



**ANNUAL FINANCIAL REPORT
FOR THE FISCAL YEAR ENDED
JUNE 30, 2018**



Regents

The Board of Regents of Oklahoma Colleges was constitutionally created on July 6, 1948 to govern the six regional universities. The regents are volunteers appointed by the governor of Oklahoma.



Susan Winchester
Position 1



Jeffrey Dunn
Position 2



Lake Carpenter
Position 3



Gary Parker
Position 4
Vice Chair



Connie Reilly
Position 5
Secretary



Jane McDermott
Position 6



Amy Ford
Position 7



Mark Stansberry
Position 8
Chair



Joy Hofmeister
Position 9



Administration

Katricia Pierson, President	East Central University
Steve Turner, President	Northeastern State University
Janet Cunningham, President	Northwestern Oklahoma State University
Sean Burrage, President	Southeastern Oklahoma State University
Randy Beutler, President	Southwestern Oklahoma State University
Don Betz, President.....	University of Central Oklahoma
Sheridan McCaffree	Executive Director



REGIONAL UNIVERSITY SYSTEM OF OKLAHOMA

June 30, 2018

AUDITED FINANCIAL STATEMENTS

Independent Auditor's Report	1
Management's Discussion and Analysis (Unaudited)	3
Statement of Net Position	13
Statement of Revenues, Expenses and Changes in Net Position	15
Statement of Cash Flows	17
Statement of Plan's and Trust's Fiduciary Net Position	19
Statement of Plan's and Trust's Changes in Fiduciary Net Position	20
Notes to Financial Statements	21

Required Supplementary Information.....	100
Supplementary Information	115

REPORT REQUIRED BY GOVERNMENT AUDITING STANDARDS

AND UNIFORM GUIDANCE	123
----------------------------	-----



INDEPENDENT AUDITOR'S REPORT

Board of Regents
Regional University System of Oklahoma

Report on the Financial Statements

We have audited the accompanying financial statements of the Regional University System of Oklahoma (the "System"), a component unit of the State of Oklahoma, and its aggregate discretely presented component units as of and for the year ended June 30, 2018, and the related notes to the financial statements, which collectively comprise the System'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 System's discretely presented component units. Those statements were audited by other auditors whose reports have been furnished to us, and our opinion, insofar as it relates to the amounts included for the discretely presented component units, is based solely on the reports of the other auditors. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement. The financial statements of the discretely presented component units were not audited in accordance with *Government Auditing Standards*.

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

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

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the System and its aggregate discretely presented component units as of June 30, 2018, and the respective changes in financial position, and, where applicable, cash flows thereof for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Change in Accounting Principle

As discussed in Note A to the financial statements, in 2018 the System adopted new accounting guidance, GASB Statement No. 75, *Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions*. 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 and pension and other post-employment benefit schedules 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 Supplementary Information

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the System's basic financial statements. The combining financial statements are presented for purposes of additional analysis and are not a required part of the basic financial statements.

The combining financial statements are the responsibility of management and were derived from and relate directly to the underlying accounting and other records used to prepare the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic 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 combining financial statements are fairly stated in all material respects in relation to the basic financial statements as a whole.

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 System'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 System's internal control over financial reporting and compliance.

Arlidge & Associates, P.C.

November 28, 2018

MANAGEMENT'S DISCUSSION AND ANALYSIS (UNAUDITED)
REGIONAL UNIVERSITY SYSTEM OF OKLAHOMA

Year Ended June 30, 2018

INTRODUCTION

The Board of Regents of Oklahoma Colleges was created on July 6, 1948 to govern the six regional universities: East Central University (ECU), Northeastern State University (NSU), Northwestern Oklahoma State University (NWOSU), Southeastern Oklahoma State University (SE), Southwestern Oklahoma State University (SWOSU), and the University of Central Oklahoma (UCO) (collectively the "Universities"). On July 1, 2006, the Board of Regents of Oklahoma Colleges changed its name to Regional University System of Oklahoma (the System). The Board consists of nine (9) members, eight (8) appointed by the Governor, by and with the consent of the Senate, for nine-year staggered terms which expire on the 10th day of June. The ninth member is the elected State Superintendent of Public Instruction. The Board has powers and duties granted by the Oklahoma Constitution and Statutes to govern, manage, supervise, and control the operations of six regional State universities.

The System's six universities, collectively, are Oklahoma's largest four year University System. They provide instruction and learning opportunities to over 40,000 students with thirty-eight percent of Oklahoma graduates coming from the System's universities.

OVERVIEW OF FINANCIAL STATEMENTS AND FINANCIAL ANALYSIS

The objective of Management's Discussion and Analysis (MD&A) is to provide an overview of the financial position and activities of the System for the year ended June 30, 2018 with selected comparative information for the year ended June 30, 2017. The MD&A was prepared by management and should be read in conjunction with the accompanying financial statements and notes. The emphasis of discussion about these financial statements will focus on the current year data. Unless otherwise indicated, years in this MD&A refer to the fiscal years ended June 30.

The System's financial report includes three primary financial statements: the statement of net position; the statement of revenues, expenses and changes in net position; and the statement of cash flows.

Three fiduciary fund statements for the Retiree Medical Trust (OPEB Trust), the Supplemental Retirement Annuity Plan, the Retirement Plan for the President of the University of Central Oklahoma, and Agency funds also are included with the financial statements noted above: the Statement of Fiduciary Net Position and the Statement of Changes in Fiduciary Net Position.

MANAGEMENT'S DISCUSSION AND ANALYSIS (UNAUDITED)--Continued
REGIONAL UNIVERSITY SYSTEM OF OKLAHOMA

Year Ended June 30, 2018

The Notes to the Financial Statements immediately follow the financial statements, and contain essential information that serves both to support and clarify the information presented in the financial statements preceding them.

Finally, the Supplemental Information section includes selected information by institution as well as information on affiliated organizations that have been deemed significant to their respective institutions.

Activities from the six institutions, the System's Administrative Office, and the System's component units are included in the accompanying financial statements. For a detailed listing of these entities, refer to Note A of the accompanying financial statements. Separately issued financial statements for the component units may be obtained by contacting the System at 3555 NW 58th Street, Suite 320, Oklahoma City, Oklahoma 73112 or telephone 405-942-8817.

STATEMENTS OF NET POSITION

The Statement of Net Position presents the Assets (current and non-current), Deferred Outflows of Resources, Liabilities (current and non-current), Deferred Inflows of Resources, and Net Position (assets plus deferred outflows minus liabilities minus deferred inflows) at the end of the fiscal year. The purpose of the Statement of Net Position is to allow readers of the financial statements to determine the assets available to continue the operations of the System. They are also able to determine how much the System owes vendors, investors, and lending institutions. Finally, the Statement of Net Position provides a picture of the net position and the availability for expenditure by the System. The change in net position is an indicator of the overall financial condition of the System.

Net position is divided into three major categories. The first category, Net Investment in Capital Assets, provides the System's equity in property, plant, and equipment owned by the System and is recorded at historical cost less accumulated depreciation and related debt. The next category, Restricted Net Position, further broken down into two sub-categories, non-expendable and expendable, and is measured in current value, is available for expenditure by the institution but must be held or spent for purposes as determined by donors and/or external entities that have placed time or purpose restrictions on the use of the assets. The final category is Unrestricted Net Position, also measured in current value. Unrestricted assets are available to the institution for any lawful purpose of the institution.

MANAGEMENT'S DISCUSSION AND ANALYSIS (UNAUDITED)--Continued
REGIONAL UNIVERSITY SYSTEM OF OKLAHOMA

Year Ended June 30, 2018

STATEMENTS OF NET POSITION

		June 30		
		2018	*2017	% Inc(Dec)
		(Thousands of Dollars)		
ASSETS				
Current assets	\$	286,745	\$ 283,245	1%
Capital assets, net		633,282	600,550	5%
Other assets		27,823	32,317	-14%
TOTAL ASSETS		947,850	916,112	3%
DEFERRED OUTFLOWS OF RESOURCES				
		75,627	130,552	-42%
LIABILITIES				
Current liabilities		70,852	61,631	15%
Noncurrent liabilities		652,371	725,194	-10%
TOTAL LIABILITIES		723,223	786,825	-8%
DEFERRED INFLOWS OF RESOURCES				
		47,708	12,864	271%
NET POSITION				
Net investment in capital assets		291,304	286,971	2%
Restricted-nonexpendable		713	709	1%
Restricted-expendable		158,031	147,579	7%
Unrestricted		(197,502)	(188,284)	5%
TOTAL NET POSITION	\$	252,546	\$ 246,975	2%

* Prior year amounts not restated due to availability of information from implementation of GASB Statement No. 75.

During fiscal year 2018 GASB Statement No. 75 became effective for employer reporting of other postemployment benefits. As a result, the System recognized activity for the Oklahoma Teachers Retirement System Supplemental Health Insurance Program, the RUSO Retiree Health/Dental Insurance Trust, and the RUSO Health Insurance Subsidy Plan. This resulted in the recognition of a total OPEB liability of \$2.3 million, a net OPEB liability of \$5.6 million, and a net OPEB asset of \$2.2 million. This also resulted in additional recognition of deferred outflows and inflows of resources with \$2.7 million of deferred inflows of resources being recognized and contributing to a portion of the increase compared to prior year.

The accounting recognition of the System's participation in the Oklahoma Teachers Retirement System and the System's single employer defined benefit pension plans have a significant impact on the noncurrent liabilities and unrestricted net position of the System.

MANAGEMENT'S DISCUSSION AND ANALYSIS (UNAUDITED)--Continued
REGIONAL UNIVERSITY SYSTEM OF OKLAHOMA

Year Ended June 30, 2018

STATEMENTS OF NET POSITION--Continued

For fiscal year 2018, the System's net pension liability decreased by \$86.1 million, which is the primary reason for the decrease of \$78.4 million of noncurrent liabilities. The system also reported a decrease in deferred outflows related to pension activity of \$55.2 million and deferred inflows related to pension activity of \$32.4 million, which are a result of the changes in the net pension liability and the primary cause for the changes during fiscal year 2018. The recognition of the pension activity has a significant effect on the System's unrestricted net position.

The System's proportionate share of the pension activity of the Oklahoma Teachers Retirement System (OTRS) accounted for \$83.6 million of the decrease in net pension liability, \$54.6 million of the decrease in deferred outflows of resources related to pension activity, and \$32.5 million of the increase in deferred inflows of resources related to pension activity. This overall decrease of the net pension liability is primarily due to activity at OTRS, such as an increase in the proportion share of the net pension liability received by the System, and investment income for the fiscal year was less than the expected plan investment return. The recognition of the pension activity has a significant effect on the System's unrestricted net position.

The increase in capital assets of \$32.7 million was primarily due to construction and building renovation projects at UCO and ECU, with NWOSU, SE, and SWOSU implementing a new ERP system. These projects range from improvements to athletic, housing, and learning facilities. Primarily, resources from new lease financings were used to fund many of these projects including \$31.6 million in funding for UCO.

Other assets were reduced by \$4.5 million during fiscal year 2018, primarily due to the restatement of the prior GASB Statement No. 45 net OPEB asset of \$7.5 million and the recognition of the GASB Statement No. 75 net OPEB asset of \$2.3 million.

STATEMENT OF REVENUES, EXPENSES, AND CHANGES IN NET POSITION

The Statement of Revenues, Expenses and Changes in Net Position presents the operating results of the System, as well as nonoperating revenues and expenses. Operating revenues are received for providing goods and services to various customers and constituencies of the System. Operating expenses are incurred to acquire or produce the goods and services provided in return for the operating revenues. Nonoperating revenues are revenues received for which goods and services are not provided as an exchange transaction. State appropriations, which represent 24% of total System revenues, are classified as a nonoperating revenue because these revenues are appropriated at the State level rather than at the System or institutional level. The accounting treatment for this revenue classification typically results in the System reporting an operating loss.

MANAGEMENT'S DISCUSSION AND ANALYSIS (UNAUDITED)--Continued
REGIONAL UNIVERSITY SYSTEM OF OKLAHOMA

Year Ended June 30, 2018

STATEMENT OF REVENUES, EXPENSES, AND CHANGES IN NET POSITION--Continued

Other typical nonoperating revenue sources include gifts, grants, and appropriations restricted for capital purposes.

STATEMENTS OF REVENUES, EXPENSES, AND CHANGES IN NET POSITION

	2018	*2017	% Inc(Dec)
	<i>(Thousands of Dollars)</i>		
OPERATING REVENUES			
Student tuition and fees, net	\$ 209,980	\$ 202,428	4%
Grants and contracts	29,801	28,520	4%
Other	65,951	61,540	7%
TOTAL OPERATING REVENUES	<u>305,732</u>	<u>292,488</u>	5%
OPERATING EXPENSES			
Compensation	325,493	329,278	-1%
Contractual services	28,058	23,168	21%
Supplies & materials	39,100	39,477	-1%
Depreciation	35,786	34,140	5%
Other operating expenses	104,589	96,699	8%
TOTAL OPERATING EXPENSES	<u>533,026</u>	<u>522,762</u>	2%
NET OPERATING INCOME (LOSS)	(227,294)	(230,274)	-1%
NONOPERATING REVENUES (EXPENSES)			
State appropriations	135,584	144,165	-6%
Grants and contracts	82,244	76,630	7%
Other revenues	25,320	26,062	-3%
Interest expense	(11,024)	(10,679)	3%
TOTAL NONOPERATING REVENUES (EXPENSES)	<u>232,124</u>	<u>236,178</u>	-2%
CONTRIBUTED CAPITAL	<u>19,176</u>	<u>18,848</u>	2%
CHANGE IN NET POSITION	24,006	24,752	-3%
NET POSITION, BEGINNING OF YEAR, RESTATED	<u>228,540</u>	<u>222,223</u>	3%
NET POSITION, END OF YEAR	<u>\$ 252,546</u>	<u>\$ 246,975</u>	2%

* Prior year amounts not restated due to availability of information from implementation of GASB Statement No. 75.

MANAGEMENT'S DISCUSSION AND ANALYSIS (UNAUDITED)--Continued
REGIONAL UNIVERSITY SYSTEM OF OKLAHOMA

Year Ended June 30, 2018

STATEMENT OF REVENUES, EXPENSES, AND CHANGES IN NET POSITION--Continued

Student tuition and fees, a primary source of funding for the System's academic programs, which represent 68.7% of operating revenues, are reflected net of associated discounts and allowances. Net student tuition and fees increased by \$7.6 million, and this slight increase is primarily a result of increases in rates for tuition and fees. SE's increase in rates for tuition and fees of 4.7% for resident students and 2.1% for non-resident students resulted in \$4.5 million of additional revenue. Also, NSU increased tuition by 2.5% resulting in \$1.5 million of additional revenue, and UCO increased tuition by 6.0% resulting in \$2.2 million of additional revenue.

Compensation expense for the System held consistent when compared to the prior year with a decrease of 1%. Compensation expense is impacted by the accounting for pension and OPEB expense related to the System's participation in defined benefit pension plans and other post-employment benefit plans, with an overall all impact of \$4.0 million during fiscal year 2018 compared to \$19 million during fiscal year 2017. Compensation expense at ECU and NSU decreased .5% and 2.4%, respectively; whereas, SE, NWOSU, SWOSU, and UCO had increases in compensation expense of .6%, 1.5%, 2.57%, and 2.0%, respectively.

Depreciation expense for the System increased by 5% or approximately \$1.6 million. This is primarily a result of the completion of non-depreciable capital asset projects that once completed, are considered depreciable capital assets. This transfer from construction in progress to depreciable capital asset categories was approximately \$30.7 million.

The System's State appropriations for fiscal year 2018 decreased by \$8.6 million. This is a result of several years of general revenue failures along with gross production tax collection failures negatively impacting the revenues available for appropriation, while the State of Oklahoma continues to attempt to recover from these shortfalls.

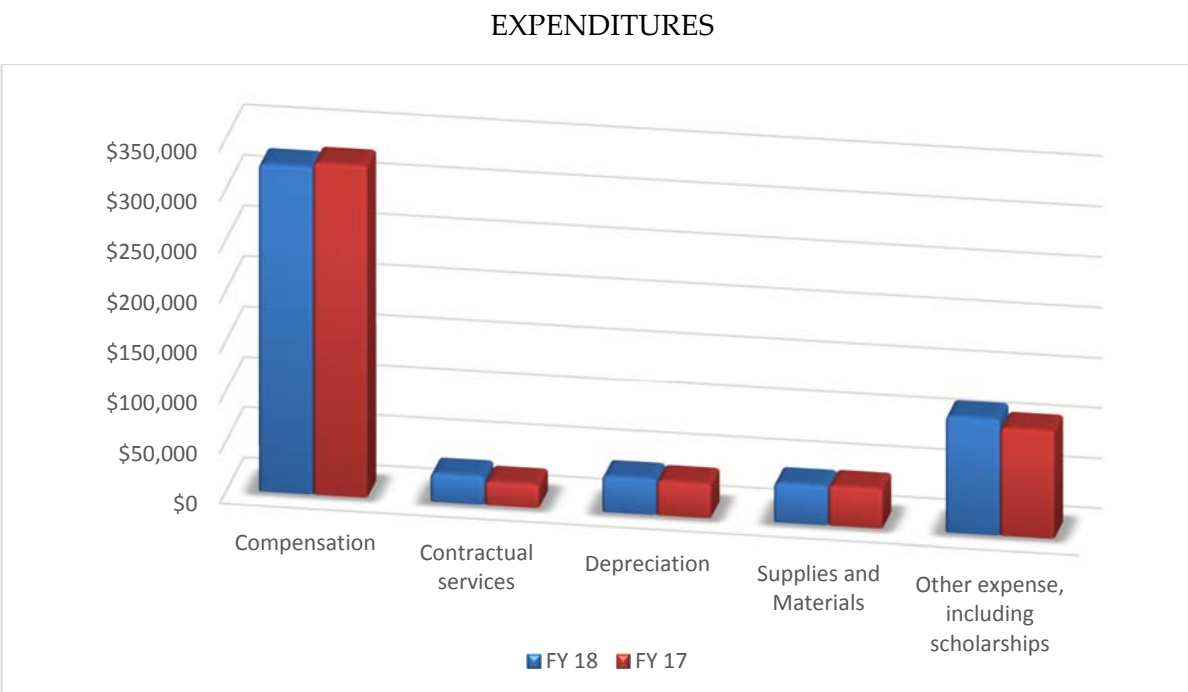
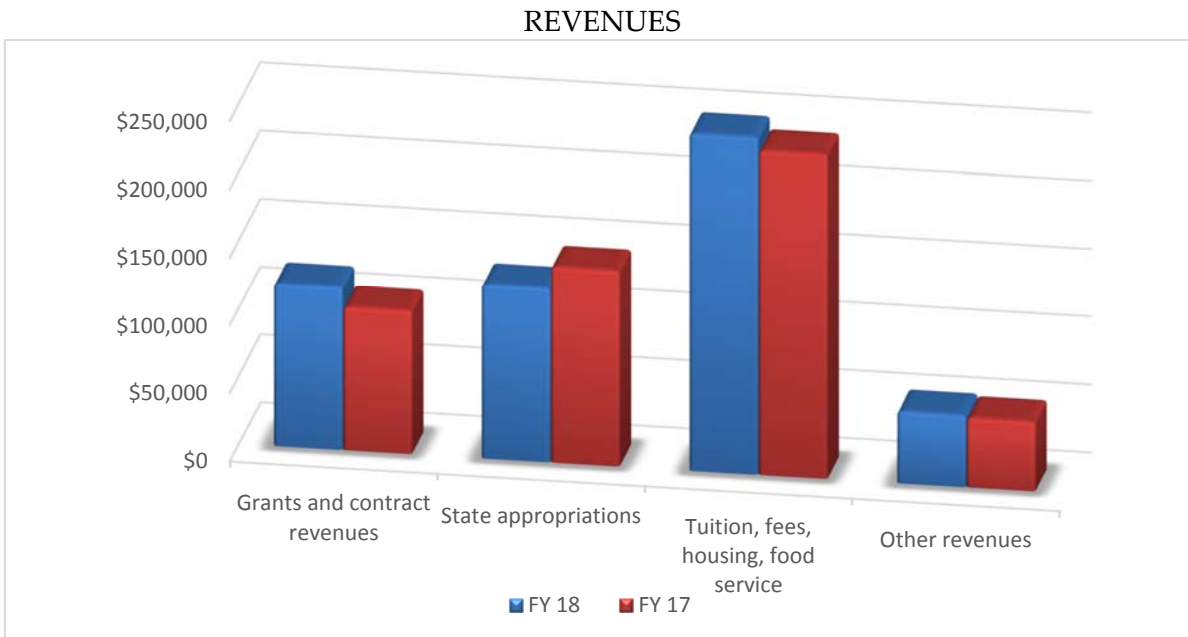
The System's grants and contracts revenue increased by \$5.6 million or 7.3% compared to fiscal year 2017. The most significant increases were \$2.5 million or 11.4% for UCO, \$.7 million or 5.5% for ECU, and .9% or 4.5% for NSU.

The major sources of revenues and expenditures (operating and nonoperating) by financial statement category are summarized in the charts on the next page (in thousands of dollars).

MANAGEMENT'S DISCUSSION AND ANALYSIS (UNAUDITED)--Continued
REGIONAL UNIVERSITY SYSTEM OF OKLAHOMA

Year Ended June 30, 2018

STATEMENT OF REVENUES, EXPENSES, AND CHANGES IN NET POSITION--Continued



MANAGEMENT'S DISCUSSION AND ANALYSIS (UNAUDITED)--Continued
REGIONAL UNIVERSITY SYSTEM OF OKLAHOMA

Year Ended June 30, 2018

STATEMENT OF CASH FLOWS

The Statement of Cash Flows provides information about the System's financial results by reporting the major sources and uses of cash and cash equivalents. Cash flows from operating activities show the net cash used by the operating activities of the System. Cash flows from noncapital financing activities consist primarily of revenue sources that fund operations but are considered nonoperating activities by definition. Cash flows from capital activities include capital assets and related long-term debt activities. Cash flows from investing activities show the proceeds and uses of cash related to purchasing or selling investments and related investment earnings thereon.

CAPITAL ASSETS

Capital assets, net of accumulated depreciation, at June 30, 2018 and June 30, 2017 were as follows:

Capital Asset Summary

	<u>June 30, 2018</u>	<u>June 30, 2017</u>	<u>% Inc. (Dec.)</u>
Non-Depreciable:			
Land	\$ 24,180	\$ 23,642	2%
Art collections	5,319	5,319	0%
Construction in-progress	81,218	59,106	37%
Depreciable:			
Non-major infrastructure networks	10,630	12,694	-16%
Land improvements	11,636	9,791	19%
Buildings	476,136	463,688	3%
Art collections	346	358	-3%
Leasehold Improvements	62	92	-33%
Furniture, fixtures, and equipment	17,986	19,638	-8%
Library materials	<u>5,769</u>	<u>6,222</u>	-7%
Total Capital Assets, Net Accumulated Depreciation	<u>\$ 633,282</u>	<u>\$ 600,550</u>	5%

MANAGEMENT'S DISCUSSION AND ANALYSIS (UNAUDITED)--Continued
REGIONAL UNIVERSITY SYSTEM OF OKLAHOMA

Year Ended June 30, 2018

CAPITAL ASSETS – Continued

An overall increase in capital assets of \$25.4 million occurred during fiscal year 2018. This is primarily attributed to an increase in construction in progress of \$32.7 million in net transfers of completed projects. Significant increases in capital assets included some of the following:

- SWOSU – Renovation of Mann Hall and the Chemistry, Physics, and Pharmacy buildings, and costs related to a new ERP system.
- NWOSU – Completion of the Student Center renovation project and costs related to a new ERP system.
- UCO – Completion of Murdaugh Hall and the Mitchell Hall Backstage Facility, and additional construction in process related to the following projects: Liberal Arts building, Sports Performance Phase II, Performance Contract upgrades, Stem Building, Sports Performance building, and various Auxiliary and renovation projects.
- ECU – Completion of new residence hall.
- NSU – Completion of renovations to Leoser Housing and the University Center.

Further detailed information can be found in the notes to the financial statements (Notes A and E.).

LONG-TERM DEBT

Long-term debt at June 30, 2018 and June 30, 2017 consisted of the following:

Long-term Debt Summary

	<u>June 30, 2018</u>	<u>June 30, 2017</u>	<u>% Inc (Dec)</u>
Bonds payable	\$ 18,102,908	\$ 19,931,632	-9.2%
Lease Obligations	276,682,382	267,292,943	3.5%
Other Liabilities	<u>21,680,253</u>	<u>21,128,985</u>	2.6%
Total long-term debt	<u>\$ 316,465,543</u>	<u>\$ 308,353,560</u>	2.6%

Long-term debt increased by \$8.1 million and is attributable to increases in capital lease obligations. Significant additions to capital leases include some of the following:

- UCO – Increase of \$32.4 million primarily related to current construction in progress.
- NSU – Increase of \$.5 million primarily related to leasing of equipment.

Further detailed information can be found in the notes to the financial statements (Notes A and F).

MANAGEMENT'S DISCUSSION AND ANALYSIS (UNAUDITED)--Continued
REGIONAL UNIVERSITY SYSTEM OF OKLAHOMA

Year Ended June 30, 2018

ECONOMIC OUTLOOK

The State's economy, while fragile, is slowly showing signs of long range strengthening. General revenue collections ended 7% above the fiscal year 2018 estimate. The increase in revenue was as a result of new law changes including the collection of sales tax by online retailers. There is hope for this increase to maintain for fiscal year 2019.

In the last three years the System's Universities have seen cuts in State appropriations of roughly 9.84% in FY16, 15.95% in FY17, and additional appropriation reductions of 5.95% for FY18. Although the Universities are discouraged by the lack of investment in higher education from the State, they are still resolute in accomplishing their individual's missions. Due to these cuts and the current economy, the System and its Universities continue to strive to properly manage expenses and to diversify revenues sources. Diversification is being sought through expansion of on-line programs, controlling tuition increases to promote a competitive recruiting advantage, and setting goals of increased grant funding.

During the fiscal year, some of the System's Universities have worked together to find ways to improve operations that also included cost saving measures. This process was utilized for the procurement a new ERP system for NWOSU, SE, and SWOSU. The System was able to see significant savings, and as a result, avoid incurring additional debt related to this procurement.

The Universities overall are also seeing a steady or slight increase in student head count and credit hours. This along with increases in tuition and fees, while still providing some of the lowest tuition, will help insure the System and its Universities can meet their overall missions.

