



NORTHEASTERN STATE UNIVERSITY

**A Department of the Regional
University System of Oklahoma**

**ANNUAL FINANCIAL REPORT
FOR THE FISCAL YEAR ENDED**

JUNE 30, 2020

NORTHEASTERN STATE UNIVERSITY
A Department of the Regional University System of Oklahoma
June 30, 2020

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Strategic ^{PC}
Business Advisors

Independent Auditors' Report

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

Report on the Financial Statements

We have audited the accompanying financial statements of Northeastern State University (the "University"), a department of the Regional University System of Oklahoma ("RUSO"), which is a component unit of the State of Oklahoma, and its discretely presented component unit, as of and for the year ended June 30, 2020 and the related notes to the financial statements, which collectively comprise Northeastern State University's basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

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

Auditors' Responsibility

Our responsibility is to express opinions on these financial statements based on our audit. 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.

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

An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the University and its discretely presented component unit, Northeastern State University Foundation, Inc., as of June 30, 2020 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.

5028 E. 101st Street

Tulsa, OK 74137

TEL: 918.492.3388

FAX: 918.492.4443

www.hinklecpas.com

Emphasis of Matter

As discussed in Note A, the financial statements of the University are intended to present the financial position, the changes in financial position and, where applicable, cash flows of only that portion of RUSO that is attributable to the transactions of the University. They do not purport to and do not present fairly the financial position of RUSO as of June 30, 2020, the changes in its financial position, or, where applicable, its cash flows for the year then ended in conformity with accounting principles generally accepted in the United States of America. Our opinion is not modified with respect to this matter.

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis and required supplementary information as listed in the table of contents 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 supplemental 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 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 Information

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the Northeastern State University's basic financial statements. The schedule of expenditures of federal awards is presented for purposes of additional analysis as required by Title 2 U.S. *Code of Federal Regulations* (CFR) Part 200, *Uniform Administrative Requirements, Cost Principles and Audit Requirements for Federal Awards*, but is not a required part of the basic financial statements.

The schedule of expenditures of federal awards is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the financial statements. Such information has been subjected to the auditing procedures applied in the audit of the financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements or to the financial statements themselves and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the schedule of expenditures of federal awards is fairly stated in all material respects in relation to the financial statements taken as a whole.

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated October 30, 2020 on our consideration of the University's internal control over financial reporting and 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 result of that testing and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the University's internal control over financial reporting and compliance.

Hill & Company, PC

Tulsa, Oklahoma
October 30, 2020

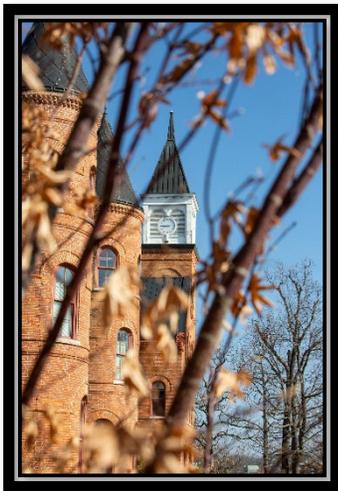


Year Ended June 30, 2020

Introductory Synopsis

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

This year COVID-19 presented our institution and community with unprecedented challenges. Responding to the pandemic has been a balancing act between protecting all of our NSU family while continuing to meet the needs of our students. We still face the uncertainties brought on by the outbreak and how long the effects will last. However, NSU has remained diligent with our contingency planning and preparations to provide a healthy educational environment for our NSU Community.



NSU pivoted quickly to online delivery after students left for Spring Break. Social distancing and limits on group size took away our ability to hold on-site graduation ceremonies. On May 9, NSU held our first virtual commencement. To honor the accomplishments of the Class of 2020, we included as many of the elements of a traditional ceremony as possible by providing an opportunity for our faculty, staff and alumni to celebrate with our graduates and their family and friends.

All courses remained online for the summer semester, with some exceptions for the college of Optometry and a few labs. As we make plans for the fall semester, we are doing everything possible to make sure our campuses are as safe and inviting as possible. Our unified message is *"NSU provides a quality education at an affordable price that is safe and closer to home."*

Seminary Hall work is progressing well and we completed Phase II, the design phase, in the Spring. This amazing project was made possible by a \$4 million dollar donation from the Cherokee Nation.

The President's Cabinet reviewed and approved the preliminary projected schedules and proposed budget based on the final construction documents for Wilson Hall Phase III.

The Preserve Our Past, eNSure Our Future campaign, which began four years ago, is in the home stretch of reaching its expanded goal of \$25,075,000 for scholarships, endowed faculty and capital projects. As of June 30, 2020, cash and commitments totaled \$27,085,013, putting NSU at over its goal.

MANAGEMENT'S DISCUSSION AND ANALYSIS (UNAUDITED) - Continued
 NORTHEASTERN STATE UNIVERSITY

Year Ended June 30, 2020

Overview of Financial Statements and Financial Analysis

The financial statements of Northeastern State University are presented for the fiscal year ended June 30, 2020. The most recent financial statements of the NSU Foundation are included in this presentation under the heading *Component Unit*. Financial analysis data is presented within this discussion for fiscal years 2019 and 2020.

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

Statement of Net Position

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

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

Statement of Net Position		
(Thousands of Dollars)		
	2020	2019
Assets:		
Current assets	\$ 50,430	\$ 50,011
Capital assets, net	145,321	151,125
Other assets	17,340	12,356
Total Assets	\$213,091	\$213,492
Deferred Outflows of Resources:		
Deferred charge on OCIA lease restructure	\$ 0	\$ 0
Liabilities:		
Current liabilities	\$ 9,989	\$ 9,469
Noncurrent liabilities	44,027	48,101
Total Liabilities	\$ 54,016	\$ 57,570
Deferred Inflows of Resources		
Deferred gain on OCIA lease restructure	\$ 408	\$ 449

MANAGEMENT'S DISCUSSION AND ANALYSIS (UNAUDITED) - Continued
 NORTHEASTERN STATE UNIVERSITY

Year Ended June 30, 2020

Net Position:		
Invested in capital assets	\$104,843	\$107,124
Restricted, expendable	25,955	18,040
Unrestricted	27,869	30,309
Total Net Position	\$158,667	\$155,473



Total net position of the University increased \$3.2 million during fiscal year 2020. This increase was a result of reduction in noncurrent lease obligation payable, decrease in capital assets and increase in restricted cash and cash equivalents.

Capital assets are reflected net of depreciation. A schedule of capital assets including additions and retirements can be found in Note E to the financial statements. Net capital assets decreased \$5.8 million during fiscal year 2020. Majority of this change was

due to depreciation. The chart below provides further information.

Change in Capital Assets	2020	2019
Additions: Buildings	\$ 1.4 million	\$.7 million
Construction in Progress	2.3 million	1.7 million
Art	0	0
Equipment	(.4 million)	(.2 million)
Land and Infrastructure	0	0
Library Materials	(.1 million)	(5.6 million)
Deduction: Net Depreciation	(9.0 million)	(3.6 million)
Net Fiscal Year Change	(\$ 5.8 million)	(\$ 7.0 million)

Liabilities include both current liabilities, such as accounts payable, and noncurrent liabilities, such as bond and lease obligations. Total liabilities decreased \$3.5 million during fiscal year 2020. Of this amount current liabilities increased \$.5 million, majority coming from unearned revenue. Noncurrent liabilities decreased \$4.0 million as debt obligations were paid down. Further information about long-term liabilities can be found in Note F to the financial statements.

