMENTS--Continued

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

Year Ended June 30, 2018

NOTE E--LONG-TERM LIABILITIES--Continued

Capital Lease Obligations--Continued:

*Oklahoma Capital Improvement Authority Leases--Continued*

In November 2005, the Oklahoma Capital Improvement Authority (OCIA) issued its OCIA Bond Issues, 2005 Series F and G. In 2011, the OCIA issued Bond Series 2010A and 2010B to partially refund the Series 2005F Revenue Bonds. The advance partial refunding was to provide budgetary relief for fiscal years 2011 and 2012 by extending and restructuring the debt service. As a result, the total liability of the remaining 2005F bonds combined with the new 2010A and 2010B bond issues will be more than the original outstanding liability for the 2005F bonds. Consequently, the lease agreement with OCIA was automatically restructured to secure the new bond issues. This lease restructuring extended certain principal payments into the future, resulting in a deferred restructuring charge of \$927,419 that was amortized over a period of six years, ending in fiscal year 2016. This restructuring resulted in an aggregate debt service difference for principal and interest between the original lease agreement and the restructured lease agreement of \$45,806, which also approximates the economic cost of the lease restructuring. 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 \$1,034,741 at June 30, 2018.

In 2014, the OCIA issued Bond Series 2014A to partially refund the Series 2005F Revenue Bonds. This restructuring resulted in a gain of \$316,314 between the remaining liability of 2005F and the new liability of 2014A. This gain on restructuring was recorded as a deferred inflow of resources that will be amortized over a period of 18 years. As of June 30, 2018, the unamortized gain totaled \$234,008. 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 \$5,306,185 at June 30, 2018.

During the year ended June 30, 2018, OCIA made lease principal and interest payments totaling \$1,516,080 on behalf of the University. These on-behalf payments have been recorded as restricted state appropriations in the statement of revenues, expenses and changes in net position.



# NOTES TO FINANCIAL STATEMENTS--Continued

## SOUTHEASTERN OKLAHOMA STATE UNIVERSITY A Department of the Regional University System of Oklahoma

Year Ended June 30, 2018

### NOTE E--LONG-TERM LIABILITIES--Continued

#### Capital Lease Obligations--Continued:

##### *Oklahoma Development Finance Authority Master Lease Program:*

	<u>2018</u>
ODFA Oklahoma State System of Higher Education Master Lease Revenue Bonds, Series 2014A refinanced to 2015C, allocated to the University in the original amount of \$77,000 and mature in varying annual amounts to June 1, 2019.	\$ 21,084
ODFA Oklahoma State System of Higher Education Master Lease Revenue Bonds, Series 2015C, allocated to the University in the original amount of \$733,000 and mature in varying annual amounts to June 1, 2025.	447,084
ODFA Oklahoma State System of Higher Education Master Lease Revenue Bonds, Series 2014B refinanced 2006 SEOSU Energy Lease, allocated to the University in the original amount of \$1,632,000 and mature in varying amounts to June 1, 2019.	330,000
ODFA Oklahoma State System of Higher Education Master Lease Revenue Bonds, Series 2014C refinanced 2004C, allocated to the University in the original amount of \$1,936,000 and mature in varying annual amounts to December 1, 2024.	1,308,334
Student Union Revenue Serial Bonds and Term Bonds Series 2003, refinanced to ODFA Oklahoma State System of Higher Education Master Lease Revenue Bonds Series 2013B, allocated to the University in the original amount of \$5,515,000 and mature in varying annual amounts to June 1, 2028.	4,114,417
ODFA Oklahoma State System of Higher Education Master Lease Revenue Bonds, Series 2002C refinanced to 2011B, allocated to the University in the refinanced amount of \$4,964,000 and mature in varying annual amounts to December 1, 2022.	2,266,749
ODFA Oklahoma State System of Higher Education Master Lease Revenue Bonds, Series 2016G refinanced 2006A, allocated to the University in the original amount of \$1,971,000 and mature in varying annual amounts to November 15, 2021.	521,832
ODFA Oklahoma State System of Higher Education Master Lease Revenue Bonds, Series 2017C refinanced 2007B, allocated to the University in the original amount of \$946,000 and mature in varying annual amounts to November 15, 2022.	<u>842,167</u>
	<u>\$ 9,851,667</u>

NOTES TO FINANCIAL STATEMENTS--Continued

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

Year Ended June 30, 2018

NOTE E--LONG-TERM LIABILITIES--Continued

Capital Lease Obligations--Continued:

*Oklahoma Development Finance Authority Master Lease Program--Continued*

The refinancing of ODFA Revenue Bond Series 2002C with ODFA Revenue Bond Series 2011B resulted in a deferred outflow of resources that will be amortized over a period of eleven years. As of June 30, 2018, the unamortized cost totaled \$82,644.

There were no remaining funds to be drawn down by the University under the ODFA master lease programs at June 30, 2018.

During fiscal 2018, the ODFA refinanced ODFA 2007B and issued new Bond Series 2017C totaling \$946,000. The University has recorded a lease obligation payable in the accompanying financial statements with an outstanding balance of \$842,167 at June 30, 2018.

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

	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
Year Ending June 30:			
2019	\$ 3,059,922	\$ 685,656	\$ 3,745,578
2020	1,574,167	567,317	2,141,484
2021	1,569,750	509,460	2,079,210
2022	1,970,696	454,811	2,425,507
2023	1,280,808	373,362	1,654,170
2024-2028	5,504,836	1,070,823	6,575,659
2029-2033	1,369,406	102,373	1,471,779
	<u>\$ 16,329,585</u>	<u>\$ 3,763,802</u>	<u>\$ 20,093,387</u>

## NOTES TO FINANCIAL STATEMENTS--Continued

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

Year Ended June 30, 2018

### NOTE E--LONG-TERM LIABILITIES--Continued

#### Retirement Incentive Plan:

In 2017, the University instituted a Retirement Incentive Plan (the "Plan"), whereby certain employees could apply to participate in the Plan. The terms of the Plan included the following requirements for those employees applying to participate in the Plan:

- Must be currently vested and eligible to retire under the statutes and rules of the Oklahoma Teachers Retirement System.
- Must be willing to retire effective July 1, 2016.
- Must be willing to release any claims against the University which relate to retirement.
- In exchange for retirement and release, the University will pay 50% of one year only of current base salary in monthly installments over a 3-year period, beginning July 31, 2016 and ending June 30, 2019, or if identified as a phased retirement, the monthly installments begin the month following retirement date.