STATEMENT OF NET POSITION
REGIONAL UNIVERSITY SYSTEM OF OKLAHOMA
JUNE 30, 2018

	<u>RUSO</u>	<u>Discretely Presented Component Units</u>
ASSETS		
CURRENT ASSETS		
Cash and cash equivalents	\$ 157,175,252	\$ 8,389,689
Restricted cash and cash equivalents	81,033,269	646,012
Investments held by others	-	417,260
Accounts receivable, net	42,183,645	1,649,943
Receivables from state agencies	1,598,214	-
Interest receivable	874,580	156,185
Inventories	995,565	75,899
Contributions receivable	-	1,075,405
Other assets	7,791	188,384
Current portion of other receivable	1,670,426	-
Current portion of notes receivable, net	1,206,127	-
TOTAL CURRENT ASSETS	<u>286,744,869</u>	<u>12,598,777</u>
NONCURRENT ASSETS		
Restricted cash and cash equivalents	21,502,129	-
Restricted investments	-	35,388,633
Investments	-	139,126,371
Investments held by others	405,138	1,727,798
Receivable from OSRHE Endowment Trust Fund	216,110	-
Notes receivable, net	3,291,500	-
Net pension asset	193,339	-
Net OPEB asset	2,177,621	-
Other assets	37,482	1,084,421
Capital assets, net	633,281,848	10,729,052
TOTAL NONCURRENT ASSETS	<u>661,105,167</u>	<u>188,056,275</u>
TOTAL ASSETS	<u>\$ 947,850,036</u>	<u>\$ 200,655,052</u>
DEFERRED OUTFLOWS OF RESOURCES		
Deferred amounts related to pensions	\$ 74,520,392	\$ -
Deferred amounts related to OPEB	306,913	-
Deferred charge on capital lease restructure	799,767	-
TOTAL DEFERRED OUTFLOWS OF RESOURCES	<u>\$ 75,627,072</u>	<u>\$ -</u>

Continued on next page

STATEMENT OF NET POSITION--Continued
REGIONAL UNIVERSITY SYSTEM OF OKLAHOMA
JUNE 30, 2018

	RUSO	Discretely Presented Component Units
LIABILITIES		
CURRENT LIABILITIES		
Accounts and scholarships payable	\$ 15,605,898	\$ 1,121,333
Accrued payroll	7,638,900	-
Accrued interest	159,232	35,164
Unearned revenue	14,529,679	191,571
Deposits held in custody for others	3,178,912	417,260
Current portion of noncurrent liabilities	29,739,344	312,082
TOTAL CURRENT LIABILITIES	70,851,965	2,077,410
NONCURRENT LIABILITIES		
Accrued compensated absences	5,361,048	-
Retirement incentive payout	57,919	-
Federal loan program contributions refundable	7,001,153	-
Bonds payable	16,194,184	-
Unearned revenue	6,667,731	-
Unearned capital assets	1,748,378	-
Notes payable	-	7,787,272
Total OPEB liability	2,269,675	-
Net OPEB liability	5,575,037	-
Net pension liability	352,695,311	-
Capital lease obligations	254,800,635	2,576
TOTAL NONCURRENT LIABILITIES	652,371,071	7,789,848
TOTAL LIABILITIES	\$ 723,223,036	\$ 9,867,258
DEFERRED INFLOWS OF RESOURCES		
Deferred amounts related to pensions	\$ 42,366,458	\$ -
Deferred amounts related to OPEB	2,715,125	-
Deferred gain on OCIA lease restructure	2,626,336	-
TOTAL DEFERRED INFLOWS OF RESOURCES	\$ 47,707,919	\$ -
NET POSITION		
Net investment in capital assets	\$ 291,303,948	\$ -
Restricted:		
Nonexpendable:		
Grants, bequests and contributions	712,528	120,744,441
Expendable:		
Scholarships, instruction and other	19,257,204	54,949,334
Loans	801,351	-
Capital projects	47,598,558	-
Debt service	89,985,068	-
OPEB	389,526	-
Unrestricted (deficit)	(197,502,030)	15,094,019
TOTAL NET POSITION	\$ 252,546,153	\$ 190,787,794

See notes to financial statements.

STATEMENT OF REVENUES, EXPENSES AND CHANGES IN NET POSITION
REGIONAL UNIVERSITY SYSTEM OF OKLAHOMA
FOR THE YEAR ENDED JUNE 30, 2018

	RUSO	Discretely Presented Component Unit
OPERATING REVENUES		
Student tuition and fees, net of scholarship discounts and allowances of \$61,564,283 (included in fees are \$17,204,198 of revenues dedicated for bond repayments)	\$ 209,979,925	\$ -
Federal grants and contracts	21,852,738	-
State and local grants and contracts	7,947,972	-
Bookstore operations	913,144	-
Housing and food service revenues, net of scholarship discounts and allowances of \$1,994,170 (included in revenues are \$10,501,197 dedicated for bond repayments)	37,984,943	-
Optometry contracts and practice plan	5,476,033	-
Aerospace operations	1,209,469	-
Parking and University Center revenues (dedicated as security for bond repayments)	3,359,377	-
Other auxiliary operations	1,444,066	-
Interest earned on loans to students	116,977	-
Investment income	-	13,498,182
Gifts and contributions	-	23,717,731
Other operating revenues	15,447,378	3,384,449
TOTAL OPERATING REVENUES	305,732,022	40,600,362
OPERATING EXPENSES		
Compensation and employee benefits	325,492,557	893,819
Contractual services	28,058,443	170,687
Supplies and materials	39,100,477	79,703
Depreciation	35,785,530	271,837
Utilities	11,572,526	-
Communication expense	975,675	-
Scholarships and fellowships	54,408,666	7,472,797
Other operating expenses	37,632,421	16,029,966
TOTAL OPERATING EXPENSES	533,026,295	24,918,809
OPERATING INCOME (LOSS)	(227,294,273)	15,681,553

Continued on next page.

STATEMENT OF REVENUES, EXPENSES AND CHANGES IN NET POSITION (Continued)
REGIONAL UNIVERSITY SYSTEM OF OKLAHOMA
FOR THE YEAR ENDED JUNE 30, 2018

	RUSO	Discretely Presented Component Unit
NONOPERATING REVENUES (EXPENSES)		
State appropriations	\$ 135,584,134	\$ -
Federal grants and contracts	71,101,652	-
State grants and contracts	11,142,625	-
OTRS on-behalf contributions	13,620,380	-
Gifts	8,193,187	-
Investment income	2,283,356	-
Other nonoperating	1,222,437	-
Interest expense	(11,024,091)	-
NET NONOPERATING REVENUE	<u>232,123,680</u>	<u>-</u>
 INCOME BEFORE CAPITAL CONTRIBUTIONS	 <u>4,829,407</u>	 <u>15,681,553</u>
CONTRIBUTED CAPITAL		
State appropriations restricted for capital purposes	7,941,602	-
Capital contributions	1,886,259	-
OCIA on-behalf state appropriations	9,348,431	-
TOTAL CONTRIBUTED CAPITAL	<u>19,176,292</u>	<u>-</u>
 CHANGE IN NET POSITION	 24,005,699	 15,681,553
 NET POSITION - BEGINNING OF YEAR - RESTATED	 <u>228,540,454</u>	 <u>175,106,241</u>
 NET POSITION, END OF YEAR	 <u><u>\$ 252,546,153</u></u>	 <u><u>\$ 190,787,794</u></u>

See notes to financial statements.

STATEMENT OF CASH FLOWS
REGIONAL UNIVERSITY SYSTEM OF OKLAHOMA
FOR THE YEAR ENDED JUNE 30, 2018

CASH FLOWS FROM OPERATING ACTIVITIES	
Tuition and fees	\$ 209,710,523
Grants and contracts	29,825,165
Auxiliary enterprises and other receipts	67,164,626
University assessment and other	835,130
Interest collected on loans to students	16,107
Payments to employees for salaries and benefits	(311,617,001)
Payments to suppliers and others	(171,196,744)
Loans issued to students	(821,220)
Collections of loans issued to students	1,093,767
NET CASH PROVIDED BY (USED IN) OPERATING ACTIVITIES	<u>(174,989,647)</u>
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES	
State appropriations	135,584,134
Non-operating grants	82,253,788
Cash received from non-operating revenues	4,055,980
Direct loan receipts	9,025,814
Direct loan payments	(9,025,814)
NET CASH PROVIDED BY NONCAPITAL FINANCING ACTIVITIES	<u>221,893,902</u>
CASH FLOWS FROM INVESTING ACTIVITIES	
Interest income received	2,265,430
NET CASH PROVIDED BY INVESTING ACTIVITIES	<u>2,265,430</u>
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES	
Cash paid for capital assets	(64,400,605)
Capital appropriations received	8,997,293
Proceeds from sale of assets	400,752
Drawdown of ODFA receivable	8,039,542
Proceeds of capital debt and leases	37,954,485
Payments on capital debt and leases	(18,753,812)
Interest paid on capital debt and leases	(9,571,806)
NET CASH PROVIDED BY (USED IN) CAPITAL AND RELATED FINANCING ACTIVITIES	<u>(37,334,151)</u>
NET CHANGE IN CASH AND CASH EQUIVALENTS	11,835,534
CASH AND CASH EQUIVALENTS, BEGINNING OF YEAR	<u>247,875,116</u>
CASH AND CASH EQUIVALENTS, END OF YEAR	<u><u>\$ 259,710,650</u></u>

Continued on next page.

STATEMENT OF CASH FLOWS--Continued
REGIONAL UNIVERSITY SYSTEM OF OKLAHOMA
FOR THE YEAR ENDED JUNE 30, 2018

RECONCILIATION OF OPERATING LOSS TO NET CASH PROVIDED BY (USED IN) OPERATING ACTIVITIES

Operating loss	\$ (227,294,273)
Adjustments to reconcile operating loss to net cash provided by (used in) operating activities:	
Depreciation	35,785,530
Loss on the disposal of capital assets	(1,108,147)
On-behalf contributions to teachers' retirement system	13,620,380
Changes in assets and liabilities:	
Accounts receivable	(618,952)
Grants and other receivables	(127,834)
Net pension asset	(193,339)
Net OPEB asset	(2,177,621)
Net pension liability	(86,051,513)
Net OPEB liability	(2,018,072)
Total OPEB liability	598,192
Deferred amounts from pensions	87,223,872
Deferred amounts from OPEB	2,715,401
Inventories	(44,106)
Loans receivable	371,468
Student and other deposits	-
Deposits held in custody of others	(127,740)
Other assets	3,173
Accounts payable and accrued expenses	3,354,355
Accrued payroll	1,278,177
Deferred revenue	1,013,463
Federal loan program contributions refundable	(278,265)
Loans to students and employees	12,952
Retirement incentive program	(338,435)
Compensated absences	(588,313)
NET CASH PROVIDED BY (USED IN) OPERATING ACTIVITIES	<u>\$ (174,989,647)</u>

NONCASH INVESTING, NONCAPITAL FINANCING AND CAPITAL AND RELATED
FINANCING ACTIVITIES

Interest on capital debt paid by OCIA on behalf of the University	\$ 2,525,714
Principal on capital debt paid by OCIA on behalf of the University	6,822,716
Non-cash capital grants and gifts	2,907,248
Deferred gain on OCIA lease restructure	1,088,962
	<u>\$ 13,344,640</u>

RECONCILIATION OF CASH AND CASH EQUIVALENTS TO STATEMENTS OF NET POSITION

Current assets:	
Cash and cash equivalents	\$ 157,175,252
Restricted cash and cash equivalents	81,033,269
Noncurrent assets:	
Restricted cash and cash equivalents	<u>21,502,129</u>
TOTAL CASH AND CASH EQUIVALENTS	<u>\$ 259,710,650</u>

See notes to financial statements.

STATEMENT OF FIDUCIARY NET POSITION
REGIONAL UNIVERSITY SYSTEM OF OKLAHOMA
JUNE 30, 2018

**PENSION AND OTHER EMPLOYEE
BENEFIT PLAN TRUST FUNDS**

	SRA Plan	OPEB Trust	Pension Trust for the President of the University of Central Oklahoma	Agency Funds
Assets				
Cash and Cash Equivalents	\$ -	\$ 1,220,214	\$ -	\$ 3,744,214
Accrued Interest Receivable	-	15,350	-	-
Investments:				
Mutual Funds - Equities	6,891,504	10,523,534	995,181	-
Mutual Funds - Alternatives	-	1,566,835	-	-
Mutual Funds - Fixed Income	-	4,981,503	-	-
Mutual Funds - Real Estate	913,375	288,208	-	-
Group Annuity	22,447,250	-	-	-
Total Investments	<u>30,252,129</u>	<u>17,360,080</u>	<u>995,181</u>	<u>-</u>
Total Assets	<u>\$ 30,252,129</u>	<u>\$ 18,595,644</u>	<u>\$ 995,181</u>	<u>\$ 3,744,214</u>
Liabilities				
Accounts Payable	\$ -	\$ 13,828	\$ -	\$ -
Due to OKHEEI	-	-	-	3,744,214
Total Liabilities	<u>\$ -</u>	<u>\$ 13,828</u>	<u>\$ -</u>	<u>\$ 3,744,214</u>
Net Position Restricted for Pension and OPEB	<u>\$ 30,252,129</u>	<u>\$ 18,581,816</u>	<u>\$ 995,181</u>	<u>\$ -</u>

See notes to financial statements

**STATEMENT OF CHANGES IN FIDUCIARY NET POSITION
REGIONAL UNIVERSITY SYSTEM OF OKLAHOMA
FOR THE YEAR ENDED JUNE 30, 2018**

	PENSION AND OTHER EMPLOYEE BENEFIT PLAN TRUST FUNDS		
	SRA Plan	OPEB Trust	Pension Trust For The President of the University of Central Oklahoma
Additions			
Contributions:			
Employer contributions	\$ 4,133,354	\$ 2,098,328	\$ 228,300
Investment Income:			
Net appreciation (depreciation) in fair value	931,004	533,779	6,902
Realized gains	-	466,269	-
Dividends and interest	792,749	323,633	25,007
Other	-	3,712	-
Total investment income	1,723,753	1,327,393	31,909
Less investment expense	-	(54,920)	-
Net investment income	1,723,753	1,272,473	31,909
Total Additions	5,857,107	3,370,801	260,209
Deductions			
Benefit payments	5,109,533	1,734,697	-
Administrative Expense	-	-	1,500
Total Deductions	5,109,533	1,734,697	1,500
Net Increase in net position	747,574	1,636,104	258,709
Net Position Restricted for Pension and OPEB:			
Beginning of year	29,504,555	16,945,712	736,472
End of year	\$ 30,252,129	\$ 18,581,816	\$ 995,181

See notes to financial statements.

NOTES TO FINANCIAL STATEMENTS
REGIONAL UNIVERSITY SYSTEM OF OKLAHOMA
June 30, 2018

NOTE A--SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Nature of Organization: The Board of Regents (the "Board") of the Regional University System of Oklahoma (the "System") is an agency of the State of Oklahoma created by the Oklahoma State Constitution. The Board has powers and duties granted by the Oklahoma Constitution and Statutes to govern, manage, supervise, and control the operations of six regional state universities (the "Universities"), which are the University of Central Oklahoma ("UCO"), East Central University ("ECU"), Northwestern Oklahoma State University ("NWOSU"), Southwestern Oklahoma State University ("SWOSU"), Northeastern State University ("NSU"), Southeastern Oklahoma State University ("SE"), and the Board's Administrative Office (the "Office"). The System's financial statements are discretely presented in the state's general purpose financial statements as a component unit.Reporting Entity: The financial reporting entity, as defined by Governmental Accounting Standards Board ("GASB") Statement No. 14, *The Financial Reporting Entity*, and as amended by GASB Statement No. 39, *Determining Whether Certain Organizations Are Component Units*, and Statement No. 61, *The Financial Reporting Entity*, consists of the primary government, organizations for which the primary government is financially accountable, and other organizations for which the nature and significance of their relationship with the primary government are such that exclusion could cause the financial statements to be misleading. The financial statements include the Office and all Universities of the System. The financial statements also include the following blended component units, discretely presented component units, and fiduciary trust funds:

Blended Component Units: The following component units are included in the consolidated financial statements because the System appoints a voting majority of the component units' boards and the System is able to impose its will on the component units. Blended financial information is available upon request. The following entity has been determined to be a blended component unit of the System:

UCO Student Housing Foundation (the "Housing Foundation") is responsible for administration and operation of the University Suites, a student housing facility constructed with bond revenues issued through the Edmond Economic Development Authority. The Housing Foundation is governed by a Board of Directors comprised primarily of management of the University of Central Oklahoma.

Discretely Presented Component Units: Based on the criteria for determining component units, certain System direct support organizations are included within the System's reporting entity as discretely presented component units. The nature and significance of the relationship between the System and the component units are such that exclusion would cause the System's financial statements to be misleading. These are separate, not-for-profit corporations organized and

NOTES TO FINANCIAL STATEMENTS
REGIONAL UNIVERSITY SYSTEM OF OKLAHOMA
June 30, 2018

operated exclusively to assist the System to achieve excellence by providing supplemental support and resources. An annual audit of each organization's financial statements is conducted by independent certified public accountants. Separate financial statements of the System's component units can be obtained by contacting the System's Administrative Office.

The System has numerous foundations included in this report (collectively the "Foundations"). The discretely presented component units included in the System's financial reporting entity are:

East Central University Foundation, Inc. (the "ECU Foundation") ECU is the beneficiary of the ECU Foundation, a separate legal entity with their own Board of Trustees. The ECU Foundation is organized for the benefit of ECU, and its faculty, student body, and programs. The purposes for which the ECU Foundation is organized are exclusively scientific, literary, charitable, educational, and artistic for the benefit of ECU.

University of Central Oklahoma Foundation, Inc. (the "UCO Foundation") is a separate legal entity with its own Board of Trustees. The Foundation provides support for UCO by way of scholarships and other direct resources. UCO contracts with the UCO Foundation to provide limited services and office space in exchange for the support UCO receives from the UCO Foundation. A portion of the scholarships awarded by the UCO Foundation is remitted to UCO.

University of Central Oklahoma Alumni Association (the "UCO Association") establishes and maintains a close relationship and cooperation between the alumni of UCO and their alma mater. UCO supports the UCO Association by providing personnel, office space, furniture, and equipment at no charge to the UCO Association.

KCSC Classical Radio Foundation ("KCSC Foundation") is a 501(c) (3) organization created to support UCO's KUCO radio station. Its purpose is to support and promote classical music radio in Oklahoma.

Northeastern State System Foundation, Inc. (the "NSU Foundation") The NSU Foundation has a fiscal year ending December 31. NSU is the beneficiary of the NSU Foundation. The NSU Foundation is a separate legal entity with its own Board of Trustees. The NSU Foundation is administered to provide benefit to of NSU. The NSU Foundation uses all contributions, grants and other revenues to aid NSU in charitable, benevolent, religious, educational, scientific and literary purposes.

Southeastern Foundation, Inc. (the "SE Foundation") SE is the beneficiary of the SE Foundation, a separate legal entity with its own Board of Trustees. The SE Foundation is

NOTES TO FINANCIAL STATEMENTS
REGIONAL UNIVERSITY SYSTEM OF OKLAHOMA
June 30, 2018

organized for the benefit of SE, and its faculty, student body and programs. The SE Foundation provides scholarships and support and enhances the further development of SE.

Southwestern Oklahoma State University Foundation, Inc. (the “SWOSU Foundation”) SWOSU is the beneficiary of the SWOSU Foundation, a separate legal entity with its own Board of Trustees. The SWOSU Foundation is organized for the benefit of SWOSU and its faculty, student body, and programs. The SWOSU Foundation provides scholarships and support and enhances the further development of SWOSU.

Southwestern Pharmacy Alumni Foundation, Inc. (the “Pharmacy Foundation”) SWOSU is the beneficiary of the Pharmacy Foundation, a separate legal entity with its own Board of Trustees. The Pharmacy Foundation gives scholarships and makes loans available to pharmacy students. The Pharmacy Foundation also provides research grants to faculty and students.

Northwestern Oklahoma State University Foundation, Inc. (the “NWOSU Foundation”) and Alumni Association (the “NWOSU Association”) The NWOSU Foundation is a perpetual corporation formed under the laws of the State of Oklahoma for charitable, benevolent, educational, and scientific purposes. Its specific purpose is to benefit NWOSU through charitable actions and activities. Its activities are guided by a Board of Trustees, which receives no compensation for their activities.

The NWOSU Association is an unincorporated association formed for the benefit of the Alumni of Northwestern Oklahoma State University as a whole. Its specific purpose is to provide alumni with information about NWOSU related organizations and activities. Its activities are guided by a Board of Directors who receives no compensation for their activities.

Fiduciary Trust Funds: The Board of Regents has a fiduciary responsibility for the Supplemental Retirement Annuity plan (“SRA”). The SRA statements of fiduciary net position and changes in fiduciary net position are shown as a fiduciary fund in the System’s financial statements.

The Board of Regents also has a fiduciary responsibility for the Other Post-Employment Healthcare Plan trust (“OPEB”). The OPEB statements of fiduciary net position and changes in fiduciary net position are shown as a fiduciary fund in the System’s financial statements.

The Board of Regents has a fiduciary responsibility for the Retirement Plan for the President of The University of Central Oklahoma (“the Plan”). The Plan statements of fiduciary net position and changes in fiduciary net position are shown as a fiduciary fund in the System’s financial statements.

NOTES TO FINANCIAL STATEMENTS
REGIONAL UNIVERSITY SYSTEM OF OKLAHOMA
June 30, 2018

Fiduciary Agency Funds: Agency Funds are used to report resources held by the System in a purely custodial capacity (assets equal liabilities). Agency fund assets and liabilities are recognized using the accrual basis of accounting. The System's agency fund is the Oklahoma Higher Education Employee Interlocal Group.

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

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

Cash Equivalents: For purposes of the statements of cash flows, the System 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 System 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 System 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 statements 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 statements of net position.

NOTES TO FINANCIAL STATEMENTS
REGIONAL UNIVERSITY SYSTEM OF OKLAHOMA
June 30, 2018

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

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

Capital Assets: Capital assets are recorded at cost at the date of acquisition, or acquisition value at the date of donation in the case of gifts. The System has granted authority for each university to establish a capitalization threshold for financial reporting purposes. The threshold for library materials and equipment, adopted by the university's capitalization policies ranges from a unit cost of \$2,500 to \$5,000, and an estimated useful life of greater than one year. Renovations to buildings, infrastructure, and land improvements that significantly increase the value or extend the useful life of the structure and have a cost ranging from \$2,500 to \$25,000 or greater, based on each university's capitalization policy, are capitalized. Routine repairs and maintenance are charged to operating expense in the year in which the expense was incurred.

Depreciation is computed using the straight-line method over the estimated useful lives of the assets, generally 40 to 60 years for buildings, 20 to 30 years for infrastructure and land improvements, and 3 to 10 years for equipment and other capital assets. Depreciation expense includes amortization of assets held under capital lease obligations.

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

Compensated Absences: Employee vacation pay is accrued at year-end for financial statement purposes. The liability and expense incurred are recorded at year-end as accrued compensated absences in the statements of net position, and as a component of compensation and benefit expense in the statements of revenues, expenses and changes in net position.

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

NOTES TO FINANCIAL STATEMENTS
REGIONAL UNIVERSITY SYSTEM OF OKLAHOMA
June 30, 2018

paid within the next fiscal year, and (3) other liabilities including the federal portion of the Perkins Loan Program, that will not be paid within the next fiscal year.

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

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

Restricted net position – nonexpendable: Nonexpendable restricted net position consists of endowment and similar type funds in which donors or other outside sources have stipulated, as a condition of the gift instrument, that the principal is to be maintained inviolate and in perpetuity and invested for the purpose of producing present and future income, which may either be expended or added to principal.

Restricted net position - expendable: Restricted expendable net position includes resources in which the System 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 System and may be used at the discretion of the governing board to meet current expenses for any purpose. These resources also include auxiliary enterprises, which are substantially self-supporting activities that provide services for students, faculty and staff.

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

Income Taxes: The System, 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,

NOTES TO FINANCIAL STATEMENTS
REGIONAL UNIVERSITY SYSTEM OF OKLAHOMA
June 30, 2018

the System may be subject to income taxes on unrelated business income under the Internal Revenue Code Section 511(a)(2)(B).

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

Classification of Revenues: The System has classified its revenues as either operating or non-operating revenues according to the following criteria:

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

Nonoperating revenues: Non-operating revenues include activities that have the characteristics of non-exchange transactions, such as gifts and contributions, and other revenue sources that are defined as non-operating revenues by GASB No. 9 *Reporting Cash Flows of Proprietary Fund Accounting*, and GASB No. 34, such as state appropriations, certain governmental and other pass-through grants, and investment income.

Scholarship Discounts and Allowances: Student tuition and fee revenues, and certain other revenues from students, are reported net of scholarship discounts and allowances in the statements of revenues, expenses, and changes in net position. Scholarship discounts and allowances are the difference between the stated charge for goods and services provided by the System 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 non-operating revenues in the System's financial statements. To the extent that revenues from such programs are used to satisfy tuition and fees and other student charges, the System has recorded a scholarship discount and allowance.

Deferred Outflows of Resources: Deferred outflows are the consumption of net position by the System that are applicable to a future reporting period. At June 30, 2018, the System's deferred outflows of resources were comprised of deferred charges on OCIA lease restructurings. These deferred outflows of resources are recognized as a component of interest expense over the remaining life of the old debt or the life of the new debt, whichever is shorter. In addition, as mentioned below, certain pension amounts are deferred.

NOTES TO FINANCIAL STATEMENTS
REGIONAL UNIVERSITY SYSTEM OF OKLAHOMA
June 30, 2018

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

Deferred Inflows of Resources: Deferred inflows are the acquisition of net position by the System that are applicable to a future reporting period. At June 30, 2018, the System's deferred inflows of resources were comprised of deferred gains on the restructuring of certain long-term debt. In addition, as mentioned below, certain pension amounts are deferred.

Pensions: For purposes of measuring the net pension liability, deferred outflows of resources and deferred inflows of resources related to pensions, and pension expense, information about the fiduciary net position of the Oklahoma Teachers Retirement System ("OTRS"), the Supplemental Retirement Plan ("SRA"), and the Retirement Plan For the President of the University of Central Oklahoma (the "Plan") and additions to/deductions from OTRS, SRA, and the Plan's fiduciary net position have been determined on the same basis as they are reported by OTRS, SRA, and the Plan. For this purpose, benefit payments (including refunds of employee contributions) are recognized when due and payable in accordance with the benefit terms. Investments are reported at fair value.

Prior Period Adjustments: Beginning net position for fiscal year 2018 was restated as follows:

Beginning net position, as previously reported	\$ 246,975,286
Implementation of GASB Statement No. 75	(16,767,325)
Correction of an error	<u>(1,667,507)</u>
Beginning net positions, restated	<u>\$ 228,540,454</u>

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

NOTES TO FINANCIAL STATEMENTS
REGIONAL UNIVERSITY SYSTEM OF OKLAHOMA
June 30, 2018

New Accounting Pronouncements Effective in Fiscal Year 2018: The following new accounting pronouncements became effective during the year ended June 30, 2018:

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

GASB 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 System's health insurance benefit for retirees is subject to this new standard and as a result, the System's beginning net position as of July 1, 2017, has been reduced by \$16,767,325 from its previously reported net position.

- *GASB Statement No. 81, Irrevocable Split-Interest Agreements*

GASB No. 81 was issued in March 2016, to improve accounting and financial reporting for irrevocable split-interest agreements by providing recognition and measurement guidance for situations in which a government is a beneficiary of the agreement. The adoption of this new standard did not materially impact the System's accompanying financial statements.

- *GASB Statement 85, Omnibus 2017*

GASB No. 85 issued March 2017, addresses a variety of topics including issues related to blending component units, goodwill, fair value measurement and application, and postemployment benefits. The adoption of this new standard did not materially impact the System's accompanying financial statements. The adoption of this new standard did not materially impact the System's accompanying financial statements.

- *GASB Statement 86, Certain Debt Extinguishment Issues*

NOTES TO FINANCIAL STATEMENTS
REGIONAL UNIVERSITY SYSTEM OF OKLAHOMA
June 30, 2018

GASB No. 86 was issued May 2017. The primary objective of this Statement is to improve the consistency in accounting and financial reporting for in-substance defeasance of debt by providing guidance for transactions in which cash and other monetary assets acquired with only existing resources – resources other than the proceeds of refunding debt – are placed in an irrevocable trust for the sole purpose of extinguishing debt. This Statement also improves accounting and financial reporting for prepaid insurance on debt that is extinguished and notes to financial statements for debt substance. The adoption of this new standard did not materially impact the System's accompanying financial statements.

