

EAST CENTRAL UNIVERSITY OKLAHOMA

A Department of the Regional University
System of Oklahoma

June 30, 2019

EAST CENTRAL UNIVERSITY

A Department of the Regional University System of Oklahoma

June 30, 2019

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Audited Financial Statements



Independent Auditors' Report

Board of Regents
Regional University System of Oklahoma
East Central University
Oklahoma City, Oklahoma

Report on the Financial Statements

We have audited the accompanying financial statements of East Central 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, 2019, and the related notes to the financial statements, which collectively comprise East Central 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 did not audit the financial statements of the discretely presented component unit, the East Central Foundation, Inc., (the Foundation). Those financial statements were audited by other auditors, whose report has been furnished to us, and our opinion, insofar as it relates to the amounts included for the Foundation, is based solely on the report of the other auditors. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

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, based on our audit and the report of the other auditor, the financial statements referred to above present fairly, in all material respects, the respective financial position of the University and its discretely presented component unit as of June 30, 2019, and the respective changes in financial position, and, where applicable, cash flows thereof for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Emphasis of Matter

As discussed in Note A, the financial statements of the University are intended to present the financial position, the changes in financial position, and, where applicable, cash flows of only that portion of RUSO that is attributable to the transactions of the University. They do not purport to, and do not present fairly the financial position of RUSO as of June 30, 2019, 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 East Central 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 31, 2019 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.

Hick & Company, PC

Greenwood Village, Colorado
October 31, 2019



MANAGEMENT'S DISCUSSION AND ANALYSIS (UNAUDITED)
EAST CENTRAL UNIVERSITY
A Department of the Regional University System of Oklahoma
Year Ended June 30, 2019

OVERVIEW OF FINANCIAL STATEMENTS AND FINANCIAL ANALYSIS

East Central University (the University) presents its financial statements for fiscal year 2019. Presented separately from the University are the financial statements of East Central University Foundation, Inc. (the Foundation). The Foundation is a discretely presented component unit of East Central University and has trustees that are independently elected. The Foundation also issues its financial statements in a separate report. Emphasis of discussions concerning these statements will be for the 2019 fiscal year data in comparison with the 2018 fiscal year data. While the 2018 data is not a part of the financial statements, significant fluctuations between the 2019 and 2018 data will be discussed. The Foundation's statements will not be a part of this discussion and analysis. The three financial statements, prepared in accordance with Governmental Accounting Standards Board ("GASB") principles, are the Statement of Net Position; the Statement of Revenues, Expenses, and Changes in Net Position; and the Statement of Cash Flows. Since changes reflected in the Statement of Cash Flows will be discussed in the analysis of the other two statements, the Statement of Cash Flows will not be presented in this discussion and analysis. Dollar amounts presented in table and graph formats are in thousands of dollars, and those presented in the discussion are rounded to thousands. This discussion and analysis of the University's financial statements is designed to assist the readers in understanding the accompanying financial statements and to summarily quantify the status, sources, and uses of resources. The University will also utilize these statements in conjunction with prior year data to focus on trends and establish benchmark comparisons.

MANAGEMENT'S DISCUSSION AND ANALYSIS (UNAUDITED)--Continued
EAST CENTRAL UNIVERSITY
A Department of the Regional University System of Oklahoma
Year Ended June 30, 2019

STATEMENT OF NET POSITION

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

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

MANAGEMENT'S DISCUSSION AND ANALYSIS (UNAUDITED)--Continued
 EAST CENTRAL UNIVERSITY
 A Department of the Regional University System of Oklahoma
 Year Ended June 30, 2019

| | June 30 | |
|---|-------------------------------|-------------------|
| | 2019 | 2018 |
| | <i>(Thousands of Dollars)</i> | |
| ASSETS | | |
| Current assets | \$ 25,425 | \$ 27,723 |
| Capital assets, net | 86,700 | 88,235 |
| Other assets | <u>5,360</u> | <u>5,050</u> |
| TOTAL ASSETS | <u>\$ 117,485</u> | <u>\$ 121,008</u> |
| DEFERRED OUTFLOWS OF RESOURCES | | |
| Deferred charge on OCIA lease restructure | <u>\$ 666</u> | <u>\$ 701</u> |
| LIABILITIES | | |
| Current Liabilities | \$ 5,176 | \$ 6,697 |
| Noncurrent Liabilities | <u>33,141</u> | <u>35,161</u> |
| TOTAL LIABILITIES | <u>\$ 38,317</u> | <u>\$ 41,858</u> |
| DEFERRED INFLOWS OF RESOURCES | | |
| Deferred gain on OCIA lease restructure | <u>\$ 223</u> | <u>\$ 250</u> |
| NET POSITION | | |
| Net investment in capital assets | \$ 53,058 | \$ 54,020 |
| Restricted-expendable | 9,573 | 8,540 |
| Unrestricted | <u>16,980</u> | <u>17,041</u> |
| TOTAL NET POSITION | <u>\$ 79,611</u> | <u>\$ 79,601</u> |

MANAGEMENT'S DISCUSSION AND ANALYSIS (UNAUDITED)--Continued
EAST CENTRAL UNIVERSITY
A Department of the Regional University System of Oklahoma
Year Ended June 30, 2019

STATEMENTS OF NET POSITION--Continued

The decrease in capital assets of approximately \$1,535,000 was due to capital asset additions of approximately \$1,200,000 offset by depreciation expense of approximately \$3,500,000. Major asset additions included a new refuse truck, several roof replacements, software for imaging documents and workflow for the campus, and a new police vehicle.

Total noncurrent liabilities decreased by approximately \$2,020,000 which is mainly due to \$1,600,000 in payments on our ODFA master lease obligations.

STATEMENT OF REVENUES, EXPENSES, AND CHANGES IN NET POSITION

Another measure of an institution's fiscal stability is how operating revenues compare to operating expenses. Operating revenues are earned in exchange for providing goods and services, and operating expenses are incurred in the normal operations of the University. While public institutions will not normally have an excess of operating revenues over operating expenses (State Appropriations, some federal and state grants, gifts, and investment income are required to be reported as non-operating Revenues by GASB principles), the excess of operating revenues and non-operating revenues over expenses is normally an indication of the University's ability to operate within its available resources.

MANAGEMENT'S DISCUSSION AND ANALYSIS (UNAUDITED)--Continued
 EAST CENTRAL UNIVERSITY
 A Department of the Regional University System of Oklahoma
 Year Ended June 30, 2019

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

| | Years Ended | |
|---|-------------------------------|------------------|
| | June 30, | |
| | 2019 | 2018 |
| | <i>(Thousands of Dollars)</i> | |
| OPERATING REVENUES | | |
| Tuition, fees, housing, & food service | \$ 24,734 | \$ 24,284 |
| Grants and contracts | 5,142 | 4,826 |
| Other operating revenues | 1,660 | 1,768 |
| TOTAL OPERATING REVENUES | <u>31,536</u> | <u>30,878</u> |
| OPERATING EXPENSES | | |
| Compensation | 31,301 | 29,890 |
| Contractual services | 4,532 | 3,923 |
| Supplies & materials | 4,524 | 5,046 |
| Depreciation | 3,538 | 3,820 |
| Other operating expenses | 15,747 | 18,054 |
| TOTAL OPERATING EXPENSES | <u>59,642</u> | <u>60,733</u> |
| NET OPERATING INCOME (LOSS) | (28,106) | (29,855) |
| NON-OPERATING REVENUES (EXPENSES) | | |
| State appropriations | 13,590 | 13,505 |
| Grants and contracts | 13,498 | 14,035 |
| Other revenues | 384 | 499 |
| Interest expense | (1,166) | (1,223) |
| TOTAL NON-OPERATING REVENUES (EXPENSES) | <u>26,306</u> | <u>26,816</u> |
| OTHER REVENUES AND GAINS | <u>1,811</u> | <u>3,043</u> |
| CHANGE IN NET POSITION | 11 | 4 |
| NET POSITION, BEGINNING OF YEAR | <u>79,601</u> | <u>79,597</u> |
| NET POSITION, END OF YEAR | <u>\$ 79,612</u> | <u>\$ 79,601</u> |

MANAGEMENT'S DISCUSSION AND ANALYSIS (UNAUDITED)--Continued
EAST CENTRAL UNIVERSITY
A Department of the Regional University System of Oklahoma
Year Ended June 30, 2019

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

The University experienced enrollment decreases of 4.69% and 8.23% during fiscal years 2019 and 2018 but had an approximate increase in tuition and fees of between 3.1% and 3.5%. This resulted in a decrease in tuition, fees, housing, and food service revenues remaining relatively flat for fiscal year 2019.