Thirty-two employees were enrolled in the Plan, with four of those identified with a phased retirement beginning in 2018. Total cost to the University was \$1,041,217, with monthly payments extending through October 2021. The liability is recorded at year-end as retirement incentive payout in the statement of net position.

### NOTE F--RETIREMENT PLANS

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

## NOTES TO FINANCIAL STATEMENTS--Continued

### SOUTHEASTERN OKLAHOMA STATE UNIVERSITY

A Department of the Regional University System of Oklahoma

Year Ended June 30, 2018

#### NOTE F--RETIREMENT PLANS--Continued

The accounting and financial reporting for OTRS Pension, OTRS OPEB, the SRA, and the single employer trusted and non-trusted OPEB plans are recorded at the reporting entity level in the System's financial statements and not at the university level. That report may be obtained by writing to the Regional University System of Oklahoma, 3555 N.W. 58<sup>th</sup> Street, Suite 320, Oklahoma City, Oklahoma 73112, or by calling (405) 924-8817.

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

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 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/TRS](http://www.ok.gov/TRS).

Funding Policy: The University is required by state statute to contribute a fixed percentage of annual compensation on behalf of active members. The employer contribution rate, as determined by state statute, was 8.55% for 2018, 2017, and 2016, and was applied to annual compensation.

## NOTES TO FINANCIAL STATEMENTS--Continued

### SOUTHEASTERN OKLAHOMA STATE UNIVERSITY

A Department of the Regional University System of Oklahoma

Year Ended June 30, 2018

#### NOTE F--RETIREMENT PLANS--Continued

##### *Oklahoma Teachers' Retirement System (OTRS)--Continued*

Employees' contributions are also determined by state statute. For all employees, the contribution rate was 7% of covered salaries and fringe benefits in 2018, 2017, and 2016. 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, 2018, 2017, and 2016, were \$2,929,655, \$3,390,578, and \$3,739,908, respectively, equal to the required contributions for each year. These contributions included the University's statutory contribution and the share of the employee's contribution paid directly by the University.

The State of Oklahoma is also required to contribute to the OTRS on behalf of the participating employers. For 2018, 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 System's financial statements and not at the individual department level.

##### *Supplemental Retirement Annuity (SRA)*

Plan Description: The University's SRA plan is a single employer, defined benefit pension plan administered by the University's Board of Regents. The SRA was established by the University's Board of Regents to provide supplemental retirement and death benefits to University employees who were hired prior to July 1, 1987, or to those eligible employees' beneficiaries. Effective December 1, 2002, the SRA was amended to provide supplemental retirement and death benefits to University employees who were hired between July 1, 1987 and June 30, 1995. Effective October 1, 2003, the SRA plan was changed to eliminate the TIAA offset in the benefit calculation. The authority to amend the SRA's benefit provisions rests with the University's Board of Regents. The SRA is included in the financial report of RUSO, 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 September 2016, the Plan must achieve 80% funding of the pension benefit obligation by December 1, 2022.

## NOTES TO FINANCIAL STATEMENTS--Continued

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

Year Ended June 30, 2018

### NOTE F--RETIREMENT PLANS--Continued

#### *Supplemental Retirement Annuity (SRA)--Continued*

The University's contributions to the SRA for the years ended June 30, 2018, 2017, and 2016, were \$389,991, \$0, and \$320,000, respectively.

#### *Defined Contribution Plan*

The University also has a defined contribution 403(b) plan (DCP) available to full-time employees. The DCP is administered by the RUSO System, and the plan provisions are established and may be amended by the Board of Regents. Plan members may make voluntary contributions in accordance with IRS regulations. The University has no contribution requirements, and no contributions were made during the years ended June 30, 2018, 2017, and 2016.

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

#### *Trusted Plan*

Plan Description: The University's postemployment healthcare plan is a single employer defined benefit plan administered by the System's Board of Regents. The plan provides medical and life insurance benefits to eligible retired employees until age 65. A retiring employee must have been employed full-time in the Regional University System of Oklahoma for not less than ten years immediately preceding the date of retirement; been a member of the OTRS during that time; and elected to receive a vested benefit under the provision of the Oklahoma Teachers' Retirement System. As of June 30, 2018, there were 165 active participants in the plan. The retirement insurance program was adopted by the Board of Regents in 1985. In March of 2008, the Retiree Medical Trust for the System was established to hold assets and pay benefits on behalf of the University's postemployment healthcare plan, and was administered by Bank of Oklahoma, N.A. The plan is included in the financial report of the System reporting entity and does not issue separate, stand-alone financial statements.

Funding Policy: The contribution requirements of the University are established and may be amended by the Board of Regents. The University is required to contribute the actuarially determined employer contribution amount in accordance with the parameters of GASB Statement 75. The current amount is \$173,611.

## NOTES TO FINANCIAL STATEMENTS--Continued

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

Year Ended June 30, 2018

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

#### *Non-Trusted Plan--Continued*

The University's contributions to the plan for the years ended June 30, 2018, 2017, and 2016, were \$173,611, \$230,980, and \$172,129, respectively.

Plan description: The University's defined benefit OPEB plan, Retiree Benefits Plan, provides OPEB to eligible retirees and their dependents. The RUSO Board of Trustees has the authority to establish and amend benefit provisions. No assets are accumulated in a trust that meets the criteria in paragraph 4 of Statement 75.

Benefits provided: The University provides medical, dental, and vision benefits to eligible retirees and their dependents through the Oklahoma Higher Education Employee Interlocal Group. The retiree pays the full contribution rate for the retiree's coverages and for any other elected dependent dental and vision coverages. The medical rates for pre-65 retirees are the same as the rates for active employees so the benefit being provided is an implicit rate subsidy. Retirees and dependents age 65 or older are provided a Medicare supplement that is not subsidized by the College.

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

Beneficial Interest in State School Land Funds: The University has a beneficial interest in the "Section Thirteen Fund State Educational Institutions" and the "New College Fund" administered by the Commissioners of the Land Office as trustees for the various educational institutions entitled thereto. The University has the right to receive annually 3.7% of the distributions of income produced by "Section Thirteen Fund State Educational Institutions" assets and 100% of the distributions of income produced by Southeastern Oklahoma State University's "New College Fund." The University received approximately \$1,117,000 during the year ended June 30, 2018, which is restricted to the construction or acquisition of buildings, equipment, or other capital items. This amount is recorded as restricted 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 cost basis of the trust reserve for Southeastern Oklahoma State University, held in trust by the commissioners of Land Office, was approximately \$19,816,000 at June 30, 2018.