- *GASB Statement No. 89, Accounting for Interest Cost Incurred before the End of a Construction Period*

This Statement establishes accounting requirements for interest cost incurred before the end of a construction period. Such interest cost includes all interest that previously was accounted for in accordance with the requirements of paragraphs 5–22 of Statement No. 62, *Codification of Accounting and Financial Reporting Guidance Contained in Pre-November 30, 1989 FASB and AICPA Pronouncements*, which are superseded by this Statement. This Statement requires that interest cost incurred before the end of a construction period be recognized as an expense in the period in which the cost is incurred for financial statements prepared using the economic resources measurement focus. As a result, interest cost incurred before the end of a construction period will not be included in the historical cost of a capital asset reported in a business-type activity or enterprise fund. The System elected to early implement GASB Statement No. 89. The adoption of this new standard did not materially impact the System's accompanying financial statements.

NOTE B--DEPOSITS AND INVESTMENTS

Deposits: *Custodial credit risk* for deposits is the risk that in the event of a bank failure, the System's deposits may not be returned, or the System will not be able to recover collateral securities in the possession of an outside party. The System 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 System's deposits with the State Treasurer are pooled with the funds of other State agencies and then, in accordance with statutory limitations, placed in financial institutions or invested as the Treasurer may determine, in the State's name.

NOTES TO FINANCIAL STATEMENTS
REGIONAL UNIVERSITY SYSTEM OF OKLAHOMA
June 30, 2018

The System reports \$219,449,618 in cash and cash equivalents on deposit with the State Treasurer and other financial institutions as of June 30, 2018, including \$3,715,963 held in agency funds. Of the \$215,733,655 on deposit with the State Treasurer, \$90,698,684, represents amounts held within *OK INVEST*, an internal investment pool. The remaining portion of the amount is with other financial institutions in the amount of \$1,772,817 and cash on hand of \$55,106. State Agencies and funds that are considered to be part of the State's reporting entity in the State's Comprehensive Annual Financial Report are allowed to participate in *OK INVEST*. Oklahoma statutes and the State Treasurer establish the primary objectives and guidelines governing the investment of funds in *OK INVEST*. Safety, liquidity, and return on investment are the objectives that establish the framework for the day-to-day *OK INVEST* management of funds with an emphasis on safety of the capital and the probable income to be derived while also meeting the State's daily cash flow requirements. Guidelines in the State Treasurer's Investment Policy address credit quality requirements, diversification percentages and the types and maturities of allowable investments. The specifics regarding these policies can be found on the State Treasurer's website at <http://www.ok.gov/treasurer/>. An evaluation of the use and purpose of the various State Agencies and funds participation in the internal investment pool has determined that the amount on deposit with *OK INVEST* are treated as demand accounts and reported as cash equivalents.

The following table represents the deposits and investments held at June 30, 2018:

Type	Credit Rating	Fair Value Valuation Level	Fair Value
Deposits:			
Demand deposits			\$ 217,374,186
Cash on hand			55,106
Total deposits			217,429,292
Investments:			
Money market mutual funds	Aaam	Level 1	42,281,358
Total deposits and investments			\$ 259,710,650
Cash and equivalents			157,175,252
Restricted cash, current			81,033,269
Restricted cash, noncurrent			21,502,129
Total cash and investments			\$ 259,710,650

The System categorizes its fair value measurements within the fair value hierarchy established by generally accepted accounting principles. The hierarchy is based on the valuation inputs used to measure the fair value of the asset. Level 1 inputs are quoted prices in active markets for identical

NOTES TO FINANCIAL STATEMENTS
REGIONAL UNIVERSITY SYSTEM OF OKLAHOMA
June 30, 2018

assets; Level 2 inputs are significant other observable inputs; Level 3 inputs are significant unobservable inputs.

Investments: Investment *credit risk* is the risk that an issuer or other counterparty to an investment will not fulfill its obligations. Generally, the System'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 System 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 System'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 System's investments were subject to custody credit risk.

Retiree Medical Trust (OPEB Trust Fund)

The Retiree Medical Trust (the "Trust Fund") does not maintain any checking or other demand/time deposit accounts. Amounts reported as cash and cash equivalents in the statement of plan net position include cash and short-term investments accounts held by the Trust Fund's custodian. The balance of these accounts as of June 30, 2018, was \$1,220,214.

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 System nor state statutes limit investment maturities as a means of managing exposure to fair value losses arising from increasing interest rates; however,

NOTES TO FINANCIAL STATEMENTS
REGIONAL UNIVERSITY SYSTEM OF OKLAHOMA
June 30, 2018

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 System's investment in a single issuer. Neither the System'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- As of June 30, 2018, the System did not have any investments subject to custodial credit risk.

Pension and OPEB Plan Investments

Supplemental Retirement Annuity Plan

Through the trust document the Board has exclusive authority and responsibility for the investment of plan assets and the selection of a company to hold plan assets. The Board of Trustees has retained TIAA-CREF to be custodian of the Plan's assets and to invest those assets based on direction of the System and its management.

Investment Credit Risk

As of June 30, 2018, the Plan is not subject to investment credit risk as defined above.

Concentration of Credit Risk

The Plan does not have a policy to address concentration of credit risk. The plan did not have any investments subject to concentration of credit risk at June 30, 2018.

Interest Rate Risk

The Plan does not have a policy to address interest rate risk. As of June 30, 2018, the Plan did not have any direct investment in debt instruments or investments in any variable annuities with a significant portion of the variable annuity consisting of debt instruments.

NOTES TO FINANCIAL STATEMENTS
REGIONAL UNIVERSITY SYSTEM OF OKLAHOMA
June 30, 2018

Foreign Currency Risk

Foreign currency risk is the risk that changes in exchange rates will adversely affect the fair value of an investment or a deposit. The investment policy does not specifically address foreign currency risk. The Plan did not have any investments subject to foreign currency risk.

Rate of Return – For the year ended June 30, 2018, the annual money-weighted rate of return on pension plan investments, net of pension plan investment expense, was 6.49%. The money-weighted rate of return expresses investment performance, net of investment expense, adjusted for the changing amounts actually invested.

Retiree Medical Trust (OPEB Trust Fund)

The OPEB trust fund was created in accordance with the Oklahoma Trust Act. The trust agreement, article V. Investment of Trust Funds, states the trustees shall invest and reinvest the principal and income of the Trust Fund and keep the Trust Fund invested, without distinction between principal and income in accordance to the approved investment policy of the trust. The investment policy authorizes the Trust Fund to invest in certain equities, fixed income, and various other investment instruments, subject to certain limitations. The Trust Fund's Administrative Committee is responsible for recommending to the System the investment policies and strategies, and retaining/monitoring the various investment managers, trustees, advisors, actuaries and other fiduciaries utilized by the Trust Fund. The System is responsible for approving the recommendations of the Trust Fund's Trustee.

Custodial Credit Risk

At June 30, 2018, \$1,220,214, of cash and cash equivalents was uninsured and uncollateralized.

Investment Credit Risk

The Trust Fund's investment policy provides that its investments in fixed income instruments to be rated at AA or A1 if the purchase is of individual instruments. The policy also allows for investments in mutual funds. As of June 30, 2018, the Trust Fund's investments in fixed income mutual funds were rated as follows:

<u>Description</u>	<u>Ratings</u>	<u>Fair Value</u>
Pooled Fixed Income (mutual funds)	Not Rated	\$ 4,981,503
Total Pooled Fixed Income (mutual funds)		<u>\$ 4,981,503</u>

NOTES TO FINANCIAL STATEMENTS
REGIONAL UNIVERSITY SYSTEM OF OKLAHOMA
June 30, 2018

Concentration of Credit Risk

The Trust Fund's investment policy does not address concentration of credit risk. The Trust Fund did not have any investments subject to concentration of credit risk at June 30, 2018.

Interest Rate Risk

The Trust Fund's investment policy does not address interest rate risk. As of June 30, 2018, maturities of the Trust Fund's debt securities were as follows:

	Fair Value	Less than 1	1 to 5	6 to 10
Pooled Fixed Income (mutual funds)	\$ 4,981,503	\$ -	\$ 1,114,155	\$ 3,867,348
Total Pooled Fixed Income (mutual funds)	\$ 4,981,503	\$ -	\$ 1,114,155	\$ 3,867,348

Foreign Currency Risk

The investment policy does not specifically address foreign currency risk. Investments in open-ended pooled equity (mutual funds), which a majority of the underlying securities are international as of June 30, are reported below to indicate possible foreign currency risk.

	Fair Value
Pooled Equity (mutual funds)	\$ 2,860,714

Retirement Plan for the President of the University of Central Oklahoma

Through the trust document the Board has exclusive authority and responsibility for the investment of plan assets and the selection of a company to hold plan assets. The Board of Trustees has retained InvesTrust, N.A. to be custodian of the Plan's assets and to invest those assets based on direction of the System and its management.

Investment Credit Risk

The Plan has not adopted a policy to address credit risk. As of June 30, 2018, the Plan is not subject to credit risk.

NOTES TO FINANCIAL STATEMENTS
REGIONAL UNIVERSITY SYSTEM OF OKLAHOMA
June 30, 2018

Concentration of Credit Risk

The Plan does not have a policy to address concentration of credit risk. The Plan did not have any investments subject to concentration of credit risk at June 30, 2018.

Interest Rate Risk

The Plan does not have a policy to address interest rate risk. As of June 30, 2018, the Plan did not have any direct investment in debt instruments or investments in any variable annuities with a significant portion of the variable annuity consisting of debt instruments.

Foreign Currency Risk

The investment policy does not specifically address foreign currency risk. The Plan did not have any investments subject to foreign currency risk.

Fair Value Measurements

GASB Statement No. 72, *Fair Value Measurement and Application*, establishes a hierarchy on inputs to valuation techniques used to measure fair value. Generally accepted accounting principles define fair value 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. GAAP also establishes a three-level hierarchy for measuring fair value.

The fair value hierarchy for valuation inputs gives the highest priority to quoted prices in active markets for identical assets or liabilities and the lowest priority to unobservable inputs. The fair value hierarchy is as follows:

Level 1: Inputs to the valuation methodology are quoted prices (unadjusted) for identical assets or liabilities in active markets.

Level 2: Inputs to the valuation methodology include quoted prices for similar assets and liabilities in active markets, and inputs that are observable for the asset and liability, either directly or indirectly, for substantially the full term of the financial instrument.

Level 3: Inputs to the valuation methodology are unobservable. An entity's own assumptions about the assumptions that market participants would use in pricing the assets or liabilities are used for determining the fair value of the assets or liabilities.

NOTES TO FINANCIAL STATEMENTS
REGIONAL UNIVERSITY SYSTEM OF OKLAHOMA
June 30, 2018

Supplemental Retirement Annuity Plan

The Plan has the following recurring fair value measurements as of June 30, 2018:

	Total	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
TIAA Traditional	\$ 22,447,250	\$ -	\$ -	\$ 22,447,250
TIAA Real Estate	913,375	913,375	-	-
TIAA-CREF Stock	1,142,888	1,142,888	-	-
TIAA-CREF Equity Index	3,844,672	3,844,672	-	-
TIAA-CREF Growth	1,903,944	1,903,944	-	-
Total investments at fair value	<u>\$ 30,252,129</u>	<u>\$ 7,804,879</u>	<u>\$ -</u>	<u>\$ 22,447,250</u>

The TIAA Traditional Annuity is reported at contract value. The contract value of the TIAA Traditional Annuity equals the accumulated cash contributions, interest credited to the plan's contracts, and transfers, if any, less any withdrawals and transfers, if any.

The TIAA Traditional Annuity is not available for sale or transfer on any securities exchange. Accordingly, transactions in similar investment instruments are not observable. While transactions involving the purchases/sales of individual TIAA Traditional contracts are not observable in a public marketplace, contract value may provide a good approximation of fair value as supported by the following:

- New contributions represent current transactions between willing buyers and sellers as prescribed in the relevant GAAP guidance.
- Participants typically allocate contributions between several investment choices and all transactions are executed at current market value with the assumption being that objective, unbiased transactions regularly occur and participants deem the value of the TIAA Traditional Annuity contract to be no less than the participant's accumulation balance and that each investment purchase is made at fair value since these purchases are not distressed and are conducted between willing buyers and sellers in open market conditions where a participant has a variety of investment choices.
- The market-observable presumption is that the contract value of current funding represents a good approximation of fair value based on the willingness of the participant to continue to

NOTES TO FINANCIAL STATEMENTS
REGIONAL UNIVERSITY SYSTEM OF OKLAHOMA
June 30, 2018

contribute. For each contribution, TIAA continues to record a contractual liability for the current contribution and does not consider such liability to have any embedded gain or loss.

- Upon a distributable event, the participant surrenders the future accumulation benefits in exchange for a cash payout based on the contract value, demonstrating the contract value can be monetized when a distributable event occurs.
- The crediting rate is supported by the investment performance of a large, diversified portfolio (TIAA's General Account), is correlated with the highest quality debt security yields, and is adjusted for contract liquidity. A twenty-year analysis of crediting rates for TIAA Traditional Annuity contracts suggests a rate of return that is representative of a risk-adjusted market rate for this type of product; thus, application of observed rates would yield a discounted cash flow which approximates contract value.

Retiree Medical Trust (OPEB Trust Fund)

The Trust fund has the following recurring fair value measurements as of June 30, 2018:

	Total	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
Pooled Equity (mutual funds)	\$ 10,523,534	\$ 10,523,534	\$ -	\$ -
Pooled Fixed Income (mutual funds)	4,981,503	4,981,503	-	-
Alternative Strategies	1,566,835	1,566,835	-	-
Alternative Investments(Real Estate)	288,208	288,208	-	-
Total investments at fair value	<u>\$ 17,360,080</u>	<u>\$ 17,360,080</u>	<u>\$ -</u>	<u>\$ -</u>

Retirement Plan for the President of the University of Central Oklahoma

The Plan has the following recurring fair value measurements as of June 30, 2018:

	Total	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
Vanguard TGT Retirement Income Fund	\$ 995,181	\$ 995,181	\$ -	\$ -
Total investments at fair value	<u>\$ 995,181</u>	<u>\$ 995,181</u>	<u>\$ -</u>	<u>\$ -</u>

NOTES TO FINANCIAL STATEMENTS
REGIONAL UNIVERSITY SYSTEM OF OKLAHOMA
June 30, 2018

Discretely Presented Component Units' Investments

Investments of the discretely presented component units at fair value consisted of the following at June 30, 2018:

	Level 1	Level 2	Level 3	Total
Cash and cash equivalents	\$ 5,776,432	\$ 6,111,887	\$ -	\$ 11,888,319
Corporate and other bonds	175,564	7,225,026	-	7,400,590
US government securities	4,301,000	3,180,492	-	7,481,492
Equity securities	68,468,272	-	109,313	68,577,585
Mutual funds	68,622,154	1,155,486	-	69,777,640
Index funds	2,992,109	-	-	2,992,109
Real estate investment trusts	545,025	-	383,108	928,133
Annuity contract	-	-	274,900	274,900
Real estate	-	-	17,500	17,500
Interest in limited liability company	-	-	441,926	441,926
Structured investments unsecured notes	-	965,911	-	965,911
Other investments	-	417,260	1,615,285	2,032,545
Total	<u>\$ 150,880,556</u>	<u>\$19,056,062</u>	<u>\$ 2,842,032</u>	172,778,650
		Investments held at NAV		766,451
		Time Deposits		<u>3,114,961</u>
		Total Investments		<u>\$ 176,660,062</u>

For additional information regarding the investments of the individual discretely presented component units refer to their separately issue financial statements.

NOTES TO FINANCIAL STATEMENTS
REGIONAL UNIVERSITY SYSTEM OF OKLAHOMA
June 30, 2018

NOTE C--ACCOUNTS RECEIVABLE

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

<u>Receivables</u>	
Student tuition and fees	\$ 51,402,320
Auxiliary enterprises and other operating activities	13,282,091
Federal, state, and private grants and contracts	10,371,135
Cancelled Perkins loans	<u>2,114,246</u>
	77,169,792
Less: allowance for doubtful accounts	<u>(34,986,147)</u>
Net accounts receivable	<u><u>\$ 42,183,645</u></u>

NOTES TO FINANCIAL STATEMENTS
REGIONAL UNIVERSITY SYSTEM OF OKLAHOMA
June 30, 2018

NOTE D--NOTES RECEIVABLE

Student loans made through the Federal Perkins Loan Program (the "Program") comprise substantially all of the loans receivable at June 30, 2018. Under this program, the federal government provides funds for approximately 75% to 90% of the total contribution for student loans with the System providing the balance. Under certain conditions such loans can be forgiven at annual rates of 10% to 30% of the original balance up to maximums of 50% to 100% of the original loan. The federal government reimburses the System for the amounts forgiven. Amounts refundable to the U.S. Government upon cessation of the Program of \$7,001,153 at June 30, 2018 are reflected in the accompanying statements of net position as noncurrent liabilities.

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

At June 30, 2018 loans receivable consisted of the following:

Loans receivable	\$ 5,146,562
Less: allowance for uncollectible loans	<u>(648,935)</u>
Net loans receivable	<u>\$ 4,497,627</u>

Other Receivable

During fiscal year 2013, the University entered into a seven year management agreement with the Texas Book Company. The Texas Book Company obtained the rights to operate the University book store and be compensated from the operations. The Texas Book Company is required to provide the University with an annual installment payment of \$90,000, or 8% of gross sales, plus 10% of gross sales of \$1,500,000, whichever is greater. As of June 30, 2018, the University has a receivable, related to the annual installment payments, in the amount of \$90,000 for the remaining year of the management agreement and an offsetting unearned revenue has been set up with the same remaining life.

NOTES TO FINANCIAL STATEMENTS
REGIONAL UNIVERSITY SYSTEM OF OKLAHOMA
June 30, 2018

NOTE E--CAPITAL ASSETS

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

	Balance June 30, 2017	Additions	Transfers	Retirements/ Adjustments	Balance June 30, 2018
Capital assets not being depreciated					
Land	\$ 23,642,149	\$ 615,096	\$ -	\$ (77,304)	\$ 24,179,941
Art collections	5,319,490	-	-	-	5,319,490
Construction in-progress	59,105,182	53,011,707	(30,630,946)	(268,070)	81,217,873
Total capital assets not being depreciated	<u>\$ 88,066,821</u>	<u>\$ 53,626,803</u>	<u>\$ (30,630,946)</u>	<u>\$ (345,374)</u>	<u>\$ 110,717,304</u>
Other capital assets					
Non-major infrastructure networks	\$ 29,675,935	\$ 515,012	\$ -	\$ -	\$ 30,190,947
Land improvements	26,730,775	2,212,436	1,829,112	-	30,772,323
Buildings	788,232,323	6,851,202	28,801,834	(366,071)	823,519,288
Art collections	383,333	-	-	-	383,333
Leasehold improvements	154,946	-	-	-	154,946
Furniture, fixtures, and equipment	107,443,202	4,900,038	-	(2,461,868)	109,881,372
Library materials	63,524,879	1,004,522	-	(4,460,970)	60,068,431
Total other capital assets	<u>1,016,145,393</u>	<u>15,483,210</u>	<u>30,630,946</u>	<u>(7,288,909)</u>	<u>1,054,970,640</u>
Less: accumulated depreciation for					
Non-major infrastructure networks	(16,981,458)	(2,403,888)	-	-	(19,385,346)
Land improvements	(16,940,205)	(2,154,369)	-	-	(19,094,574)
Buildings	(324,543,958)	(23,027,643)	-	188,071	(347,383,530)
Art collections	(25,000)	(12,500)	-	-	(37,500)
Leasehold Improvements	(63,048)	(8,225)	-	-	(71,273)
Furniture, fixtures, and equipment	(87,805,501)	(6,688,263)	-	2,393,204	(92,100,560)
Library materials	(57,302,867)	(1,490,642)	-	4,460,196	(54,333,313)
Total accumulated depreciation	<u>(503,662,037)</u>	<u>(35,785,530)</u>	<u>-</u>	<u>7,041,471</u>	<u>(532,406,096)</u>
Other capital assets, net	<u>\$ 512,483,356</u>	<u>\$ (20,302,320)</u>	<u>\$ 30,630,946</u>	<u>\$ (247,438)</u>	<u>\$ 522,564,544</u>
Capital asset summary:					
Capital assets not being depreciated	\$ 88,066,821	\$ 53,626,803	\$ (30,630,946)	\$ (345,374)	\$ 110,717,304
Other capital assets, at cost	1,016,145,393	15,483,210	30,630,946	(7,288,909)	1,054,970,640
Total cost of capital assets	<u>1,104,212,214</u>	<u>69,110,013</u>	<u>-</u>	<u>(7,634,283)</u>	<u>1,165,687,944</u>
Less: accumulated depreciation	<u>(503,662,037)</u>	<u>(35,785,530)</u>	<u>-</u>	<u>7,041,471</u>	<u>(532,406,096)</u>
Capital assets, net	<u>\$ 600,550,177</u>	<u>\$ 33,324,483</u>	<u>\$ -</u>	<u>\$ (592,812)</u>	<u>\$ 633,281,848</u>

NOTES TO FINANCIAL STATEMENTS
REGIONAL UNIVERSITY SYSTEM OF OKLAHOMA
June 30, 2018

NOTE F--LONG-TERM LIABILITIES

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

	Balance June 30, 2017	Additions	Reductions	Balance June 30, 2018	Amounts due within one year
<u>Bonds Payable:</u>					
Bonds payable	\$ 19,635,000	\$ -	\$ (1,820,000)	\$ 17,815,000	\$ 1,900,000
Plus: Premium on Bonds	296,632	-	(8,724)	287,908	8,724
Less: Issuance Discount	-	-	-	-	-
Total bonds payable	<u>\$ 19,931,632</u>	<u>\$ -</u>	<u>\$ (1,828,724)</u>	<u>\$ 18,102,908</u>	<u>\$ 1,908,724</u>
<u>Leases Payable:</u>					
Lease Obligations	\$ 260,017,333	\$ 33,153,397	\$ (23,968,307)	\$ 269,202,423	\$ 21,257,293
Plus: Premium on lease obligation	7,275,610	898,575	(694,225)	7,479,960	624,455
Total Lease Obligations	<u>\$ 267,292,943</u>	<u>\$ 34,051,972</u>	<u>\$ (24,662,532)</u>	<u>\$ 276,682,383</u>	<u>\$ 21,881,748</u>
<u>Other Liabilities:</u>					
Unearned capital assets	\$ 1,957,106	\$ 595,531	\$ (402,130)	\$ 2,150,507	\$ 402,129
Federal loan program contributions	7,279,418	395,735	(674,000)	7,001,153	-
Retirement incentive payment	745,426	-	(338,435)	406,991	349,072
Accrued compensated absences	11,147,035	4,658,578	(5,246,894)	10,558,719	5,197,671
Total Other Liabilities	<u>\$ 21,128,985</u>	<u>\$ 5,649,844</u>	<u>\$ (6,661,459)</u>	<u>\$ 20,117,370</u>	<u>\$ 5,948,872</u>
Total Long-term Liabilities	<u>\$ 308,353,560</u>	<u>\$ 39,701,816</u>	<u>\$ (33,152,715)</u>	<u>\$ 314,902,661</u>	<u>\$ 29,739,344</u>

Revenue Bonds Payable

Board of Regents of Oklahoma Colleges Student Housing Revenue Bonds (ECU)

During 2015, ECU refinanced the Board of Regents of Oklahoma Colleges Student Housing Revenue Bonds, Series 2003 with Oklahoma Development Finance Authority ("ODFA") 2014 Revenue bonds. The original bond purpose was for construction and renovating certain Student Housing Facilities. The new bonds are due in annual installments varying from \$160,000 to \$315,000 plus semiannual interest ranging from 2% to 4.55%, with the final installment being due in the year 2034. The Bonds are secured by the revenues to be derived from the Student Housing and Food Services Department and all monies in funds and accounts held by the trustee bank and available for debt service payments. The refinancing resulted in a deferred outflow of resources that will be amortized over a period of twenty years, beginning in fiscal year 2015. As of June 30, 2018, the unamortized cost totaled \$317,548.

University Center and Parking Revenue Refunding Bonds, Series 2003 (UCO)

The University Center and Parking Revenue Bonds, issued June 1, 2003, are secured by and payable both as to principal and interest from UCO's student facility fee, parking fee, gross

NOTES TO FINANCIAL STATEMENTS
REGIONAL UNIVERSITY SYSTEM OF OKLAHOMA
June 30, 2018

receipts from operations of auxiliary enterprises, and all monies in funds and accounts held by the trustee bank and are available for such payment.

<u>Original Amount</u>	<u>Bond Type</u>	<u>Installment Date</u>	<u>Installment Amount</u>	<u>Interest Rate</u>	<u>Interest Due</u>
\$ 9,690,000	Serial	Final 6/1/2016	\$ 710,000 to 875,000	2.00% to 3.60%	Semiannual
7,500,000	Term	6/1/2019	\$ 2,820,000	4.00%	Semiannual
		6/1/2022	3,195,000	5.00%	Semiannual
		6/1/2023	1,485,000	4.125%	Semiannual
<u>\$ 17,190,000</u>					

Library Revenue Refunding Bonds, Series 2003 (UCO)

The Library Revenue Bonds, issued June 1, 2003, are secured by and payable both as to principal and interest from gross receipts from a library fee and all monies in funds and accounts held by the trustee bank available for such payment.

<u>Original Amount</u>	<u>Bond Type</u>	<u>Installment Date</u>	<u>Installment Amount</u>	<u>Interest Rate</u>	<u>Interest Due</u>
\$ 4,150,000	Serial	Final 6/1/2016	\$ 280,000 to 375,000	2.00% to 3.60%	Semiannual
3,185,000	Term	6/1/2019	\$ 1,200,000	4.00%	Semiannual
		6/1/2022	\$ 1,355,000	5.00%	Semiannual
		6/1/2023	\$ 630,000	4.125%	Semiannual
<u>\$ 7,335,000</u>					

Student Housing Foundation Revenue Bonds Series 2001A (UCO)

The Student Housing Foundation Revenue Bonds, issued April 19, 2001, are secured by and payable both as to principal and interest from general revenues and the accounts, documents, chattel paper, instruments, and general intangibles arising in any manner from the UCO Student Housing Foundation's operation of the project.