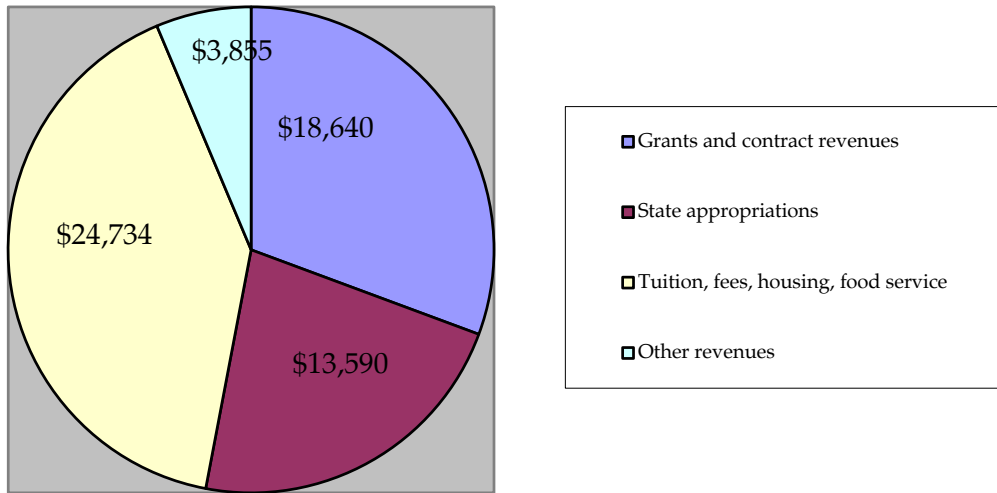
Operating expenses decreased by \$1,000,000 due mainly to decreases in both supplies and materials of \$500,000 and other operating expenses of \$2,300,000. Compensation did increase and this was due to a salary increase that was given to faculty and staff. This was the first salary increase that faculty and staff have had since fiscal year 2015.

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

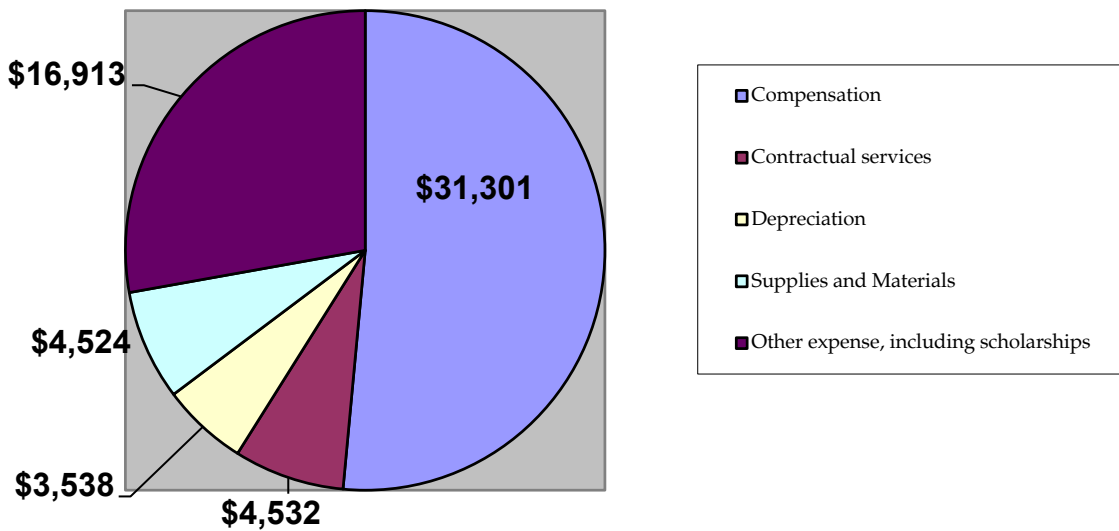
MANAGEMENT'S DISCUSSION AND ANALYSIS (UNAUDITED)--Continued
 EAST CENTRAL UNIVERSITY
 A Department of the Regional University System of Oklahoma
 Year Ended June 30, 2019

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

REVENUES



EXPENSES



MANAGEMENT'S DISCUSSION AND ANALYSIS (UNAUDITED)--Continued
EAST CENTRAL UNIVERSITY
A Department of the Regional University System of Oklahoma
Year Ended June 30, 2019

STATEMENT OF CASH FLOWS

The Statement of Cash Flows provides information about the University's financial results by reporting the major sources and uses of cash and cash equivalents. Cash flows from operating activities show the net cash used by the operating activities of the University. Cash flows from noncapital financing activities consist primarily of revenue sources that fund operations but are considered non-operating activities by definition. Cash flows from capital activities include capital asset and related long-term debt activities. Cash flows from investing activities show the proceeds and uses of cash related to purchasing or selling investments and related investment earnings thereon. The University's Statement of Cash Flows is presented on pages 7 and 8 of the financial statements.

ECONOMIC OUTLOOK

During the 2019 fiscal year, the University operated within its available resources, as total revenues exceeded total expenses by approximately \$11,000. In fiscal year 2019, tuition, fees, housing, and food service revenue accounted for 42% of the University's total revenue. The fall 2019 semester shows an increase and a substantial increase in first-time full-time freshman students, and the State Regents approved a 3.5% increase in undergraduate and graduate tuition and fees for the 2019-2020 school years.

State appropriations were approximately 25% of total revenues for fiscal year 2019. State appropriations to the University are expected to remain flat; therefore, total state appropriations are not expected to be returned to the fiscal year ending 2009 level. Therefore, the University will continue to feel a negative impact from this financial source.

Grant and contract revenues currently represent 32% of total revenues for fiscal year 2019. Grant and contract resources have been negatively impacted by the national economic down-turn at a national level; however, the University continues to generate impressive grant revenue.

The University has prepared contingency plans and continues to operate using a conservative spending plan due to the decrease in state appropriations in the past years and the national economic status.

Basic Financial Statements

EAST CENTRAL UNIVERSITY
A Department of the Regional University System of Oklahoma
Statement of Net Position
June 30, 2019

| | University | Component Unit |
|--|-----------------------|----------------------|
| <i>ASSETS</i> | | |
| CURRENT ASSETS | | |
| Cash and cash equivalents | \$ 22,042,958 | \$ 1,128,018 |
| Accounts receivable, net | 1,288,357 | 982,325 |
| Grants and contracts receivable | 1,944,839 | - |
| Interest receivable | 30,606 | 59,428 |
| Other receivable | 118,352 | - |
| TOTAL CURRENT ASSETS | 25,425,112 | 2,169,771 |
| <i>NONCURRENT ASSETS</i> | | |
| Restricted cash and cash equivalents | 4,911,842 | - |
| Restricted investments | 232,723 | - |
| Investments | - | 33,031,291 |
| Receivable from OSRHE Endowment Trust Fund | 216,110 | - |
| Other assets | - | 33,153 |
| Capital assets, net | 86,699,641 | 329,884 |
| TOTAL NONCURRENT ASSETS | 92,060,316 | 33,394,328 |
| TOTAL ASSETS | \$ 117,485,428 | \$ 35,564,099 |
| DEFERRED OUTFLOWS OF RESOURCES | | |
| Deferred charge on capital lease restructure | \$ 666,137 | \$ - |

(Continued)