## NOTES TO FINANCIAL STATEMENTS--Continued

### SOUTHEASTERN OKLAHOMA STATE UNIVERSITY A Department of the Regional University System of Oklahoma

Year Ended June 30, 2018

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

Oklahoma State Regents Endowment Trust Fund: The University participates in the Oklahoma State Regents' Endowment Program (the "Endowment Program"). Under the Endowment Program, the State of Oklahoma matches contributions received. Such contributions generally come from private donations through the Foundation, for endowed chairs, lectureships, fellowships, and similar activities. The University is entitled to receive an annual distribution of 4.5% 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, or \$423,951 at June 30, 2018, have been reflected as assets in the statement of net position. The total market value of endowment funds on deposit with the Oklahoma State Regents and held for the benefit of the University at June 30, 2018 was \$4,524,364.

#### NOTE I--RELATED PARTY TRANSACTIONS

The University contracts with the Foundation to provide limited services and office space without charge in exchange for the support the University receives. During the year ended June 30, 2018, total support provided by the Foundation to the University, including scholarships awarded to University students, was approximately \$1,739,000.

#### NOTE J--COMMITMENTS AND CONTINGENCIES

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

The University participates in the Federal Direct Student Loan Program (Direct Lending Program). The William D. Ford Direct Loan Program requires the University to draw down cash from the U.S. Department of Education, as well as perform certain administrative functions under the William D. Ford Direct Loan Program. For the year ended June 30, 2018, approximately \$15,352,315 of Direct Loan Program loans was provided 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, 2018, will not have a material adverse impact to the University.



## NOTES TO FINANCIAL STATEMENTS--Continued

### SOUTHEASTERN OKLAHOMA STATE UNIVERSITY A Department of the Regional University System of Oklahoma

Year Ended June 30, 2018

#### NOTE K--RISK MANAGEMENT

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

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

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

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

The University also began participating, during fiscal year 2017, in the Oklahoma Higher Education Employee Interlocal Group Health Insurance Pool "OKHEEI". University employees are provided health insurance coverage through OKHEEI. OKHEEI is an Interlocal Cooperative Act Agency organized as a public entity risk pool health insurance program for participating colleges and universities in the State. The University pays monthly health insurance premiums to OKHEEI for employee health insurance coverage based on the health coverage elected by the employee and the maximum benefit provide by the University for health coverage. Amounts of premiums exceeding benefits are payable by the employee. The governing agreement for OKHEEI specifies that the pool will be self-sustaining through premiums received and with additional stop-loss coverages obtained. If health care claims exceed reserves and reinsurance coverages, additional assessments may be made to participating colleges and universities. As of June 30, 2018 additional assessments did not occur.

## NOTES TO FINANCIAL STATEMENTS--Continued

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

Year Ended June 30, 2018

### NOTE L—NEW ACCOUNTING STANDARDS

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

GASB Statement No. 75 was issued in June 2015, and addresses accounting and financial reporting for OPEB that is provided to the employees of state and local governmental employers. This Statement establishes standards for recognizing and measuring liabilities, deferred outflows of resources, deferred inflows of resources, and expense/expenditures.

For defined benefit OPEB, this Statement identifies the methods and assumptions that are required to be used to project benefit payments, discount projected benefit payments to their actuarial present value, and attribute that present value to periods of employee service. Note disclosure and required supplementary information requirements about defined benefit OPEB also are addressed. The application of this new accounting standard is effective for the University's year ended June 30, 2018. However, the University, as a department of the System, has determined this standard is applicable to the System but not to the individual Universities or departments of the System. Therefore, the accounting and reporting requirements of this standard has been adopted by the System, but not the University.

### NOTE M--SOUTHEASTERN FOUNDATION, INC.--DISCRETELY PRESENTED COMPONENT UNIT

#### *Nature of Activities and Summary of Significant Accounting Policies*

The accompanying financial statements reflect all accounts of Southeastern Foundation, Inc. (the "Foundation") and its wholly owned subsidiary SOSU Foundation, L.L.C. All Trustees of the Foundation also serves as Trustees of the L.L.C.

Nature of Activities: The Foundation is a nonprofit corporation organized for the purpose of receiving and administering gifts for the benefit of the University.

Distributions of amounts held by the Foundation are subject to the approval of the Board of Trustees. The Foundation's primary function is to provide assistance to students of the University in the form of scholarships and awards. Additionally, the Foundation provides financial assistance to the faculty and staff of the University as well as its programs and projects.

Basis of Accounting: These financials have been prepared on the accrual basis of accounting.

NOTES TO FINANCIAL STATEMENTS--Continued

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

Year Ended June 30, 2018

NOTE M--SOUTHEASTERN FOUNDATION, INC.--DISCRETELY PRESENTED  
COMPONENT UNIT—Continued

Basis of Presentation: The organization is required to report information regarding its financial position and activities according to three classes of net position: unrestricted net position, temporarily restricted net position, and permanently restricted net position.

Revenues are reported as increases in unrestricted net position unless use of the related assets is limited by donor-imposed restrictions. Expenses are reported as decreases in unrestricted net position. Gains or losses on investments and other assets or liabilities are reported as increases or decreases in unrestricted net position unless their use is restricted by explicit donor stipulation or by law.

Deferred Revenue: A portion of the housing revenues from the summer session are deferred and recognized over the months to which the rents relate.

Donated Assets: Donated marketable securities and other noncash donations are recorded as contributions at their fair values at the date of donation.

Expense Allocation: Directly identifiable expenses are charged to programs and supporting services. Expenses related to more than one function are charged to programs and supporting services on the basis of periodic time and expense studies. Management and general expenses include those expenses that are not directly identifiable with any other specific function but provide for the overall support and direction of the Foundation.

Use of Estimates: The preparation of the accompanying financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the amounts reported in the financial statements and accompanying notes. Actual results could differ from those estimates.