<u>Original Amount</u>	<u>Bond Type</u>	<u>Installment Date</u>	<u>Installment Amount</u>	<u>Interest Rate</u>	<u>Interest Due</u>
\$ 8,305,000	Serial	7/1/2031	\$ 150,000 to 615,000	Variable	Semiannual

At June 30, 2018, future aggregate maturities of principal and interest requirements on the bonds payable are as follows:

NOTES TO FINANCIAL STATEMENTS
REGIONAL UNIVERSITY SYSTEM OF OKLAHOMA
June 30, 2018

Year Ending June 30:	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2019	\$ 1,900,000	\$ 759,725	\$ 2,659,725
2020	1,970,000	685,539	2,655,539
2021	2,070,000	592,846	2,662,846
2022	2,165,000	495,769	2,660,769
2023	2,720,000	392,594	3,112,594
2024-2028	3,520,000	1,117,443	4,637,443
2029-2033	3,155,000	354,746	3,509,746
2034-2038	315,000	6,300	321,300
	<u>\$ 17,815,000</u>	<u>\$ 4,404,962</u>	<u>\$ 22,219,962</u>

Capital Lease Obligations

Certain leases to finance the purchase of property are capitalized at the present value of future minimum lease payments. The original capitalized cost of all such property under capital lease as of June 30, 2018 is as follows:

<u>Assets Under Capital Lease</u>	
Buildings, Furniture, & Equipment	\$ 365,113,725
Less: Accumulated Depreciation	<u>98,776,957</u>
Total	<u>\$ 266,336,768</u>

Capital lease obligations are due primarily in monthly installments through 2047. The following is a schedule of the future minimum lease payments for leased property and the present value of the net minimum lease payments at June 30, 2018:

Year Ending June 30:	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2019	\$ 21,257,293	\$ 10,597,139	\$ 31,854,432
2020	15,793,017	9,630,531	25,423,548
2021	14,723,205	9,275,588	23,998,793
2022	14,430,753	8,735,146	23,165,899
2023	14,749,589	8,208,540	22,958,129
2024-2028	70,844,391	32,014,748	102,859,139
2029-2033	58,030,793	18,388,348	76,419,141
2034-2038	27,543,384	9,008,255	36,551,639
2038-2042	21,160,000	4,384,365	25,544,365
2043-2047	10,669,999	835,000	11,504,999
	<u>\$ 269,202,424</u>	<u>\$ 111,077,660</u>	<u>\$ 380,280,084</u>

NOTES TO FINANCIAL STATEMENTS
REGIONAL UNIVERSITY SYSTEM OF OKLAHOMA
June 30, 2018

During the year ended June 30, 2018, the State of Oklahoma made lease principal and interest payments to Oklahoma Capital Improvement Authority "OCIA" (capital lease obligations) totaling \$9,348,431 on behalf of the System. These on-behalf payments have been recorded as restricted state appropriations in the statements of revenues, expenses, and changes in net position.

Retirement Incentive Plan:

In 2017, the System instituted a Retirement Incentive 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 System was \$1,041,217, with monthly payments extending through October 2021.

NOTE G--RETIREMENT PLANS

The System's academic and nonacademic personnel are covered by various retirement plans. The plans available to System personnel include the Oklahoma Teachers' Retirement System, which is a State of Oklahoma public employees retirement system, and the Supplemental Retirement Annuity (SRA), a single employer defined benefit pension plan available to employees hired prior to July 1, 1995, and the retirement plan for the president of UCO, a single employer plan. A summary of all the amounts recorded in the System's financial statements for the plans is as follows:

NOTES TO FINANCIAL STATEMENTS
REGIONAL UNIVERSITY SYSTEM OF OKLAHOMA
June 30, 2018

Retirement Plan for the President of the University of Central Oklahoma	193,339
Total Net Pension Asset	<u>\$ 193,339</u>
	<u>System</u>
Net Pension Liability	
Oklahoma Teachers Retirement System	\$ 323,331,180
Supplemental Retirement Annuity Plan	29,364,131
Total Net Pension Liability	<u>\$ 352,695,311</u>
Deferred Outflows of Resources	
Oklahoma Teachers Retirement System	\$ 69,892,417
Supplemental Retirement Annuity Plan	4,627,975
Total Deferred Outflows of Resources	<u>\$ 74,520,392</u>
Deferred Inflows of Resources	
Oklahoma Teachers Retirement System	\$ 42,166,799
Retirement Plan for the President of the University of Central Oklahoma	199,659
Total Deferred Inflows of Resources	<u>\$ 42,366,458</u>
Pension Expense	
Oklahoma Teachers Retirement System	\$ 36,937,242
Supplemental Retirement Annuity Plan	2,100,252
Retirement Plan for the President of the University of Central Oklahoma	(290,352)
Total Pension Expense	<u>\$ 38,747,142</u>

Oklahoma Teachers' Retirement System (OTRS)

Plan description

The System as the employer, participates in the Oklahoma Teachers Retirement Plan—a cost-sharing multiple-employer defined benefit pension plan administered by the Oklahoma Teachers Retirement System (OTRS). Title 70 O. S. Sec. 17-105 defines all retirement benefits. The authority to establish and amend benefit provisions rests with the State Legislature. OTRS issues a publicly available financial report that can be obtained at www.ok.gov/TRS

Benefits provided

OTRS provides retirement, disability, and death benefits to members of the plan. Benefit provisions include:

- Members become 100% vested in retirement benefits earned to date after five years of credited Oklahoma service. Members who joined the System on June 30, 1992 or prior are

NOTES TO FINANCIAL STATEMENTS
REGIONAL UNIVERSITY SYSTEM OF OKLAHOMA
June 30, 2018

eligible to retire at maximum benefits when age and years of creditable service total 80. Members joining the System after June 30, 1992 are eligible for maximum benefits when their age and years of creditable service total 90. Members whose age and service do not equal the eligible limit may receive reduced benefits as early as age 55, and at age 62 receive unreduced benefits based on their years of service. The maximum retirement benefit is equal to 2% of final compensation for each year of credited service.

- Final compensation for members who joined the System prior to July 1, 1992 is defined as the average salary for the three highest years of compensation. Final compensation for members joining the System after June 30, 1992 is defined as the average of the highest five consecutive years of annual compensation in which contributions have been made. The final average compensation is limited for service credit accumulated prior to July 1, 1995 to \$40,000 or \$25,000, depending on the member's election. Monthly benefits are 1/12 of this amount. Service credits accumulated after June 30, 1995 are calculated based on each member's final average compensation, except for certain employees of the two comprehensive universities. Upon the death of a member who has not yet retired, the designated beneficiary shall receive the member's total contributions plus 100% of interest earned through the end of the fiscal year, with interest rates varying based on time of service. A surviving spouse of a qualified member may elect to receive, in lieu of the aforementioned benefits, the retirement benefit the member was entitled to at the time of death as provided under the Joint Survivor Benefit Option.
- Upon the death of a retired member, the System will pay \$5,000 to the designated beneficiary, in addition to the benefits provided for the retirement option selected by the member.
- A member is eligible for disability benefits after ten years of credited Oklahoma service. The disability benefit is equal to 2% of final average compensation for the applicable years of credited service.
- Upon separation from the System, members' contributions are refundable with interest based on certain restrictions provided in the plan, or by the IRC.
- Members may elect to make additional contributions to a tax-sheltered annuity program up to the exclusion allowance provided under the IRC under Code Section 403(b).

NOTES TO FINANCIAL STATEMENTS
REGIONAL UNIVERSITY SYSTEM OF OKLAHOMA
June 30, 2018

Contributions

The contributions requirements of the Plan are at an established rate determine by Oklahoma Statute, amended by the Oklahoma Legislature, and are not based on actuarial calculations. Employees are required to contribute 7% percent of their annual pay. Participating employers are required to contribute 9.5% of the employees' annual pay and an additional 7.70% for any employees' salaries covered by federal funds. A portion of the contributions received by OTRS are allocated to the Supplemental Health Insurance program; see Note H. Contributions to the pension plan from the System were \$19,786,088. The State of Oklahoma also made on-behalf contributions to OTRS, of which \$13,620,380 was recognized by the System; these on-behalf payments did not meet the criteria of a special funding situation.

Pension Liabilities, Pension Expense, and Deferred Outflows of Resources and Deferred Inflows of Resources Related to Pensions

At June 30, 2018, the System reported a liability of \$323,331,180 for its proportionate share of the net pension liability. The net pension liability was measured as of June 30, 2017, and the total pension liability used to calculate the net pension liability was determined by an actuarial valuation as of June 30, 2017. The System's proportion of the net pension liability was based on the System's contributions received by the pension plan relative to the total contributions received by pension plan for all participating employers as of June 30, 2017. Based upon this information, the System's proportion was 4.8832% percent.

For the year ended June 30, 2018, the System recognized pension expense of \$36,937,242. At June 30, 2018, the System reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

	Deferred Outflows of Resources	Deferred Inflows of Resources
Differences between expected and actual experience	\$ -	\$ 22,074,679
Changes of assumptions	38,370,521	19,328,132
Net difference between projected and actual earnings on pension plan investments	4,596,015	-
Changes in proportion	6,993,290	-
System contributions during measurement date	146,503	763,988
System contributions subsequent to the measurement date	19,786,088	-
Total	<u>\$ 69,892,417</u>	<u>\$ 42,166,799</u>

NOTES TO FINANCIAL STATEMENTS
REGIONAL UNIVERSITY SYSTEM OF OKLAHOMA
June 30, 2018

The \$19,786,088 reported as deferred outflows of resources related to pensions resulting from System contributions subsequent to the measurement date will be recognized as a reduction of the net pension liability in the year ended June 30, 2019. Other amounts reported as deferred outflows of resources and deferred inflows of resources related to pensions will be recognized in pension expense as follows:

Year ended June 30:		
2019	\$	(944,160)
2020		14,950,846
2021		8,612,372
2022		(10,247,588)
2023		(4,431,940)
Total	\$	<u>7,939,530</u>

Actuarial Assumptions

The total pension liability as of June 30, 2017, was determined based on an actuarial valuation prepared as if June 30, 2017 using the following actuarial assumptions:

- Actuarial Cost Method - Entry Age
- Amortization Method – Level Percentage of Payroll
- Inflation - 2.50%
- Future Ad Hoc Cost-of-living Increases - None
- Salary Increases - Composed of 3.25% inflation, including 2.50% price inflation, plus a service-related component ranging from 0.00% to 8% based on years of service.
- Investment Rate of Return – 7.50%
- Retirement Age - Experience-based table of rates based on age, service, and gender. Adopted by the Board in May 2015 in conjunction with the five year experience study for the period ending June 30, 2014.
- Mortality Rates after Retirement – Males: RP-2000 Combined Mortality Table for males with White Collar Adjustments. Generational mortality improvements in accordance with Scale BB from table's base year of 2000. Females: GRS Southwest Region Teacher Mortality Table, scaled at 105%. Generational mortality improvements in accordance with Scale BB from the table's base year of 2012.
- Mortality Rates for Active Members – RP – 2000 Employer Mortality tables, with male rates multiplied by 60% and female rates multiplied by 50%.

NOTES TO FINANCIAL STATEMENTS
REGIONAL UNIVERSITY SYSTEM OF OKLAHOMA
June 30, 2018

Asset Class	Target Asset Allocation	Long-Term Expected Real Rate of Return
Domestic Equity	38.5%	7.5%
International Equity	19.0%	8.5%
Fixed Income	23.5%	2.5%
Real Estate**	9.0%	4.5%
Alternative Assets	10.0%	6.1%
Total	100.0%	

** The Real Estate total expected return is a combination of US Direct Real Estate (unlevered) and US Value added Real Estate (unlevered)

Discount Rate

A single discount rate of 7.50% was used to measure the total pension liability as of June 30, 2018. This single discount rate was based solely on the expected rate of return on pension plan investments of 7.50%. Based on the stated assumptions and the projection of cash flows, the pension plan's fiduciary net position and future contributions were projected to be available to finance all projected future benefit payments of current plan members. Therefore, the long-term expected rate of return on pension plan investments was applied to all periods of projected benefit payments to determine the total pension liability. The projection of cash flows used to determine this single discount rate assumed that plan member and employer contributions will be made at the current statutory levels and remain a level percentage of payrolls. The projection of cash flows also assumed that the State's contribution plus the matching contributions will remain a constant percent of projected member payroll based on the past five years of actual contributions.

Sensitivity of the Net Pension Liability to Changes in the Discount Rate

The following presents the net pension liability of the employers calculated using the discount rate of 7.5%, as well as what the Plan's net pension liability would be if it were calculated using a discount rate that is 1-percentage point lower (6.5%) or 1-percentage-point higher (8.5%) than the current rate:

	1% Decrease (6.5%)	Current Discount Rate (7.5%)	1% Increase (8.5%)
Employers' net pension liability	\$ 461,614,048	\$ 323,331,180	\$ 222,364,396

NOTES TO FINANCIAL STATEMENTS
REGIONAL UNIVERSITY SYSTEM OF OKLAHOMA
June 30, 2018

Pension plan fiduciary net position

Detailed information about the pension plan's fiduciary net position is available in the separately issued financial report of the OTRS; which can be located at www.ok.gov/TRS.

Supplemental Retirement Annuity (SRA)

Plan Description

The System's Supplemental Retirement Annuity Plan is a single employer, defined benefit pension plan administered by the System. The plan was established by the System to provide supplemental retirement and death benefits to employees who were hired prior to July 1, 1995, or to those eligible employees' beneficiaries. The plan is closed to employees hired on or after July 1, 1995. The authority to amend the plan's benefit provisions rests with the System.

Administration

The SRA Trust Fund is administered by the System. Plan benefit provisions were established and may be amended under the authority of System. Contribution requirements were established and may be amended by the System.

Number of Members

As of June 30, 2018, the Plan members are as follows:

Active Participants	252
Vested Terminated Participants	25
Retired Participants	<u>869</u>
Total plan participants	<u><u>1,146</u></u>

Benefits Paid to Members

The plan provides retirement and death benefits to members of the plan as described:

Normal Retirement

The monthly retirement benefit payable on the normal retirement date is the greater of (a) and (b) below:

NOTES TO FINANCIAL STATEMENTS
REGIONAL UNIVERSITY SYSTEM OF OKLAHOMA
June 30, 2018

- a) Method One Calculation: (50% of average monthly salary less the maximum monthly OTRS retirement benefit) times the ratio of Oklahoma State System of Higher Education (OSSHE) service years (maximum 25) over 25. For employees hired on or after July 1, 1987, both references to "25" are replaced with "30".
- b) Method Two Calculation: 2.4% of the average annual base salary for each OSSHE service year (maximum 30), less the maximum annual OTRS retirement benefit, divided by 12.

The benefit payable at early retirement is calculated in the same manner as the benefit payable at normal retirement, except that actuarial reduction factors are used for early retirement.

The benefit will be vested for an employee upon the earliest of:

- a) completion of 10 service years in the System and attainment of age 52;
- b) completion of 25 service years in the System; or
- c) the attained age when the sum of the employee's age and the number of OTRS service years total 80, if the employee completed at least 10 service years in the System.

For employees hired on or after July 1, 1987, both references to "10 service years" are replaced with "15 service years," and the reference to "25 service years" is replaced with "30 service years".

Death Benefit

If a vested member dies prior to the commencement of benefits, a survivor benefit is payable for life to the surviving spouse of the participant. Benefits to the surviving spouse may not begin until the spouse has attained the age of 55.

Net Pension Liability of the System

The components of the net pension liability of the System at June 30, 2017 and 2018, were as follows:

NOTES TO FINANCIAL STATEMENTS
REGIONAL UNIVERSITY SYSTEM OF OKLAHOMA
June 30, 2018

	2017	2018
Total Pension Liability	\$ 58,868,686	\$ 57,268,268
Plan Fiduciary Net Position	(29,504,555)	(30,252,129)
Net Pension Liability	<u>\$ 29,364,131</u>	<u>\$ 27,016,139</u>
Plan Fiduciary Net Position as a percentage of the total pension liability	50.1%	52.8%

Actuarial Assumptions - The total pension liability was determined by an actuarial valuation as of June 30, 2017, using the following actuarial assumptions, applied to all periods included in the measurement. Also presented are assumptions for the fiscal year ended June 30, 2017:

Valuation Date	June 30, 2017
Actuarial Cost Method	Entry Age Normal Cost method as a level percentage of pay
Salary increases including inflation	2.50%
Mortality	<u>Pre-Retirement</u>
	RP-2000 for non-annuitants Projected to 2031 as of 6/30/17
	<u>Post-Retirement</u>
	RP-2000 for annuitants Projected to 2031 as of 6/30/17
Investment Rate of Return, compounded annually, includes inflation and net of expenses/investment	6.00%

The long-term expected rate of return on pension plan investments was determined using best-estimate ranges of expected future real rates of return developed for each major asset class. Actual long term historical results achieved by the Plan were also considered. Best estimates of the rates of return for each major asset class included in the pension plan's current asset allocation since the plan has not adopted a formal target asset allocation policy, as of June 30, 2017 are summarized in the following table:

<u>Asset Class</u>	<u>Long-Term Expected Nominal Rate of Return</u>
TIAA Traditional	6%
Equity Accounts	8%
Real Estate	7%
Money Market	0%

NOTES TO FINANCIAL STATEMENTS
REGIONAL UNIVERSITY SYSTEM OF OKLAHOMA
June 30, 2018

Discount rate

The discount rate used to measure the total pension liability was 6.00 percent. The projection of cash flows used to determine the discount rate assumed that plan member contributions will be made at the current contribution rate and that System contributions will be made at rates equal to the actuarially determined contribution rates. The plan currently has adopted a funding policy to achieve a 100 percent funding level by December 1, 2030.

Sensitivity of the net pension liability to changes in the discount rate

The following presents the net pension liability of the System, calculated using the discount rate of 6.00 percent, as well as what the System's net pension liability would be if it were calculated using a discount rate that is 1-percentage-point lower (5.00 percent) or 1-percentage-point higher (7.00 percent) than the current rate:

	1% Decrease 5.00%	Current Discount Rate 6.00%	1% Increase 7.00%
Employers' net pension liability - 2017	\$ 34,327,402	\$ 29,364,131	\$ 25,051,366
Employers' net pension liability - 2018	\$ 31,582,541	\$ 27,016,139	\$ 23,048,228

Contributions

The authority to establish and amend eligible employees' and employer contribution obligations to the Plan rests with the System's Board of Regents. Eligible employees are not required to make contributions to the Plan. The System is required to contribute to the SRA an actuarially determined amount on an annual basis. Actuarial determined employer contributions are developed using the projected credit unit method and an expected investment return of 6.0%, for funding purposes only. Contributions to the pension plan from the System were \$4,133,354.

NOTES TO FINANCIAL STATEMENTS
REGIONAL UNIVERSITY SYSTEM OF OKLAHOMA
June 30, 2018

Changes in Net Pension Liability

	Increase (Decrease)		
	Total Pension Liability (a)	Plan Fiduciary Net Position (b)	Net Pension Liability (a)-(b)
Balances at 06/30/2016	\$ 60,381,748	\$ 28,777,313	\$ 31,604,435
Changes for the year:			
Service cost	59,597	-	59,597
Interest	3,460,826	-	3,460,826
Differences between expected and actual experience	(82,603)	-	(82,603)
Assumption Changes	102,251	-	102,251
Contributions - employers	-	3,972,381	(3,972,381)
Net investment income	-	1,807,994	(1,807,994)
Benefit payments, including refunds	(5,053,133)	(5,053,133)	-
Net changes	(1,513,062)	727,242	(2,240,304)
Balances at 06/30/2017	\$ 58,868,686	\$ 29,504,555	\$ 29,364,131

	Increase (Decrease)		
	Total Pension Liability (a)	Plan Fiduciary Net Position (b)	Net Pension Liability (a)-(b)
Balances at 06/30/2017	\$ 58,868,686	\$ 29,504,555	\$ 29,364,131
Changes for the year:			
Service cost	59,597	-	59,597
Interest	3,532,121	-	3,532,121
Differences between expected and actual experience	(82,603)	-	(82,603)
Contributions - employers	-	4,133,354	(4,133,354)
Net investment income	-	1,723,753	(1,723,753)
Benefit payments, including refunds	(5,109,533)	(5,109,533)	-
Net changes	(1,600,418)	747,574	(2,347,992)
Balances at 06/30/2018	\$ 57,268,268	\$ 30,252,129	\$ 27,016,139

Pension Liabilities, Pension Expense, and Deferred Outflows of Resources and Deferred Inflows of Resources Related to Pensions

At June 30, 2018, the System reported a liability of \$29,364,131 of net pension liability. The net pension liability was measured as of June 30, 2017, and the total pension liability used to calculate the net pension liability was determined by an actuarial valuation as of July 1, 2017. At June 30, 2018, the System recognized pension expense of \$2,100,252. At June 30, 2018, the System reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

NOTES TO FINANCIAL STATEMENTS
REGIONAL UNIVERSITY SYSTEM OF OKLAHOMA
June 30, 2018

	Deferred Outflows of Resources	Deferred Inflows of Resources
Net difference between projected and actual earnings on pension plan investments	\$ 494,621	\$ -
System contributions subsequent to the measurement date	4,133,354	-
Total	<u>\$ 4,627,975</u>	<u>\$ -</u>

The \$4,133,354 reported as deferred outflows of resources related to pensions resulting from System contributions subsequent to the measurement date will be recognized as a reduction of the net pension liability in the year ended June 30, 2019. Other amounts reported as deferred outflows of resources and deferred inflows of resources related to pensions will be recognized in pension expense as follows:

Year ended June 30:

2019	\$ 200,827
2020	205,218
2021	122,045
2022	(33,469)
Total	<u>\$ 494,621</u>

Retirement Plan for the President of the University of Central Oklahoma

Plan Description

Administration

The Retirement Plan for the President of The University of Central Oklahoma (the Plan) is a single employer, defined benefit pension plan administered by the Regional University System of Oklahoma (The System). The Plan was established by the System to provide supplemental retirement and death benefits to the current and any successor of the current President of the University of Central Oklahoma that was hired prior to June 30, 1995. The authority to amend the Plan's benefit provisions rests with the System.

NOTES TO FINANCIAL STATEMENTS
REGIONAL UNIVERSITY SYSTEM OF OKLAHOMA
June 30, 2018

The trust fund is administered by the System. Plan benefit provisions were established and may be amended under the authority of System. Contribution requirements were established and may be amended by the System.

Number of Members

As of June 30, 2018, the Plan members are as follows:

Active Participants	<u>1</u>
Total plan participants	<u><u>1</u></u>

Benefits Paid to Members

The Plan provides retirement benefits to the eligible employee commencing as of the first day of the month coincident with the Date of Retirement payable beginning the first of the following month as calculated under the grater of (a) or (b) below, less any amounts payable to the employee under the Supplemental Retirement Plan:

- (a) Method One: For an Employee who meets the defined Normal Retirement or Early Retirement Plan definition or is vested at the defined Date of Retirement, the formula will be:
 One-half (1/2) of Average Monthly Salary (A.M.S.), less the monthly Teachers' Retirement Maximum Life Option Annuity (T.R.A.), times the Employee's number of Service Years divided by thirty (30).
- (b) Method Two: For an Employee who meets the defined Normal Retirement or Early Retirement Plan definition or is vested and has at least fifteen (15) defined Service Years in the Oklahoma Regional University System immediately preceding date of retirement, the written formula will be:
 Two and four-tenths percent (2.4%) times the Employee's Service Years times the Employee's Average Annual Base Salary less the annual Teachers' Retirement Maximum Life Option Annuity (LR.A.), divided by twelve (12). Notwithstanding any provisions of this Section 2.1 to the contrary, with respect to any currently active Participant, no deduction for TIAA will be used to reduce the benefit of any Participant.

Participant may elect three payment options:

NOTES TO FINANCIAL STATEMENTS
REGIONAL UNIVERSITY SYSTEM OF OKLAHOMA
June 30, 2018

1. Participant shall receive full benefit without option for joint or surviving spouse benefits.
2. Participant shall elect a 100% joint and survivor benefit the Participant shall receive monthly payments payable for life, and payments in the same amount shall, after the retired Participant's death, be continued to the Participant's Spouse during the Spouse's lifetime. In the event the Spouse predeceases the Participant, the amount of benefit payable under this Option shall be increased to the amount which would have been paid under Option 1 effective the first of the month following the month of such Spouse's death.
3. Participant shall elect to receive a 50% Joint and Survivor benefit which is the Option 3 Actuarial Equivalent of the Option 1 benefit under which the Participant shall receive monthly payments payable for life, and payments equal to 50% of the monthly payment to the Participant shall, after the retired Participant's death, be continued to the Participant's Spouse during the Spouse's lifetime. In the event the Spouse predeceases the Participant, the amount of benefit payable under this Option shall be increased to the amount which would have been paid under Option 1 effective the first of the month following the month of such Spouse's death.

Death Benefit

If a vested member dies prior to the commencement of benefits, a survivor benefit is payable for life to the surviving spouse of the participant. Benefits to the surviving spouse may not begin until the spouse has attained the age of 55.

Net Pension Liability of the System

The components of the net pension liability of the System at June 30, 2018, were as follows:

	2018
Total Pension Liability	\$ 801,842
Plan Fiduciary Net Position	(995,181)
Net Pension Asset	\$ (193,339)
Plan Fiduciary Net Position as a percentage of the total pension liability	124.1%

NOTES TO FINANCIAL STATEMENTS
REGIONAL UNIVERSITY SYSTEM OF OKLAHOMA
June 30, 2018

Actuarial Assumptions

The total pension liability was determined by an actuarial valuation as of June 30, 2018 with performance of certain roll forward procedures, using the following actuarial assumptions, applied to all periods included in the measurement. Also presented are assumptions for the fiscal year ended June 30, 2018:

Valuation Date	June 30, 2018
Actuarial Cost Method	Entry Age Normal Cost method as a level percentage of pay
Mortality	<u>IRS 2016 Combined</u> Static Mortality Table, for males
Investment Rate of Return, compounded annually, includes inflation and net of expenses/investment	4.50%

The long-term expected rate of return on pension plan investments was determined using best-estimate ranges of expected future real rates of return developed for each major asset class. Actual long term historical results achieved by the Plan were also considered. Best estimates of the rates of return for each major asset class included in the pension plan's current asset allocation since the plan has not adopted a formal target asset allocation policy, as of June 30, 2018 are summarized in the following table:

<u>Asset Class</u>	<u>Long-Term Expected Nominal Rate of Return</u>
Equities	4.5%

Discount rate

The discount rate used to measure the total pension liability was 4.50 percent. The projection of cash flows used to determine the discount rate assumed that plan member contributions will be made at the current contribution rate and that System contributions will be made at rates equal to the actuarially determined contribution rates. Based on those assumptions, the pension plan's fiduciary net position was projected to be available to make all projected future benefit payments of current plan members.

Sensitivity of the net pension liability to changes in the discount rate

The following presents the net pension liability of the System, calculated using the discount rate of 4.50 percent, as well as what the System's net pension liability would be if it were calculated using a discount rate that is 1-percentage-point lower (3.50 percent) or 1-percentage-point higher (5.50 percent) than the current rate:

NOTES TO FINANCIAL STATEMENTS
REGIONAL UNIVERSITY SYSTEM OF OKLAHOMA
June 30, 2018

	1% Decrease 3.50%	Current Discount Rate 4.50%	1% Increase 5.50%
Employers' net pension liability (asset)	\$ (131,295)	\$ (193,339)	\$ (248,574)

Contributions

The authority to establish and amend eligible employees' and employer contribution obligations to the Plan rests with the System's Board of Regents. Eligible employees are not required to make contributions to the Plan. The System is required to contribute to the SRA an actuarially determined amount on an annual basis. Contributions to the pension plan from the System were \$228,300.