EAST CENTRAL UNIVERSITY
A Department of the Regional University System of Oklahoma
Statement of Net Position
June 30, 2019
(Continued)

| | University | Component Unit |
|---|----------------------|----------------------|
| <i>LIABILITIES</i> | | |
| CURRENT LIABILITIES | | |
| Accounts and scholarships payable | \$ 1,017,380 | \$ - |
| Accrued payroll | 47,652 | - |
| Accrued interest | 59,250 | - |
| Unearned revenue | 1,169,537 | - |
| Deposits held in custody for others | 224,662 | - |
| Current portion of noncurrent liabilities | 2,657,740 | - |
| TOTAL CURRENT LIABILITIES | 5,176,221 | - |
| NONCURRENT LIABILITIES | | |
| Accrued compensated absences | 723,259 | - |
| Bonds payable | 3,735,460 | - |
| Unearned revenue | 950,407 | - |
| ODFA master lease obligations | 22,228,543 | - |
| Lease obligations payable to OCIA | 5,503,078 | - |
| TOTAL NONCURRENT LIABILITIES | 33,140,747 | - |
| TOTAL LIABILITIES | \$ 38,316,968 | \$ - |
| DEFERRED INFLOWS OF RESOURCES | | |
| Deferred gain on OCIA lease restructure | \$ 222,878 | \$ - |
| NET POSITION | | |
| Net investment in capital assets | 53,058,238 | - |
| Restricted: | | |
| Nonexpendable: | | |
| Grants, bequests and contributions | - | 34,494,323 |
| Expendable: | | |
| Scholarships, instruction and other | 4,661,155 | - |
| Loans | 72,935 | - |
| Capital projects | 4,838,907 | - |
| Debt service | - | - |
| Unrestricted | 16,980,484 | 1,069,776 |
| TOTAL NET POSITION | \$ 79,611,719 | \$ 35,564,099 |

EAST CENTRAL UNIVERSITY
A Department of the Regional University System of Oklahoma
Statement of Revenues, Expenses, and Changes in Net Position
For the Year Ended June 30, 2019

| | University | Component Unit |
|---|----------------------|----------------------|
| OPERATING REVENUES | | |
| Student tuition and fees, net of scholarship discounts and allowances of \$8,882,105 | \$ 19,329,001 | \$ - |
| Federal grants and contracts | 4,591,425 | - |
| State and local grants and contracts | 551,030 | - |
| Bookstore operations | 100,220 | - |
| Housing and food service (revenues of \$3,620,440 pledged as security on ODFA 2014 bonds). | 5,304,551 | - |
| Investment income | - | 1,775,707 |
| Contributions | - | 3,386,392 |
| Other operating revenues | 1,660,134 | 2,074 |
| TOTAL OPERATING REVENUES | 31,536,361 | 5,164,173 |
| OPERATING EXPENSES | | |
| Compensation and employee benefits | 31,301,496 | - |
| Contractual services | 4,532,358 | - |
| Supplies and materials | 4,523,971 | - |
| Depreciation | 3,538,269 | 715 |
| Utilities | 1,031,016 | - |
| Communication expense | 147,445 | - |
| Scholarships and fellowships | 11,436,150 | - |
| Other operating expenses | 3,131,999 | 2,675,783 |
| TOTAL OPERATING EXPENSES | 59,642,704 | 2,676,498 |
| OPERATING INCOME (LOSS) | (28,106,343) | 2,487,675 |
| NONOPERATING REVENUES (EXPENSES) | | |
| State appropriations | 13,590,014 | - |
| On-behalf contributions for OTRS | - | - |
| Federal Grants | 6,575,461 | - |
| State Grants | 6,923,112 | - |
| Investment income | 381,737 | - |
| Gain on disposal of assets | 3,241 | - |
| Interest expense | (1,166,928) | - |
| NET NONOPERATING REVENUE (EXPENSES) | 26,306,637 | - |
| Income before other revenues, expenses, gains, and losses | (1,799,706) | 2,487,675 |
| CAPITAL GIFTS AND GRANTS | | |
| State appropriations restricted for capital purposes | 1,121,699 | - |
| Capital Contributions | 351,336 | - |
| OCIA on-behalf state appropriations | 337,498 | - |
| TOTAL CAPITAL GIFTS AND GRANTS | 1,810,533 | - |
| CHANGE IN NET POSITION | 10,827 | 2,487,675 |
| NET POSITION, BEGINNING OF YEAR | 79,600,892 | 33,076,424 |
| NET POSITION, END OF YEAR | \$ 79,611,719 | \$ 35,564,099 |

See Notes to Financial Statements.

EAST CENTRAL UNIVERSITY
A Department of the Regional University System of Oklahoma
Statement of Cash Flows
For the Year Ended June 30, 2019

| | |
|---|----------------------|
| CASH FLOWS FROM OPERATING ACTIVITIES | |
| Tuition and fees | \$ 19,319,930 |
| Grants and contracts | 4,990,091 |
| Auxiliary enterprise charges | 7,215,769 |
| Payments to employees for salaries and benefits | (31,202,467) |
| Payments to suppliers | (25,250,422) |
| NET CASH USED IN OPERATING ACTIVITIES | <u>(24,927,099)</u> |
| CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES | |
| State appropriations | 13,590,014 |
| Nonoperating grants, primarily student financial assistance | 13,498,573 |
| Direct loan/FFEL receipts | 11,273,246 |
| Direct loan/FFEL payments | (11,273,246) |
| NET CASH PROVIDED BY NONCAPITAL FINANCING ACTIVITIES | <u>27,088,587</u> |
| CASH FLOWS FROM INVESTING ACTIVITIES | |
| Proceeds from sales of investments | 275,173 |
| Purchase of investments | (275,129) |
| Investment income received | 372,382 |
| NET CASH PROVIDED BY INVESTING ACTIVITIES | <u>372,426</u> |
| CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES | |
| Cash paid for capital assets | (1,993,853) |
| Capital appropriations received | (8,705) |
| Drawdown of ODFA receivable | 1,401,210 |
| Repayments of capital debt and leases | (1,562,250) |
| Interest paid on capital debt and leases | (999,227) |
| NET CASH USED IN CAPITAL AND RELATED FINANCING ACTIVITIES | <u>(3,162,825)</u> |
| NET INCREASE (DECREASE) IN CASH EQUIVALENTS | (628,911) |
| CASH AND CASH EQUIVALENTS, BEGINNING OF YEAR | <u>27,583,711</u> |
| CASH AND CASH EQUIVALENTS, END OF YEAR | <u>\$ 26,954,800</u> |

(Continued)

EAST CENTRAL UNIVERSITY
A Department of the Regional University System of Oklahoma
Statement of Cash Flows
For the Year Ended June 30, 2019
(Continued)

| | |
|---|------------------------|
| RECONCILIATION OF OPERATING LOSS TO | |
| NET CASH USED IN OPERATING ACTIVITIES | |
| Operating loss | \$ (28,106,343) |
| Adjustments to reconcile operating loss to net cash used by operating activities: | |
| Depreciation | 3,538,269 |
| Loss on the disposal of capital assets | (3,241) |
| Changes in assets and liabilities: | |
| Student accounts receivable | 201,359 |
| Grants and Other receivables | (1,500) |
| Accounts payable and accrued liabilities | (444,242) |
| Accrued payroll | (9,759) |
| Unearned revenue | (210,430) |
| Compensated absences | 108,788 |
| | <u>108,788</u> |
| NET CASH USED IN OPERATING ACTIVITIES | <u>\$ (24,927,099)</u> |
| NONCASH INVESTING, NONCAPITAL FINANCING AND CAPITAL AND RELATED FINANCING ACTIVITIES | |
| Interest on capital debt paid by OCIA on behalf of the University | <u>\$ 1,397,026</u> |
| Principal on capital debt paid by OCIA on behalf of the University | <u>70,876</u> |
| Deferred gain on OCIA lease restructure | <u>\$ 222,878</u> |
| RECONCILIATION OF CASH AND CASH EQUIVALENTS TO STATEMENTS OF NET ASSETS | |
| Current assets: | |
| Cash and cash equivalents | \$ 22,042,958 |
| Noncurrent assets: | |
| Restricted cash and cash equivalents | <u>4,911,842</u> |
| TOTAL CASH AND CASH EQUIVALENTS | <u>\$ 26,954,800</u> |

EAST CENTRAL UNIVERSITY
A Department of the Regional University System of Oklahoma
Statement of Fiduciary Assets and Liabilities
June 30, 2019

| | <u>Fiduciary Funds</u> |
|---|-----------------------------------|
| ASSETS | |
| Cash and cash equivalents | \$ 476,827 |
| Total assets | <u>\$ 476,827</u> |
| LIABILITIES | |
| Due to OKHEEI | \$ 476,827 |
| Total liabilities | <u>\$ 476,827</u> |
| NET POSITION | |
| Held in trust for benefits and other purposes | \$ - |
| | <u>\$ -</u> |

EAST CENTRAL UNIVERSITY

A Department of The Regional University System of Oklahoma

Notes to Financial Statements

June 30, 2019

NOTE A--SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Nature of Organization

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

Reporting Entity

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

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

The University is considered a department of the System for financial reporting purposes and is included in the System's financial reporting entity.