MANAGEMENT'S DISCUSSION AND ANALYSIS (UNAUDITED) - Continued
 NORTHEASTERN STATE UNIVERSITY

Year Ended June 30, 2020

Statement of Revenues, Expenses and Changes in Net Position

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

	Fiscal Year Ended June 30	
	2020	2019
Operating revenues	\$54,066	\$56,741
Employee compensation and benefits	(66,829)	(65,928)
Depreciation expense	(10,121)	(10,445)
Other operating expense	(32,968)	(32,790)
Operating Income (Loss)	(55,852)	(52,422)
Federal, state and local grants	25,462	21,355
State appropriations	29,164	28,579
On behalf payments, gifts, investments and interest exp.	2,867	483
Capital gifts	93	264
State appropriations for capital purposes	1,355	4,387
Change in Net Position	3,089	2,646
Net Position, beginning of year	155,473	152,827
Restatement of net position	105	0
Net Position, end of year	\$ 158,667	\$ 155,473

MANAGEMENT'S DISCUSSION AND ANALYSIS (UNAUDITED) - Continued
NORTHEASTERN STATE UNIVERSITY

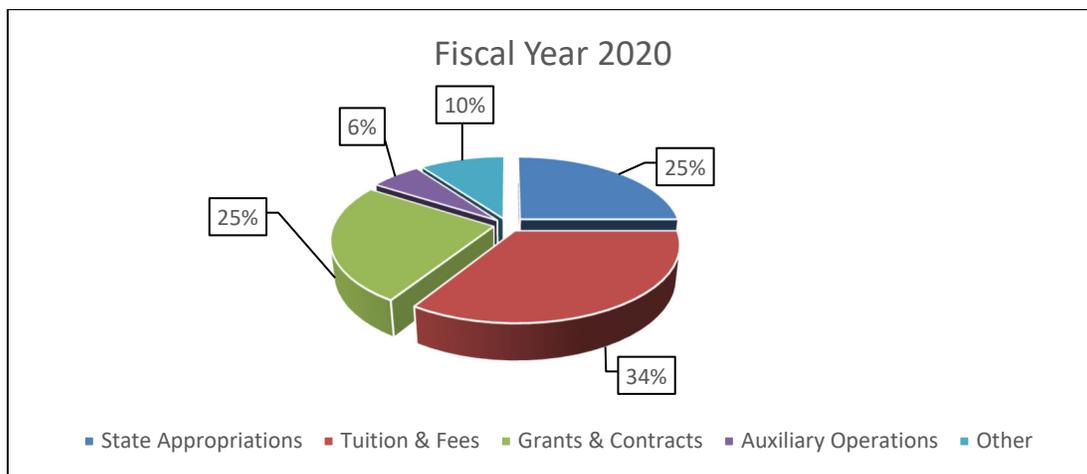
Year Ended June 30, 2020



Operating revenue includes tuition, fees, state and federal grants and contracts and revenue generated by auxiliary units. Total operating revenue decreased \$2.7 million in fiscal year 2020. Student tuition and fee revenue decreased \$.1 million as the result of decreased enrollment. The remaining decrease in revenue was a combination of optometry contracts of \$1.1 million, Housing and Food service revenue of \$.7 million, federal and state grants of \$.2 million and decrease in other operating revenue of \$.6 million

The primary sources of non-operating revenue include federal and state grants related to financial aid and state appropriations. The increased of non-operating revenue totaled \$3.9 million in fiscal year 2020. This increase was a result of and increase to Federal and state grant and contracts of \$4.1 million, State appropriations of \$.6 million and decrease in on behalf payments, gifts, etc. \$.6 million and capital gifts of \$.2 million.

The following is a graphical representation of the sources of NSU's revenue. State appropriations are 25% of total NSU revenue, student tuition and fees are 34%, grants and financial aid revenue 25% and Auxiliary operations and other sources make up the remaining 16%.

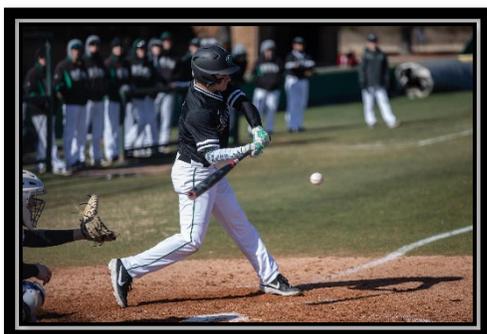


Operating expenses include employee compensation, student scholarships, depreciation, other necessary supplies and service expenses. For fiscal year 2020 operating expenses increased \$.7 million. This change is a result of an increase in employee compensation of \$.9 million, contractual services of \$.2 million, scholarships and fellowships of \$2.2 million and decrease in supplies and materials of \$1.8 million, depreciation of \$.3 million, utilities of \$.4 million and other operating expenses and communication expenses of \$.1 million. Change in net position reflects net income or loss for the year. The change in net income for fiscal year 2020 is an increase of \$.4 million.

Statement of Cash Flows

MANAGEMENT'S DISCUSSION AND ANALYSIS (UNAUDITED) - Continued
 NORTHEASTERN STATE UNIVERSITY

Year Ended June 30, 2020



The Statement of Cash Flows presents detailed information about cash receipts and disbursements of the university during the year. The statement is divided into five parts. The first shows the net cash used by the operating activities of the university. The second reflects cash flows from non-capital financing activities. The primary source of revenue for non-capital financing activities is from state appropriations. The third section is cash flows from investing activities, which shows the purchase, proceeds and interest received from investing activities. The fourth section deals with cash flows from

capital and related financing activities, which includes the acquisition and construction of capital and related items. The fifth and final section reconciles the net cash used to the operating income reflected on the Statement of Revenues, Expenses and Changes in Net Assets.

	Fiscal Year Ended June 30	
	2020	2019
Statement of Cash Flows		
(Thousands of Dollars)		
Cash provided (used) by		
Operating activities	\$(44,980)	\$(41,288)
Noncapital financing activities	58,067	51,607
Investing activities	628	764
Capital and related financing activities	(7,405)	(6,652)
Net Change in Cash	6,310	4,431
Cash, beginning of year	51,301	46,870
Cash, end of year	\$57,611	\$51,301

The net cash balance increased \$6.3 million during fiscal year 2020. The majority of this increase was due to receiving Higher Education Emergency Relief Funds for COVID-19 in noncapital financing activities.

Year Ended June 30, 2020



Component Units

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

Economic Outlook

For FY21, NSU's total budget request is \$86,925,000. Unfortunately, as we have seen too often since 2016, this year's budget includes a decrease in state appropriated funds. NSU's FY21 base appropriation is \$27,548,632 – a decrease of \$1,131,936 when compared to FY 20.

We recognize that COVID-19 has tragically taken lives, made many people sick, created disruption in so many aspects of daily life and is still a threat to our state, nation and world. The pandemic has also disrupted the economy and created great uncertainty about the near future. For higher education, the greatest uncertainty is fall enrollment. Experts predict enrollment to decline by approximately 15% nationwide. We hope students have confidence in our virus mitigation protocols, that are based on applicable CDC guidelines, and return to our three campuses for the full college experience. We also acknowledge that enrollment on August 28, Census Day, will have a profound impact, positive or negative, on NSU's budget. With approximately two-thirds of the revenue coming from tuition and one-third coming from the state appropriation, meeting or exceeding our projected credit hour production is essential.

To meet our budget needs and mandatory cost increases for FY21, we reduced departmental budgets by \$1.25 million. To respond to projected nation-wide enrollment declines, NSU built our FY21 budget based on a projected 8% drop in credit hour production. This means a potential revenue reduction of

MANAGEMENT'S DISCUSSION AND ANALYSIS (UNAUDITED) - Continued
NORTHEASTERN STATE UNIVERSITY

Year Ended June 30, 2020

approximately \$3.6 million. Most of these dollars will be replaced with one-time CARES Act funding in the amount of \$3,483,945. We are confident our enrollment exceeds our projection but based on the uncertainty about so many things due to COVID-19, we prepared a very conservative budget.

NSU is not seeking an increase in tuition and mandatory fees for FY 21. We want to support families by keeping tuition affordable and making a college degree accessible. In addition, we will keep the scholarship budget the same as FY 20.