NOTES TO FINANCIAL STATEMENTS--Continued

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

Year Ended June 30, 2018

NOTE M--SOUTHEASTERN FOUNDATION, INC.--DISCRETELY PRESENTED  
COMPONENT UNIT—Continued

Investments: Investments are stated at fair value. The organization's investment committee monitors the performance of all investments and instructs Foundation management as to the mix of assets maintained in the investment pool. Unrealized gains and losses are included in the changes in net position in the accompanying statement of activities. The Foundation carries its real estate investments at the fair value as of the dates the investments were donated.

Investment Income: Investment earnings are allocated to the individual sub-funds of the Foundation as received. Realized and unrealized gains and losses are determined using the specific identification method and are allocated to the individual sub-fund which owns the investment.

Investment Pools: The organization maintains master investment accounts for its donor restricted and board designated endowments. Realized and unrealized gains and losses from securities in the master investment accounts are allocated monthly to the individual endowments based on the relationship of the market value of each endowment to the market value of the master investment accounts, as adjusted for additions to or deductions from those accounts.

Property and Equipment: Land, buildings, equipment, and mineral interests are stated at cost if purchased or at fair value at date of donation. The buildings owned by the Foundation are being depreciated over estimated useful lives of 31.5 and 40 years on a straight-line basis. Furniture and fixtures are depreciated over 7 years on a straight-line basis. The Foundation follows the policy of capitalizing all expenditures for property in excess of \$2,500.

Collections: Collection items acquired on or after July 1, 2011, are recorded at cost if purchased and at fair value at date of accession if donated. Gains and losses from deaccessions are reported as changes in net assets on the absence or existence and nature of donor-imposed restrictions. Collection items are protected, kept, encumbered, cared for, and preserved.

## NOTES TO FINANCIAL STATEMENTS--Continued

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

Year Ended June 30, 2018

### NOTE M--SOUTHEASTERN FOUNDATION, INC.--DISCRETELY PRESENTED COMPONENT UNIT--Continued

Fair Value Measurements: The Foundation follows the ASC Topic 820, *Fair Value Measurements and Disclosures*, with respect to financial assets and liabilities. Topic 820 defines fair value, establishes a framework for measuring fair value, and expands disclosure about fair value measurements. Fair value is defined as 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. Topic 820 establishes a fair value hierarchy that prioritizes the inputs to valuations techniques used to measure fair value into three broad levels. The following is a brief description of those three levels.

- Level 1: Quoted prices in active markets for identical assets or liabilities;
- Level 2: Inputs that are derived principally from or corroborated by observable market data;  
and
- Level 3: Inputs that are unobservable and significant to the overall fair value measurement.

Financial assets carried at fair value on a recurring basis include investments. The Foundation has no liabilities carried at fair value on a recurring basis.

Taxes: The Foundation is exempt from income taxes by the Internal Revenue Service in accordance with Internal Revenue Code Section 501(c)(3). Additionally, the Foundation has been determined not to be a private foundation within the meaning of Section 509(a) of the Code.

#### *Concentration of Credit Risk for Cash Deposits*

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

#### *Restrictions on Cash*

The Foundation is required to maintain a permanent debt service escrow account and a capital maintenance reserve fund totaling \$348,215 at June 30, 2018. These funds must be held in separate interest bearing accounts. The capital maintenance reserve is being funded at a rate of \$2,083 per month. Funds can only be disbursed for approved capital asset expenditures.

## NOTES TO FINANCIAL STATEMENTS--Continued

### SOUTHEASTERN OKLAHOMA STATE UNIVERSITY A Department of the Regional University System of Oklahoma

Year Ended June 30, 2018

#### NOTE M--SOUTHEASTERN FOUNDATION, INC.--DISCRETELY PRESENTED COMPONENT UNIT--Continued

##### *Accounts Receivable*

The accounts receivable are generated from student housing at Shearer Hall and Suites and rent collections to be remitted from the University. The amounts reported in the financial statements are reported net of the allowance for bad debts of \$79,419 for the year ended June 30, 2018.

##### *Building, Furniture and Fixtures*

Property and equipment at June 30, 2018, consisted of the following:

Buildings	\$ 9,151,383
Furniture and equipment	<u>397,395</u>
	9,548,778
Less: accumulated depreciation	<u>(3,500,844)</u>
	<u>\$ 6,047,934</u>

##### *Scholarship Awards*

Prior to year-end, the Foundation Scholarship Committee meets and awards scholarships for the upcoming year. Additional scholarships are awarded as recommended by the University faculty and administration. These scholarships are contingent upon the acceptance and enrollment of the recipients and many contain additional requirements. Those scholarships awarded and accepted in the amount of \$830,700 were accrued as current liabilities at June 30, 2018.

##### *Real Estate Lease*

The ground lease between the Board of Regents of Oklahoma Colleges on behalf of the University ("Lessor") and Foundation ("Lessee") is provided the Lessor will lease a tract of approximately three acres to develop, construct, operate, and lease improvement on this land for the use by tenants of the Lessee. The agreement requires the Lessee to pay the Lessor rents based on net available cash flow for the lease year as defined in the agreement.

## NOTES TO FINANCIAL STATEMENTS--Continued

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

Year Ended June 30, 2018

### NOTE M--SOUTHEASTERN FOUNDATION, INC.--DISCRETELY PRESENTED COMPONENT UNIT--Continued

#### *Real Estate Lease--Continued*

The liability of the Lessee, with respect to its obligation under the ground lease, shall be non-recourse and the satisfaction of any of the Lessee's obligations shall be limited to the Lessee's interest in the property. There were no ground lease expenses for the years ended June 30, 2018.

Throughout the term of this lease, the Lessor shall have the right and option to purchase the Lessee's right, title and interest in and to the premises. If the option is exercised the purchase price shall be the principal balance then outstanding of all sums secured by any Permitted Mortgage then in effect, plus all interest accrued through the date of payment of such indebtedness plus redemption premiums, if any.

#### *Restriction on Net Position*

Substantially all of the restrictions on net position at the end of June 30, 2018, are related to funds for scholarships, endowments, and special projects. Expendable funds are contributions to be used for scholarships and special projects that may arise during the fiscal year. Nonexpendable funds are contributions and investments designated by donors for endowments and scholarships. At this time, there is a minimum \$15,000 requirement before contributions may be endowed.