Discretely Presented Component Units

East Central University Foundation, Inc. (the "Foundation") is a component unit of the University under GASB 39 that is discretely presented with the financial statements of the University. The University is the beneficiary of the Foundation, a separate legal entity with their own Boards of Trustees. The Foundation is organized for the benefit of the University, and its faculty, student body, and programs. The purposes for which the Foundation is organized are exclusively scientific, literary, charitable, educational, and artistic for the benefit the University. Additional and selected disclosures for the Foundation are located in this report beginning with Note L. A complete report of the Foundation's financial statements and footnotes can be requested form the Foundation's director.

The Foundation is a private nonprofit organization that reports under the Financial Accounting Standards Board ("FASB") standards. As such, certain revenue recognition criteria and presentation features are different from GASB revenue recognition criteria and presentation features. No modifications have been made to the Foundation's financial information in the University's financial reporting entity for these differences.

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 outflow and inflows, 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.

EAST CENTRAL UNIVERSITY

A Department of The Regional University System of Oklahoma

Notes to Financial Statements

June 30, 2019

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

Basis of Accounting

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

Cash Equivalents

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

Investments

The University accounts for its investments at fair value in accordance with GASB Statement No. 31, *Accounting and Financial Reporting for Certain Investments and for External Investment Pools*. Changes in unrealized gain (loss) on the carrying value of investments are reported as a component of investment income in the statement of revenues, expenses, and changes in net position.

Restricted Cash and Investments

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

Accounts and Grants 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. Grants receivable include amounts due from the federal government, state and local governments, or private sources, in connection with reimbursement of allowable expenditures made pursuant to the University's grant and contracts. Accounts and grants receivable are recorded net of estimated uncollectible amounts.

Capital Assets

Capital assets are recorded at cost at the date of acquisition, or fair value at the date of donation in the case of gifts. For equipment, the University's capitalization policy includes all items with a unit cost of \$2,500 or more and an estimated useful life of greater than one year. Renovations to buildings, infrastructure, and land improvements that significantly increase the value or extend the useful life of the structure are capitalized. Routine repairs and maintenance are charged to operating expense in the year in which the expense was incurred. Depreciation is computed using the straight-line method over the estimated useful lives of the assets, generally 40 to 60 years for buildings, 20 to 30 years for infrastructure and land improvements, and 5 to 10 years for library materials and equipment. Depreciation expense includes amortization of assets held under capital lease obligations.

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

EAST CENTRAL UNIVERSITY

A Department of The Regional University System of Oklahoma

Notes to Financial Statements

June 30, 2019

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

Compensated Absences

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

Noncurrent liabilities

Noncurrent liabilities include (1) principal amounts of revenue bonds payable, notes payable, and capital lease obligations with contractual maturities greater than one year; (2) estimated amounts for accrued compensated absences and other liabilities that will not be paid within the next fiscal year; and (3) other liabilities that, although payable within one year, are to be paid from funds that are classified as noncurrent assets.

Deferred Outflows of Resources

Deferred outflows are the consumption of net position by the University that is applicable to a future reporting period. At June 30, 2019, the University's deferred outflows of resources were comprised of deferred charges on capital lease restructure.

Deferred Inflows of Resources

Deferred inflows are the acquisition of net position by the University that is applicable to a future reporting period. At June 30, 2019, the University's deferred inflows of resources were comprised of deferred gain on capital lease restructure.

Net position-Net investment in capital assets

The University's net position is classified as follows:

This represents the University's total investment in capital assets, net of outstanding debt obligations related to those capital assets. To the extent debt has been incurred but not yet expended for capital assets, such amounts are not included as a component of invested in capital assets, net of related debt.

Restricted net position - expendable

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

Unrestricted net position

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

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

EAST CENTRAL UNIVERSITY

A Department of The Regional University System of Oklahoma

Notes to Financial Statements

June 30, 2019

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

Income Taxes

The University, as a political subdivision of the State of Oklahoma, is exempt from all federal income taxes under Section 115(1) of the Internal Revenue Code, as amended.

Use of Estimates

The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect certain reported amounts and disclosures. Accordingly, actual results could differ from these estimates.

Classification of Revenues

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

Operating revenues

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

Nonoperating revenues

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

Scholarship Discounts and Allowances

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

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.

EAST CENTRAL UNIVERSITY

A Department of The Regional University System of Oklahoma

Notes to Financial Statements

June 30, 2019

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 are \$30,613,297 in cash and cash equivalents on deposit with the State Treasurer as of June 30, 2019, of which \$476,827 represents amounts held in agency funds, of the \$30,613,297 on deposit with the State Treasurer, \$12,368,774, 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.

Investments

Investment *credit risk* is the risk that an issuer or other counterparty to an investment will not fulfill its obligations. Generally, the University's investments are managed by the State Treasurer. In accordance with state statutes, the State Treasurer may only purchase and invest in (a) obligations of the United States government, its agencies, and instrumentalities; (b) prime banker's acceptances; (c) investment grade obligations of state and local governments; (d) money market funds; (e) collateralized or insured certificates of deposits; (f) negotiable certificates of deposits; (g) prime commercial paper; and (h) repurchase agreements. *Interest rate risk* is the risk that changes in interest rates will adversely affect the fair value of an investment. Investments that are held for longer periods of time are subject to increased risk of adverse interest changes.

Neither the University nor state statutes limit investment maturities as a means of managing exposure to fair value losses arising from increasing interest rates; however, the OST investment policy limits the average maturity on its portfolio to four (4) years, with certain individual securities having more restrictive limits as defined in the policy. *Concentration of credit risk* is the risk of loss attributed to the magnitude of the University's investment in a single issuer.

Neither the University's investment policy nor state statutes place limits on amounts that can be invested in any one issuer; however, the OST investment policy states that, with the exception of U.S. Treasury securities, no more than 50% of the State's total funds may be invested in a single security type or with a single financial institution, with diversification percentages being more restrictive on individual securities. *Custodial credit risk* for investments is the risk that, in the event of failure of the counterparty, the University will not be able to recover the value of its investments or collateral securities in the possession of an outside party. As of June 30, 2019, none of the University's investments were subject to custody credit risk.

EAST CENTRAL UNIVERSITY

A Department of The Regional University System of Oklahoma

Notes to Financial Statements

June 30, 2019

NOTE B--DEPOSITS AND INVESTMENTS--Continued

Bond fund cash and investments

Certain non-pooled cash and investments are restricted in purpose by policies incorporated in applicable bond indentures. *Credit risk* policy generally restricts investing to cash, investments fully insured by the FDIC and U.S. government, and agency securities or mutual funds investing in these types of securities. There may be some variance among the investments authorized by the specific bond indentures of University bond issues. The OST and/or a trustee bank generally provide the management of restricted, non-pooled investments.

Custodial credit risk is not addressed by bond indentures. *Interest rate risk* in bond indentures provide that investments mature in no more than six to sixty months depending on the purpose of the funds and the requirements of the account in which the funds are deposited (i.e., construction, reserve, operations, and maintenance, etc.). *Concentration of credit risk* is not addressed.

At June 30, 2019, the University had restricted investments in bond funds amounting to \$232,733. The investment funds had a fair market value of \$232,733 at June 30, 2019. The invested bond funds are not subject to maturity dates and are due on demand.

The University, in association with various Trustees, has by law and in accordance with the trust indentures obtained various security and investment accounts to pay bond indebtedness and secure funds for said future payments. These funds are invested at the discretion of the Trustee, with no input from the University. Invested bond funds of \$232,733 had an average credit rating of AAA at June 30, 2019, according to Moody's.