STATEMENT OF NET POSITION
NORTHEASTERN STATE UNIVERSITY
A Department of the Regional University System of Oklahoma
June 30, 2020

	<u>University</u>	<u>Component</u>
	June 30, 2020	December 31, 2019
ASSETS		
Current Assets		
Cash and cash equivalents	\$ 33,829,779	\$ 1,800,563
Restricted cash and cash equivalents	8,071,098	-
Restricted investments	-	36,381,136
Accounts receivable, net	5,878,890	11
Receivable from state agencies (OSRHE Endowment)	948,935	-
Interest receivable (Perkins Loans)	809,819	8,054
Inventories and other current assets	579,208	39,877
Current portion of notes receivable, net	<u>312,000</u>	<u>-</u>
Total Current Assets	50,429,729	38,229,641
Noncurrent Assets		
Restricted cash and cash equivalents	15,710,145	-
Notes receivable, net	1,630,324	-
Capital assets, net	<u>145,321,397</u>	<u>46,000</u>
Total Noncurrent Assets	<u>162,661,866</u>	<u>46,000</u>
 Total Assets	 <u>\$ 213,091,595</u>	 <u>\$ 38,275,641</u>

STATEMENT OF NET POSITION
NORTHEASTERN STATE UNIVERSITY
A Department of the Regional University System of Oklahoma
June 30, 2020

	<u>University</u>	<u>Component</u>
	June 30, 2020	Unit December 31, 2019
LIABILITIES		
Current Liabilities		
Accounts payable	\$ 1,316,805	\$ 1,312
Accrued payroll	710,742	-
Accrued interest	15,396	-
Unearned revenue	3,784,910	-
Deposits held in custody for others	450	-
Current portion of noncurrent liabilities	<u>4,160,402</u>	<u>10,420</u>
Total Current Liabilities	9,988,705	11,732
Noncurrent Liabilities		
Accrued compensated absences	2,321,866	-
Other liabilities	-	611
Federal loan program contributions refundable	5,048,000	-
Unearned capital assets	-	-
Lease obligation payable to state agency	<u>36,657,420</u>	<u>-</u>
Total Noncurrent Liabilities	<u>44,027,286</u>	<u>611</u>
Total Liabilities	<u>\$ 54,015,991</u>	<u>\$ 12,343</u>
Deferred Inflows of Resources		
Deferred gain on OCIA lease restructure	<u>\$ 408,595</u>	<u>\$ -</u>
Net Position		
Net investment in capital assets	\$ 104,843,322	\$ -
Restricted:		
Nonexpendable, primarily for Scholarships		22,020,277
Expendable:		
Scholarships, instruction and other	7,395,955	12,600,357
Loans	391,825	-
Capital projects	13,623,899	-
Debt service	4,542,968	-
Unrestricted	<u>27,869,040</u>	<u>3,642,664</u>
TOTAL NET POSITION	<u>\$ 158,667,009</u>	<u>\$ 38,263,298</u>

STATEMENT OF REVENUE, EXPENSES AND CHANGES IN NET POSITION
NORTHEASTERN STATE UNIVERSITY
A Department of the Regional University System of Oklahoma
June 30, 2020

	<u>University</u>	<u>Component Unit</u>
	Year Ended June 30 2020	Year Ended December 31 2019
Operating Revenues		
Student tuition and fees, net of scholarship discounts and allowances of \$16,240,584	\$ 38,535,076	\$ -
Federal and state grants and contracts	3,021,881	-
Housing and food service, net of scholarship discounts and allowances of \$1,243,118	2,728,846	-
Optometry contracts and practice plan	4,710,080	-
Interest earned on loans to students	47,525	-
Gifts and contributions		4,719,831
Investment income - gain or (loss)		5,600,441
Other operating revenues	<u>5,022,996</u>	<u>84,145</u>
Total Operating Revenues	54,066,404	10,404,417
Operating Expenses		
Compensation	66,829,259	-
Contractual services	5,308,257	-
Supplies and materials	4,657,179	-
Depreciation	10,121,031	-
Utilities	2,711,593	-
Communication expense	167,668	-
Scholarships and fellowships	12,160,795	3,505,256
Other operating expenses	<u>7,963,025</u>	<u>624,021</u>
Total Operating Expenses	109,918,807	4,129,277
Operating Income (Loss)	(55,852,403)	6,275,140
Nonoperating Revenues (Expenses)		
State appropriations	29,164,425	-
Federal and state grants and contracts	25,462,349	-
Gifts and contributions	3,440,223	-
Investment income	617,284	-
Interest expense	<u>(1,732,336)</u>	<u>-</u>
Net Nonoperating Revenues (Expenses)	56,951,945	-
Income before other revenues, expenses, gains and losses	1,099,542	6,275,140
State appropriations restricted for capital purposes	1,355,050	-
OCIA on-behalf payments	541,904	-
Contributed Capital	<u>92,521</u>	<u>-</u>
Change In Net Position	3,089,017	6,275,140
Net Position At Beginning Of Year	<u>155,473,228</u>	<u>31,988,158</u>
Adjustment to net position for adoption of new accounting principle	104,764	
Net Position At Beginning Of Year - Restated	<u>155,577,992</u>	<u>31,988,158</u>
Net Position At End Of Year	<u>\$ 158,667,009</u>	<u>\$ 38,263,298</u>

STATEMENT OF CASH FLOWS
NORTHEASTERN STATE UNIVERSITY
A Department of the Regional University System of Oklahoma
June 30, 2020

Cash Flows from Operating Activities	
Tuition and fees	\$ 39,012,260
Grants and contracts	3,158,799
Other operating receipts	12,738,352
Payments to employees for salaries and benefits	(66,597,977)
Payments to suppliers	(33,725,272)
Loans made to students	(219,571)
Collection of student loans	652,992
	<hr/>
Net Cash Used in Operating Activities	(44,980,417)
Cash Flows from Noncapital Financing Activities	
State appropriations	29,164,425
Nonoperating grants, primarily student financial assistance	25,462,349
Gifts for other than capital purposes	3,440,223
Direct loan/FFEL receipts	31,370,726
Direct loan/FFEL payments	(31,370,726)
	<hr/>
Net Cash Provided by Noncapital Financing Activities	58,066,997
Cash Flows from Investing Activities	
Investment income received	628,115
	<hr/>
Net Cash Provided by Investing Activities	628,115
Cash Flows from Capital and Related Financing Activities	
Cash paid for capital assets	(4,037,854)
Capital appropriations received	1,355,050
Principal payments on capital debt and leases	(3,284,193)
Interest paid on capital debt and leases	(1,437,701)
	<hr/>
Net Cash Used in Capital and Related Financing Activities	(7,404,698)
Net Increase (Decrease) in Cash Equivalents	6,309,997
Cash and Cash Equivalents, Beginning of Year	51,301,025
	<hr/>
Cash and Cash Equivalents, End of Year	\$ 57,611,022
	<hr/> <hr/>

STATEMENT OF CASH FLOWS - Continued
NORTHEASTERN STATE UNIVERSITY
A Department of the Regional University System of Oklahoma
June 30, 2020