Changes in Net Pension Liability

	Increase (Decrease)		
	Total Pension Liability (a)	Plan Fiduciary Net Position (b)	Net Pension Liability (a)-(b)
Balances at 06/30/2016	861,504	479,133	382,371
Changes for the year:			
Service cost	284,760	-	284,760
Interest	30,021	-	30,021
Differences between expected and actual experience	(208,320)	-	(208,320)
Contributions - employers	-	228,300	(228,300)
Net investment income	-	30,539	(30,539)
Administrative Expense	-	(1,500)	1,500
Net changes	106,461	257,339	(150,878)
Balances at 06/30/2017	967,965	736,472	231,493

NOTES TO FINANCIAL STATEMENTS
REGIONAL UNIVERSITY SYSTEM OF OKLAHOMA
June 30, 2018

	Increase (Decrease)		
	Total Pension	Plan Fiduciary Net	Net Pension
	Liability (a)	Position (b)	Liability (a)-(b)
Balances at 06/30/2017	\$ 967,965	\$ 736,472	\$ 231,493
Changes for the year:			
Service cost	(200,794)	-	(200,794)
Interest	34,670	-	34,670
Differences between expected and actual experience	-	-	-
Contributions - employers	-	228,300	(228,300)
Net investment income	-	31,908	(31,908)
Administrative Expense	-	(1,500)	1,500
Net changes	(166,124)	258,708	(424,832)
Balances at 06/30/2018	\$ 801,841	\$ 995,180	\$ (193,339)

Pension Liabilities, Pension Expense, and Deferred Outflows of Resources and Deferred Inflows of Resources Related to Pensions

At June 30, 2018, the System reported an asset of \$193,339 of net pension asset. The net pension asset was measured as of June 30, 2018, and the total pension liability used to calculate the net pension liability was determined by an actuarial valuation as of June 30, 2018. At June 30, 2018, the System recognized pension benefit expense of (\$290,352). At June 30, 2018, the System reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

	Deferred Outflows of Resources	Deferred Inflows of Resources
Differences between expected and actual experience	\$ -	\$ 199,659
Total	<u>\$ -</u>	<u>\$ 199,659</u>

The amounts reported as deferred outflows of resources and deferred inflows of resources related to pensions will be recognized in pension expense as follows:

NOTES TO FINANCIAL STATEMENTS
REGIONAL UNIVERSITY SYSTEM OF OKLAHOMA
June 30, 2018

Year ended June 30:

2019	\$	(76,527)
2020		(76,527)
2021		(35,277)
2022		(11,328)
Total	\$	<u>(199,659)</u>

NOTE H--OTHER POST-EMPLOYMENT INSURANCE BENEFITS

The System's academic and nonacademic personnel are covered by various OPEB plans. The plans available to System personnel include the Oklahoma Teachers' Retirement System, which is administered by the State of Oklahoma, and the Retiree Medical Trust for the Regional University System of Oklahoma (RUSO), a single employer defined benefit OPEB plan available to employees hired prior to June 30, 2009, and the RUSO Health Insurance Subsidy Plan, a single employer defined benefit OPEB plan available for employees hired after June 30, 2009. A summary of all the amounts recorded in the System's financial statements for the plans is as follows:

	System
Net OPEB Asset	
Oklahoma Teachers Retirement System	\$ 2,177,621
Total Net OPEB Asset	<u>\$ 2,177,621</u>
Net OPEB Liability	
Retiree Medical Trust	\$ 5,575,037
Total Net OPEB Liability	<u>\$ 5,575,037</u>
Total OPEB Liability	
RUSO Health Insurance Subsidy Plan	\$ 2,269,675
Total Total OPEB Liability	<u>\$ 2,269,675</u>
Deferred Outflows of Resources	
Oklahoma Teachers Retirement System	\$ 306,913
Total Deferred Outflows of Resources	<u>\$ 306,913</u>
Deferred Inflows of Resources	
Oklahoma Teachers Retirement System	\$ 1,788,095
Retiree Medical Trust	911,934
RUSO Health Insurance Subsidy Plan	15,096
Total Deferred Inflows of Resources	<u>\$ 2,715,125</u>
OPEB Expense	
Oklahoma Teachers Retirement System	\$ (82,337)
Retiree Medical Trust	992,191
RUSO Health Insurance Subsidy Plan	613,288
Total Pension Expense	<u>\$ 1,523,142</u>

NOTES TO FINANCIAL STATEMENTS
REGIONAL UNIVERSITY SYSTEM OF OKLAHOMA
June 30, 2018

Oklahoma Teachers Retirement System – OPEB Subsidy

Plan description

The System as the employer, participates in the Supplemental Health Insurance Program—a cost-sharing multiple-employer defined benefit OPEB plan administered by the Oklahoma Teachers Retirement System (OTRS). Title 74 O. S. Sec. 1316.3 defines the health insurance benefits. The authority to establish and amend benefit provisions rests with the State Legislature. OTRS issues a publicly available financial report that can be obtained at www.ok.gov/TRS

Benefits provided

OTRS pays a medical insurance supplement to eligible members who elect to continue their employer provided health insurance. The supplement payment is between \$100 and \$105 per month, remitted to the Oklahoma Higher Education Employee Interlocal Group (“OKHEEI”), provided the member has ten (10) years of Oklahoma service prior to retirement.

Contributions

Employer and employee contributions are made based upon the TRS Plan provisions contained in Title 70, as amended. However, the statutes do not specify or identify any particular contribution source to pay the health insurance subsidy. Based on the contribution requirements of Title 70 employers and employees contribute a single amount based on a single contribution rate as described in Note G; from this amount OTRS allocates a portion of the contributions to the supplemental health insurance program. The cost of the supplemental health insurance program averages 0.15% of normal cost, as determined by an actuarial valuation. Contributions allocated to the OPEB plan from the System were \$306,913.

OPEB Liabilities(Assets), OPEB Expense, and Deferred Outflows of Resources and Deferred Inflows of Resources Related to OPEB

At June 30, 2018, the System reported an asset of \$2,177,621 for its proportionate share of the net OPEB asset. The net OPEB asset was measured as of June 30, 2017, and the total OPEB asset used to calculate the net OPEB asset was determined by an actuarial valuation as of June 30, 2017. The System’s proportion of the net OPEB asset was based on the System’s contributions received by the OPEB plan relative to the total contributions received by the OPEB plan for all participating employers as of June 30, 2017. Based upon this information, the System’s proportion was .1586% percent.

NOTES TO FINANCIAL STATEMENTS
REGIONAL UNIVERSITY SYSTEM OF OKLAHOMA
June 30, 2018

For the year ended June 30, 2018, the System recognized OPEB benefit expense of (\$82,337). At June 30, 2018, the System reported deferred outflows of resources and deferred inflows of resources related to OPEB from the following sources:

	Deferred Outflows of Resources	Deferred Inflows of Resources
Differences between expected and actual experience	\$ -	\$ 584,496
Net difference between projected and actual earnings on OPEB plan investments	-	1,194,435
Differences between System contributions and proportionate share of contributions	-	9,164
System contributions subsequent to the measurement date	306,913	-
Total	<u>\$ 306,913</u>	<u>\$ 1,788,095</u>

The \$306,913 reported as deferred outflows of resources related to OPEB resulting from System contributions subsequent to the measurement date will be recognized as a reduction of the net OPEB liability (asset) in the year ended June 30, 2019. Other amounts reported as deferred outflows of resources and deferred inflows of resources related to OPEB will be recognized in OPEB expense as follows:

Year ended June 30:

2019	\$ (408,546)
2020	(408,546)
2021	(408,546)
2022	(408,546)
2023	(109,937)
Thereafter	(43,974)
Total	<u>\$ (1,788,095)</u>

Actuarial Assumptions

The total OPEB liability (asset) as of June 30, 2017, was determined based on an actuarial valuation prepared as if June 30, 2017 using the following actuarial assumptions:

- Actuarial Cost Method - Entry Age
- Inflation - 2.50%
- Future Ad Hoc Cost-of-living Increases - None

NOTES TO FINANCIAL STATEMENTS
REGIONAL UNIVERSITY SYSTEM OF OKLAHOMA
June 30, 2018

- Salary Increases - Composed of 3.25% inflation, including 2.50% price inflation, plus a service-related component ranging from 0.00% to 8% based on years of service.
- Investment Rate of Return – 7.50%
- Retirement Age - Experience-based table of rates based on age, service, and gender. Adopted by the Board in May 2015 in conjunction with the five-year experience study for the period ending June 30, 2014.
- Mortality Rates after Retirement – Males: RP-2000 Combined Mortality Table for males with White Collar Adjustments. Generational mortality improvements in accordance with Scale BB from table's base year of 2000. Females: GRS Southwest Region Teacher Mortality Table, scaled at 105%. Generational mortality improvements in accordance with Scale BB from the table's base year of 2012.
- Mortality Rates for Active Members – RP – 2000 Employer Mortality tables, with male rates multiplied by 60% and female rates multiplied by 50%.

Asset Class	Target Asset Allocation	Long-Term Expected Real Rate of Return
Domestic Equity	38.5%	7.5%
International Equity	19.0%	8.5%
Fixed Income	23.5%	2.5%
Real Estate**	9.0%	4.5%
Alternative Assets	10.0%	6.1%
Total	100.0%	

** The Real Estate total expected return is a combination of US Direct Real Estate (unlevered) and US Value added Real Estate (unlevered)

Discount Rate

A single discount rate of 7.50% was used to measure the total OPEB liability (asset) as of June 30, 2017. This single discount rate was based solely on the expected rate of return on OPEB plan investments of 7.50%. Based on the stated assumptions and the projection of cash flows, the OPEB plan's fiduciary net position and future contributions were projected to be available to finance all projected future benefit payments of current plan members. Therefore, the long-term expected rate of return on OPEB plan investments was applied to all periods of projected benefit payments to determine the total OPEB liability (asset). The projection of cash flows used to determine this single discount rate assumed that plan member and employer contributions will be made at the current statutory levels and remain a level percentage of payrolls. The projection of cash flows also assumed that the State's contribution plus the matching contributions will remain a constant percent of projected member payroll based on the past five years of actual contributions.

NOTES TO FINANCIAL STATEMENTS
REGIONAL UNIVERSITY SYSTEM OF OKLAHOMA
June 30, 2018

Sensitivity of the Net OPEB Liability (Asset) to Changes in the Discount Rate

The following presents the net OPEB liability (asset) of the employer calculated using the discount rate of 7.5%, as well as what the Plan's net OPEB liability (asset) would be if it were calculated using a discount rate that is 1-percentage point lower (6.5%) or 1-percentage-point higher (8.5%) than the current rate:

	1% Decrease (6.5%)	Current Discount Rate (7.5%)	1% Increase (8.5%)
Employers' net opeb liability (asset)	\$ (91,151)	\$ (2,177,621)	\$ (3,961,520)

OPEB plan fiduciary net position

Detailed information about the OPEB plan's fiduciary net position is available in the separately issued financial report of the OTRS; which can be located at www.ok.gov/TRS.

Retiree Medical Trust for the Regional University System of Oklahoma

Plan Description

The Retiree Medical Trust for the Regional University System of Oklahoma OPEB Trust Fund is a single-employer other post-employment defined benefits plan (herein after referred to as the "Plan" or "OPEB Trust Fund") administered by the Regional University System of Oklahoma (the System). The plan provides medical and life insurance benefits to eligible retired employees until age 65 and those employees and dependents premium rates are the same as active employees and those premiums are paid by the trust fund. This benefit is for employees hired before June 30, 2009.

Membership in the Plan at June 30, 2018, (latest actuarial report) is as follows:

Number of Active plan participants	1,391
Number of retired plan participants	<u>281</u>
Total plan participants	<u><u>1,672</u></u>

The OPEB Trust Fund is administered by the System. Plan benefit provisions were established and may be amended under the authority of the System.

NOTES TO FINANCIAL STATEMENTS
REGIONAL UNIVERSITY SYSTEM OF OKLAHOMA
June 30, 2018

Funding Policy

The contribution requirements of the System are established and may be amended by the Regional University System of Oklahoma Board of Regents. Each university is required to contribute the *actuarially determined employer contribution*, in an amount actuarially determined by an actuary. The ADEC represents a level of funding that, if paid on an ongoing basis, is projected to cover normal cost each year and amortize any unfunded actuarial liabilities (or funding excess) over a period not to exceed thirty years. In 2018, an updated valuation was not performed for 2018 for funding purposes. The system utilized the 2017 actuarially determined employer contribution amount of \$640,822 as a basis for contributions.

Net OPEB Liability of the System

The components of the net OPEB liability of the System at June 30, 2018 were as follows:

<u>Net OPEB Liability</u>	<u>NOL at June 30, 2018</u>
Total OPEB Liability (TOL)	\$ 24,156,853
Plans Fiduciary Net Position	(18,581,816)
Employers Net OPEB Liability	<u>\$ 5,575,037</u>
Plans fiduciary net position as a % of TPL	76.92%

Change in the Net OPEB Liability of the System

	<u>Increase (Decrease)</u>		
	<u>Total OPEB</u>	<u>Plan Fiduciary Net</u>	<u>Net OPEB</u>
	<u>Liability (a)</u>	<u>Position (b)</u>	<u>Liability (a)-(b)</u>
Balances at 06/30/2017	\$ 24,538,821	\$ 16,945,712	\$ 7,593,109
Changes for the year:			
Service cost	637,547	-	637,547
Interest	1,625,101	-	1,625,101
Differences between expected and actual experience	(909,919)	-	(909,919)
Assumption changes	-	-	-
Contributions - employers	-	2,098,328	(2,098,328)
Net investment income	-	1,272,473	(1,272,473)
Benefit payments, including refunds	(1,734,697)	(1,734,697)	-
Net changes	(381,968)	1,636,104	(2,018,072)
Balances at 06/30/2018	\$ 24,156,853	\$ 18,581,816	\$ 5,575,037

NOTES TO FINANCIAL STATEMENTS
REGIONAL UNIVERSITY SYSTEM OF OKLAHOMA
June 30, 2018

Changes in assumptions include an update in the mortality table improvement scale has been changed from MP-2016 to MP-2017. Also, we have included an implicit subsidy to retiree medical plan benefits.

Actuarial Assumptions

Actuarial Valuation Date: June 30, 2018

Actuarial Method: Entry age normal actuarial cost method

Discount Rate: 7.0% per annum. The plan is funded in an irrevocable trust maintained by the plan sponsor. Using the current market value and assuming that future contributions to the trust will equal the average contributions paid into the trust the last 5 years, it is estimated that the trust will fund plan benefits for the foreseeable future.

Inflation: 2.50% per annum.

Mortality: RP-2014 Mortality Table with Improvement Scale MP-2017.

Marriage Assumptions: Females are assumed to be three years younger than their male spouses. Spousal age is assumed where active employee spousal coverage is elected. For retired members, the spouse's date of birth has been provided.

Inflation (Trend Rates) for Medical and Insurance:

<i>Year</i>	<i>Medical Trend Rate</i>	<i>Insurance Trend Rate</i>
2018	7.0%	0.0%
2019	6.5%	5.0%
2020	6.0%	5.0%
2021	5.5%	5.0%
2022 and Later	5.0%	5.0%

Retirement Rate: Rates used are those applied the Oklahoma Teachers Retirement System actuarial valuation for pension.

Participation Rate: 100% of eligible future retirees are assumed to elect plan benefits. Active employees who have waived medical coverage are not included in plan costs.

NOTES TO FINANCIAL STATEMENTS
REGIONAL UNIVERSITY SYSTEM OF OKLAHOMA
June 30, 2018

The long-term expected rate of return on OPEB plan investments was determined using a building-block method in which best-estimate ranges of expected future real rates of return (expected returns, net of investment expense and inflation) are developed for each major asset class. These ranges are combined to produce the long-term expected rate of return by weighting the expected future real rates of return by the target asset allocation percentage and by adding expected inflation. Best estimates of arithmetic real rates of return for each major asset class included in the asset allocation as of June 30, 2018 are summarized in the following table:

<u>Asset Class</u>	<u>Long-Term Expected Nominal Rate of Return</u>
Equities	6.135%
Fixed Income	0.740%
Alternative	0.095%
Total	6.970%

Discount rate: The discount rate used to measure the total OPEB liability was 7.0 percent. The projection of cash flows used to determine the discount rate assumed that System contributions will be made at rates equal to the actuarially determined contribution rates. Based on those assumptions, the OPEB plan's fiduciary net position was projected to be available to make all projected future benefit payments of current plan members. Therefore, the long-term expected rate of return on OPEB plan investments was applied to all periods of projected benefit payments to determine the total OPEB liability.

Sensitivity of the net OPEB liability to changes in the discount rate

The following presents the net OPEB liability of the System, as well as what the System's net OPEB liability would be if it were calculated using a discount rate that is 1-percentage-point lower (6.00 percent) or 1-percentage-point higher (8.00 percent) than the current discount rate:

	<u>1% Decrease 6.00%</u>	<u>Current Discount Rate 7.00%</u>	<u>1% Increase 8.00%</u>
Employers' net OPEB liability - 2018	\$ 6,899,160	\$ 5,575,037	\$ 4,325,756

Sensitivity of the net OPEB liability to changes in the healthcare cost trend rates.

The following presents the net OPEB liability of the System, as well as what the System's net OPEB liability would be if it were calculated using healthcare cost trend rates that are 1-

NOTES TO FINANCIAL STATEMENTS
REGIONAL UNIVERSITY SYSTEM OF OKLAHOMA
June 30, 2018

percentage-point lower (6.0 percent decreasing to 4.0 percent) or 1-percentage-point higher (8.0 percent decreasing to 6.0 percent) than the current healthcare cost trend rates:

	1% Decrease (6.0% decreasing to 4.0%)	Healthcare Cost Trend Rate (7.0% decreasing to 5.0%)	1% Increase (8.0% decreasing to 6.0%)
Employers' net opeb liability - 2018	\$ 3,908,489	\$ 5,575,037	\$ 7,465,817

OPEB Expense and Deferred Outflows of Resources and Deferred Inflows of Resources Related to OPEB

For the year ended June 30, 2018, the System recognized OPEB expense of \$992,191. At June 30, 2018, the System reported deferred outflows of resources and deferred inflows of resources related to OPEB from the following sources:

	Deferred Outflows of Resources	Deferred Inflows of Resources
Differences between expected and actual experience	\$ -	\$ 794,739
Net difference between projected and actual earnings on OPEB plan investments	-	117,195
Total	<u>\$ -</u>	<u>\$ 911,934</u>

Amounts reported as deferred outflows of resources and deferred inflows of resources related to OPEB will be recognized in OPEB expense as follows:

Year ended June 30:

2019	\$ (144,479)
2020	(144,479)
2021	(144,479)
2022	(144,479)
2023	(115,180)
Thereafter	(218,838)
Total	<u>\$ (911,934)</u>

NOTES TO FINANCIAL STATEMENTS
REGIONAL UNIVERSITY SYSTEM OF OKLAHOMA
June 30, 2018

Regional University System of Oklahoma – Health Insurance Subsidy Plan

Plan description

The System's defined benefit OPEB plan provides OPEB to eligible retirees and their dependents if hired after June 30, 2009. The System's 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 Plan covers all current retirees of the System and provides for employee and dependent healthcare coverage from the date of retirement to age 65, provided the participant was covered by the Plan before retiring. The System provides postretirement medical benefits through the Plan until age 65 if the retiree and spouse pay the full active premium. Participants can elect to enroll in special coverage, and surviving spouses may continue in the Plan until age 65.

Employees covered by benefit terms

At June 30, 2018 the following employees were covered by the benefit terms:

Active Employees	2,324
Inactives or beneficiaries currently receiving benefit payments	<u>7</u>
Total	2,331

Total OPEB Liability

The System's total OPEB liability of \$2,269,675 was measured as of June 30, 2018, and was determined by an actuarial valuation as of that date.

Actuarial Assumptions- The total OPEB liability was determined based on an actuarial valuation prepared as of June 30, 2018 using the following actuarial assumptions:

- Actuarial Cost Method - Entry Age Normal
- Inflation - 2.5%
- Discount Rate – 3.88%, based on June 30, 2018 published Bond Pay Go-20 bond index
- Retirement Age - Retirement rates are as shown below and they are based on the OTRS rates.

NOTES TO FINANCIAL STATEMENTS
REGIONAL UNIVERSITY SYSTEM OF OKLAHOMA
June 30, 2018

Attained Age	Male Retirement Rates		Female Retirement Rates	
	Unreduced Retirement	Reduced Retirement	Unreduced Retirement	Reduced Retirement
50 to 53	20%	0%	20%	0%
54	15	0	20	0
55 to 56	15	1	20	2
57 to 58	15	2	20	2
59	15	3	20	2
60 to 61	15	4	20	5
62	25		30	
63	20		25	
64	20		20	

- Turnover Rates – Developed from assumptions used in the actuarial valuation of the Oklahoma Teachers Retirement System for less than 10 years:

•

Years	Males	Females
0	.3400	.2400
1	.1900	.1600
2	.1400	.1225
3	.1150	.1050
4	.0950	.0900
5	.0775	.0775
6	.0675	.0675
7	.0600	.0600
8	.0550	.0500
9	.0500	.0400

Turnover for more than 10 years:

Age	Males	Females
25	.0474	.0701
30	.0410	.0509
35	.0351	.0366
40	.0297	.0274
45	.0251	.0234
50	.0209	.0208
55	.0166	.0163
60	.0132	.0114

NOTES TO FINANCIAL STATEMENTS
REGIONAL UNIVERSITY SYSTEM OF OKLAHOMA
June 30, 2018

- Healthcare cost trend rates -

Year	Medical Trend Rate
2018	7.0%
2019	6.5%
2020	6.0%
2021	5.5%
2022 & Later	5.0%

- Average per capita claim cost – Range from age 50 of \$7,057 to age 64 of \$11,059
- Mortality Rates - RPH-2014 Total Table with Projection MP-2017
- Coverage – 100% of all retirees who currently have healthcare coverage will continue with the same coverage. 10% of all actives who currently have individual coverage will continue with individual coverage upon retirement.

Changes in Total OPEB Liability

The following table reports the components of changes in total OPEB liability:

	Total OPEB Liability
Balances Beginning of Year	<u>\$ 1,671,483</u>
Changes for the Year:	
Service cost	549,493
Interest expense	64,546
Difference between expected and actual experience	(15,847)
Net Changes	<u>598,192</u>
Balances End of Year	<u><u>\$ 2,269,675</u></u>

Sensitivity of the Total OPEB Liability (Asset) to Changes in the Discount Rate

The following presents the total OPEB liability (asset) of the employer calculated using the discount rate of 3.88%, as well as what the Plan's total OPEB liability (asset) would be if it were calculated using a discount rate that is 1-percentage point lower (2.88%) or 1-percentage-point higher (4.88) than the current rate:

NOTES TO FINANCIAL STATEMENTS
REGIONAL UNIVERSITY SYSTEM OF OKLAHOMA
June 30, 2018

	1% Decrease (2.88%)	Current Discount Rate (3.88%)	1% Increase (4.88%)
Employers' net OPEB liability (asset)	\$ 2,543,721	\$ 2,269,675	\$ 2,021,800

Sensitivity of the Total OPEB Liability (Asset) to Changes in the Healthcare Cost Trend Rate

The following presents the total OPEB liability (asset) of the employer calculated using the healthcare cost trend rate of 7% to 5%, as well as what the Plan's total OPEB liability (asset) would be if it were calculated using a healthcare cost trend rate that is 1-percentage point lower (6% to 4%) or 1-percentage-point higher (8% to 6%) than the current rate:

	1% Decrease (6% to 4%)	Healthcare Cost Trend Rates (7% to 5%)	1% Increase (8% to 6%)
Employers' net OPEB liability (asset)	\$ 1,878,388	\$ 2,269,675	\$ 2,762,863

OPEB Expense and Deferred Outflows of Resources and Deferred Inflows of Resources Related to OPEB

For the year ended June 30, 2018, the System recognized OPEB expense of \$613,288. At June 30, 2018, the System reported deferred outflows of resources and deferred inflows of resources related to OPEB from the following sources:

	Deferred Outflows of Resources	Deferred Inflows of Resources
Differences between expected and actual experience	\$ -	\$ 15,096
Total	\$ -	\$ 15,096

Amounts reported as deferred outflows of resources and deferred inflows of resources related to OPEB will be recognized in OPEB expense as follows:

NOTES TO FINANCIAL STATEMENTS
REGIONAL UNIVERSITY SYSTEM OF OKLAHOMA
June 30, 2018

Year ended June 30:

2019	\$	(751)
2020		(751)
2021		(751)
2022		(751)
2023		(751)
Thereafter		(11,341)
Total	\$	<u>(15,096)</u>

NOTE I--FUNDS HELD IN TRUST BY OTHERS

Beneficial Interest in State School Land Funds: The System's Universities have 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 individual Universities have the right to receive annually 3.7% of the distributions of income produced by "Section Thirteen Fund State Educational Institutions" assets and 100% of the distributions of income produced by the University's "New College Fund". The System received approximately \$6,702,000 during the year ended June 30, 2018, which is restricted to the construction or acquisition of buildings, equipment, or other capital items. These amounts are recorded as state appropriations for capital purposes in the statement of revenues, expenses and changes in net position. State law prohibits the distribution of any corpus of these funds to the beneficiaries. The total trust reserve for the System, held in trust by the commissioners of Land Office, was approximately \$118,896,000 at June 30, 2018.

Oklahoma State Regents Endowment Trust Fund: In connection with the Oklahoma State Regents' Endowment Program (the Endowment Program), the State of Oklahoma has matched contributions received under the program. The state match amount, plus any retained accumulated earnings, totaled approximately \$24,110,000 at June 30, 2018, and is invested by the Oklahoma State Regents on behalf of the Universities. The Universities are entitled to receive an annual distribution of 5% of the market value at year end on these funds. As legal title of the State Regents matching endowment funds is retained by the Oklahoma State Regents, only the funds available for distribution, approximately \$2,086,000 at June 30, 2018, have been reflected as assets in the statements of net position.

NOTES TO FINANCIAL STATEMENTS
REGIONAL UNIVERSITY SYSTEM OF OKLAHOMA
June 30, 2018

NOTE J--RELATED PARTY TRANSACTIONS

NSU is beneficiary of the Northeastern Oklahoma Public Facilities Authority (the "Authority"), a public trust created under Title 60, Section 176, of the Oklahoma statutes. The NSU received \$130,000 for the year ended June 30, 2018.

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

The Foundations are not-for-profit corporations organized for the purpose of receiving and administering gifts for the benefit of the universities. Distributions of amounts held by the Foundations are subject to the approval of the Foundations Board of Trustees. The Foundations primary function is to provide assistance to students of the universities in the form of scholarships and awards, and during 2018, the Foundations provided approximately \$5,994,000 in scholarships to students. Additionally, the Foundations provide financial assistance to the faculty and staff of the Universities, as well as the Universities programs and projects, and during 2018, the Foundations provided approximately \$3,360,000 in aid to programs, faculty, and staff. Many of the contributions received by the Foundations are designated by the donors to be used for specific purposes or by specific departments. In these instances, the Foundations serve essentially as a conduit. Contributions that are not designated are used where the need is considered the greatest, as determined by the Foundations.

NOTE K--COMMITMENTS AND CONTINGENCIES

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

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 material adverse impact to the System.