The University implemented GASB Statement No. 72, *Fair Value Measurement and Application*, during the fiscal year ended June 30, 2016. The University categorizes its fair value measurements within the fair value hierarchy established by generally accepted accounting principles. The hierarchy is based on the valuation inputs used to measure the fair value of the asset. Level 1) inputs are quoted prices in active markets for identical assets; Level 2) inputs are significant other observable inputs; Level 3) inputs are significant unobservable inputs.

The University has the following recurring fair value measurements as of June 30, 2019:

- Money Market Mutual Funds of \$232,733 are valued using quoted market prices (Level 1 inputs).

NOTE C--ACCOUNTS RECEIVABLE AND OTHER RECEIVABLES

Accounts Receivable

Accounts receivable consisted of the following at June 30, 2019:

| | |
|---------------------------------------|---------------------|
| Student tuition and fees | \$ 8,589,042 |
| Less: allowance for doubtful accounts | <u>(7,300,685)</u> |
| Net accounts receivable | <u>\$ 1,288,357</u> |

EAST CENTRAL UNIVERSITY

A Department of The Regional University System of Oklahoma

Notes to Financial Statements

June 30, 2019

NOTE D--CAPITAL ASSETS

Following are the changes in capital assets for the year ended June 30, 2019:

| | Balance June 30, 2018 | Additions | Transfers | Retirements/ Adjustments | Balance June 30, 2019 |
|--------------------------------------|--------------------------|-----------------------|-----------------------|-----------------------------|--------------------------|
| Capital assets not being depreciated | | | | | |
| Land | \$ 4,736,721 | \$ 47,579 | \$ - | \$ - | \$ 4,784,300 |
| Art | 170,385 | 100 | - | - | 170,485 |
| Construction in progress | 9,378,986 | 733,726 | (9,982,885) | - | 129,827 |
| Total assets not being depreciated | <u>\$ 14,286,092</u> | <u>\$ 781,405</u> | <u>\$ (9,982,885)</u> | <u>\$ -</u> | <u>\$ 5,084,612</u> |
| Other capital assets | | | | | |
| Non-major infrastructure networks | \$ 1,805,167 | \$ 313,756 | \$ - | \$ - | \$ 2,118,923 |
| Land improvements | 3,914,071 | - | 240,231 | - | 4,154,302 |
| Buildings | 108,178,128 | - | 9,742,654 | - | 117,920,782 |
| Furniture, fixtures, and equipment | 14,144,661 | 764,132 | - | (177,993) | 14,730,800 |
| Software | 927,695 | 94,290 | - | (4,052) | 1,017,933 |
| Library materials | 6,524,307 | 53,003 | - | (21,790) | 6,555,520 |
| Total other capital assets | <u>135,494,029</u> | <u>1,225,181</u> | <u>9,982,885</u> | <u>(203,835)</u> | <u>146,498,260</u> |
| Less: accumulated depreciation for | | | | | |
| Non-major infrastructure networks | (415,801) | (85,261) | - | - | (501,062) |
| Land improvements | (1,825,575) | (207,090) | - | - | (2,032,665) |
| Buildings | (40,686,015) | (2,304,873) | - | - | (42,990,888) |
| Furniture, fixtures, and equipment | (11,424,520) | (822,692) | - | 177,993 | (12,069,219) |
| Software | (896,954) | (20,429) | - | 810 | (916,573) |
| Library materials | (6,296,690) | (97,924) | - | 21,790 | (6,372,824) |
| Total accumulated depreciation | <u>(61,545,555)</u> | <u>(3,538,269)</u> | <u>-</u> | <u>200,593</u> | <u>(64,883,231)</u> |
| Other capital assets, net | <u>\$ 73,948,474</u> | <u>\$ (2,313,088)</u> | <u>\$ 9,982,885</u> | <u>\$ (3,242)</u> | <u>\$ 81,615,029</u> |
| Capital asset summary: | | | | | |
| Capital assets not being depreciated | \$ 14,286,092 | \$ 781,405 | \$ (9,982,885) | \$ - | \$ 5,084,612 |
| Other capital assets, at cost | <u>135,494,029</u> | <u>1,225,181</u> | <u>9,982,885</u> | <u>(203,835)</u> | <u>146,498,260</u> |
| Total cost of capital assets | 149,780,121 | 2,006,586 | - | (203,835) | 151,582,872 |
| Less: accumulated depreciation | <u>(61,545,555)</u> | <u>(3,538,269)</u> | <u>-</u> | <u>200,593</u> | <u>(64,883,231)</u> |
| Capital assets, net | <u>\$ 88,234,566</u> | <u>\$ (1,531,683)</u> | <u>\$ -</u> | <u>\$ (3,242)</u> | <u>\$ 86,699,641</u> |

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

EAST CENTRAL UNIVERSITY

A Department of The Regional University System of Oklahoma

Notes to Financial Statements

June 30, 2019

NOTE E--LONG-TERM LIABILITIES

Long-term liability activity for the year ended June 30, 2019, was as follows:

| | Balance June 30, 2018 | Additions | Reductions | Balance June 30, 2019 | Amounts due within one year |
|---|--------------------------|-------------------|-----------------------|--------------------------|--------------------------------|
| Bonds payable and capital lease obligations | | | | | |
| Revenue Bonds Payable | \$ 3,835,000 | \$ - | \$ (185,000) | \$ 3,650,000 | \$ 185,000 |
| Revenue Bonds Premium | 287,908 | - | (8,724) | 279,184 | 8,724 |
| | <u>4,122,908</u> | <u>-</u> | <u>(193,724)</u> | <u>3,929,184</u> | <u>193,724</u> |
| | | | | | |
| ODFA Master lease obligation | 24,213,582 | - | (1,472,417) | 22,741,165 | 1,514,084 |
| Master Lease Premiums | 1,176,254 | - | (88,229) | 1,088,025 | 86,563 |
| OCIA lease obligations | <u>5,640,694</u> | <u>-</u> | <u>(70,876)</u> | <u>5,569,818</u> | <u>66,740</u> |
| Total bonds and capital lease | <u>31,030,530</u> | <u>-</u> | <u>(1,631,522)</u> | <u>29,399,008</u> | <u>1,667,387</u> |
| Other liabilities | | | | | |
| Unearned Revenue | 1,264,683 | - | (157,136) | 1,107,547 | 157,138 |
| Accrued compensated absences | <u>1,253,962</u> | <u>697,229</u> | <u>(588,441)</u> | <u>1,362,750</u> | <u>639,491</u> |
| Total long-term liabilities | <u>\$ 36,407,400</u> | <u>\$ 697,229</u> | <u>\$ (2,413,687)</u> | <u>\$ 34,690,942</u> | <u>\$ 2,657,740</u> |

Revenue Bonds Payable

Board of Regents of Oklahoma Colleges Student Housing Revenue Bonds: During 2015, the University refinanced the Board of Regents of Oklahoma Colleges Student Housing Revenue Bonds, Series 2003 with Oklahoma Development Finance Authority (“ODFA”) 2014 Revenue bonds. The original bond purpose was for construction and renovating certain Student Housing Facilities. The new bonds are due in annual installments varying from \$160,000 to \$315,000 plus semiannual interest ranging from 2% to 4.55%, with the final installment being due in the year 2034. The Bonds are secured by the revenues to be derived from the Student Housing and Food Services Department and all monies in funds and accounts held by the trustee bank and available for debt service payments. The refinancing resulted in a deferred outflow of resources that will be amortized over a period of twenty years, beginning in fiscal year 2015. As of June 30, 2019, the unamortized cost totaled \$307,925.