Reconciliation of Operating Loss to	
Net Cash Used in Operating Activities	
Operating loss	\$ (55,852,403)
Adjustments to reconcile operating loss	
to net cash used by operating activities:	
Depreciation	10,121,031
Loss on the disposal of fixed assets	3,600
Changes in assets and liabilities:	
Accounts receivable	520,936
Inventories	(57,669)
Loans receivable	433,421
Accounts payable and accrued expenses	(212,686)
Accrued payroll	110,535
Unearned revenue	322,071
Federal loan program contributions refundable	(490,000)
Compensated absences	120,747
	<hr/>
Net Cash Used in Operating Activities	<u>\$ (44,980,417)</u>
Noncash Investing, Noncapital Financing and Capital	
and Related Financing Activities	
Principal on capital debt paid by OCIA	
on behalf of the University	<u>\$ 13,473</u>
Interest on capital debt paid by OCIA	
on behalf of the University	<u>\$ 528,431</u>
Non-cash capital grants and gifts	<u>\$ 92,521</u>
Deferred gain on OCIA lease restructure	<u>\$ 408,595</u>
Reconciliation of Cash and Cash Equivalents	
to Statements of Net Assets	
Current assets:	
Cash and cash equivalents	\$ 33,829,779
Restricted cash and cash equivalents	8,071,098
Noncurrent assets:	
Restricted cash and cash equivalents	<hr/> 15,710,145
Total Cash and Cash Equivalents	<u>\$ 57,611,022</u>

STATEMENT OF FIDUCIARY NET POSITION
NORTHEASTERN STATE UNIVERSITY
A Department of the Regional University System of Oklahoma
June 30, 2020

Assets

Cash and cash equivalents	\$ 2,204,436
Total Assets	<u>\$ 2,204,436</u>

Liabilities

Due to OKHEEI	\$ 2,204,436
Total Liabilities	<u>\$ 2,204,436</u>

STATEMENT OF FIDUCIARY CHANGES IN NET POSITION
NORTHEASTERN STATE UNIVERSITY
A Department of the Regional University System of Oklahoma
June 30, 2020

Additions

Premium payments for OKHEEI	\$ 7,836,294
Total additions	<u>\$ 7,836,294</u>

Deductions

Payments of premiums to OKHEEI	\$ 7,836,294
Total deductions	<u>\$ 7,836,294</u>

Change in Net Position

\$ -

Net Position at Beginning of Year

\$ -

Net Position at End of Year

\$ -

NOTES TO FINANCIAL STATEMENTS
NORTHEASTERN STATE UNIVERSITY

A Department of the Regional University System of Oklahoma
June 30, 2020

Note A: Summary of Significant Accounting Policies

Nature of Organization

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

Reporting Entity

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

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

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

Discretely Presented Component Units

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

Financial Statement Presentation

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

NOTES TO FINANCIAL STATEMENTS
NORTHEASTERN STATE UNIVERSITY
A Department of the Regional University System of Oklahoma
June 30, 2020

Note A: Summary of Significant Accounting Policies (Continued)

Basis of Accounting

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

Cash Equivalents

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

Investments

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

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

NOTES TO FINANCIAL STATEMENTS
NORTHEASTERN STATE UNIVERSITY

A Department of the Regional University System of Oklahoma
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Note A: Summary of Significant Accounting Policies (Continued)

Capital Assets (Continued)

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

Unearned Revenue

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

Compensated Absences

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

Noncurrent Liabilities

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

Net Position

The University's net position is classified as follows:

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

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

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

NOTES TO FINANCIAL STATEMENTS
NORTHEASTERN STATE UNIVERSITY

A Department of the Regional University System of Oklahoma
June 30, 2020

Note A: Summary of Significant Accounting Policies (Continued)

Unrestricted net position (Continued)

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

Income Taxes

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

Use of Estimates

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

Classification of Revenues

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

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

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

Scholarship Discounts and Allowances

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

NOTES TO FINANCIAL STATEMENTS
 NORTHEASTERN STATE UNIVERSITY
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Note A: Summary of Significant Accounting Policies (Continued)

Deferred Inflows of Resources

Deferred inflows are the acquisition of net position by the University that are applicable to a future reporting period. At June 30, 2019, the University's deferred inflows of resources were comprised of deferred gains on the restructuring of certain long-term debt.

Fiduciary Funds

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

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

Restatement

The July 1, 2019, beginning net position has been restated to reflect the implementation of GASB 84. The effect of the restatement is as follows:

Beginning net position, as previously reported	\$155,473,228
Implementation of GASB Statement No. 84	104,764
Beginning net position, restated	<u><u>\$155,577,992</u></u>

New Accounting Pronouncements

New Accounting Pronouncement Adopted

In January 2017, GASB issued Statement No. 84, *Fiduciary Activities* (GASB 84). GASB 84 improves guidance regarding the recognition and reporting of fiduciary activities. GASB 84 identifies four types of reportable fiduciary fund types, including 1) pension (and other employee benefit) trust funds, 2) investment trust funds, 3) private-purpose trust funds, and 4) custodial funds. GASB 84 outlines the accounting and disclosure requirements for operating structures that qualify as a fiduciary activity. The University adopted GASB 84 effective July 1, 2019, for the June 30, 2020, reporting year. The implementation of GASB 84 did not have a significant impact on the financial statements.

NOTES TO FINANCIAL STATEMENTS
NORTHEASTERN STATE UNIVERSITY
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Note B: Deposits and Investments

Deposits

Custodial credit risk for deposits is the risk that in the event of a bank failure, the University's deposits may not be returned or the University will not be able to recover collateral securities in the possession of an outside party. Generally, the University deposits its funds with the Office of the State Treasurer (OST) and those funds are pooled with funds of other state agencies and then, in accordance with statutory limitations, are placed in financial institutions or invested as the OST may determine, in the State's name.

There is \$59,896,509 in cash and cash equivalents on deposit with the State Treasurer as of June 30, 2020, of which \$2,204,436 represents amounts held in agency funds. Of the \$59,896,509 on deposit with the State Treasurer, \$27,941,143 represents amounts held within *OK INVEST*, an internal investment pool. 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.

Interest rate risk is the risk that during periods of rising interest rates, the yield and market value of the securities will tend to be lower than prevailing market rates; in periods of falling interest rates, the yield will tend to be higher. Credit/default risk is the risk that an issuer or guarantor of a security, or a bank or other financial institution that has entered into a repurchase agreement, may default on its payment obligations. Liquidity risk is the risk that *OK INVEST* will be unable to pay redemption proceeds within the stated time period because of unusual market conditions, an unusually high volume of redemption requests, or other reasons.

U.S. Government securities risk is the risk that the U.S. government will not provide financial support to U.S. government agencies, instrumentalities or sponsored enterprises if it is not obligated to do so by law. Various investment restrictions and limitations are enumerated in the State Treasurer's Investment Policy to mitigate those risks; however, any interest in *OK INVEST* is not insured or guaranteed by the State of Oklahoma, the Federal Deposit Insurance Corporation or any other government agency.

NOTES TO FINANCIAL STATEMENTS
NORTHEASTERN STATE UNIVERSITY

A Department of the Regional University System of Oklahoma
June 30, 2020

Note B: Deposits and Investments (Continued)

Investments

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

Interest rate risk is the risk that changes in interest rates will adversely affect the fair value of an investment. Investments that are held for longer periods of time are subject to increased risk of adverse interest rate changes.

Neither the University nor state statutes limit investment maturities as a means of managing exposure to fair value losses arising from increasing interest rates; however, the OST Investment policy limits the average maturity on its portfolio to four (4) years, with certain individual securities having more restrictive limits as defined in the policy. *Concentration of credit risk* is the risk of loss attributed to the magnitude of the University's investment in a single issuer. Neither the University's investment policy nor state statutes place limits on amounts that can be invested in any one issuer; however, the OST Investment Policy states that, with the exception of U.S. Treasury securities, no more than 50% of the State's total funds may be invested in a single security type or with a single financial institution, with diversification percentages being more restrictive on individual securities. *Custodial credit risk* for investments is the risk that, in the event of failure of the counterparty, the University will not be able to recover the value of its investments or collateral securities in the possession of an outside party. As of June 30, 2020, the University did not have any qualifying investments.