#### *Long-Term Debt*

The Foundation obtained a restricted tax-exempt borrowing from Bryan County Educational Facilities Authority in March 2005 for a Student Housing Revenue Note Series 2005 Bond in the amount of \$9,800,000. The note is fully secured by the note debenture and is to be repaid from proceeds of rental income. The purpose of the note is to fund obligations related to the construction and furnishing of a student housing complex at the University. First United Bank & Trust is the escrow agent. Monthly interest payments with an annual interest rate of 5.626% began in April 2005. Monthly principal payments in the amount of \$57,573 began in October 2006.

NOTES TO FINANCIAL STATEMENTS--Continued

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

Year Ended June 30, 2018

NOTE M--SOUTHEASTERN FOUNDATION, INC.--DISCRETELY PRESENTED  
COMPONENT UNIT--Continued

Future scheduled maturities of long-term debt are as follows:

Years ending June 30,	
2019	248,743
2020	263,088
2021	294,306
2022	311,081
2023	325,092
Thereafter	6,162,223
	<u>\$ 7,604,533</u>

*Uncertain Tax Positions*

The organization is exempt from income taxes except on income derived from unrelated business activities. The organization believes that it has appropriate support for any tax positions taken and, as such, does not have any uncertain tax positions that are material to the financial statements.

The organization's federal Exempt Organization Business Income Tax Returns for 2016, 2015, and 2014 are subject to examination by the IRS, generally for three years after they were filed.

*Related Party Transactions*

The Foundation has an agreement with the University regarding the use of services and facilities. During the year ended June 30, 2018, the University made one of its employees available to perform Foundation services. The University also provided payroll and human resources services, internet and mailing services, office space, and office equipment without charge. The value of those services was \$113,000. The Foundation has entered a lease agreement with the University whereby the University has exclusive use of a downtown, main street building known as the Massey Building. The University may use the building for its various functions or may also rent out the facilities. The value of those facilities and other services provided by the Foundation is approximately \$7,000. Services provided from the University are measured at the University's estimate of the costs it incurred in providing those services. The facilities used by the University are measured at the fair value rental for similar facilities. The amounts above were not included in the financial statements for year ended June 30, 2018.



NOTES TO FINANCIAL STATEMENTS--Continued

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

Year Ended June 30, 2018

NOTE M--SOUTHEASTERN FOUNDATION, INC.--DISCRETELY PRESENTED  
COMPONENT UNIT--Continued

*Board Designated Endowments*

At its February 2013 meeting the Board approved transferring \$275,000 from the Foundation's General Fund account along with \$235,967 of existing board-controlled endowment funds to a permanently restricted fund. At June 30, 2018, these funds totaled \$574,630. The Board voted that only current year earnings from these funds could be used for Foundation activities. Since this results from an internal designation and is not donor-restricted, it is classified and reported as unrestricted net assets in the accompanying financial statements.

Compositions and changes in endowment net position for the year ended June 30, 2018 were as follows:

Board designated endowment net assets beginning of year	\$ 584,282
Investment income	25,524
Net appreciation (depreciation)	450
Amounts appropriated for expenditure	(35,566)
Board designated endowment net asset end of year	<u>\$ 574,690</u>

*Donor Designated Endowments*

The Organization's endowment consists of approximately 200 individual funds established for a variety of purposes. Its endowment includes both donor-restricted funds and funds designated by the Board of Trustees to function as endowments. As required by generally accepted accounting principles, net assets associated with endowment funds, including funds designated by the Board of Trustees to function as endowments, are classified and reported based on the existence or absence of donor-imposed restrictions.

## NOTES TO FINANCIAL STATEMENTS--Continued

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

Year Ended June 30, 2018

### NOTE M--SOUTHEASTERN FOUNDATION, INC.--DISCRETELY PRESENTED COMPONENT UNIT--Continued

#### *Donor Designated Endowments--Continued*

The Board of Trustees of the Organization has interpreted the Uniform Prudent Management of Institutional Funds Act (UPMIFA) 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 Organization classifies as permanently restricted net assets (a) the original value of gifts donated to the permanent endowment, (b) the original value of subsequent gifts to the permanent endowment, and (c) accumulations to the permanent endowment made in accordance with the direction of the applicable donor gift instrument at the time the accumulation is added to the fund.

The remaining portion of the donor-restricted endowment fund that is not classified in permanently restricted net assets is classified as temporarily restricted net assets until those amounts are appropriated for expenditure by the Organization in a manner consistent with the standard of prudence prescribed by UPMIFA. In accordance with UPMIFA, the Organization considers the following factors in making a determination to appropriate or accumulate donor-restricted endowment funds: (1) the duration and preservation of the various funds, (2) the purposes of the donor-restricted endowment funds, (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, and (7) the Organization's investment policies.

#### *Investment Return Objectives, Risk Parameters, and Strategies:*

The Organization has adopted investment and spending policies, approved by the board of Trustees, for endowment assets that attempt to provide a predictable stream of funding to programs supported by its endowment funds while also maintaining the purchasing power of those endowment assets over the long-term. Accordingly, the investment process seeks to achieve an after-cost total real rate of return, including investment income as well as capital appreciation, which exceeds the annual distribution with acceptable levels of risk. Endowment assets are invested in a well-diversified asset mix, which includes equity and debt securities that is intended to result in a consistent inflation-protected rate of return that has sufficient liquidity to make an annual distribution equal to 90% of investment revenues, while growing the funds if possible. Therefore, the Foundation expects its endowment assets, over time, to produce a small rate of return. Investment risk is measured in terms of the total endowment fund; investment assets and allocation between asset classes and strategies are managed to not expose the fund to unacceptable levels of risk.

NOTES TO FINANCIAL STATEMENTS--Continued

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

Year Ended June 30, 2018

NOTE M--SOUTHEASTERN FOUNDATION, INC.--DISCRETELY PRESENTED  
COMPONENT UNIT--Continued

Spending Policy: The Organization has a policy of appropriating for distribution each year 90% of investment revenues of its endowment fund's average revenues of the prior three calendar year-ends preceding the fiscal year in which the distribution is planned. In establishing this policy, the Foundation considered the long-term expected return on its investment assets, the nature and duration of the individual endowment funds, many of which must be maintained in perpetuity because of donor-restrictions, and the possible effects of inflation. The Foundation expects the current spending policy to allow its endowment funds to grow at a small nominal rate. This is consistent with the Foundation's objective to maintain the purchasing power of the endowment assets as well as to provide additional real growth through new gifts and investment return.

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 requires the Foundation to retain as a fund of perpetual duration. At June 30, 2018, there were no funds with deficiencies.