Future aggregate maturities of principal and interest requirements on the bonds payable at June 30, are as follows:

| <u>Year Ended June 30:</u> | <u>Principal</u> | <u>Interest</u> | <u>Total</u> |
|----------------------------|---------------------|---------------------|---------------------|
| 2020 | \$ 185,000 | \$ 139,425 | \$ 324,425 |
| 2021 | 195,000 | 133,725 | 328,725 |
| 2022 | 195,000 | 126,900 | 321,900 |
| 2023 | 205,000 | 118,900 | 323,900 |
| 2024 | 215,000 | 110,500 | 325,500 |
| 2025-2029 | 1,200,000 | 415,000 | 1,615,000 |
| 2030-2034 | <u>1,455,000</u> | <u>150,500</u> | <u>1,605,500</u> |
| Total | <u>\$ 3,650,000</u> | <u>\$ 1,194,950</u> | <u>\$ 4,844,950</u> |

EAST CENTRAL UNIVERSITY

A Department of The Regional University System of Oklahoma

Notes to Financial Statements

June 30, 2019

NOTE E--LONG-TERM LIABILITIES--Continued

Capital Lease Obligations:

Oklahoma Development Finance Authority Master Lease Program: In 2011, the ODFA issued Bond Series 2011B to refund the Series 2002C Master Lease Revenue Bonds, originally issued for \$5,880,000. Restricted funds held under the 2002 Bonds were applied to the outstanding 2002 Bonds and, together with monthly principal payments on the 2002 Bonds until the refunding transaction in November 2011, resulted in the outstanding liability of 2002 Bonds being approximately equal to the liability incurred under the 2011B Series. The lease agreement calls for monthly payments to ODFA in an amount that equal debt service requirements on the portion of the bonds used to finance the lease. The final payment on the lease is due December 1, 2022.

In 2014, ODFA issued the ODFA Master Lease Revenue Bonds, Series 2014C. The 2014C Bonds were issued to fund capital improvements at several state colleges and universities in Oklahoma. ODFA allocated the 2014C Bond proceeds to colleges and universities in the form of financing leases. East Central University's portion of this allocation totaled \$4,928,000. The proceeds from this lease will be used to fund improvements to the education building. The lease agreement calls for monthly payments to ODFA in an amount that equal debt service requirements on the portion of the bonds used to finance the lease, those amounts range from \$26,867 to \$29,564. The final payment on the lease is due May 15, 2034. As of June 30 2019, the University has \$99,918 available for its intended purpose.

In 2015, ODFA issued the ODFA Master Lease Revenue Bonds, Series 2015A. The 2015A Bonds were issued to fund capital improvements at several state colleges and universities in Oklahoma. ODFA allocated the 2015A Bond proceeds to colleges and universities in the form of financing leases. East Central University's portion of this allocation totaled \$6,833,000. The proceeds from this lease will be used to fund improvements to campus buildings. The lease agreement calls for monthly payments to ODFA in an amount that equal debt service requirements on the portion of the bonds used to finance the lease, those amounts range from \$19,923 to \$39,167. The final payment on the lease is due May 15, 2034. As of June 30, 2019, the University has \$19,434 available for its intended purpose.

In 2016, the University refinanced the Board of Regents of Oklahoma Colleges Fine Arts Center Revenue Bonds, Series 2005 (the "Bonds") with Oklahoma Development Finance Authority ("ODFA") Real Property 2015A. The original purpose was for constructing a Fine Arts Center for the amount of \$5,000,000. The new debt is due in annual installments varying from \$122,000 to \$278,000 plus interest ranging from 3.70% to 4.50%, with the final installment being due in the year 2035.

In 2016, ODFA issued the ODFA Master Lease Revenue Bonds, Series 2015D. The 2015D Bonds were issued to fund capital improvements at several state colleges and universities in Oklahoma. ODFA allocated the 2015D Bond proceeds to colleges and universities in the form of financing leases. The University's portion of this allocation totaled \$1,000,000. The proceeds from this lease will be used to fund improvements to Norris Field. The lease agreement calls for monthly payments to ODFA in an amount that equal debt service requirements on the portion of the bonds used to finance the lease, those amounts range from \$9,699 to \$11,110. The final payment on the lease is due May 15, 2025.

In 2017, ODFA issued the ODFA Master Lease Revenue Bonds, Series 2016F. The 2016F Bonds were issued to fund capital improvements at several state colleges and universities in Oklahoma. ODFA allocated the 2016F Bond proceeds to colleges and universities in the form of financing leases. The University's portion of this allocation totaled \$10,000,000. The proceeds from this lease will be used to build a new student dorm. The lease agreement calls for monthly payments to ODFA in an amount that equal debt service requirements on the portion of the bonds used to finance the lease, those amounts range from \$55,380 to \$64,158. The final payment on the lease is due May 15, 2036.

EAST CENTRAL UNIVERSITY

A Department of The Regional University System of Oklahoma

Notes to Financial Statements

June 30, 2019

NOTE E--LONG-TERM LIABILITIES--Continued

Oklahoma Capital Improvement Authority Leases

The University has various OCIA lease obligations that it has acquired over the years to fund several different projects. These obligations have various terms do to refinancing over the years. Lease payments to OCIA totaling \$1,148,520 during the year ended June 30, 2018, were made by the State of Oklahoma on behalf of the University. These on-behalf payments have been recorded as restricted state appropriations in the statement of revenues, expenses, and changes in net position.

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

| <u>Year Ending June 30:</u> | <u>Principal</u> | <u>Interest</u> | <u>Total</u> |
|-----------------------------|----------------------|---------------------|----------------------|
| 2020 | \$ 1,514,084 | \$ 804,738 | \$ 2,318,822 |
| 2021 | 1,562,750 | 757,866 | 2,320,616 |
| 2022 | 1,573,831 | 711,123 | 2,284,954 |
| 2023 | 1,245,667 | 662,308 | 1,907,975 |
| 2024 | 1,289,583 | 617,796 | 1,907,379 |
| 2025-2029 | 6,625,580 | 2,430,789 | 9,056,369 |
| 2030-2034 | 7,727,836 | 1,139,652 | 8,867,488 |
| 2035-2039 | 1,201,834 | 71,502 | 1,273,336 |
| Total | <u>\$ 22,741,165</u> | <u>\$ 7,195,774</u> | <u>\$ 29,936,939</u> |

Certain leases to finance the purchase of property are capitalized at the present value of future minimum lease payments. The original capitalized cost of all such property under capital lease as of June 30, 2019 is as follows:

| <u>Assets Under Capital Lease</u> | |
|-----------------------------------|----------------------|
| Buildings | \$ 57,597,697 |
| Less: Accumulated Depreciation | <u>\$ 10,226,099</u> |
| Total | <u>\$ 67,823,796</u> |

Unearned revenue

The University entered into a twenty-year management agreement with the Professional Food Management, Inc. ("Chartwells") in 2008. Chartwells obtained the right to operate the cafeteria and other food services for the University and to be compensated by the University. Chartwells invested approximately \$2,150,000 on capital assets, fixtures, or improvements for the University's dining and service facilities. However, if the agreement is terminated prior to completion (2028), the University must reimburse Chartwells for the unamortized portion of the capital assets. During 2015, another \$237,000 was added for the addition of Papa John's Pizza equipment. At June 30, 2019, the University has a liability for approximately \$1,239,000 in the accompanying statement of net position. The amortization for the year ended June 30, 2019 was approximately \$131,000.

EAST CENTRAL UNIVERSITY

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Notes to Financial Statements

June 30, 2019

NOTE E--LONG-TERM LIABILITIES--Continued

Unearned revenue--Continued

In connection with the agreement with Texas Book Company, Texas Book Company agreed to renovate the University's bookstore. Texas Book Company spent approximately \$183,000 on capital assets, which becomes the University's assets at the end of the lease of which \$26,000 was still unamortized as of June 30, 2019. However, if the agreement is terminated prior to completion (7 years), the University must reimburse Texas Book Company for the unamortized portion of the capital assets. The asset is to be amortized over the 7-year term of the agreement. The annual amortization for fiscal year 2019 was \$26,000.

NOTE F--RETIREMENT PLANS

The University's academic and nonacademic personnel are covered by various retirement plans. The plans available to University personnel include the Oklahoma Teachers' Retirement System (OTRS), which is a State of Oklahoma public 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 G. The University does not maintain the accounting records, hold the investments for, or administer these plans.

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

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

Oklahoma Teachers' Retirement System (OTRS)

Plan Description

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

Funding Policy

The University is required to contribute a fixed percentage of annual compensation on behalf of active members. The employer contribution rate of 8.55%, is applied to annual compensation, and is determined by state statute.