Note C: Accounts Receivable

Accounts receivable consisted of the following at June 30, 2020:

Student tuition and fees	\$ 3,875,958
Auxiliary enterprises and other operating activities	800,974
Federal, state, and private grants and contracts	787,651
Cancelled Perkins loans	<u>2,441,497</u>
	7,906,080
Less: allowance for doubtful accounts	<u>(2,027,190)</u>
Net accounts receivable	<u>\$ 5,878,890</u>

NOTES TO FINANCIAL STATEMENTS
 NORTHEASTERN STATE UNIVERSITY
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Note D: Loans Receivable

Student loans made through the Federal Perkins Loan Program (the “Program”) comprise substantially all of the loan receivables at June 30, 2020. Under this program, the federal government provides funds for approximately 75% of the total contribution for student loans with the University providing the balance. Under certain conditions such loans can be forgiven at annual rates of 10% to 30% of the original balance up to maximums of 50% to 100% of the original loan. The federal government reimburses the University for the amounts forgiven. Amounts refundable to the U.S. Government upon cessation of the Program of \$5,048,000 at June 30, 2020, are reflected in the accompanying statements of net position as noncurrent liabilities.

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

At June 30, 2020 loans receivable consisted of the following:

Perkins loans receivable	\$ 2,138,170
Other loans receivable	<u>300</u>
Total loans receivable	2,138,470
Less: Allowance for uncollectible loans	<u>(196,146)</u>
Net loans receivable	<u>\$ 1,942,324</u>

NOTES TO FINANCIAL STATEMENTS
 NORTHEASTERN STATE UNIVERSITY
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Note E: Capital Assets

Following are the changes in capital assets for the year ended June 30, 2020:

	Balance June 30, 2019	Additions	Transfers	Retirements/ Adjustments	Balance June 30, 2020
Capital assets not being depreciated					
Land	\$ 7,912,238	\$ -	\$ -	\$ -	\$ 7,912,238
Construction in progress	6,384,999	3,235,237	(942,066)	-	8,678,170
Total assets not being depreciated	<u>\$ 14,297,237</u>	<u>\$ 3,235,237</u>	<u>\$ (942,066)</u>	<u>\$ -</u>	<u>\$ 16,590,408</u>
Other capital assets					
Non-major infrastructure networks	\$ 8,088,404	\$ -	\$ -	\$ -	\$ 8,088,404
Buildings and improvements	237,543,049	510,855	942,066	-	238,995,970
Art	250,000	-	-	-	250,000
Furniture, fixtures and equipment	25,351,311	300,846	-	(732,962)	24,919,195
Library materials	4,487,756	274,246	-	(399,910)	4,362,092
Total other capital assets	275,720,520	1,085,947	942,066	(1,132,872)	276,615,661
Less: accumulated depreciation for					
Non-major infrastructure networks	4,790,459	340,598	-	-	5,131,057
Buildings and improvements	109,077,045	8,053,298	-	-	117,130,343
Art	50,000	12,500	-	-	62,500
Furniture, fixtures and equipment	22,661,525	1,227,465	-	(729,362)	23,159,628
Library materials	2,313,884	487,170	-	(399,910)	2,401,144
Total accumulated depreciation	<u>138,892,913</u>	<u>10,121,031</u>	<u>-</u>	<u>(1,129,272)</u>	<u>147,884,672</u>
Other capital assets, net	<u>\$ 136,827,607</u>	<u>\$ (9,035,084)</u>	<u>\$ 942,066</u>	<u>\$ (3,600)</u>	<u>\$ 128,730,989</u>
Capital asset summary:					
Capital assets not being depreciated	\$ 14,297,237	\$ 3,235,237	\$ (942,066)	\$ -	\$ 16,590,408
Other capital assets, at cost	275,720,520	1,085,947	942,066	(1,132,872)	276,615,661
Total cost of capital assets	290,017,757	4,321,184	-	(1,132,872)	293,206,069
Less: accumulated depreciation	<u>138,892,913</u>	<u>10,121,031</u>	<u>-</u>	<u>(1,129,272)</u>	<u>147,884,672</u>
Capital assets, net	<u>\$ 151,124,844</u>	<u>\$ (5,799,847)</u>	<u>\$ -</u>	<u>\$ (3,600)</u>	<u>\$ 145,321,397</u>

At June 30, 2020, the cost and related accumulated depreciation of assets held under capital lease obligations and included in the above amounts were \$74,098,699 and \$37,043,003, respectively.

NOTES TO FINANCIAL STATEMENTS
 NORTHEASTERN STATE UNIVERSITY
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Note F: Long-Term Liabilities

Long-term liability activity for the year ended June 30, 2020 was as follows:

	Balance June 30, 2019	Additions	Reductions	Balance June 30, 2020	Amounts due within one year
Capital lease obligations					
ODFA Master Lease	\$ 30,179,085	\$ -	\$ (2,747,000)	\$ 27,432,085	\$ 2,808,083
Premium on ODFA lease obligation	909,856	-	(132,733)	777,123	131,122
OCIA lease obligation	11,102,711	-	(13,473)	11,089,238	-
Presidio NSU master lease-Data Center	968,096	-	(419,071)	549,025	437,181
Presidio NSU master lease-Wireless	211,069	-	(62,497)	148,572	64,119
Enterprise master lease	214,641	-	(55,625)	159,016	57,134
Total capital leases	43,585,458	-	(3,430,399)	40,155,059	3,497,639
Other liabilities					
Unearned capital assets	100,000	-	(50,000)	50,000	50,000
Federal loan program contributions	5,538,000	-	(490,000)	5,048,000	-
Accrued compensated absences	2,813,882	2,934,629	(2,813,882)	2,934,629	612,763
Total other liabilities	8,451,882	2,934,629	(3,353,882)	8,032,629	662,763
Total long-term liabilities	\$ 52,037,340	\$ 2,934,629	\$ (6,784,281)	\$ 48,187,688	\$ 4,160,402

Capital Lease Obligations

Oklahoma Capital Improvement Authority Leases

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

In 2014, the OCIA restructured the 2005F by issuing new bonds 2014 Series A. This restructuring was a partial refunding of the 2005F issue. The restructured lease agreement with OCIA secures the OCIA bond indebtedness and any future indebtedness that might be issued to refund earlier bond issues. The University's aforementioned lease agreement with OCIA was automatically restructured to secure the new bond issues.

During the year ended June 30, 2020, OCIA made principal and interest payments totaling \$541,904 on behalf of the University for the 2014A and remaining 2005F issues. These on-behalf payments have been recorded as restricted state appropriations in the University's statements of revenues, expenses and change in net position.

NOTES TO FINANCIAL STATEMENTS
NORTHEASTERN STATE UNIVERSITY
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Note F: Long-Term Liabilities (Continued)

Capital Lease Obligations (Continued)

Oklahoma Development Finance Authority Master Lease Program

Series 2011A

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

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

Series 2013B

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

Series 2014A – Equipment Energy

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

Series 2014A - Housing

In February 2014, the University entered into capital lease obligation Series 2014A in the amount of \$14,517,000 for the construction of student housing. Lease payments over the term of the agreement, including interest, total \$21,055,975. Payments began March 15, 2014, and go through May 15, 2033, and will range from \$91,009 to \$95,407 annually. As of June 30, 2020, the University has approximately \$135,580 of its allotment available to be drawn.

NOTES TO FINANCIAL STATEMENTS
 NORTHEASTERN STATE UNIVERSITY
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Note F: Long-Term Liabilities (Continued)

Capital Lease Obligations (Continued)

Series 2014B

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

Series 2016B

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

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

Year Ending June 30:	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2021	2,808,084	1,568,447	\$ 4,376,531
2022	2,546,833	1,457,449	4,004,282
2023	3,669,712	1,369,307	5,039,019
2024	3,722,922	1,220,201	4,943,123
2025	2,794,962	1,067,410	3,862,372
2026-2030	15,717,940	3,591,351	19,309,291
2031-2034	7,260,870	549,200	7,810,070
	<u>\$ 38,521,323</u>	<u>\$ 10,823,365</u>	<u>\$ 49,344,688</u>

Capital Leases

In 2017, the University entered into a lease agreement with Presidio Technology Capital for financing of a data center. The lease was issued in December 2016 for an amount of \$2,215,784 with an interest rate of 2.82% maturing January 2022.