NOTES TO FINANCIAL STATEMENTS--Continued

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

Year Ended June 30, 2018

NOTE M--SOUTHEASTERN FOUNDATION, INC.--DISCRETELY PRESENTED  
COMPONENT UNIT--Continued

Endowment Net Asset Composition by Type of Fund as of June 30, 2018 is as follows:

	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Permanently Restricted</u>	<u>Total</u>
Donor-restricted endowment funds	<u>\$ 74,520</u>	<u>\$ 10,774,994</u>	<u>\$ 13,457,169</u>	<u>\$ 24,306,683</u>

Changes in endowment net assets as of June 30, 2018 are as follows:

	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Permanently Restricted</u>	<u>Total</u>
Endowment net assets beginning of the year	\$ 191,185	\$ 9,567,824	\$ 13,413,669	\$ 23,172,678
Contributions	130,974	2,132,577	43,500	2,307,051
Investment income	25,775	688,953	-	714,728
Net appreciation (depreciation)	(4,603)	479,180	-	474,577
Transfers	2,093,540	(2,093,540)	-	-
Amounts appropriated for expenditures	(2,362,351)	-	-	(2,362,351)
	<u>\$ 74,520</u>	<u>\$ 10,774,994</u>	<u>\$ 13,457,169</u>	<u>\$ 24,306,683</u>

NOTES TO FINANCIAL STATEMENTS--Continued

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

Year Ended June 30, 2018

NOTE M--SOUTHEASTERN FOUNDATION, INC.--DISCRETELY PRESENTED  
COMPONENT UNIT--Continued

*Fair Value Measurements*

The Foundation has no liabilities measured at fair value. Assets measured at fair value on recurring basis are classified within the fair value hierarchy as follows at June 30, 2018:

	As of June 30, 2018			
	Level 1	Level 2	Level 3	Total
Common Stocks	\$ 13,205,767	\$ -	\$ -	\$ 13,205,767
Corporate Bonds	-	3,967,389	-	3,967,389
Government Bonds	4,301,000	-	-	4,301,000
Municipal Bonds	-	576,215	-	576,215
Mutual Funds	64,091	1,155,486	-	1,219,577
Total investments in securities	\$ 17,570,858	\$ 5,699,090	\$ -	\$ 23,269,948

## OTHER SUPPLEMENTARY INFORMATION

OTHER SUPPLEMENTARY INFORMATION

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

Year Ended June 30, 2018

Schedule of state contract revenues and expenditures-budget versus actual

Contract Title: Oklahoma Small Business Development

Contract Agency: Oklahoma Department of Commerce

Purchase Order Number SBDC 1609014468

Contract Dates: July 1, 2017, to June 30, 2018

	Program Budget	Actual Year Ended June 30, 2018
Revenues:		
Contract proceeds	\$ 176,118	\$ 176,118
Expenditures:		
Salaries and fringe benefits	176,039	176,039
Travel	79	79
Contractual	-	-
Total expenditures	176,118	176,118
(Expenditures) in excess of revenues	\$ -	\$ -

REPORTS REQUIRED BY  
*GOVERNMENT AUDITING STANDARDS*  
AND 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  
Southeastern Oklahoma State University  
Oklahoma City, Oklahoma

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of Southeastern Oklahoma State University (the "University"), a department of the Regional University System of Oklahoma ("RUSO"), which is a component unit of the State of Oklahoma, and its discretely presented component unit, that comprise the statement of net position as of June 30, 2018, and the related statements of revenue, expenses, and changes in net position and cash flows for the year then ended, and the related notes to the financial statements, which collectively comprise the University's basic financial statements, and have issued our report thereon dated November 28, 2018. Our report includes a reference to other auditors who audited the financial statements of Southeastern 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.

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

November 28, 2018



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

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

**Report on Compliance for Each Major Federal Program**

We have audited Southeastern Oklahoma State University's (the "University"), a department of the Regional University System of Oklahoma ("RUSO"), which is a component unit of the State of Oklahoma, compliance with the types of compliance requirements described in the *OMB Compliance Supplement* that could have a direct and material effect on each of the University's major federal programs for the year ended June 30, 2018. The University's major federal programs are identified in the summary of auditor's results section of the accompanying schedule of findings and questioned costs.

***Management's Responsibility***

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

***Auditor's Responsibility***

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

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

***Opinion on Each Major Federal Program***

In our opinion, the University complied, in all material respects, with the types of compliance requirements referred to above that could have a direct and material effect on each of its major federal programs for the year ended June 30, 2018.

## ***Other Matters***

The results of our auditing procedures disclosed an instance of noncompliance, which is required to be reported in accordance with the Uniform Guidance and which is described in the accompanying schedule of findings and questioned costs as finding 2018-001. Our opinion on each major federal program is not modified with respect to these matters.

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

## **Report on Internal Control over Compliance**

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

*A deficiency in internal control over compliance* exists when the design or operation of a control over compliance does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, noncompliance with a type of compliance requirement of a federal program on a timely basis.

*A material weakness in internal control over compliance* is a deficiency, or combination of deficiencies, in internal control over compliance, such that there is a reasonable possibility that material noncompliance with a type of compliance requirement of a federal program will not be prevented, or detected and corrected, on a timely basis. A *significant deficiency in internal control over compliance* is a deficiency, or a combination of deficiencies, in internal control over compliance with a type of compliance requirement of a federal program that is less severe than a material weakness in internal control over compliance, yet important enough to merit attention by those charged with governance.

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

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

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

We have audited the financial statements of the University as of and for the year ended June 30, 2018, and the related notes to the financial statements, which collectively comprise the University's basic financial statements. We issued our report thereon dated November 28, 2018, which contained an unmodified opinion on those financial statements. Our audit was conducted for the purpose of forming 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.