NOTES TO FINANCIAL STATEMENTS
REGIONAL UNIVERSITY SYSTEM OF OKLAHOMA
June 30, 2018

NOTE L--RISK MANAGEMENT

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

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

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

The System also began participating, during fiscal year 2018, in the Oklahoma Higher Education Employee Interlocal Group Health Insurance Pool "OKHEEI". The System's 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 System 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 System 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
REGIONAL UNIVERSITY SYSTEM OF OKLAHOMA
June 30, 2018

NOTE M--CONDENSED COMBINING FINANCIAL INFORMATION

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

CONDENSED STATEMENT OF NET POSITION
(In thousands)

	<u>System</u>	<u>UCO Housing Foundation</u>	<u>Total</u>
ASSETS			
Current assets	\$ 283,373	\$ 3,372	\$ 286,745
Capital assets, net	629,118	4,164	633,282
Other assets	<u>27,472</u>	<u>351</u>	<u>27,823</u>
TOTAL ASSETS	939,963	7,887	947,850
DEFERRED OUTFLOWS OF RESOURCES	75,627	-	75,627
LIABILITIES			
Current liabilities	70,437	415	70,852
Noncurrent liabilities	<u>646,771</u>	<u>5,600</u>	<u>652,371</u>
TOTAL LIABILITIES	717,208	6,015	723,223
DEFERRED INFLOWS OF RESOURCES	47,708	-	47,708
NET POSITION			
Net investment in capital assets	293,027	(1,723)	291,304
Restricted-Nonexpendable	713	-	713
Restricted-expendable	155,314	2,717	158,031
Unrestricted (deficit)	<u>(198,380)</u>	<u>878</u>	<u>(197,502)</u>
TOTAL NET POSITION	\$ 250,674	\$ 1,872	\$ 252,546

NOTES TO FINANCIAL STATEMENTS
REGIONAL UNIVERSITY SYSTEM OF OKLAHOMA
June 30, 2018

Condensed Statements of Revenues, Expenses and Changes in Net Position

	System	UCO Housing Foundation	Total
Operating Revenues			
Student tuition and fees, net	\$ 209,980	\$ -	\$ 209,980
Grants and contracts	29,801	-	29,801
Other	64,291	1,660	65,951
	<u>304,072</u>	<u>1,660</u>	<u>305,732</u>
Total Operating Revenues	304,072	1,660	305,732
Operating Expenses			
Compensation and benefits	325,493	-	325,493
Depreciation	35,584	202	35,786
Other	171,222	525	171,747
	<u>532,299</u>	<u>727</u>	<u>533,026</u>
Total Operating Expenses	532,299	727	533,026
Operating Income (Loss)	(228,227)	933	(227,294)
Nonoperating Revenues (Expenses)			
State appropriations	128,070	-	128,070
Grants and contributions	89,758	-	89,758
Interest expense	(10,838)	(185)	(11,023)
Other	25,277	42	25,319
	<u>232,267</u>	<u>(143)</u>	<u>232,124</u>
Net Nonoperating Revenues(Expenses)	232,267	(143)	232,124
Contributed Capital			
Appropriations for capital	7,942	-	7,942
Other	11,234	-	11,234
	<u>23,216</u>	<u>790</u>	<u>24,006</u>
Change in Net Position	23,216	790	24,006
Net Position at Beginning of Year - Restated	<u>227,458</u>	<u>1,082</u>	<u>228,540</u>
Net Position at End of Year	<u>\$ 250,674</u>	<u>\$ 1,872</u>	<u>\$ 252,546</u>

NOTES TO FINANCIAL STATEMENTS
REGIONAL UNIVERSITY SYSTEM OF OKLAHOMA
June 30, 2018

Condensed Statements of Cash Flows

	<u>System</u>	<u>UCO Housing Foundation</u>	<u>Total</u>
Net Cash Provided By (Used In)			
Operating activities	\$ (175,340)	\$ 350	\$ (174,990)
Noncapital financing activities	221,894	-	221,894
Capital and related financing activities	(36,845)	(490)	(37,335)
Investing activities	<u>1,882</u>	<u>384</u>	<u>2,266</u>
Net Increase (Decrease)	11,591	244	11,835
Beginning cash and cash equivalents	<u>247,269</u>	<u>606</u>	<u>247,875</u>
Ending cash and cash equivalents	<u>\$ 258,860</u>	<u>\$ 850</u>	<u>\$ 259,710</u>

NOTE N--DISCRETELY PRESENTED COMPONENT UNIT INFORMATION

Each of the Universities governed by the System has a separate foundation or other entities to provide valuable assistance in fundraising, public outreach and other support for the missions of the campuses and the Universities. Although independent boards govern these foundations, their assets are dedicated for the benefit of the Universities that comprise the System.

Condensed financial statement information related to the discretely presented component units, for the year ended June 30, 2018 is as follow:

NOTES TO FINANCIAL STATEMENTS
REGIONAL UNIVERSITY SYSTEM OF OKLAHOMA
June 30, 2018

Condensed Statement of Net Position

	ECU Foundation	NSU Foundation	NWOSU Foundation & Alumni	SE Foundation	SWOSU Foundation	SWOSU Pharmacy	UCO University Foundation	Alumni Association	KCSC-FM Foundation	TOTAL
ASSETS										
Current assets	\$ 3,242,628	\$ 1,722,145	\$ 230,794	\$ 3,652,442	\$ 594,533	\$ 234,241	\$ 1,713,717	\$ 649,381	\$ 558,896	\$ 12,598,777
Capital assets, net	330,599	46,000	3,104,471	6,047,934	600,784	-	599,264	-	-	10,729,052
Other assets	29,503,197	31,276,453	27,166,292	23,583,221	23,390,731	6,558,679	35,694,385	-	154,265	177,327,223
TOTAL ASSETS	33,076,424	33,044,598	30,501,557	33,283,597	24,586,048	6,792,920	38,007,366	649,381	713,161	200,655,052
LIABILITIES										
Current liabilities	-	15,853	64,153	1,360,338	137,345	-	499,721	-	-	2,077,410
Non-current liabilities	-	2,576	-	7,355,790	-	-	431,482	-	-	7,789,848
TOTAL LIABILITIES	-	18,429	64,153	8,716,128	137,345	-	931,203	-	-	9,867,258
NET POSITION										
Restricted-nonexpendable	20,170,960	17,542,698	27,231,032	13,457,169	17,604,136	1,485,837	23,252,609	-	-	120,744,441
Restricted- expendable	11,867,348	12,319,243	2,832,146	10,973,408	5,722,561	950,880	10,129,483	-	154,265	54,949,334
Unrestricted	1,038,116	3,164,228	374,226	136,892	1,122,006	4,356,203	3,694,071	649,381	558,896	15,094,019
TOTAL NET POSITION	\$ 33,076,424	\$ 33,026,169	\$ 30,437,404	\$ 24,567,469	\$ 24,448,703	\$ 6,792,920	\$ 37,076,163	\$ 649,381	\$ 713,161	\$ 190,787,794

Condensed Statements of Revenues, Expenses and Changes in Net Position

	ECU Foundation	NSU Foundation	NWOSU Foundation & Alumni	SE Foundation	SWOSU Foundation	SWOSU Pharmacy	University Foundation	UCO Alumni Association	KCSC-FM Foundation	TOTAL
Operating Revenues										
Investment Income	\$ 1,826,488	\$ 3,478,153	\$ 1,606,631	1,191,207	\$ 3,249,063	\$ 589,517	\$ 1,525,509	\$ 19,483	\$ 12,131	\$ 13,498,182
Gifts & Contributions	1,443,984	4,049,128	1,650,459	1,980,796	2,047,142	195,665	12,270,961	-	79,596	23,717,731
Other	4,860	47,948	976,826	1,618,383	82,134	142,138	76,541	435,619	-	3,384,449
Total Operating Revenues	3,275,332	7,575,229	4,233,916	4,790,386	5,378,339	927,320	13,873,011	455,102	91,727	40,600,362
Operating Expenses										
Compensation and benefits	-	-	-	-	-	-	893,819	-	-	893,819
Scholarships and fellowships	561,880	1,541,648	926,327	1,739,399	1,477,419	149,700	1,076,424	-	-	7,472,797
Other	2,087,816	745,030	1,991,525	1,895,553	781,932	283,759	8,329,555	368,836	68,187	16,552,193
Total Operating Expenses	2,649,696	2,286,678	2,917,852	3,634,952	2,259,351	433,459	10,299,798	368,836	68,187	24,918,809
Operating Income (Loss)	625,636	5,288,551	1,316,064	1,155,434	3,118,988	493,861	3,573,213	86,266	23,540	15,681,553
Nonoperating Revenues (Expenses)										
Grants and contributions	-	-	-	-	-	-	-	-	-	-
Investment Income	-	-	-	-	-	-	-	-	-	-
Other	-	-	-	-	-	-	-	-	-	-
Net Nonoperating Revenues	-	-	-	-	-	-	-	-	-	-
Change in Net Position	625,636	5,288,551	1,316,064	1,155,434	3,118,988	493,861	3,573,213	86,266	23,540	15,681,553
Net Position at Beginning of Year	32,450,788	27,737,618	29,121,340	23,412,035	21,329,715	6,299,059	33,502,950	563,115	689,621	175,106,241
Net Position at End of Year	\$ 33,076,424	\$ 33,026,169	\$ 30,437,404	\$ 24,567,469	\$ 24,448,703	\$ 6,792,920	\$ 37,076,163	\$ 649,381	\$ 713,161	\$ 190,787,794

NOTE O—RESERVED FOR FUTURE USE

NOTES TO FINANCIAL STATEMENTS
REGIONAL UNIVERSITY SYSTEM OF OKLAHOMA
June 30, 2018

NOTE P-- DISCRETELY PRESENTED COMPONENT UNIT ENDOWMENT

The following contains the significant disclosures related to endowments at the System's University foundations:

EAST CENTRAL UNIVERSITY FOUNDATION, INC.:

Endowments

The ECU Foundation's endowments consist of 307 individual donor-restricted funds established for a variety of scholarships and activities. As required by accounting principles generally accepted in the United States, net position associated with endowment funds are classified and reported based on donor-imposed restrictions. The endowments represent only those net position that are under the control of the ECU Foundation.

Interpretation of Relevant Law: The ECU Foundation has interpreted the Uniform Prudent Management of Institutional Funds Act of 2006 ("UPMIFA") as requiring the preservation of the purchasing power of the donor-restricted endowment funds absent explicit donor stipulations to the contrary. Therefore, the ECU Foundation classifies as permanently restricted net position 1) the original value of endowed gifts, 2) any subsequent gifts, and 3) any accumulations to the permanent endowment made in accordance with the direction of the donor gift instrument.

Spending Policy: The ECU Foundation has established a spending policy whereby the total amount available to be disbursed (i.e., the "Distributable Cash Income") from the ECU Foundation's endowment fund and operating fund is determined annually.

The Distributable Cash Income is determined using the most recent 5-year average return on investments (ROI). The purpose of the spending policy is to establish an overall spending limit for the amount of money that can be disbursed from the ECU Foundation's endowment fund and operating fund each fiscal year. The spending policy limit is determined by March 31 of each year and is used for budgeting purposes for the following fiscal year that starts on July 1.

The primary goal of the spending policy is to position the endowment fund and the unrestricted fund so that there is a balance between long-term growth and accumulation versus annual distributions.

The spending policy utilizes the most recent 5-year average ROI percentage, which allows for long-term ROI trends to be built into the spending policy. The spending policy calculation will

NOTES TO FINANCIAL STATEMENTS
REGIONAL UNIVERSITY SYSTEM OF OKLAHOMA
June 30, 2018

have an annual floor and ceiling which will enable the ECU Foundation to spend a base amount from the endowment fund in low ROI periods and have extra savings in high ROI periods.

Net Position Composition of Endowments: The net position composition of endowments by type of fund as of June 30, 2018, was as follows:

	<u>Unrestricted</u>	<u>Expendable</u>	<u>Nonexpendable</u>	<u>Total</u>
Donor-restricted endowment funds	\$ -	\$ -	\$ 20,170,960	\$ 20,170,960

As can be seen, all of the Foundation's endowments are classified as permanently restricted.

Changes in Net Position of Endowments:

Changes in the net position of endowments for the year ended June 30, 2018, were as follows:

	<u>Permanently Restricted</u>
Net position, beginning of year	\$ 20,145,672
Contributions and revenues	203,582
Transfer from other net assets	(178,294)
Net position, end of year	<u>\$ 20,170,960</u>

NORTHEASTERN STATE UNIVERSITY, FOUNDATION, INC:

Endowment Disclosures

The NSU Foundation's endowment consists of 260 individual donor-restricted funds which are managed and controlled by the NSU Foundation and are primarily established for scholarships, programs, or capital projects. As required by GAAP, net position associated with endowment funds are classified and reported based on the existence or absence of donor-imposed restrictions.

Interpretation of Relevant Law

The Board of Trustees of the NSU Foundation has interpreted the State Prudent Management of Institutional Funds Act ("SPMIFA") as requiring the preservation of the fair value of the original gift as of the gift date of the donor-restricted endowment funds absent explicit donor stipulations to the contrary. As a result of this interpretation, the NSU Foundation classifies as permanently restricted net position (a) the original value of gifts donated to the permanent endowment, (b) the original value of subsequent gifts to the permanent endowment, and (c) accumulations to the permanent endowment made in accordance with the direction of the applicable donor gift instrument at the time the accumulation is added to the fund. In accordance with SPMIFA, the

NOTES TO FINANCIAL STATEMENTS
REGIONAL UNIVERSITY SYSTEM OF OKLAHOMA
June 30, 2018

NSU Foundation considers the following factors in making a determination to appropriate or accumulate donor-restricted endowment funds.

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

Spending Policy and How the Investment Objectives Relate to Spending Policy

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

**NORTHWESTERN OKLAHOMA STATE UNIVERSITY FOUNDATION, INC. AND
ALUMNI ASSOCIATION:**

Endowment Disclosures

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

Interpretation of Relevant Law

The Trustees of the NWOSU Foundation have chosen to preserve the fair value of the original gift as of the gift date of the donor-restricted endowment funds absent explicit donor stipulations to the contrary. As a result of this interpretation, the NWOSU Foundation classifies as permanently restricted net assets (a) the original value of gifts donated to the permanent endowment, (b) the

NOTES TO FINANCIAL STATEMENTS
REGIONAL UNIVERSITY SYSTEM OF OKLAHOMA
June 30, 2018

original value of subsequent gifts to the permanent endowment, and (c) accumulations to the permanent endowment made in accordance with the direction of the applicable donor gift instrument at the time the accumulation is added to the fund.

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

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

Return Objectives and Risk Parameters

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

Strategies for Achieving Objectives

To satisfy its long-term rate of return objectives, the NWOSU Foundation relies on a total return strategy in which investment returns are achieved through both capital appreciation (realized and unrealized) and current yield (interest and dividends). The NWOSU Foundation targets a diversified asset allocation that places a greater emphasis on equity-based investments to achieve its long-term return objectives while reducing risk to acceptable levels.

NOTES TO FINANCIAL STATEMENTS
REGIONAL UNIVERSITY SYSTEM OF OKLAHOMA
June 30, 2018

Spending Policy

The NWOSU Foundation has a policy of appropriating for distribution each year the equivalent of up to 5% of its endowment fund's fair value as of the immediately preceding July 1. In establishing this policy, the NWOSU Foundation considered the long-term expected return on its endowment. Accordingly, over the long term, the NWOSU Foundation expects the current spending policy to allow its endowment to grow at an average of 1.16% annually. This is consistent with the NWOSU Foundation's objective to maintain the purchasing power of the endowment assets held in perpetuity or for a specified term as well as to provide additional real growth through new gifts and investment return

Endowment net position composition as of June 30, 2018:

	<u>Unrestricted</u>	<u>Expendable</u>	<u>Non-Expendable</u>	<u>Total</u>
Donor-restricted endowment funds	\$ -	\$ 2,832,146	\$ 27,231,032	\$ 30,063,178
Board-designated endowment funds	-	-	-	-
Total endowment funds	<u>\$ -</u>	<u>\$ 2,832,146</u>	<u>\$ 27,231,032</u>	<u>\$ 30,063,178</u>

Changes in endowment net assets for the year ended June 30, 2018 are as follows:

	<u>Unrestricted</u>	<u>Expendable</u>	<u>Non-Expendable</u>	<u>Total</u>
Endowment net assets, beginning of year	\$ -	\$ 2,448,321	\$ 26,147,300	\$ 28,595,621
Transfers	-	(40,000)	40,000	-
Investment Return	-	1,208,502	-	1,208,502
Contributions	-	1,437,259	1,043,732	2,480,991
Appropriation of endowment assets for expenditure	<u>-</u>	<u>(2,221,936)</u>	<u>-</u>	<u>(2,221,936)</u>
Endowment net assets, end of year	<u>\$ -</u>	<u>\$ 2,832,146</u>	<u>\$ 27,231,032</u>	<u>\$ 30,063,178</u>

NOTES TO FINANCIAL STATEMENTS
REGIONAL UNIVERSITY SYSTEM OF OKLAHOMA
June 30, 2018

SOUTHEASTERN FOUNDATION, INC:

Endowment Disclosures

Board Designated Endowments

At its February 2013, meeting the Board approved transferring \$275,000 from the SE Foundation's General Fund account along with \$235,967 of existing board-controlled endowment funds to a board designated fund. At June 30, 2018, these funds total \$574,690. The Board voted that only current year earnings from these funds could be used for SE 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 SE Foundation financial statements.

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

Board designated endowment net position beginning of year	\$ 584,282
Investment income	25,524
Net appreciation (depreciation)	450
Amounts appropriated for expenditure	(35,566)
Board designated endowment net position 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.

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

NOTES TO FINANCIAL STATEMENTS
REGIONAL UNIVERSITY SYSTEM OF OKLAHOMA
June 30, 2018

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 Organization 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.

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 Organization 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

NOTES TO FINANCIAL STATEMENTS
REGIONAL UNIVERSITY SYSTEM OF OKLAHOMA
June 30, 2018

because of donor-restrictions, and the possible effects of inflation. The Organization expects the current spending policy to allow its endowment funds to grow at a small nominal rate. This is consistent with the Organization'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 SE Foundation to retain as a fund of perpetual duration. At June 30, 2018, there were no funds with deficiencies.

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

	<u>Unrestricted</u>	<u>Expendable</u>	<u>Nonexpendable</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>Expendable</u>	<u>Nonexpendable</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>

SOUTHWESTERN OKLAHOMA STATE UNIVERSITY FOUNDATION, INC.:

Endowment Disclosures

The SWOSU Foundation's endowment consists of approximately 180+ endowment funds established for a variety of purposes. Its endowment includes both donor-restricted endowment funds and funds designated by the Trustees to function as endowments. As required by U.S.

NOTES TO FINANCIAL STATEMENTS
REGIONAL UNIVERSITY SYSTEM OF OKLAHOMA
June 30, 2018

GAAP, net assets associated with endowment funds including funds designated by the Trustee to function as endowments are classified and reported on the existence or absence of donor imposed restrictions.

Interpretation of Relevant Law

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

The remaining portion of the donor-restricted endowment fund that is not classified in permanently restricted net assets is classified as temporarily restricted net assets until those amounts are appropriated for expenditure by the SWOSU Foundation in a manner consistent with the standard of prudence prescribed by OK UPMIFA.

In accordance with OK UPMIFA, the SWOSU Foundation considers the following factors in making a determination to appropriate or accumulate donor-restricted endowment funds:

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

Return Objectives and Risk Parameters

The SWOSU Foundation has adopted investment policies for endowment funds that facilitate the Foundation's ability to provide funding for programs and provide adequate returns for invested funds. Endowment assets include those assets of donor-restricted funds that the SWOSU Foundation must hold in perpetuity or for a donor-specified period as well as board-designated funds. Under this policy, the endowment assets are invested in a manner that is intended to attain a minimum return of seven percent compounded annually after deducting all expenses and advisory fees over the period of a full market cycle in order to achieve a relative rate of return of three percent over the inflation rate and to earn a real rate of return defined by the endowment

NOTES TO FINANCIAL STATEMENTS
REGIONAL UNIVERSITY SYSTEM OF OKLAHOMA
June 30, 2018

spending of the fund plus the inflation rate. The SWOSU Foundation has established an investment committee to monitor the rates of returns of endowment funds in order to maximize earnings. Actual returns in any given year are dependent on market conditions and other factors, and may vary from time to time.

Strategies for Achieving Objectives

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

Spending Policy

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

NOTES TO FINANCIAL STATEMENTS
REGIONAL UNIVERSITY SYSTEM OF OKLAHOMA
June 30, 2018

Endowment net position composition as of December 31, 2017 is as follows:

	Unrestricted	Expendable	Nonexpendable	Total
Donor-restricted endowment funds	\$ 37,455	\$ 4,408,842	\$ 16,294,604	\$ 20,740,901
Board-designated endowment funds	776,734	-	-	776,734
Total endowment funds	<u>\$ 814,189</u>	<u>\$ 4,408,842</u>	<u>\$ 16,294,604</u>	<u>\$ 21,517,635</u>

Changes in endowment net position during 2017 are as follows:

	Unrestricted	Expendable	Nonexpendable	Total
Endowment net position, beginning of year	\$ 459,427	\$ 2,568,676	\$ 15,604,401	\$ 18,632,504
Investment return:				
Interest and dividends	11,668	265,918	33,973	311,559
Net realized and unrealized gains (losses)	91,791	2,136,956	266,498	2,495,245
Total investment returns	103,459	2,402,874	300,471	2,806,804
Contributions	16,739	54,647	347,054	418,440
Program Service Revenue	49,685	-	-	49,685
Other income	8,605	2,033	190	10,828
Reclassification - donor directed	713	4,329	50,967	56,009
Appropriation of endowment assets for expenditure	175,561	(623,717)	(8,479)	(456,635)
Endowment net position, end of year	<u>\$ 814,189</u>	<u>\$ 4,408,842</u>	<u>\$ 16,294,604</u>	<u>\$ 21,517,635</u>

Southwestern Pharmacy Alumni Foundation, Inc.

Fair Market Value Measurement

Southwestern Pharmacy Alumni Foundation, Inc. (Pharmacy Foundation) has determined the fair value of certain assets and liabilities through application FASB ASC 820, Fair Value Measurements.

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

Financial assets and liabilities carried at fair value on a recurring basis include common stocks (equities), mutual funds with equity related investment, mutual funds with fixed income related investments, unit trust with fixed income related investments, and certificates of deposit held as

NOTES TO FINANCIAL STATEMENTS
REGIONAL UNIVERSITY SYSTEM OF OKLAHOMA
June 30, 2018

investment. The Pharmacy Foundation has no financial assets or liabilities carried at fair value on a non-recurring basis.

Fair Value Measurements at Reporting Date Using:

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

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

Endowment

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

The Pharmacy Foundations' governing body has interpreted the State of Oklahoma Prudent Management of Institutions Funds Act (SPMIFA) as requiring preservation of the fair value of the original gift as of the gift date of the donor-restricted endowment funds absent explicit donor stipulations to the contrary. As a result of this interpretation, the Pharmacy Foundation classifies as permanently restricted net assets the original value of the gift, the subsequent gifts and accumulations of all investment return to the permanent endowment made in accordance with the direction of the applicable donor gift instrument at the time the accumulation is added. The remaining portion of the endowment fund is classified as temporarily restricted until they are

NOTES TO FINANCIAL STATEMENTS
REGIONAL UNIVERSITY SYSTEM OF OKLAHOMA
June 30, 2018

appropriated for expenditure by the Pharmacy Foundation in a manner consistent with the standard of prudence prescribed by SPMIFA. In accordance with SPMIFA, the Pharmacy Foundation considers the following factors in making a determination to appropriate or accumulate donor-restricted endowment funds:

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

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

UNIVERSITY OF CENTRAL OKLAHOMA FOUNDATION:

Endowment Disclosures

The UCO Foundation's endowment consists of approximately 400 individual donor-restricted endowment funds and 13 other donor-restricted funds. Net position associated with endowment funds are classified and reported based on the existence or absence of donor-imposed restrictions. Other endowment funds consist of contributions which were restricted by the donor for scholarships but have been endowed by the Foundation's Board of Trustees to provide scholarships for future periods rather than fully expending such amounts in the current year. All of the endowment funds held by the UCO Foundation are managed and controlled by the UCO Foundation in accordance with the following policies.

Interpretation of Relevant Law

The Board of Trustees (the "Trustees") of the UCO Foundation has interpreted OK UPMIFA as requiring the preservation of the original gift amount 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 UCO Foundation classifies as permanently restricted net position (a) the original value of gifts donated to the permanent endowment, (b) the original value of subsequent gifts to the permanent endowment, and (c) accumulations to the permanent

NOTES TO FINANCIAL STATEMENTS
REGIONAL UNIVERSITY SYSTEM OF OKLAHOMA
June 30, 2018

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 position is classified as temporarily restricted net position until those amounts are appropriated for expenditure by the Foundation in a manner consistent with the standard of prudence prescribed by OK UPMIFA. In accordance with OK UPMIFA, the UCO Foundation considers the following factors in making a determination to appropriate or accumulate donor-restricted endowment funds.

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

Endowment net position composition by type of fund at June 30, 2018:

	<u>Unrestricted</u>	<u>Expendable</u>	<u>Nonexpendable</u>	<u>Total</u>
Doner-Restricted endowment funds	\$ (1,680)	\$ 3,334,675	\$ 23,252,609	\$ 26,585,604
Other endowment funds	-	791,877	-	791,877
Total endowment funds	<u>\$ (1,680)</u>	<u>\$ 4,126,552</u>	<u>\$ 23,252,609</u>	<u>\$ 27,377,481</u>

Change in endowment net position for the years ended June 30, 2018:

	<u>Unrestricted</u>	<u>Expendable</u>	<u>Nonexpendable</u>	<u>Total</u>
Endowment net assets at June 30, 2017	(331)	3,543,165	22,200,707	25,743,541
Investment return:				
Investment income	713	695,411	3,001	699,125
Investment fees	-	(123,397)	(535)	(123,932)
Net realized and unrealized investment losses	(1,807)	1,188,026	5,306	1,191,525
Total Investment Return	(1,094)	1,760,040	7,772	1,766,718
Contributions	-	33,285	1,044,130	1,077,415
Appropriations	(255)	(1,209,938)	-	(1,210,193)
Endowment net assets at June 30, 2018	<u>\$ (1,680)</u>	<u>\$ 4,126,552</u>	<u>\$ 23,252,609</u>	<u>\$ 27,377,481</u>

Funds with Deficiencies

From time to time, the fair value of assets associated with individual donor-restricted endowment

NOTES TO FINANCIAL STATEMENTS
REGIONAL UNIVERSITY SYSTEM OF OKLAHOMA
June 30, 2018

funds may fall below the level that the donor requires the UCO Foundation to retain as a fund of perpetual duration. In accordance with accounting principles generally accepted in the United States of America, deficiencies of this nature are reported in unrestricted net position and totaled approximately \$1,680 at June 30, 2018. These deficiencies resulted from unfavorable market fluctuations. As a result, appropriations were limited to appropriations that were deemed prudent and necessary for the programs of the Foundation.

Return Objectives and Risk Parameters

The UCO Foundation has adopted investment and spending policies for endowment assets that attempt to provide a predictable stream of funding to programs supported by its endowment while seeking to maintain the purchasing power of the endowment assets. Endowment assets include those assets of donor-restricted funds that the UCO Foundation must hold in perpetuity as well as other endowment funds with a donor restricted purpose (i.e., scholarships) that are board-designated for endowment. Under this policy, as approved by the Trustees, the endowment assets are invested with the primary objective of realizing appreciation on investment values and the secondary goal of providing current income to support University programs. The asset allocation policies (see below) reflect and are consistent with the investment objectives and risk tolerances expressed through the investment policy. These policies, developed after examining the historical relationships of risk and return among asset classes, are designed to provide the highest probability of meeting or exceeding the return objectives at the lowest level of risk. Actual returns in any given year may vary from this amount.