NOTES TO FINANCIAL STATEMENTS
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Note F: Long-Term Liabilities (Continued)

Capital Leases (Continued)

The scheduled principal and interest payments related to the capital lease are as follows:

	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
Year Ending June 30:			
2021	437,181	23,726	460,907
2022	111,844	5,247	117,091
	<u>\$ 549,025</u>	<u>\$ 28,973</u>	<u>\$ 577,998</u>

In 2018, the University entered into a lease agreement with Presidio Technology Capital for financing of a wireless network. The lease was issued in July 2017 for an amount of \$339,864 with an interest rate of 2.56% maturing November 2021.

The scheduled principal and interest payments related to the capital lease are as follows:

	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
Year Ending June 30:			
2021	64,118	3,854	67,972
2022	84,454	2,271	86,725
	<u>\$ 148,572</u>	<u>\$ 6,125</u>	<u>\$ 154,697</u>

In 2018, the University entered into a lease agreement with Enterprise Fleet Management for financing of rental vehicles. The lease was issued in December 2017 for an amount of \$283,533 with an interest rate ranging from 2.66% to 2.69% maturing March 2023.

The scheduled principal and interest payments related to the capital lease are as follows:

	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
Year Ending June 30:			
2021	57,134	3,562	60,696
2022	58,683	2,012	60,695
2023	43,199	465	43,664
	<u>\$ 159,016</u>	<u>\$ 6,039</u>	<u>\$ 165,055</u>

NOTES TO FINANCIAL STATEMENTS
NORTHEASTERN STATE UNIVERSITY

A Department of the Regional University System of Oklahoma
June 30, 2020

Note F: Long-Term Liabilities (Continued)

Unearned Capital Assets

In April 2010, the University entered into a management agreement with an unrelated third party (the "Contractor"). In connection with the agreement, the Contractor agreed to provide the University \$500,000 for equipment and renovation of the University's food service facilities. The equipment and related capital assets are owned by the University; however, if the agreement is terminated prior to completion (10 years), the University must reimburse the Contractor for the unamortized portion of the capital assets, and is amortizing it over the 10-year term of the agreement. The annual amortization for fiscal year 2020 was \$50,000.

Note G: Retirement Plans

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

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

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

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

NOTES TO FINANCIAL STATEMENTS
NORTHEASTERN STATE UNIVERSITY
A Department of the Regional University System of Oklahoma
June 30, 2020

Note G: Retirement Plans (Continued)

Oklahoma Teachers' Retirement System (OTRS)

Plan Description

The University contributes to the Oklahoma Teachers' Retirement System (OTRS), a cost-sharing multiple-employer defined benefit pension plan and defined benefit OPEB plan sponsored by the State of Oklahoma. OTRS provides defined retirement benefits based on members' final compensation, age and term of service. In addition, the retirement program provides for benefits upon disability and to survivors upon the death of eligible members. The plan also provides a health insurance subsidy for retirees in an amount of \$100 to \$105 per month. The benefit provisions are established and may be amended by the legislature of the State of Oklahoma. Title 70 of the Oklahoma Statutes, Sections 17-101 through 116.9, as amended, assigns the authority for management and operations of the Plan to the Board of Trustees of OTRS. OTRS is not required to provide for a cost of living adjustment. OTRS issues a publicly available financial report that can be obtained at www.ok.gov/TRS.

Funding Policy

The University is required by state statute to contribute a fixed percentage of annual compensation on behalf of active members. The employer contribution rate, as determined by state statute, was 8.55% for 2020, 2019, and 2018, and was applied to annual compensation. This single rate is allocated by OTRS to fund both the pension and OPEB benefits.

Employees' contributions are also determined by state statute. For all employees, the contribution rate was 7% of covered salaries and fringe benefits in 2020, 2019, and 2018. For compensation in excess of \$25,000, the employee's contributions are paid directly by the University to the OTRS.

The University's contributions to the OTRS for the years ended June 30, 2020, 2019, and 2018, were approximately \$6,206,000, \$6,099,000, and \$5,921,000, respectively, equal to the required contributions for each year. These contributions included the University's statutory contribution and the share of the employee's contribution paid directly by the University.

The State of Oklahoma is also required to contribute to the OTRS on behalf of the participating employers. For 2020, the State of Oklahoma contribution was 5% of state revenues from sales and use taxes and individual income taxes, to the OTRS on behalf of participating employers. These amounts and other system-wide related amounts are reported in the RUSO financial statements and not at the individual department level.

NOTES TO FINANCIAL STATEMENTS
NORTHEASTERN STATE UNIVERSITY

A Department of the Regional University System of Oklahoma
June 30, 2020

Note G: Retirement Plans (Continued)

Supplemental Retirement Annuity (SRA)

Plan Description

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

Funding Policy

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

The University's contributions to the SRA for the years ended June 30, 2020, 2019, and 2018, were approximately \$1,012,000, \$1,012,000, and \$1,000,000, respectively.

Defined Contribution Plan

The University also has a defined contribution 403(b) plan (DCP) available to full-time employees. The DCP is administered by the RUSO System, and the plan provisions are established and may be amended by the Board of Regents. Plan members may make voluntary contributions in accordance with IRS regulations. The University has no contribution requirements, and no contributions were made during the years ended June 30, 2020, 2019, and 2018. However, the University did make a contribution of \$25,000 to the President's 403(b) plan in 2020, but made no contributions in 2019 and 2018.

Note H: Other Post-Employment Insurance Benefits

Trusted Plan

Plan Description

The University's postemployment healthcare plan is a single employer defined benefit plan administered by the Board of Regents. The plan provides medical and life insurance benefits to eligible retired employees until age 65. A retiring employee must have been employed full-time in the System for not less than ten years immediately preceding the date of retirement; been a member of the OTRS during that time; and elected to receive a vested benefit under the provision of the Oklahoma Teachers' Retirement System. As of June 30, 2020, there were 377 active participants in the plan. The retirement insurance program was adopted by the Board of Regents in 1985.

NOTES TO FINANCIAL STATEMENTS
NORTHEASTERN STATE UNIVERSITY
A Department of the Regional University System of Oklahoma
June 30, 2020

Note H: Other Post-Employment Insurance Benefits (Continued)

Plan Description (Continued)

In March of 2008, the Retiree Medical Trust for Regional University System of Oklahoma was established to hold assets and pay benefits on behalf of the University's postemployment healthcare plan, and was administered by The Bank of Oklahoma, N.A. The plan is included in the financial report of the RUSO reporting entity.

That report may be obtained by writing to RUSO, 3555 N.W. 58th Street, Suite 320, Oklahoma City, Oklahoma 73112, or by calling (405) 924-8817.

Funding Policy

The contribution requirements of the University are established and may be amended by the Board of Regents. The University is required to contribute the actuarially determined employer contribution amount in accordance with the parameters of GASB Statement 75. The current year amount is approximately \$400,000.

The University's contributions to the plan for the years ended June 30, 2020, 2019, and 2018, were approximately \$400,000, \$113,000, and \$113,000, respectively.

Non-Trusted

Plan description

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

Benefits provided

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

NOTES TO FINANCIAL STATEMENTS
NORTHEASTERN STATE UNIVERSITY
A Department of the Regional University System of Oklahoma
June 30, 2020

Note I: Funds Held in Trust by Others

Beneficial Interest in State School Land Funds

The University has a beneficial interest in the “Section Thirteen Fund State Educational Institutions” and the “New College Fund” administered by the Commissioners of the Land Office as trustees for the various educational institutions entitled thereto. The University has the right to receive annually 3.7% of the distributions of income produced by “Section Thirteen Fund State Educational Institutions” assets and 100% of the distributions of income produced by the University’s “New College Fund”. The University received approximately \$1,017,000 during the year ended June 30, 2020, 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 market value of the total trust reserve for the University, held in trust by the commissioners of Land Office, was approximately \$19,000,000 at June 30, 2020.