*Arledge & Associates, P.C.*

November 28, 2018

SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS

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

Year Ended June 30, 2018

<i>Federal Grantor/Pass-Through Grantor/Program Title</i>	<i>Federal CFDA Number</i>	<i>Pass-Through Entity Identifying Number</i>	<i>Passed Through to Subrecipients</i>	<i>Federal Expenditures</i>
<b>U.S. DEPARTMENT OF EDUCATION</b>				
<b>Student Financial Assistance Cluster</b>				
Federal Pell Grants	84.063		\$ -	\$ 6,185,944
Federal Supplemental Education Opportunity Grants	84.007		-	248,891
Federal Work Study Program	84.033		-	203,947
Federal Direct Loan Program	84.268		-	15,352,315
<i>Total Student Financial Assistance Cluster</i>				21,991,097
<b>TRIO Program Cluster</b>				
TRIO--Education Opportunity Centers	84.066A		-	540,907
TRIO--Student Support Services	84.042A		-	359,291
TRIO--Student Support Services (Teacher Preparation)	84.042A		-	245,570
TRIO--Talent Search	84.044A		-	437,617
TRIO--Upward Bound (Texoma)	84.047A		-	246,173
TRIO--Upward Bound	84.047A		-	510,354
TRIO--Upward Bound (Math and Science)	84.047M		-	255,925
<i>Total TRIO program cluster</i>				2,595,837
<b>Other Programs</b>				
Indian Education--Special Programs for Indian Children	84.299B		-	114,024
Strengthening Minority-Serving Institutions	84.382C		-	12,878
Higher Education--Institutional Aid	84.031A		-	475,641
<i>Total Other Programs</i>				602,543
<b>TOTAL U.S. DEPARTMENT OF EDUCATION</b>			-	<b>25,189,477</b>
<b>Research and Development (R&amp;D) Cluster</b>				
<b>NATIONAL SCIENCE FOUNDATION</b>				
Pass-through Oklahoma State University				
Education and Human Resources	47.076		-	55,074
Office of International Science and Engineering	47.079		-	7,526
Office of Integrative Activities	47.083		-	44,410
Pass-through Northeastern State University				
Computer and Information Science and Engineering	47.070		-	1,125
<i>Total National Science Foundation</i>				108,135
<b>NATIONAL ENDOWMENT FOR THE ARTS</b>				
Pass-through Mid-America Arts Alliance				
Promotion of the Arts - Partnership Agreements	45.025		-	3,640
<b>TOTAL NATIONAL ENDOWMENT FOR THE ARTS</b>			-	<b>3,640</b>
<b>NATIONAL INSTITUTE OF HEALTH</b>				
Pass-through OU Health Science Center				
Biomedical Research and Research Training	93.859		-	20,000
<i>Total National Institute of Health</i>				20,000
<b>TOTAL RESEARCH AND DEVELOPMENT CLUSTER</b>			-	<b>131,775</b>
<b>U.S. DEPARTMENT OF THE INTERIOR</b>				
Pass-through U.S. Park Service				
National Park Service Conservation, Protection, Outreach and Education	15.954		-	7,628
<b>TOTAL U.S. DEPARTMENT OF THE INTERIOR</b>			-	<b>7,628</b>

(Continued)

SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS--Continued

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

Year Ended June 30, 2018

<i>Federal Grantor/Pass-Through Grantor/Program Title</i>	<i>Federal CFDA Number</i>	<i>Pass-Through Entity Identifying Number</i>	<i>Passed Through to Subrecipients</i>	<i>Federal Expenditures</i>
<b>NATIONAL AERONAUTICS AND SPACE ADMINISTRATION</b>				
Pass-through University of Oklahoma Education (NASA-Oklahoma Space Grant Consortium)	43.008		-	64,380
TOTAL NATIONAL AERONAUTICS AND SPACE ADMINISTRATION			-	<b>64,380</b>
<b>U.S. SMALL BUSINESS ADMINISTRATION</b>				
Small Business Development Centers	59.037		280,137	1,206,159
TOTAL U.S. SMALL BUSINESS ADMINISTRATION			280,137	<b>1,206,159</b>
<b>TOTAL EXPENDITURES OF FEDERAL AWARDS</b>			<b>\$ 280,137</b>	<b>\$ 26,599,419</b>

See notes to the schedule of expenditures of federal awards.

## NOTES TO THE SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS

### SOUTHEASTERN OKLAHOMA STATE UNIVERSITY A Department of the Regional University System of Oklahoma

Year Ended June 30, 2018

#### NOTE A--BASIS OF PRESENTATION

The accompanying Schedule of Expenditures of Federal Awards (the "Schedule") includes the federal award activity of Southeastern Oklahoma State University (the "University") under programs of the federal government for the year ended June 30, 2018. The information in this Schedule is presented in accordance with the requirements of Title 2 U.S. *Code of Federal Regulations* Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (Uniform Guidance). Because the Schedule presents only a selected portion of the operations of the University, it is not intended to and does not present the financial position, changes in net position, or cash flows of the University.

#### NOTE B--SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Expenditures reported on the Schedule are reported on the accrual basis of accounting. Such expenditures are recognized following the cost principles contained in the Uniform Guidance, wherein certain types of expenditures are not allowable or are limited as to reimbursement. The University has elected not to use the 10-percent de 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

Of the federal expenditures presented in this Schedule, the University provided federal awards to subrecipients as follows:

Program	CFDA Number	Sub-recipient	Amount Provided
Small Business Development Centers	59.037	Eastern Oklahoma State College	\$ 24,373
Small Business Development Centers	59.037	Rose State College	44,279
Small Business Development Centers	59.037	Oklahoma State University Grants & Contracts	211,485
			<u>\$ 280,137</u>



## SCHEDULE OF FINDINGS AND QUESTIONED COSTS

### SOUTHEASTERN OKLAHOMA STATE UNIVERSITY A Department of the Regional University System of Oklahoma

Year Ended June 30, 2018

#### Section I--Summary of Auditor's Results

##### *Financial Statements*

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

*Unmodified*

Internal control over financial reporting:

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

Noncompliance material to financial statements noted?

☐ yes ☒ no

##### *Federal Awards*

Internal control over major federal programs:

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

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

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

☒ yes ☐ no

Identification of major federal programs:

##### Program

Student Financial Assistance Cluster  
Small Business Development Centers

##### CFDA Number

\*  
59.037

\*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

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

Year Ended June 30, 2018

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

None to report for the June 30, 2018

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

#### **Finding 2018-001: Student Financial Assistance – Federal Work Study (FWS)**

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

*Criteria:* The 2017-2018 Federal Student Aid Handbook (Handbook), Chapter 2 – The Federal Work-Study Program, page 6-43, states, “In general, students are not permitted to work in FWS positions during scheduled class times.” The Handbook also states that exceptions are permitted if an individual class is cancelled, if the instructor has excused the student or if the student is receiving class credit for an internship, etc., where any such exception must be documented.