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Notes to Financial Statements

June 30, 2019

NOTE F--RETIREMENT PLANS--Continued

Funding Policy--Continued

The University's contributions to the OTRS for the year ended June 30, 2019, 2018 and 2017 were approximately \$4,626,000, \$4,508,000, and \$4,447,000, respectively. These contributions included the University's statutory contribution and the share of the employees' contribution paid directly by the University.

Defined Contribution 403(b) 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 year ended June 30, 2019.

Plan Description

Supplemental Retirement Annuity (SRA): 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, 1995, or to those eligible employees' beneficiaries. 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 System, and does not issue separate, stand-alone financial statements.

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, 2019, 2018, and 2017, were approximately \$564,000, \$560,000, and \$717,000, respectively.

NOTE G--OTHER POST-EMPLOYMENT INSURANCE BENEFITS

Plan Description

Postemployment Healthcare Plan: The University's postemployment healthcare plan is a single employer defined benefit plan administered by the System's Board of Regents. The plan provides medical and life insurance benefits to eligible retired employees until age 65. A retiring employee must have been employed full-time in the 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, 2019, there were 165 active participants in the plan. The retirement insurance program was adopted by the Board of Regents in 1985. In March of 2008, the Retiree Medical Trust for Regional University System of Oklahoma was established to hold assets and pay benefits on behalf of the University's postemployment healthcare plan, and was administered by The Bank Oklahoma, N.A. Prior to the establishment of the trust, the insurance benefits were accounted for on a pay-as-you-go basis so that premiums were made from current operating funds. The plan is included in the financial report of the system. 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.

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Notes to Financial Statements

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

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 contributions in accordance with the parameters of GASB Statement 75.

The University's contributions to the plan for the years ended June 30, 2019, 2018, and 2017, were approximately \$1,000, \$1,000 and \$36,000, respectively, and beginning July 1, 2014, are accounted for as compensation expense in the accompanying financial statements.

NOTE H--FUNDS HELD IN TRUST BY OTHERS

Beneficial Interest in State School Land Funds

The University has a beneficial interest in the "Section Thirteen Fund State Educational Institutions" and the "New College Fund" administered by the Commissioners of the Land Office as trustees for the various educational institutions entitled thereto. The University has the right to receive annually 3.7% of the distributions of income produced by "Section Thirteen Fund State Educational Institutions" assets and 100% of the distributions of income produced by East Central University's "New College Fund." The University received approximately \$1,081,000 during the year ended June 30, 2019, which is restricted to the construction or acquisition of buildings, equipment, or other capital items. These amounts are recorded as state appropriations restricted for capital purposes in the statement of revenues, expenses, and changes in net position. State law prohibits the distribution of any corpus of these funds to the beneficiaries. The cost basis of the total trust reserve for the University, held in trust by the commissioners of Land Office, was approximately \$20,700,000 at June 30, 2019.

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 amounts, plus any retained accumulated earnings, totaled approximately \$3,996,000 at June 30, 2019, and is invested by the Oklahoma State Regents on behalf of the University.

The University is entitled to receive an annual distribution of 4.5% of the three-year average of the June 30th market values on these funds. As legal title of the State Regents matching endowment funds is retained by the Oklahoma State Regents, only the funds available for distribution, or approximately \$216,000 at June 30, 2019, has been reflected as assets in the statement of net position.

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NOTE I--RELATED PARTY TRANSACTIONS

The Foundation is a not-for-profit corporation organized for the purpose of receiving and administering gifts for the benefit of the University. Distributions of amounts held by the Foundation are subject to the approval of the Foundation's Board of Trustees. The Foundation's primary function is to provide assistance to students of the University in the form of scholarships and awards, and during 2019, the Foundation provided approximately \$645,000 in scholarships to students. Additionally, the Foundation provides financial assistance to the faculty and staff of the University, as well as the University's programs and projects, and during 2019, the Foundation provided approximately \$1,617,000 in aid to programs, faculty, and staff. Many of the contributions received by the Foundation are designated by the donors to be used for specific purposes or by specific departments. In these instances, the Foundation serves essentially as a conduit. Contributions that are not designated are used where the need is considered the greatest, as determined by the Foundation.

The East Central University Gas Authority was created in 1963 to operate the natural gas pipeline system on campus. The authority is inactive and the University handles the gas lines as needed.

NOTE J--COMMITMENTS AND CONTINGENCIES

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

The University participates in the Federal Direct Student Loan Program (Direct Lending Program). The Direct Lending Program requires the University to draw down cash from the U.S. Department of Education, as well as perform certain administrative functions under the Direct Lending Program. For the year ended June 30, 2019, approximately \$11,273,000 of Direct Lending Program loans was provided to University students.

During the ordinary course of business, the University may be subjected to various lawsuits and civil action claims. Management believes that resolution of any such matters pending at June 30, 2019, will not have material adverse impact to the University.

NOTE K--RISK MANAGEMENT

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

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

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NOTE K--RISK MANAGEMENT--Continued

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

The University participates in the Oklahoma Higher Education Employee Interlocal Group Health Insurance Pool “OKHEEI”. University employees are provided health insurance coverage through OKHEEI. OKHEEI is an Interlocal Cooperative Act Agency organized as a public entity risk pool health insurance program for participating Colleges and Universities in the State. The University pays monthly health insurance premiums to OKHEEI for employee health insurance coverage based on the health coverage elected by the employee and the maximum benefit provided by the University for health coverage. Amounts of premiums exceeding benefits are payable by the employee. The governing agreement for OKHEEI specifies that the pool will be self-sustaining through premiums received and with additional stop-loss coverages obtained. If health care claims exceed reserves and reinsurance coverages, additional assessments may be made to participating Colleges and Universities. As of June 30, 2019, additional assessments did not occur.

NOTE L--EAST CENTRAL UNIVERSITY FOUNDATION, INC.--DISCRETELY PRESENTED COMPONENT UNIT

Nature of the Entity

General: The East Central University Foundation, Inc. (the “Foundation”) is a nonprofit corporation. The purposes for which the Foundation is organized are exclusively scientific, literary, charitable, educational, and artistic for the benefit of the University, Ada, Oklahoma; its faculty; its student body; and its programs. The Foundation may also serve as trustee of charitable lead trusts, charitable remainder trusts, and other private trusts of which the Foundation and/or University are beneficiaries, notwithstanding the facts that the donors of such trusts retain a beneficial interest therein or that other charitable organizations are designated as beneficiaries of such trusts.

As gifts are received by the Foundation, they are placed into new or existing funds, as appropriate, in accordance with the stipulations of the donors. Distributions of amounts held by the Foundation are subject to the approval of the Board of Trustees (the “Board”). The purposes for which the Foundation is organized are exclusively for the benefit of the University, its faculty, its student body, and its programs. As such, the University and the Foundation are considered financially interrelated as defined by generally accepted accounting principles.

Summary of Significant Accounting Policies

Basis of Presentation: The financial statement presentation follows accounting principles generally accepted in the United States for not-for-profit entities. The statements have been prepared on the accrual basis of accounting. Under U.S. generally accepted accounting principles, net position and revenues, gains, and losses are classified based on the existence or absence of donor-imposed restrictions as follows:

Unrestricted net position: Consists of gifts received by the Foundation without stipulation and accumulated earnings which the Foundation uses for its operations.

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Notes to Financial Statements

June 30, 2019

NOTE L--EAST CENTRAL UNIVERSITY FOUNDATION, INC.--DISCRETELY PRESENTED COMPONENT UNIT--Continued

Summary of Significant Accounting Policies--Continued

Expendable net position: Primarily consists of gifts received by the Foundation which will have been restricted by the donor for a particular project or activity and accumulated earnings from endowment funds. When a donor restriction is satisfied, temporarily restricted net position are reclassified to unrestricted net position.

Nonexpendable net position: This category represents gifts received by the Foundation with donor restrictions which require principle to be invested in perpetuity. Generally, income earned from these assets is available to be used for purposes established by the donors in the year received unless restricted to future fiscal periods.

Contributions: Contributions, including unconditional promises to give, are recognized as revenues in the period received by the Foundation. Conditional promises to give are not recognized until the conditions on which they depend are substantially met. Contributions of assets other than cash are recorded at their estimated fair value at the date of the gift. Allowance is made for uncollectible contributions based upon management's judgment and analysis of the creditworthiness of the donors, past collection experience, and other relevant factors. As of June 30, 2019, no allowance was considered necessary.