Strategies Employed for Achieving Objectives

To satisfy its long-term rate-of-return objectives, the UCO Foundation relies on a total return strategy in which investment returns are achieved through both capital appreciation (realized and unrealized) and current yield (interest and dividends). The UCO Foundation targets a diversified asset allocation that places a greater emphasis on equity-based investments (target ranges between 40%-70%) than fixed income investments (target ranges between 25%-45%) to achieve its long-term return objectives within prudent risk constraints.

Spending Policy and How the Investment Objectives Relate to Spending Policy

Generally, the UCO Foundation has a policy of appropriating for distribution semi-annually based on a 4.25% annualized rate (2.125% each semi-annual period). The distribution rate is applied to the value of the endowment fund assets, including certain income producing real estate holdings, over an average of three years (i.e., using the average of the last six semi-annual values of endowment assets). In the event that any endowment account has a fair value which is less than the historic gift value, the Trustees meet and specifically evaluate and approve the spending policy amount prior to distribution. The spending policy is evaluated annually (and/or semi-annually), based on market fluctuations and historical trends to ensure that it remains in

NOTES TO FINANCIAL STATEMENTS
REGIONAL UNIVERSITY SYSTEM OF OKLAHOMA
June 30, 2018

accordance with the long-term objectives of the UCO Foundation. For the year ended June 30, 2017, the Trustees approved a spending policy distribution of 2.75% for the second semi-annual distribution period.

REQUIRED SUPPLEMENTARY INFORMATION

REQUIRED SUPPLEMENTARY INFORMATION
REGIONAL UNIVERSITY SYSTEM OF OKLAHOMA

June 30, 2018

SCHEDULE OF THE SYSTEM'S PROPORTIONATE SHARE OF THE NET PENSION LIABILITY
OKLAHOMA TEACHERS RETIREMENT SYSTEM
Last 10 Fiscal Years*

	2015	2016	2017	2018
System's proportion of the net pension liability	4.7023%	4.7973%	4.8757%	4.8832%
System's proportionate share of the net pension liability	\$ 252,975,336	\$ 291,331,900	\$ 406,910,896	\$ 323,331,180
System's covered-employee payroll	\$ 212,233,542	\$ 222,182,820	\$ 231,942,190	\$ 221,365,632
System's proportionate share of the net pension liability as a percentage of its covered-employee payroll	119.20%	131.12%	175.44%	225%
Plan fiduciary net position as a percentage of the total pension liability	72.43%	70.31%	6.24%	69.32%

*The amounts present for each fiscal year were determined as of 6/30

Notes to Schedule:

Information to present a 10 year history is not readily available.

The Plan's net pension liability increased between 2015 and 2016 due to changes in assumptions adopted by the System's Board .
The most notable change was the lowering of the System's discount rate from 8.0% to 7.5%.

REQUIRED SUPPLEMENTARY INFORMATION
REGIONAL UNIVERSITY SYSTEM OF OKLAHOMA

June 30, 2018

SCHEDULE OF THE SYSTEM'S CONTRIBUTIONS
OKLAHOMA TEACHERS RETIREMENT SYSTEM
Last 10 Fiscal Years

	<u>2015</u>	<u>2016</u>	<u>2017</u>	<u>2018</u>
Contractually required contribution	\$ 20,296,707	\$ 20,541,047	\$ 19,346,600	\$ 19,786,088
Contributions in relation to the contractually required contribution	<u>20,296,707</u>	<u>20,541,047</u>	<u>19,346,600</u>	<u>19,786,088</u>
Contribution deficiency (excess)	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>
System's covered-employee payroll	\$ 222,182,820	\$ 231,942,190	\$ 221,365,632	\$228,600,488
Contributions as a percentage of covered-employee payroll	9.14%	8.86%	8.74%	8.66%

Notes to Schedule:

Information to present a 10 year history is not readily available.

*Contribution amount restated due to implementation of GASB Statement No. 75.

REQUIRED SUPPLEMENTARY INFORMATION
REGIONAL UNIVERSITY SYSTEM OF OKLAHOMA

June 30, 2018

SCHEDULE OF CHANGES IN NET PENSION LIABILITY AND RELATED RATIOS
SRA PLAN

	2014	2015	2016	2017	2018
Total pension liability					
Service cost	\$ 150,122	\$ 138,893	\$ 112,290	\$ 59,597	\$ 59,597
Interest	3,656,771	3,416,026	3,369,602	3,460,826	3,532,121
Experience gain/(loss)	408,491	644,168	(262,164)	(82,603)	(82,603)
Changes of assumptions	4,037,483	441,404	(2,516,804)	102,251	-
Benefit payments, including refunds of member contributions	(4,592,272)	(4,728,981)	(4,875,460)	(5,053,133)	(5,109,533)
Net change in total pension liability	3,660,595	(88,490)	(4,172,536)	(1,513,062)	(1,600,418)
Total pension liability - beginning	60,982,179	64,642,774	64,554,284	60,381,748	58,868,686
Total pension liability - ending (a)	<u>\$ 64,642,774</u>	<u>\$ 64,554,284</u>	<u>\$ 60,381,748</u>	<u>\$ 58,868,686</u>	<u>\$ 57,268,268</u>
Plan fiduciary net position					
Contributions - employer	\$ 4,862,045	\$ 5,534,534	\$ 4,857,720	\$ 3,972,381	\$ 4,133,354
Net investment income	1,547,284	1,183,575	888,792	1,807,995	1,723,753
Benefit payments	(4,592,272)	(4,728,981)	(4,875,460)	(5,053,133)	(5,109,533)
Net change in plan fiduciary net position	1,817,057	1,989,128	871,052	727,243	747,574
Plan fiduciary net position - beginning	24,100,076	25,917,133	27,906,261	28,777,312	29,504,555
Plan fiduciary net position - ending (b)	<u>\$ 25,917,133</u>	<u>\$ 27,906,261</u>	<u>\$ 28,777,312</u>	<u>\$ 29,504,555</u>	<u>\$ 30,252,129</u>
Net pension liability - ending (a) - (b)	<u>\$ 38,725,641</u>	<u>\$ 36,648,023</u>	<u>\$ 31,604,436</u>	<u>\$ 29,364,131</u>	<u>\$ 27,016,139</u>
Plan fiduciary net position as a percentage of the total pension liability	40.1%	43.2%	47.7%	50.1%	52.8%
Covered employee payroll	\$ 27,522,016	\$ 25,912,610	\$ 21,619,898	\$ 20,480,109	\$ 17,565,712
Net pension liability as a percentage of covered-employee payroll	140.7%	141.4%	146.2%	143.4%	153.8%

Notes to Schedule:

Only five fiscal years are presented because 10-year data is not yet available.

*An updated actuarial study was performed for June 30, 2017; rollforward procedures were used for the development of June 30, 2018 information.

REQUIRED SUPPLEMENTARY INFORMATION REGIONAL UNIVERSITY SYSTEM OF OKLAHOMA

June 30, 2018

SCHEDULE OF EMPLOYER CONTRIBUTIONS SRA PLAN

	2014	2015	2016	*2017	2018
Actuarially determined contribution	\$ 2,991,644	\$ 2,991,644	\$ 3,953,057	\$ 3,953,057	\$ 3,390,743
Contributions in relation to the actuarially determined contribution	4,862,045	5,534,534	4,857,720	3,972,381	4,133,354
Contribution deficiency (excess)	<u>\$ (1,870,401)</u>	<u>\$ (2,542,890)</u>	<u>\$ (904,663)</u>	<u>\$ (19,324)</u>	<u>\$ (742,611)</u>
Covered employee payroll	\$ 25,912,610	\$ 21,619,898	\$ 20,480,109	\$ 17,565,712	\$ 15,910,542
Contributions as a percentage of covered-employee payroll	18.76%	25.60%	23.72%	22.61%	25.98%

Notes to Schedule:

- Only five fiscal years are presented because 10-year data is not yet available.
- Valuation Date: June 30, 2017 for funding purposes during Fiscal Year 2018
- Methods and assumptions used to determine contribution rates:
 - Actuarial cost method - Projected Unit Credit
 - Amortization method - Level percent of payroll, closed
 - Amortization period - 20 years
 - Asset valuation method - Actuarial:
 - Fair Value
 - Salary increases - 2.5% per year, compounded annually
 - Investment rate of return - 6.5%, per year, compounded annual
 - Mortality: Retirement Plan 2000 Mortality Table (RP-2000) with projected mortality improvements:
 - Pre-Retirement: RP-2000 for non-annuitants, projected 2030
 - Post-Retirement: RP-2000 for annuitants projected to 2022
- *Actuarial calculations are performed on a biennial basis for determination of the actuarial determined employer contributions.

REQUIRED SUPPLEMENTARY INFORMATION
REGIONAL UNIVERSITY SYSTEM OF OKLAHOMA

June 30, 2018

SCHEDULE OF INVESTMENT RETURNS
SRA PLAN

	<u>2014</u>	<u>2015</u>	<u>2016</u>	<u>2017</u>	<u>2018</u>
Annual money-weighted rate of return, net of investment expense	6.34%	6.34%	6.39%	6.44%	6.49%

Note to Schedule:

Only five fiscal years are presented because 10-year data is not yet available.

REQUIRED SUPPLEMENTARY INFORMATION
REGIONAL UNIVERSITY SYSTEM OF OKLAHOMA

June 30, 2018

SCHEDULE OF CHANGES IN NET PENSION LIABILITY AND RELATED RATIOS
RETIREMENT PLAN FOR PRESIDENT OF THE UNIVERSITY OF CENTRAL OKLAHOMA

	2016	2017	2018
Total pension liability			
Service cost	\$ 284,760	\$ 284,760	\$ (200,794)
Interest	33,807	30,021	34,670
Experience gain/(loss)	(208,320)	(208,320)	-
Net change in total pension liability	110,247	106,461	(166,124)
Total pension liability - beginning	751,257	861,504	967,965
Total pension liability - ending (a)	<u>\$ 861,504</u>	<u>\$ 967,965</u>	<u>\$ 801,841</u>
Plan fiduciary net position			
Contributions - employer	\$ 228,300	\$ 228,300	\$ 228,300
Net investment income	13,736	30,539	31,908
Administrative expense	-	(1,500)	(1,500)
Net change in plan fiduciary net position	242,036	257,339	258,708
Plan fiduciary net position - beginning	237,097	479,133	736,472
Plan fiduciary net position - ending (b)	<u>\$ 479,133</u>	<u>\$ 736,472</u>	<u>\$ 995,180</u>
Net pension liability - ending (a) - (b)	<u>\$ 382,371</u>	<u>\$ 231,493</u>	<u>\$ (193,339)</u>
Plan fiduciary net position as a percentage of the total pension liability	55.6%	76.1%	124.1%
Covered employee payroll	\$ 281,000	\$ 281,000	\$ 281,000
Net pension liability as a percentage of covered-employee payroll	136.1%	82.4%	-68.8%

Notes to Schedule:

Only three fiscal years are presented because 10-year data is not yet available.
Actuarial valuation performed on a biennial basis.

REQUIRED SUPPLEMENTARY INFORMATION
REGIONAL UNIVERSITY SYSTEM OF OKLAHOMA

June 30, 2018

SCHEDULE OF EMPLOYER CONTRIBUTIONS

RETIREMENT PLAN FOR PRESIDENT OF THE UNIVERSITY OF CENTRAL OKLAHOMA

	2016	2017	2018
Actuarially determined contribution	\$ 63,334	\$ 63,334	\$ -
Contributions in relation to the actuarially determined contribution	228,300	228,300	228,300
Contribution deficiency (excess)	<u>\$ (164,966)</u>	<u>\$ (164,966)</u>	<u>\$ (228,300)</u>
Covered employee payroll	\$ 281,000	\$ 281,000	\$ 281,000
Contributions as a percentage of covered-employee payroll	81.25%	81.25%	81.25%

Notes to Schedule:

1. Only three fiscal years are presented because 10-year data is not yet available.
2. Valuation Date: June 30 , 2018 for funding purposes during Fiscal Year 2018
3. Methods and assumptions used to determine contribution rates:
Mortality: The IRS 2016 Combined Static Mortality Table, for males, has been used.
Interest Rate: 7.0% per annum.
Salary Increases: Not applicable.
Marriage Assumptions: Not applicable.
Withdrawal Rates: None.
Disability Rates: None.

*Biennial valuations are performed for the plan.

REQUIRED SUPPLEMENTARY INFORMATION
REGIONAL UNIVERSITY SYSTEM OF OKLAHOMA

June 30, 2018

SCHEDULE OF INVESTMENT RETURNS
RETIREMENT PLAN FOR PRESIDENT OF THE UNIVERSITY OF CENTRAL OKLAHOMA

	 2016	 2017	2018
Annual money-weighted rate of return, net of investment expense	3.39%	5.20%	3.46%

Note to Schedule:

Only three fiscal years are presented because 10-year data is not yet available.

REQUIRED SUPPLEMENTARY INFORMATION
REGIONAL UNIVERSITY SYSTEM OF OKLAHOMA

June 30, 2018

SCHEDULE OF THE COLLEGE'S PROPORTIONATE SHARE OF THE NET OPEB LIABILITY (ASSET)
SUPPLEMENTAL HEALTH INSURANCE PROGRAM

	<u>2018</u>
College's proportion of the net OPEB liability (asset)	4.8832%
College's proportionate share of the net OPEB liability (asset)	\$ (2,177,621)
College's covered payroll	\$ 231,942,190
College's proportionate share of the net OPEB liability (asset) as a percentage of its covered-employee payroll	-0.94%
Plan fiduciary net position as a percentage of the total OPEB liability (asset)	110.40%

*The amounts present for each fiscal year were determined as of 6/30

Notes to Schedule:

Only the current year is presented because 10-year data is not yet available.

REQUIRED SUPPLEMENTARY INFORMATION
REGIONAL UNIVERSITY SYSTEM OF OKLAHOMA

June 30, 2018

SCHEDULE OF THE COLLEGE'S CONTRIBUTIONS
SUPPLEMENTAL HEALTH INSURANCE PROGRAM
Last 10 Fiscal Years

	<u>2017</u>	<u>2018</u>
Contractually required contribution	\$ 307,189	\$ 306,913
Contributions in relation to the contractually required contribution	<u>307,189</u>	<u>306,913</u>
Contribution deficiency (excess)	<u>\$ -</u>	<u>\$ -</u>
College's covered payroll	\$ 221,365,632	\$ 228,600,488
Contributions as a percentage of covered payroll	0.14%	0.13%

Notes to Schedule:

Only the current and prior fiscal year is presented because 10-year data is not yet available.

REQUIRED SUPPLEMENTARY INFORMATION
REGIONAL UNIVERSITY SYSTEM OF OKLAHOMA

June 30, 2018

SCHEDULE OF CHANGES IN NET OPEB LIABILITY AND RELATED RATIOS
Regional University System of Oklahoma Retiree Health/Dental Insurance Trust

	2017	2018
Total pension liability		
Service cost	\$ 627,941	\$ 637,547
Interest	1,185,947	1,625,101
Changes of assumptions	-	-
Experience gain/(loss)	-	(909,919)
Benefit payments, including refunds of member contributions	-	(1,734,697)
Net change in total pension liability	1,813,888	(381,968)
Total pension liability - beginning	22,724,933	24,538,821
Total pension liability - ending (a)	<u>\$ 24,538,821</u>	<u>\$ 24,156,853</u>
Plan fiduciary net position		
Contributions - employer	\$ 2,245,874	\$ 2,098,328
Net investment income	1,665,314	1,272,473
Benefit payments	(1,605,052)	(1,734,697)
Net change in plan fiduciary net position	2,306,136	1,636,104
Plan fiduciary net position - beginning	14,639,576	16,945,712
Plan fiduciary net position - ending (b)	<u>\$ 16,945,712</u>	<u>\$ 18,581,816</u>
Net pension liability - ending (a) - (b)	<u>\$ 7,593,109</u>	<u>\$ 5,575,037</u>
Plan fiduciary net position as a percentage of the total pension liability	69.1%	76.9%
Covered employee payroll	\$ 98,696,440	\$ 86,059,170
Net pension liability as a percentage of covered-employee payroll	7.7%	6.5%

Notes to Schedule:

Only the current and prior fiscal years is presented because 10-year data is not yet available.

REQUIRED SUPPLEMENTARY INFORMATION
REGIONAL UNIVERSITY SYSTEM OF OKLAHOMA

June 30, 2018

SCHEDULE OF EMPLOYER CONTRIBUTIONS

Regional University System of Oklahoma Retiree Health/Dental Insurance Trust

	<u>2017</u>	<u>2018</u>
Actuarially determined contribution	\$ 640,822	\$ 640,822
Contributions in relation to the actuarially determined contribution	2,245,874	2,098,328
Contribution deficiency (excess)	<u>\$ (1,605,052)</u>	<u>\$ (1,457,506)</u>
Covered employee payroll	\$ 98,696,440	\$ 86,059,170
Contributions as a percentage of covered-employee payroll	2.28%	2.44%

Notes to Schedule:

- Only the current and prior fiscal years are presented because 10-year data is not yet available.
- Valuation Date: June 30 , 2017
An updated valuation was not performed for 2018 for funding purposes. Same ADEC used for fiscal year 2018.
- Methods and assumptions used to determine contribution rates:
Mortality: RP-2014 Mortality Table with Improvement Scale MP-2017
Interest Rate: 7.0% per annum.
Inflation: 2.5% per annum.
Marriage Assumptions: Females are assumed to be three years younger than their male spouses.
Inflation for Medical:

<u>Year</u>	<u>Medical Trend</u>	<u>Insurance Trend</u>	<u>Insurance Trend</u>
2018	7.00%	0.00%	0.00%
2019	6.50%	5.00%	5.00%
2020	6.00%	5.00%	5.00%
2021	5.50%	5.00%	5.00%
2022 & Later	5.00%	5.00%	5.00%

REQUIRED SUPPLEMENTARY INFORMATION
REGIONAL UNIVERSITY SYSTEM OF OKLAHOMA

June 30, 2018

SCHEDULE OF INVESTMENT RETURNS

Regional University System of Oklahoma Retiree Health/Dental Insurance

	<u>2017</u>	<u>2018</u>
Annual money-weighted rate of return, net of investment expense	6.97%	7.40%

Note to Schedule:

Only the current and prior fiscal year is presented because 10-year data is not yet available.

REQUIRED SUPPLEMENTARY INFORMATION
REGIONAL UNIVERSITY SYSTEM OF OKLAHOMA

June 30, 2018

**Schedule of Changes in Net OPEB Liability and Related Ratios
Regional University System of Oklahoma Health Subsidy Plan**

Last 10 Fiscal Years

	<u>2018</u>
Total OPEB liability	
Service cost	\$ 549,493
Interest	64,546
Differences between expected and actual experience	<u>(15,847)</u>
Net change in total OPEB liability	598,192
 Total OPEB liability - beginning	 <u>1,671,483</u>
Total OPEB liability - ending	<u>\$ 2,269,675</u>
 Covered employee payroll	 \$ 110,954,727
 Net OPEB liability (asset) as a percentage of covered- employee payroll	 2.05%

Notes to Schedule:

Only the current year is presented because 10-year data is not yet available.

The discount rate used for 2018 is 3.88%.

SUPPLEMENTARY INFORMATION

SUPPLEMENTARY INFORMATION
REGIONAL UNIVERSITY SYSTEM OF OKLAHOMA
June 30, 2018

COMBINING STATEMENT OF NET POSITION
JUNE 30, 2018

	<u>Admin</u>	<u>ECU</u>	<u>NSU</u>	<u>NWOSU</u>	<u>SE</u>	<u>SWOSU</u>	<u>UCO</u>	<u>Reclassification/ System-Wide Entries</u>	<u>TOTAL</u>
ASSETS									
CURRENT ASSETS									
Cash and cash equivalents	\$ 332,495	\$ 22,749,414	\$ 32,311,078	\$ 5,971,583	\$ 14,674,134	\$ 23,823,334	\$ 57,313,214	\$ -	\$ 157,175,252
Restricted cash and cash equivalents	-	-	4,987,981	278,857	427,019	606,875	74,732,537	-	81,033,269
Accounts receivable, net	56,617	3,282,191	5,763,926	418,381	2,049,477	2,149,544	28,463,509	-	42,183,645
Receivables from state agencies	-	-	952,081	222,182	423,951	-	-	-	1,598,214
Interest receivable	-	21,251	814,919	6,992	7,547	23,871	-	-	874,580
Other assets	-	-	-	-	-	-	7,791	-	7,791
Inventories	-	-	570,692	12,270	-	125,501	287,102	-	995,565
Current portion of other receivable	-	1,670,426	-	-	-	-	-	-	1,670,426
Current portion of notes receivable, net	-	-	505,000	-	8,858	177,341	514,928	-	1,206,127
TOTAL CURRENT ASSETS	389,112	27,723,282	45,905,677	6,910,265	17,590,986	26,906,466	161,319,081	-	286,744,869
NONCURRENT ASSETS									
Restricted cash and cash equivalents	-	4,601,530	9,570,758	2,409,077	-	4,374,838	313,159	232,767	21,502,129
Restricted investments	-	232,767	-	-	-	-	-	(232,767)	-
Investments held by others	-	-	-	-	-	405,138	-	-	405,138
Receivable from OSRHE Endowment Trust Fund	-	216,110	-	-	-	-	-	-	216,110
Loans receivable, net	-	-	-	-	-	86,000	861,315	-	947,315
Accounts receivable, noncurrent portion	-	-	-	-	-	-	-	-	-
Other receivable	-	-	-	-	-	-	-	-	-
Notes receivable, net	-	-	2,344,185	-	-	-	-	-	2,344,185
Net pension asset	-	-	-	-	-	-	-	193,339	193,339
Net OPEB asset	-	-	-	-	-	-	-	2,177,621	2,177,621
Other assets	-	-	-	61	-	-	37,421	-	37,482
Capitalized collections	-	-	-	-	-	-	4,747,720	-	4,747,720
Capital assets, net	4,812	88,234,566	158,203,092	26,253,553	42,113,342	78,114,499	235,610,264	-	628,534,128
TOTAL NONCURRENT ASSETS	4,812	93,284,973	170,118,035	28,662,691	42,113,342	82,980,475	241,569,879	2,370,960	661,105,167
TOTAL ASSETS	393,924	121,008,255	216,023,712	35,572,956	59,704,328	109,886,941	402,888,960	2,370,960	947,850,036
DEFERRED OUTFLOWS OF RESOURCES									
Deferred amounts related to pensions	-	-	-	-	-	-	-	74,520,392	74,520,392
Deferred amounts related to OPEB	-	-	-	-	-	-	-	306,913	306,913
Deferred charge on capital lease restructure	-	700,607	-	16,516	82,644	-	-	-	799,767
TOTAL DEFERRED OUTFLOWS OF RESOURCES	\$ -	\$ 700,607	\$ -	\$ 16,516	\$ 82,644	\$ -	\$ -	\$ 74,827,305	\$ 75,627,072

Continued on next page.

SUPPLEMENTARY INFORMATION
REGIONAL UNIVERSITY SYSTEM OF OKLAHOMA
June 30, 2018

COMBINING STATEMENT OF NET POSITION (Continued)
JUNE 30, 2018

	<u>Admin</u>	<u>ECU</u>	<u>NSU</u>	<u>NWOSU</u>	<u>SE</u>	<u>SWOSU</u>	<u>UCO</u>	<u>Reclassification/ System-Wide Entries</u>	<u>TOTAL</u>
LIABILITIES									
CURRENT LIABILITIES									
Accounts and scholarships payable	\$ 14,942	\$ 2,508,781	\$ 1,342,325	\$ 175,219	\$ 1,180,942	\$ 1,698,624	\$ 8,685,065	\$ -	\$ 15,605,898
Accrued payroll	27,509	57,411	605,602	164,067	281,324	307,526	6,195,461	-	7,638,900
Accrued interest	-	61,563	36,066	-	-	31,164	30,439	-	159,232
Unearned revenue	-	1,379,967	3,143,404	125,751	2,866,788	1,808,394	5,452,514	(247,139)	14,529,679
Deposits held in custody for others	-	335,620	86,223	214,241	398,162	382,749	1,761,917	-	3,178,912
Current portion of noncurrent liabilities	21,631	2,353,692	6,525,396	1,600,413	4,189,431	4,027,061	10,774,581	247,139	29,739,344
TOTAL CURRENT LIABILITIES	64,082	6,697,034	11,739,016	2,279,691	8,916,647	8,255,518	32,899,977	-	70,851,965
NONCURRENT LIABILITIES									
Accrued compensated absences	21,630	725,516	1,831,618	121,805	316,454	553,677	1,790,348	-	5,361,048
Retirement incentive payout	-	-	-	-	57,919	-	-	-	57,919
Federal loan program contributions refundable	-	-	5,438,000	-	-	-	1,563,153	-	7,001,153
Bonds payable	-	3,929,184	-	-	-	-	12,265,000	-	16,194,184
Unearned revenue	-	-	-	-	-	86,000	6,581,731	-	6,667,731
Unearned capital asset	-	1,107,545	100,000	540,833	-	-	-	-	1,748,378
ODFA master lease obligations	-	-	-	2,004,917	-	-	141,257,751	-	143,262,668
Total OPEB liability	-	-	-	-	-	-	-	2,269,675	2,269,675
Net pension liability	-	-	-	-	-	-	-	352,695,311	352,695,311
Net OPEB liability	-	-	-	-	-	-	-	5,575,037	5,575,037
Capital lease obligations	-	29,399,008	43,585,457	3,136,137	13,603,610	21,813,755	-	-	111,537,967
TOTAL NONCURRENT LIABILITIES	21,630	35,161,253	50,955,075	5,803,692	13,977,983	22,453,432	163,457,983	360,540,023	652,371,071
TOTAL LIABILITIES	85,712	41,858,287	62,694,091	8,083,383	22,894,630	30,708,950	196,357,960	360,540,023	723,223,036
DEFERRED INFLOWS OF RESOURCES									
Deferred amounts related to pensions	-	-	-	-	-	-	-	42,366,458	42,366,458
Deferred amounts related to OPEB	-	-	-	-	-	-	-	2,715,125	2,715,125
Deferred gain on OCIA lease restructure	-	249,683	502,761	137,835	249,956	243,816	1,242,285	-	2,626,336
TOTAL DEFERRED INFLOWS OF RESOURCES	-	249,683	502,761	137,835	249,956	243,816	1,242,285	45,081,583	47,707,919
NET POSITION									
Net investment in capital assets	4,812	54,019,698	108,463,278	19,235,659	25,783,757	52,950,566	30,846,178	-	291,303,948
Restricted:									
Nonexpendable:									
Grants, bequests and contributions	-	-	-	-	-	-	712,528	-	712,528
Expendable:									
Scholarships, instruction and other	-	3,939,257	7,080,351	285,336	-	6,167,354	1,784,906	-	19,257,204
Loans	-	72,608	392,755	-	-	-	335,988	-	801,351
Capital projects	-	4,528,922	5,970,285	2,413,143	812,757	3,851,231	30,022,220	-	47,598,558
Debt service	-	-	3,401,457	-	-	-	86,583,611	-	89,985,068
Unrestricted (deficit)	303,400	17,040,407	27,518,734	5,434,116	10,045,872	15,965,024	55,003,284	(328,423,341)	(197,112,504)
TOTAL NET POSITION	\$ 308,212	\$ 79,600,892	\$ 152,826,860	\$ 27,368,254	\$ 36,642,386	\$ 78,934,175	\$ 205,288,715	\$ (328,423,341)	\$ 252,546,153