*Condition:* In our Student Financial Aid testing in a sampling of 40 students, we noted one student in the Federal Work Study program working during their scheduled class time.

*Questioned Costs:* None

*Cause and Effect:* The University’s internal controls for the Student Financial Assistance Cluster requirements regarding Federal Work Study students not working during scheduled class times were not affective, allowing the student to work when the student was not permitted to do so and/or not obtaining and maintaining the appropriate documentation required showing the student was properly excused from classes.

*Recommendation:* We recommend the University review its internal controls within the FWS program. Specifically, procedures should be reviewed to ensure that all FWS supervisors and students are cooperatively monitoring students’ work time according to the University’s FWS policies and procedures to ensure that FWS employment does not conflict with student class schedules. These procedures should include the monitoring of timesheets and students’ work time by FWS supervisors to ensure that scheduling conflicts do not exist. These procedures should also include procedures to obtain and maintain appropriately approved supporting documentation in the case of an exception as described in the criteria paragraph above.

## SCHEDULE OF FINDINGS AND QUESTIONED COSTS--Continued

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

Year Ended June 30, 2018

### **Finding 2018-001: Student Financial Assistance – Federal Work Study (FWS)--Continued**

*Management's Response:* The Financial Aid office, in conjunction with the Human Resources office, is currently planning a mandatory training session for all departments who employ student workers. It will stress the responsibility of student worker supervisors, including monitoring conflicts with students' employment and class schedules without proper documentation. Currently, Human Resources manually checks a student timesheet against their class schedule. Due to the number of student workers on campus, this task is impossible to accomplish for 100% of our students. Financial Aid will work with Human Resources to more closely monitor the College Work Study students. In addition, our current POISE system does not allow us to submit electronic timesheets, therefore Southeastern has no way to monitor schedules electronically. We are currently moving to a new administrative system that has the ability to allow electronic scheduling and timesheet submissions. The Human Resources module will be implemented in fiscal year 2020 with the student module following in fiscal year 2021.

## SUMMARY SCHEDULE OF PRIOR AUDIT FINDINGS AND QUESTIONED COSTS

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

Year Ended June 30, 2018

### **Finding 2017-001: Student Account Adjustments**

*Criteria:* Internal control best practices seek to separate the duties of employees that have custody of an asset and control of an asset. When selecting and developing control activities, duties should be divided or segregated among different employees to reduce the risk of errors, inappropriate activities or fraudulent actions.

*Condition:* Currently, there are three cashiers who have the ability to make manual adjustments to student accounts without independent approval or monitoring.

*Cause and Effect:* Inadequate controls over the refund or adjustment process and failure to have supervisory level of management review of the student account adjustments could result in misappropriation of assets.

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

**Current Year Status:** This finding has been resolved in the current period.



**Southeastern Oklahoma  
State University**

**OFFICE OF FINANCE**

**SOUTHEASTERN OKLAHOMA STATE UNIVERSITY  
425 W UNIVERSITY BLVD  
DURANT, OK 74701-3347**

**580-745-2470  
FAX 580-745-7489  
ccheek@se.edu**

**SOUTHEASTERN OKLAHOMA STATE UNIVERSITY  
MANAGEMENT'S CORRECTIVE ACTION PLAN**

**October 29, 2018**

Southeastern Oklahoma State University respectfully submits the following corrective action plan for the year ended June 30, 2018. Our estimated completion date is the end of fiscal year 2019.

Name and address of independent public accounting firm: Arledge & Associates, P.C., 309 North Bryant, Edmond, OK 73034.

Audit period: July 1, 2017 – June 30, 2018

The findings from the schedule of findings and questioned costs are discussed below. The findings are numbered consistently with the numbers assigned in the schedule. Section I of the schedule, Summary of Audit Results, does not include findings and is not addressed.

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

None to report for the June 30, 2018

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

**Finding 2018-001: Student Financial Assistance – Federal Work Study (FWS)**

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

*Criteria:* The 2017-2018 Federal Student Aid Handbook (Handbook), Chapter 2 – The Federal Work-Study Program, page 6-43, states, “In general, students are not permitted to work in FWS positions during scheduled class times.” The Handbook also states that exceptions are permitted if an individual class is cancelled, if the instructor has excused the student or if the student is receiving class credit for an internship, etc., where any such exception must be documented.

*Condition:* In our Student Financial Aid testing in a sampling of 40 students, we noted one student in the Federal Work Study program working during their scheduled class time.

*Questioned Costs:* None

*Cause and Effect:* The University's internal controls for the Student Financial Assistance Cluster requirements regarding Federal Work Study students not working during scheduled class times were not effective, allowing the student to work when the student was not permitted to do so and/or not obtaining and maintaining the appropriate documentation required showing the student was properly excused from classes.

*Recommendation:* We recommend the University review its internal controls within the FWS program. Specifically, procedures should be reviewed to ensure that all FWS supervisors and students are cooperatively monitoring students' work time according to the University's FWS policies and procedures to ensure that FWS employment does not conflict with student class schedules. These procedures should include the monitoring of timesheets and students' work time by FWS supervisors to ensure that scheduling conflicts do not exist. These procedures should also include procedures to obtain and maintain appropriately approved supporting documentation in the case of an exception as described in the criteria paragraph above.

*Management's Response:* The Financial Aid office, in conjunction with the Human Resources office, is currently planning a mandatory training session for all departments who employ student workers. It will stress the responsibility of student worker supervisors, including monitoring conflicts with students' employment and class schedules without proper documentation. Currently, Human Resources manually checks a student timesheet against their class schedule. Due to the number of student workers on campus, this task is impossible to accomplish for 100% of our students. Financial Aid will work with Human Resources to more closely monitor the College Work Study students.

In addition, our current POISE system does not allow us to submit electronic timesheets, therefore Southeastern has no way to monitor schedules electronically. We are currently moving to a new administrative system that has the ability to allow electronic scheduling and timesheet submissions. The Human Resources module will be implemented in fiscal year 2020 with the student module following in fiscal year 2021.

If the federal awarding agencies or pass-through entities have questions regarding this plan, please contact Dennis Westman at (580)745-2148.

Sincerely,

A handwritten signature in black ink, appearing to read "Dennis Westman". The signature is stylized, with a large "D" and "W".

Dennis Westman  
Vice President Business Affairs  
Southeastern Oklahoma State University