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 \$2,200,000 at June 30, 2020, and is invested by the Oklahoma State Regents on behalf of the University. The University is entitled to receive an annual distribution of 5% of the market value at year end on these funds. As legal title of the State Regents matching endowment funds is retained by the Oklahoma State Regents, only the funds available for distribution, approximately \$88,000 at June 30, 2020, have been reflected as assets in the statement of net position. In connection with the program, private contributions totaling approximately \$2,806,000 as of June 30, 2020, are being held by the University Foundation for the benefit of the University. Additional private contributions of approximately 605,000 as of June 30, 2020, are held by the Oklahoma State Regents on behalf of the University. As legal title rests with the Oklahoma State Regents, these funds are not included in the accompanying financial statements.

Additional amounts are being managed and held by the Oklahoma State Regent’s for Higher Education for the Endowed Chair and Herb Rozell endowments in the amount of \$860,711 on behalf of the University and is reported as a receivable in the accompanying financial statements.

Note J: Related Party Transactions

The University is beneficiary of the Northeastern Oklahoma Public Facilities Authority (the “Authority”), a public trust created under Title 60, Section 176, of the Oklahoma statutes. The University received \$160,000 for the year ended June 30, 2020.

NOTES TO FINANCIAL STATEMENTS
NORTHEASTERN STATE UNIVERSITY
A Department of the Regional University System of Oklahoma
June 30, 2020

Note K: Commitments and Contingencies

The University had outstanding commitments under construction contracts of approximately \$1,860,000 at June 30, 2020.

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

The University began participation in the Federal Direct Loan Program on July 1, 2010. For the year ended June 30, 2020, \$31,370,726 of Direct Loan funds were disbursed to University students.

During the ordinary course of business, the University may be subjected to various lawsuits and civil action claims. Management believes that resolution of any such matters pending at June 30, 2020, will not have a material adverse impact to the University.

Note L: Risk Management

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

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

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

NOTES TO FINANCIAL STATEMENTS
NORTHEASTERN STATE UNIVERSITY

A Department of the Regional University System of Oklahoma
June 30, 2020

Note L: Risk Management (Continued)

The University also began participating, during fiscal year 2017, in the Oklahoma Higher Education Employee Interlocal Group Health Insurance Pool "OKHEEI". University employees are provided health insurance coverage through OKHEEI. OKHEEI is an Interlocal Cooperative Act Agency organized as a public entity risk pool health insurance program for participating Colleges and Universities in the State. The University pays monthly health insurance premiums to OKHEEI for employee health insurance coverage based on the health coverage elected by the employee and the maximum benefit provide by the University for health coverage. Amounts of premiums exceeding benefits are payable by the employee. The governing agreement for OKHEEI specifies that the pool will be self-sustaining through premiums received and with additional stop-loss coverages obtained. If health care claims exceed reserves and reinsurance coverages, additional assessments may be made to participating Colleges and Universities. As of June 30, 2020, additional assessments did not occur.

Note M: Northeastern State University, Foundation, Inc.

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

Summary of Significant Accounting Policies

Fair Value Measurements

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

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

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

NOTES TO FINANCIAL STATEMENTS
 NORTHEASTERN STATE UNIVERSITY

A Department of the Regional University System of Oklahoma
 June 30, 2020

Note M: Northeastern State University, Foundation, Inc. (Continued)

Investments

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

Investments consist of the following at December 31, 2019:

<u>Description</u>	<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>	<u>Total</u>
Equity funds	\$ 20,463,629	\$ -	\$ -	\$ 20,463,629
Fixed income funds	-	14,701,883	-	14,701,883
Cash and equivalents	478,282	-	-	478,282
Alternative investments	737,342	-	-	737,342
Total	<u>\$ 21,679,253</u>	<u>\$ 14,701,883</u>	<u>\$ -</u>	<u>\$ 36,381,136</u>

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

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

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

The Foundation allocates investment return only on endowment funds. No investment return is allocated on custodial or pass through accounts. The return on investment attributable to individual endowment accounts is allocated to the account annually. An annual service fee is charged to each individual endowment account and this fee is transferred to unrestricted funds. The service fee rate is 1.5%.

NOTES TO FINANCIAL STATEMENTS
NORTHEASTERN STATE UNIVERSITY
A Department of the Regional University System of Oklahoma
June 30, 2020

Note M: Northeastern State University, Foundation, Inc. (Continued)

Investments (Continued)

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

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

Endowment Disclosures

The Foundation's endowment consists of 294 individual donor-restricted funds which are managed and controlled by the Foundation and are primarily established for scholarships, programs, or capital projects. As required by GAAP, net position associated with endowment funds are classified and reported based on the existence or absence of donor-imposed restrictions.

Interpretation of Relevant Law

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

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

NOTES TO FINANCIAL STATEMENTS
NORTHEASTERN STATE UNIVERSITY
A Department of the Regional University System of Oklahoma
June 30, 2020

Note M: Northeastern State University, Foundation, Inc. (Continued)

Funds with Deficiencies

From time to time, the fair value of assets associated with individual donor-restricted endowment funds may fall below the level that the donor or SPMIFA requires the NSU Foundation to retain as a fund of perpetual duration. There were no such endowment funds at December 31, 2019.

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 4.5% 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.



NORTHEASTERN STATE UNIVERSITY

**A Department of the Regional
University System of Oklahoma**

**SINGLE AUDIT REPORTS
FOR THE FISCAL YEAR ENDED
JUNE 30, 2020**

Reports Required by Government Auditing Standards and Uniform Guidance

Independent Auditors' 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* 1

Independent Auditors' Report on Compliance for Each Major Federal
Program; Report on Internal Control Over Compliance; and Report on
the Schedule of Expenditures of Federal Awards Required by the Uniform Guidance 3

Schedule of Expenditures of Federal Awards 5

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Schedule of Findings and Questioned Costs 8

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**Independent Auditors' Report on Internal Control over Financial Reporting
and on Compliance and Other Matters Based on an Audit of the Financial
Statements Performed in Accordance with
Government Auditing Standards**

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

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of Northeastern State University (the "University"), a department of the Regional University system of Oklahoma ("RUSO"), which is a component unit of the State of Oklahoma, as of and for the year ended June 30, 2020 and the related notes to the financial statements, which collectively comprise the University's basic financial statements and have issued our report thereon dated October 30, 2020.

Internal Control over Financial Reporting

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

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

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

Compliance and Other Matters

As part of obtaining reasonable assurance about whether Northeastern State University's financial statements are free from material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements, noncompliance with which could have a direct and material effect on the financial statements. 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 entity'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 entity's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

Tulsa, Oklahoma
October 30, 2020

Hill & Company, PC





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COMPANY**
Strategic PC
Business Advisors

Independent Auditors' Report on Compliance for Each Major Federal Program; Report on Internal Control over Compliance and Report on 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 compliance with the types of compliance requirements described in the *OMB Compliance Supplement* that could have direct and material effect on each of the University's major federal programs for the year ended June 30, 2020. 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 applicable to its federal programs.

Auditors' 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 non-compliance with the types of compliance 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, Northeastern State 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, 2020.

Report on Internal Control Over Compliance

Management of Northeastern State 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 considered 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 Northeastern State University as of and for the year ended June 30, 2020 and the related notes to the financial statements, which collectively comprise the University's basic financial statements. We issued our report thereon dated October 30, 2020, 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 auditing procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare 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 expenditure of federal awards is fairly stated in all material respects in relation to the basic financial statements as a whole.