SUPPLEMENTARY INFORMATION
REGIONAL UNIVERSITY SYSTEM OF OKLAHOMA
June 30, 2018

COMBINING STATEMENT OF REVENUES, EXPENSES AND CHANGES IN NET POSITION
FOR THE YEAR ENDED JUNE 30, 2018

	Admin	ECU	NSU	NWOSU	SE	SWOSU	UCO	Reclassification/ System-Wide Entries	TOTAL
OPERATING REVENUES									
Student tuition and fees, net of scholarship discounts and allowances	\$ -	\$ 19,042,800	\$ 36,314,144	\$ 8,269,826	\$ 22,358,932	\$ 27,210,563	\$ 96,783,660	\$ -	\$ 209,979,925
Federal grants and contracts	-	4,374,819	3,169,644	1,019,229	4,477,117	2,129,833	6,682,096	-	21,852,738
State and local grants and contracts	-	450,881	-	-	1,021,371	1,683,020	4,792,700	-	7,947,972
Bookstore operations	-	113,478	-	-	-	-	799,666	-	913,144
Housing and food service revenues, net of discounts and allowances	-	5,128,849	3,818,252	4,941,400	2,793,845	5,662,932	15,639,665	-	37,984,943
Optometry contracts and practice plan	-	-	5,476,033	-	-	-	-	-	5,476,033
Aerospace operations	-	-	-	-	1,209,469	-	-	-	1,209,469
Parking and University Center revenues (total revenues are dedicated as security for bond repayments)	-	-	-	-	-	-	3,359,377	-	3,359,377
Other auxiliary operations	-	-	-	-	-	1,444,066	-	-	1,444,066
Interest earned on loans to students	-	-	100,870	-	-	-	16,107	-	116,977
University assessments	787,435	-	-	-	-	-	-	(787,435)	-
Other operating revenues	80,519	1,768,099	4,718,439	315,231	2,289,343	806,661	5,723,774	(254,688)	15,447,378
TOTAL OPERATING REVENUES	867,954	30,878,926	53,597,382	14,545,686	34,150,077	38,937,075	133,797,045	(1,042,123)	305,732,022
OPERATING EXPENSES									
Compensation and employee benefits	631,963	29,890,298	64,121,257	17,594,911	30,281,247	43,723,497	125,532,084	13,717,300	325,492,557
Contractual services	62,958	3,923,451	4,717,380	2,796,168	5,941,110	4,652,626	6,200,534	(235,784)	28,058,443
Supplies and materials	7,082	5,046,264	4,862,666	3,254,078	3,162,305	4,318,014	18,450,068	-	39,100,477
Depreciation	5,704	3,819,962	10,627,884	1,951,613	3,085,594	4,069,946	12,224,827	-	35,785,530
Utilities	-	1,160,117	3,393,072	960,548	1,334,001	1,438,537	3,286,251	-	11,572,526
Communication expense	-	144,339	191,626	285,639	133,775	220,296	-	-	975,675
Scholarships and fellowships	-	12,847,098	10,940,962	1,979,720	6,965,379	5,729,491	15,946,016	-	54,408,666
Other operating expenses	120,862	3,902,833	7,667,556	1,040,769	2,007,074	2,687,944	21,011,722	(806,339)	37,632,421
TOTAL OPERATING EXPENSES	828,569	60,734,362	106,522,403	29,863,446	52,910,485	66,840,351	202,651,502	12,675,177	533,026,295
OPERATING INCOME (LOSS)	\$ 39,385	\$ (29,855,436)	\$ (52,925,021)	\$ (15,317,760)	\$ (18,760,408)	\$ (27,903,276)	\$ (68,854,457)	\$ (13,717,300)	\$ (227,294,273)

SUPPLEMENTARY INFORMATION
REGIONAL UNIVERSITY SYSTEM OF OKLAHOMA
June 30, 2018

COMBINING STATEMENT OF REVENUES, EXPENSES AND CHANGES IN NET POSITION (Continued)
FOR THE YEAR ENDED JUNE 30, 2018

	Admin	ECU	NSU	NWOSU	SE	SWOSU	UCO	Reclassification/ System-Wide Entries	TOTAL
NONOPERATING REVENUES (EXPENSES)									
State appropriations	\$ -	\$ 13,505,236	\$ 20,951,040	\$ 7,862,883	\$ 14,489,916	\$ 17,638,199	\$ 53,623,071	\$ -	\$ 128,070,345
Federal grants and contracts	-	6,819,335	28,464,829	4,937,081	6,782,133	7,652,071	23,959,992	-	78,615,441
State grants and contracts	-	7,216,265	-	-	-	3,926,360	-	-	11,142,625
OTRS on-behalf contributions	-	-	-	-	-	-	-	13,620,380	13,620,380
Gifts	-	-	2,174,860	561,123	-	-	5,457,204	-	8,193,187
Investment income	-	257,608	352,541	299,753	110,778	248,652	1,014,024	-	2,283,356
Other nonoperating	-	240,295	-	-	135,855	830,557	-	15,730	1,222,437
Interest expense	-	(1,222,984)	(2,157,754)	(310,360)	(693,315)	(1,157,270)	(5,482,408)	-	(11,024,091)
NET NONOPERATING REVENUE	-	26,815,755	49,785,516	13,350,480	20,825,367	29,138,569	78,571,883	13,636,110	232,123,680
INCOME (LOSS) BEFORE CAPITAL CONTRIBUTIONS	39,385	(3,039,681)	(3,139,505)	(1,967,280)	2,064,959	1,235,293	9,717,426	(81,190)	4,829,407
CONTRIBUTED CAPITAL									
State appropriations restricted for capital purposes	-	1,160,443	1,456,947	1,128,991	1,128,993	1,214,697	1,851,531	-	7,941,602
Capital contributions	-	414,914	1,352,558	105,569	-	13,218	-	-	1,886,259
OCIA on-behalf state appropriations	-	1,467,902	2,994,332	868,983	1,516,080	1,445,443	1,055,691	-	9,348,431
TOTAL CONTRIBUTED CAPITAL	-	3,043,259	5,803,837	2,103,543	2,645,073	2,673,358	2,907,222	-	19,176,292
CHANGE IN NET POSITION	39,385	3,578	2,664,332	136,263	4,710,032	3,908,651	12,624,648	(81,190)	24,005,699
NET POSITION, BEGINNING OF YEAR	268,827	79,597,314	150,162,528	27,231,991	31,932,354	76,693,031	192,664,067	(311,574,826)	246,975,286
Restatement	-	-	-	-	-	(1,667,507)	-	(16,767,325)	(18,434,832)
NET POSITION, END OF YEAR	\$ 308,212	\$ 79,600,892	\$ 152,826,860	\$ 27,368,254	\$ 36,642,386	\$ 78,934,175	\$ 205,288,715	\$ (328,423,341)	\$ 252,546,153

SUPPLEMENTARY INFORMATION
REGIONAL UNIVERSITY SYSTEM OF OKLAHOMA
June 30, 2018

STATEMENT OF CASH FLOWS
FOR THE YEAR ENDED JUNE 30, 2018

	Admin	ECU	NSU	NWOSU	SE	SWOSU	UCO	Reclassification/ System-Wide Entries	TOTAL
CASH FLOWS FROM OPERATING ACTIVITIES									
Tuition and fees	\$ -	\$ 19,289,738	\$ 36,933,807	\$ 8,189,553	\$ 23,166,212	\$ 27,306,282	\$ 94,824,931	\$ -	\$ 209,710,523
Grants and contracts	-	4,554,598	3,218,754	1,019,229	5,370,452	3,799,465	11,862,667	-	29,825,165
Auxiliary enterprises and other receipts	-	7,153,694	13,973,471	5,256,631	6,095,469	7,937,261	26,748,100	-	67,164,626
Univeristy assessment and other	835,130	-	-	-	-	-	-	-	835,130
Interest collected on loans to students	-	-	-	-	-	-	16,107	-	16,107
Payments to employees for salaries and benefits	(622,162)	(29,890,077)	(64,187,077)	(17,664,118)	(30,467,484)	(43,928,147)	(124,857,936)	-	(311,617,001)
Payments to suppliers and others	(197,129)	(26,650,690)	(32,328,128)	(10,307,372)	(18,770,195)	(18,245,912)	(64,697,318)	-	(171,196,744)
Loans issued to students	-	-	(506,077)	-	-	-	(315,143)	-	(821,220)
Collections of loans issued to students	-	-	757,922	-	-	-	335,845	-	1,093,767
NET CASH PROVIDED BY (USED IN) OPERATING ACTIVITIES	15,839	(25,542,737)	(42,137,328)	(13,506,077)	(14,605,546)	(23,131,051)	(56,082,747)	-	(174,989,647)
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES									
State appropriations	-	13,505,236	28,464,829	7,862,883	14,489,916	17,638,199	53,623,071	-	135,584,134
Nonoperating grants	-	14,035,600	20,951,040	4,933,374	6,782,133	11,591,649	23,959,992	-	82,253,788
Cash received from nonoperating revenues	-	240,295	2,174,860	561,701	152,614	830,557	95,953	-	4,055,980
Direct loan receipts	-	12,403,648	34,133,273	6,034,679	15,352,315	-	(58,898,101)	-	9,025,814
Direct loan payments	-	(12,403,648)	(34,133,273)	(6,034,679)	(15,352,315)	-	58,898,101	-	(9,025,814)
NET CASH PROVIDED BY NONCAPITAL FINANCING ACTIVITIES	-	27,781,131	51,590,729	13,357,958	21,424,663	30,060,405	77,679,016	-	221,893,902
CASH FLOWS FROM INVESTING ACTIVITIES									
Proceeds from sales of investments	-	325,284	-	-	-	-	-	(325,284)	-
Purchases of investments	-	(332,956)	-	-	-	-	-	332,956	-
Interest income received	-	303,104	304,201	298,140	109,198	244,435	1,014,024	(7,672)	2,265,430
NET CASH PROVIDED BY INVESTING ACTIVITIES	-	295,432	304,201	298,140	109,198	244,435	1,014,024	-	2,265,430
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES									
Cash paid for capital assets	(4,903)	(8,386,656)	(4,057,173)	(574,669)	(958,697)	(8,538,855)	(41,879,652)	-	(64,400,605)
Capital appropriations received	-	1,160,443	1,456,947	1,128,991	1,128,993	1,214,697	2,907,222	-	8,997,293
Proceeds from sale of assets	-	-	-	-	-	-	400,752	-	400,752
Drawdown of ODFA receivable	-	8,039,542	-	-	-	-	-	-	8,039,542
Proceeds of capital debt and leases	-	-	623,397	-	1,006,860	-	36,324,228	-	37,954,485
Payments on capital debt and leases	-	(1,611,916)	(3,106,767)	(308,964)	(2,856,500)	(1,933,998)	(8,935,667)	-	(18,753,812)
Interest paid on capital debt and leases	-	(882,367)	(1,659,074)	(313,508)	(452,171)	(888,650)	(5,376,036)	-	(9,571,806)
NET CASH PROVIDED BY (USED IN) CAPITAL AND RELATED FINANCING ACTIVITIES	(4,903)	(1,680,954)	(6,742,670)	(68,150)	(2,131,515)	(10,146,806)	(16,559,153)	-	(37,334,151)
NET CHANGE IN CASH AND CASH EQUIVALENTS	10,936	852,872	3,014,932	81,871	4,796,800	(2,973,017)	6,051,140	-	11,835,534
CASH AND CASH EQUIVALENTS, BEGINNING OF YEAR	321,559	26,730,839	43,854,885	8,577,646	10,304,353	31,778,064	126,307,770	-	247,875,116
CASH AND CASH EQUIVALENTS, END OF YEAR	\$ 332,495	\$ 27,583,711	\$ 46,869,817	\$ 8,659,517	\$ 15,101,153	\$ 28,805,047	\$ 132,358,910	\$ -	\$ 259,710,650

Continued on next page.

SUPPLEMENTARY INFORMATION
REGIONAL UNIVERSITY SYSTEM OF OKLAHOMA
June 30, 2018

STATEMENT OF CASH FLOWS (Continued)
FOR THE YEAR ENDED JUNE 30, 2018

	Admin	ECU	NSU	NWOSU	SE	SWOSU	UCO	Reclassification/ System-Wide Entries	TOTAL
RECONCILIATION OF OPERATING INCOME (LOSS) TO NET CASH USED IN OPERATING ACTIVITIES									
Operating income(loss)	\$ 39,385	\$ (29,855,436)	\$ (52,925,021)	\$ (15,317,760)	\$ (18,760,408)	\$ (27,903,276)	\$ (68,854,457)	\$ (13,717,300)	\$ (227,294,273)
Adjustments to reconcile operating income(loss) to net cash provided by operating activities:									
Depreciation	5,704	3,819,962	10,627,884	1,951,613	3,085,594	4,069,946	12,224,827	-	35,785,530
Loss on the disposal of capital assets	-	37,166	3,673	2,577	776	-	(1,152,339)	-	(1,108,147)
On-behalf contributions to teachers' retirement system	-	-	-	-	-	-	-	13,620,380	13,620,380
Changes in assets and liabilities:									
Accounts receivable	(32,824)	484,165	262,791	(87,069)	(227,676)	65,482	(1,083,821)	-	(618,952)
Grants and other receivables	-	(127,834)	-	-	-	-	-	-	(127,834)
Net pension asset	-	-	-	-	-	-	-	(193,339)	(193,339)
Net pension liability	-	-	-	-	-	-	-	(86,051,513)	(86,051,513)
Deferred amounts from pensions	-	-	-	-	-	-	-	87,223,872	87,223,872
Net OPEB asset	-	-	-	-	-	-	-	(2,177,621)	(2,177,621)
Net OPEB liability	-	-	-	-	-	-	-	(2,018,072)	(2,018,072)
Total OPEB liability	-	-	-	-	-	-	-	598,192	598,192
Deferred amounts from OPEB	-	-	-	-	-	-	-	2,715,401	2,715,401
Inventories	-	-	(66,072)	3,454	-	10,799	7,713	-	(44,106)
Loans receivable	-	-	251,845	-	(8,643)	107,564	20,702	-	371,468
Student and other deposits	-	-	-	-	-	-	-	-	-
Deposits held in custody of others	-	-	-	-	-	135,030	(262,770)	-	(127,740)
Other assets	-	-	-	52	-	-	3,121	-	3,173
Accounts payable and accrued expenses	(6,778)	336,246	181,533	(51,264)	772,673	517,276	1,604,669	-	3,354,355
Accrued payroll	4,247	(10,249)	7,176	-	155,373	-	1,121,630	-	1,278,177
Unearned revenue	-	(237,227)	265,859	(6,156)	718,375	(67,113)	339,725	-	1,013,463
Federal loan program contributions refundable	-	-	(674,000)	-	-	-	395,735	-	(278,265)
Loans to students and employees	-	-	-	12,952	-	-	-	-	12,952
Retirement incentive program	-	-	-	-	(338,435)	-	-	-	(338,435)
Compensated absences	6,105	10,470	(72,996)	(14,476)	(3,175)	(66,759)	(447,482)	-	(588,313)
NET CASH PROVIDED BY OPERATING ACTIVITIES	\$ 15,839	\$ (25,542,737)	\$ (42,137,328)	\$ (13,506,077)	\$ (14,605,546)	\$ (23,131,051)	\$ (56,082,747)	\$ -	\$ (174,989,647)
NONCASH INVESTING, NONCAPITAL FINANCING AND CAPITAL AND RELATED FINANCING ACTIVITIES									
Interest on capital debt paid by OCIA on behalf of the University	\$ -	\$ 319,382	\$ 740,576	\$ 211,783	\$ 359,883	\$ 364,384	\$ 529,706	\$ -	\$ 2,525,714
Principal on capital debt paid by OCIA on behalf of the University	-	1,148,520	2,253,756	657,200	1,156,197	1,081,059	525,984	-	6,822,716
Non-cash capital grants and gifts	-	-	1,352,558	-	-	-	1,554,690	-	2,907,248
Deferred gain on OCIA lease restructure	-	249,683	502,761	-	249,956	-	86,562	-	1,088,962
TOTAL NONCASH INVESTING, NONCAPITAL FINANCING, AND CAPITAL RELATED FINANCING ACTIVITIES	\$ -	\$ 1,717,585	\$ 4,849,651	\$ 868,983	\$ 1,766,036	\$ 1,445,443	\$ 1,545,298	\$ -	\$ 13,344,640

Continued on next page.

SUPPLEMENTARY INFORMATION
REGIONAL UNIVERSITY SYSTEM OF OKLAHOMA
June 30, 2018

STATEMENT OF CASH FLOWS (Continued)
FOR THE YEAR ENDED JUNE 30, 2018

RECONCILIATION OF CASH AND CASH EQUIVALENTS TO STATEMENTS OF NET POSITION	<u>Admin</u>	<u>ECU</u>	<u>NSU</u>	<u>NWOSU</u>	<u>SE</u>	<u>SWOSU</u>	<u>UCO</u>	<u>Reclassification/ System-Wide Entries</u>	<u>TOTAL</u>
Current assets:									
Cash and cash equivalents	\$ 332,495	\$ 22,749,414	\$ 32,311,078	\$ 5,971,583	\$ 14,674,134	\$ 23,823,334	\$ 57,313,214	\$ -	\$ 157,175,252
Restricted cash and cash equivalents	-	-	4,987,981	278,857	427,019	606,875	74,732,537	-	81,033,269
Noncurrent assets:									
Restricted cash and cash equivalents	-	4,834,297	9,570,758	2,409,077	-	4,374,838	313,159	-	21,502,129
TOTAL CASH AND CASH EQUIVALENTS	<u>\$ 332,495</u>	<u>\$ 27,583,711</u>	<u>\$ 46,869,817</u>	<u>\$ 8,659,517</u>	<u>\$ 15,101,153</u>	<u>\$ 28,805,047</u>	<u>\$ 132,358,910</u>	<u>\$ -</u>	<u>\$ 259,710,650</u>

REPORTS REQUIRED BY
GOVERNMENT AUDITING STANDARDS



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

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 the Regional University System of Oklahoma (the "System"), a component unit of the State of Oklahoma, and its aggregate discretely presented component units, as of and for the year ended June 30, 2018, and the related notes to the financial statements which collectively comprise the System's basic financial statements, and have issued our report thereon dated November 28, 2018. Our report includes a paragraph related to a change in accounting principle and a reference to other auditors who audited the financial statements of the discretely presented component units, as described in our report on the System's financial statements. The financial statements of the discretely presented component units 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 discretely presented component units.

Internal Control over Financial Reporting

In planning and performing our audit of the financial statements, we considered the System'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 System's internal control. Accordingly, we do not express an opinion on the effectiveness of the System'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 System'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 System'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 System's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

Arledge & Associates, P.C.

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
Northeastern State University
Oklahoma City, Oklahoma

Report on Compliance for Each Major Federal Program

We have audited Northeastern State University's (the "University"), a department of the Regional University System of Oklahoma ("RUSO"), which is a component unit of the State of Oklahoma, compliance with the types of compliance requirements described in the *OMB Compliance Supplement* that could have a direct and material effect on each of the University's major federal programs for the year ended June 30, 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.

Report on Internal Control over Compliance

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

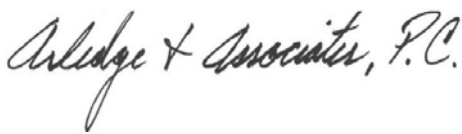
A deficiency in internal control over compliance exists when the design or operation of a control over compliance does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, noncompliance with a type of compliance requirement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

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

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

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

We have audited the financial statements of the University as of and for the year ended June 30, 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.



November 28, 2018

SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS

NORTHEASTERN STATE UNIVERSITY

A Department of the Regional University System of Oklahoma

Year Ended June 30, 2018

<i>Federal Grantor/Pass-Through Grantor/Program Title</i>	<i>Federal CFDA Number</i>	<i>Pass-Through Entity Identifying Number</i>	<i>Federal Expenditures</i>
U.S. DEPARTMENT OF EDUCATION			
Student Financial Assistance Cluster			
Federal Pell Grants	84.063	N/A	\$ 14,447,831
Federal Supplemental Education Opportunity Grants	84.007	N/A	368,222
Federal TEACH Grant	84.379	N/A	128,284
Federal Work Study Program	84.033	N/A	308,120
Federal Perkins Loans	84.038	N/A	3,606,807
Federal Direct Loan Program	84.268	N/A	34,133,273
<i>Total Student Financial Assistance Cluster</i>			52,992,537
TRIO Program Cluster			
TRIO--Talent Search	84.044	P044A110142-349	139,107
TRIO--Talent Search	84.044	P0044A160174-176	332,870
TRIO--Student Support Services	84.042	P042A100730	599
TRIO--Student Support Services	84.042	P042A151515-16	67,128
TRIO--Student Support Services	84.042	P042A151515-17	242,730
TRIO Upward Bound	84.047A	P047A171205	102,535
<i>Total TRIO Program Cluster</i>			884,969
Other Programs			
Strengthening Minority-Serving Institutions	84.382	P382C160013	74,394
Strengthening Minority-Serving Institutions	84.382	P382C160013-17	187,675
Pass-through Maryetta Public Schools			
Indian Education--Special Programs for Indian Children	84.299	S299A140053	3,618
Supporting Effective Instruction State Grants	84.367B	2017-18 ESEA Grant PL 107-110	26,402
Pass-through Stilwell Public Schools			
Indian Education--Special Programs for Indian Children	84.299	S299A160081	43,907
Pass-through Cherokee Nation-American Indian Resource Center			
Indian Education--Special Programs for Indian Children	84.299	S200B1600012	1,965
<i>Total Other Programs</i>			337,961
TOTAL U.S. DEPARTMENT OF EDUCATION			54,215,467
Research and Development (R&D) Cluster			
U.S. DEPARTMENT OF HEALTH AND HUMAN SERVICES			
National Institute for Health			
Pass-through OU Health Science Center			
Biomedical Research and Research Training	93.859	RS20132225-83	6,396
Biomedical Research and Research Training	93.859	RS20132225-113	7,194
Biomedical Research and Research Training	93.859	RS20132225-110	6,938
Biomedical Research and Research Training	93.859	RS20132225-125	71,273
Biomedical Research and Research Training	93.859	RS20132225-147	68,900
Biomedical Research and Research Training	93.859	RS20132225-139	1,925
Biomedical Research and Research Training	93.859	RS20132225-158	19,881
Biomedical Research and Research Training	93.859	N/A	5,737
Biomedical Research and Research Training	93.859	N/A	5
<i>Subtotal for CFDA #93.859</i>			188,249
Extramural Research Programs in Neurosciences & Neurological Disorders	93.853	5R03NS095246-03	14,527
TOTAL FOR NATIONAL INSTITUTE FOR HEALTH			202,776

(Continued)

SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS--Continued

NORTHEASTERN STATE UNIVERSITY

A Department of the Regional University System of Oklahoma

Year Ended June 30, 2018

<i>Federal Grantor/Pass-Through Grantor/Program Title</i>	<i>Federal CFDA Number</i>	<i>Pass-Through Entity Identification Number</i>	<i>Federal Expenditures</i>
Research and Development (R&D) Cluster--Continued			
ENVIRONMENTAL PROTECTION AGENCY			
Pass-through Oklahoma Conservation Commission			
Water Pollution Control State, Interstate, and Tribal Program Support	66.419	N/A	4,620
TOTAL ENVIRONMENTAL PROTECTION AGENCY			4,620
NATIONAL SCIENCE FOUNDATION			
Pass-through Oklahoma State University			
Education and Human Resources	47.076	AA-5-56595-NSU	1,000
Education and Human Resources	47.076	1-5-56595-NSU	60,226
<i>Subtotal for CFDA #47.076</i>			61,226
Office of International Science and Engineering	47.079	N/A	3,613
Computer and Information Science and Engineering	47.070	1659235	25,638
TOTAL FOR NATIONAL SCIENCE FOUNDATION			90,477
TOTAL RESEARCH AND DEVELOPMENT CLUSTER			297,873
Other Federal Programs			
U.S. DEPARTMENT OF HEALTH AND HUMAN SERVICES			
Pass-through University of New York			
Child Welfare Research Training or Demonstration	93.648	RF-1135853-16-76397	57,241
Child Welfare Research Training or Demonstration	93.648	18-11-79280	81,101
TOTAL U.S. DEPARTMENT OF HEALTH AND HUMAN SERVICES			138,342
U.S. DEPARTMENT OF JUSTICE			
Grants to Reduce Domestic Violence, Dating Violence, Sexual Assault, and Stalking on Campus	16.525	2012-WA-AX-0012	13,280
Grants to Reduce Domestic Violence, Dating Violence, Sexual Assault, and Stalking on Campus	16.525	2017-WA-AX-0047	16,230
TOTAL U.S. DEPARTMENT OF JUSTICE			29,510
NATIONAL ENDOWMENT FOR THE ARTS			
Pass-through Oklahoma Humanities Council			
Promotion of the Arts Grants to Organizations and Individuals	45.024	19888	14,381
Promotion of the Arts Partnership Agreements	45.025	FY2018-00106052	4,800
Promotion of the Arts Partnership Agreements	45.025	FY2018-00106051	3,600
TOTAL NATIONAL ENDOWMENT FOR THE ARTS			22,781
NATIONAL ENDOWMENT FOR THE HUMANITIES			
Pass-through Oklahoma Humanities Council			
Promotion of the Humanities Federal/State Partnership	45.129	Y17-051	6,000
Pass-through Utah Humanities/Utah Division of St. History			
Promotion of the Humanities Federal/State Partnership	45.129	OH 18.03	1,156
TOTAL NATIONAL ENDOWMENT FOR THE HUMANITIES			7,156
U.S. DEPARTMENT OF COMMERCE			
Pass-through Okla Alliance for Manufacturing Excellence			
Manufacturing Extension Partnership	11.611	70NANB15H354	45,772
TOTAL U.S. DEPARTMENT OF COMMERCE			45,772
TOTAL EXPENDITURES OF FEDERAL AWARDS			\$ 54,756,901

See notes to schedule of expenditures of federal awards.

NOTES TO THE SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS

NORTHEASTERN STATE UNIVERSITY

A Department of the Regional University System of Oklahoma

Year Ended June 30, 2018

NOTE A--BASIS OF PRESENTATION

The accompanying Schedule of Expenditures of Federal Awards (the "Schedule") includes the federal award activity of Northeastern 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

During the year ended June 30, 2018, the University did not provide any federal awards to subrecipients.

SCHEDULE OF FINDINGS AND QUESTIONED COSTS

NORTHEASTERN STATE UNIVERSITY

A Department of the Regional University System of Oklahoma

Year Ended June 30, 2018

Section I--Summary of Auditor's Results

Financial statements

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

Unmodified

Internal control over financial reporting:

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

Noncompliance material to financial statements noted?

☐ yes ☒ no

Federal Awards

Internal control over major federal programs:

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

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

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

☐ yes ☒ no

Identification of major federal programs:

Program

Student Financial Assistance Cluster

CFDA Number

*

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

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

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

SCHEDULE OF FINDINGS AND QUESTIONED COSTS--Continued

NORTHEASTERN STATE UNIVERSITY

A Department of the Regional University System of Oklahoma

Year Ended June 30, 2018

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

None to report for the June 30, 2018 period.

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

None to report for the June 30, 2018 period.

SUMMARY SCHEDULE OF PRIOR AUDIT FINDINGS AND QUESTIONED COSTS

NORTHEASTERN STATE UNIVERSITY

A Department of the Regional University System of Oklahoma

Year Ended June 30, 2018

No matters were reportable.