Hill & Company, PC

Tulsa, Oklahoma
October 30, 2020



SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS

NORTHEASTERN STATE UNIVERSITY
 A Department of the Regional University System of Oklahoma
 Year Ended June 30, 2020

Federal Grantor/Pass-Through Grantor/Program Title	CFDA Number	Pass-Through Entity Identification Number	Award Amount Expended	Passed Through Subrecipients
Student financial aid cluster				
U.S. Department of Education				
Federal Pell Grants	84.063	N/A	\$ 13,587,322	\$ -
Federal Supplemental Education Opportunity Grants	84.007	N/A	335,161	-
Federal TEACH Grant	84.379	N/A	101,746	-
Federal Work Study Program	84.033	N/A	426,635	-
Federal Perkins Loans	84.038	N/A	3,606,807	-
Federal Direct Loan Program	84.268	N/A	31,370,726	-
Total Student Financial Aid Cluster			49,428,397	-
U.S. Department of Education				
TRIO program cluster				
Talent Search	84.044	P0044A160174-176-17	5,212	-
Talent Search	84.044	P044A160174-176-18	153,492	-
Talent Search	84.044	P044A160174-19/P044A160174-19-19A	342,702	-
Student Support Services	84.042A	P042A151515-17	3,700	-
Student Support Services	84.042A	P042A151515-18	72,852	-
Student Support Services	84.042A	P042A151515-19	211,196	-
Trio Upward Bound	84.047A	P047A171205	10,084	-
Trio Upward Bound	84.047A	P047A171205-18	111,314	-
Trio Upward Bound	84.047A	P047A171205-19	148,442	-
OCIC Project Aware	84.184G	N/A	4,997	-
Total TRIO program cluster			1,063,991	-
COVID-19 - Education Stabilization Fund	84.425	P425E200026	2,838,487	-
Research and Development (R&D) Cluster				
National Science Foundation				
Pass-through Oklahoma State University Education and Human Resources	47.076	1-5-56595-NSU	48,990	-
Computer and Information Science and Engineering	47.070	1659235	43,937	-
Passed Through Subrecipient	47.070	1659235		130,419
Pass-through Oklahoma State University Office of International Science and Engineering	47.079	N/A	4,928	-
Total for National Science Foundation			97,855	130,419
National Institute for Health				
Pass-through OU Health Science Center				
Biomedical Research and Research Training	93.859	RS20181585-07	25,000	-
Biomedical Research and Research Training	93.859	RS20151585-17	23,163	-
Biomedical Research and Research Training	93.859	RS20181585-18	14,221	-
Biomedical Research and Research Training	93.859	RS20151585-13	87,046	-
Biomedical Research and Research Training	93.859	RS20151585-13 PTE#		-
Biomedical Research and Research Training	93.859	5P20GM103447-21	6,619	-
Biomedical Research and Research Training	93.859	N/A	510	-
Cancer Cause and Prevention Research	93.393	R15CA205375 Grant# 7 R15 CA205375-02	10,790	-
Total National Institute for Health			167,349	-
Total Research and Development Cluster			\$ 265,204	\$ 130,419

SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS

NORTHEASTERN STATE UNIVERSITY
 A Department of the Regional University System of Oklahoma
 Year Ended June 30, 2020

Federal Grantor/Pass-Through Grantor/Program Title	CFDA Number	Pass-Through Entity Identification Number	Award Amount Expended	Passed Through to Subrecipients
Other Federal Programs				
U.S. Department of Education				
Strengthening Minority-Serving Institutions	84.382C	P382C160013-18	\$ 100,355	\$ -
	84.382C	P382C160013-19	243,506	-
Pass-through Stilwell Public Schools Fund for the Improvement of Education	84.299A	S299A160081	14,937	-
Pass-through Cherokee Nation-American Indian Resource Center Fund for the Improvement of Education	84.299	S200B1600012	31,418	-
Pass-through Tahlequah Public Schools Student Support and Academic Enrichment Program	84.424	N/A	7,812	-
Total U.S. Department of Education			398,028	-
U.S. Department of Health and Human Services				
Pass-through University of New York Child Welfare Research Training or Demonstration	93.648	18-11-79280	8,787	-
Total U.S. Department of Health and Human Services			8,787	-
U.S. Department of Justice				
Grants to Reduce Domestic Violence, Dating Violence, Sexual Assault, and Stalking on Campus	16.525	2017-WA-AX-0047	54,537	-
Total U.S. Department of Justice			54,537	-
National Endowment for the Arts				
The Big Read	45.024	19888	116	-
Total Institute of National Endowment for the Arts			116	-
National Endowment for the Humanities				
Pass-through Oklahoma Humanities Council Paving the Way: Green Country's Cultural & Historical Preservation Init 2018	45.129	PY-263674	10,996	-
Pass-through Oklahoma Humanities Council OHC Joy Harjo Lecture and Reading 2019	45.129	Y19.090	1,000	-
Total National Endowment for the Humanities			11,996	-
U.S. Department of Commerce				
Pass-through Okla Alliance for Manufacturing Excellence Manufacturing Extension Partnership	11.611	70NANB15H354	50,657	-
Total U.S. Department of Commerce			50,657	-
Total Expenditures of Federal Awards			\$ 54,120,200	\$ 130,419

NOTES TO SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS

NORTHEASTERN STATE UNIVERSITY

A Department of the Regional University System of Oklahoma

Year Ended June 30, 2020

NOTE A: BASIS OF PRESENTATION

The accompanying schedule of expenditures of federal awards (the Schedule) includes the federal awards activity of Northeastern State University under programs for the federal government for the year ended June 30, 2020. 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 Northeastern State University, it is not intended to and does not present the financial position, changes in net position, or cash flows of Northeastern State 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.
- Under CFDA number 84.268, the Federal Direct Student Loan Program (“Direct Loan Program”), the U.S. Department of Education makes loans to enable a student or parent to pay the costs of the student’s attendance at a postsecondary school. The Direct Loan Program enables an eligible student or parent to obtain a loan to pay for the student’s cost of attendance directly from the U.S. Department of Education rather than through private lenders. The University administers the origination and disbursement of the loans to eligible students or parents. The University is not responsible for the collection of these loans.
- The University has elected not to use the 10 percent de minimis indirect cost rate as allowed under the Uniform Guidance.
- During the year ended June 30, 2020, the University provided one federal award to subrecipients in the amount of 130,419.

NOTE C: LOANS OUTSTANDING

The federal student loan programs listed subsequently are administered directly by Northeastern State University, and balances and transactions relating to these programs are included in Northeastern State University’s basic financial statements. Loans outstanding at the beginning of the year and loans made during the year are included in the federal expenditures presented in the Schedule. The balance of loans outstanding at June 30, 2020 consist of Federal Perkins Loan: \$2,138,170.

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

SCHEDULE OF FINDINGS AND QUESTIONED COSTS

Year Ended June 30, 2020

Summary of Auditors' Results (Continued)

7. The University's major program were:

<u>Cluster/Program</u>	<u>CFDA Number</u>
Student Financial Aid Cluster	
Federal Pell Grant	84.063
Federal Supplemental Education Opportunity Grants	84.007
Federal Direct Loan Program	84.268
Federal Work Study	84.033
Federal Perkins Loan	84.038
Federal Teach Grant	84.379
Higher Education Emergency Relief Fund CARES Act	84.425

8. The threshold used to distinguish between Type A and Type B programs as those terms are defined in the Uniform Guidance was \$750,000.

9. The University qualified as a low-risk auditee as that term is defined in Uniform Guidance. Yes No

Section II - Findings Required to be Reported by Government Auditing Standards

None to report for the year ended June 30, 2020.

Section III - Findings Required to be Reported by the Uniform Guidance

None to report for the year ended June 30, 2020.

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

SUMMARY SCHEDULE OF PRIOR AUDIT FINDINGS

Year Ended June 30, 2020

No matters were reportable.