Contributions are reported as increases in the appropriate category of net position. Expenses are reported as decreases in unrestricted net position. Temporary restrictions on gifts to acquire long-lived assets are considered met in the period in which the assets are acquired or placed in service. Gifts of property and equipment are recorded as unrestricted support unless explicit donor stipulations specify how the assets must be used, in which case the gift is recorded as restricted support. Expirations of temporary restrictions (i.e., the donor-stipulated purpose has been fulfilled and/or the stipulated time period has elapsed) are reported as net position released from restrictions. Contributions which are received and whose restrictions are met in the same period are recognized as unrestricted contributions.

Income and gains on investments are reported as increases in permanently restricted net position if the terms of the gift that gave rise to the investment of applicable law require such amounts be added to permanent endowment principal. Income and gains are reported as increases in temporarily restricted net position if the terms of the gift or applicable law impose restrictions on the use of the income and as increases in unrestricted net position in all other cases.

Cash and Cash Equivalents: The Foundation considers all highly liquid debt instruments with a maturity of 3 months or less when purchased to be cash equivalents.

Pledges: The Foundation generally records pledges as income in the period in which a written agreement to contribute cash investments or other assets is received.

Investments: The Foundation maintains the majority of its endowment assets in a pooled investment fund. Additional investments are maintained separately in accordance with the donor's instructions. Investments are presented in the financial statements of the Foundation at fair value. Investment securities with readily determinable market value information are adjusted to market value, with realized and unrealized appreciation and/or depreciation on investments to be recorded in the statement of revenues, expenses, and changes in net position. Investments included in the pool are certificates of deposits, common stock, corporate bonds, international bonds, and U.S. government securities. The Foundation's investment committee monitors the performance of all investments and instructs Foundation management as to the mix of assets maintained in the investment pool. Investments are made in accordance with the investment policies of the Foundation.

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Notes to Financial Statements

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NOTE L--EAST CENTRAL UNIVERSITY FOUNDATION, INC.--DISCRETELY PRESENTED COMPONENT UNIT--Continued

Summary of Significant Accounting Policies--Continued

Earnings from investments are distributed quarterly from the pooled investment fund and are received by the separately maintained funds. Marketable and nonmarketable investments are marked to market in accordance with *Accounting Standards Codification (ASC) Topic 958-320, "Investments-Debt and Equity Securities."*

Real Estate Held for Investments: Real estate held as investments consists primarily of real property and forms of real property interests donated to and/or purchased by the Foundation and are carried at the lower of cost or market. The Foundation holds these assets until such time as they are transferred to the University or sold. No attempt is made by management to revalue other property investments at subsequent dates prior to transfer or sale due to the prohibitive cost of obtaining periodic appraisals; however, the Foundation's management is of the opinion that any subsequent revaluation would not have a significant impact on the Foundation's statements of financial position or changes in net assets. Impairments are recorded to reduce the carrying value of the assets to their net realizable value based on facts and circumstances at the time of determination. The Foundation sold one piece of real property for \$5,600 in 2019. No property investment impairments were recorded in 2019.

Insurance Assets: Included in other assets is approximately \$20,000 of cash surrender value assets related to insurance policies owned by the Foundation as of June 30, 2019.

Conditional Gifts: The Foundation receives contributions with terms that require returns of the contribution to the donor on the occurrence of specified future and uncertain events. The Foundation reports such contributions as liabilities until the likelihood of not meeting the condition is remote. Conditional promises to give are not recorded as assets and revenue until the conditions are substantially met and the gift becomes unconditional.

Investment Income: Investment earnings are allocated to the individual sub-funds of the Foundation on a quarterly basis. These earnings are allocated based upon the individual sub-fund's percentage of participation in the investment pool. Realized and unrealized gains and losses are determined using the specific identification method; however, these transactions are included in the pool's income for allocation purposes.

A portion of investment earnings is allocated to support the operations of the Foundation. The Foundation historically has allocated 25% of the realized investment earnings to operations. The amounts allocated are recorded in the unrestricted net asset classification in the accompanying statement of activities. Amounts so transferred in excess of the current operations requirements remain in the unrestricted net asset classification for future use as deemed necessary by the Foundation management and to support the Foundation's scholarship program.

Furniture and Equipment: Furniture and equipment are stated at cost if purchased or at appraised value if received by donation. Furniture and equipment are being depreciated on a straight-line basis over their estimated useful lives, which range from 3 to 10 years. The Foundation records impairments of its property and equipment when it becomes probable that the carrying value of the assets will not be fully recovered over the estimated useful life. Impairments are recorded to reduce the carrying value of the assets to their net realizable value based on facts and circumstances at the time of the determination. No property or equipment impairments were recorded in 2019.

Income Tax: The income earned by the Foundation has been determined to be exempt from income taxes by the Internal Revenue Service in accordance with I.R.C. Section 501(c)(3). However, unrelated business income earned by the Foundation is subject to tax. Additionally, the Foundation has been determined not to be a private foundation within the meaning of Section 509(a) of the Code.

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Notes to Financial Statements

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NOTE L--EAST CENTRAL UNIVERSITY FOUNDATION, INC.--DISCRETELY PRESENTED COMPONENT UNIT--Continued

Summary of Significant Accounting Policies--Continued

The Foundation evaluates and accounts for its uncertain tax positions, if any, in accordance with ASC Topic 740, "Income Taxes" (ASC 740), including the Foundation's tax position as a tax-exempt not-for-profit entity. Through the Foundation's evaluation of its uncertain tax positions, management has determined no uncertain tax positions exist as of June 30, 2019, which would require the Foundation to record a liability for the uncertain tax positions in its financial statements. Interest and penalties, if any, resulting from any uncertain tax position required to be recorded by the Foundation would be presented in operating expenses in the statement of activities. With few exceptions, the Foundation is no longer subject to income tax examinations by the U.S. Federal, State, or local tax authorities for years ended on or before June 30, 2016.

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

Estimates that are particularly susceptible to significant change include the valuation of marketable and nonmarketable investments and contributions receivable. The Foundation's various investment instruments are exposed to various risks, such as interest rate, credit, and overall market volatility. Due to the level of risk associated with these financial instruments, it is reasonably possible that changes in the values of the investments and beneficial interest will occur in the near term and that such changes could materially affect the amounts reported in the statement of financial position. Significant fluctuations in fair values could occur from year to year, and the amounts the Foundation will ultimately realize could differ materially. Management's estimate of investments, contributions receivable, and evaluation for allowance is based on consideration of all relevant available information and an analysis of the collectability of individual contributions, which arise primarily from pledges at the financial statement date.

Net Position Reclassifications: The Foundation reclassifies net position from one net asset category to another as follows:

- a. Net position reclassifications which result from fulfillment of the purposes for which the net position were restricted and/or restrictions which expired with the passage of time.
- b. Net position reclassifications which occur when a donor withdraws or court action removes previously imposed restrictions, when a donor imposes restrictions on otherwise unrestricted
- c. Net position, when a donor changes or modifies their existing restriction, and/or when an existing donor restriction requires certain amounts to be reclassified.

Concentrations of credit risk: The Foundation has certain concentrations of credit risk with financial institutions in the form of uninsured cash and time deposits. For purposes of evaluating credit risk, the stability of financial institutions conducting business with the Foundation is periodically reviewed, and management believes that credit risk related to the balances is minimal.

Scholarship Awards: Scholarships are accrued when the disbursements were made to the students, which is when all of the conditions would have been met and the scholarship would have been effectively earned by the student.

Advertising Costs: All costs associated with advertising are expensed as incurred.

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Notes to Financial Statements

June 30, 2019

NOTE L--EAST CENTRAL UNIVERSITY FOUNDATION, INC.--DISCRETELY PRESENTED COMPONENT UNIT--Continued

Cash and Cash Equivalents

A summary of the cash and cash equivalents at June 30, 2019, is as follows:

| | |
|---|---------------------|
| Cash in bank | \$ 100,972 |
| Money market account held at TIAA-CREF investors | 1,027,046 |
| Total | <u>\$ 1,128,018</u> |

Custodial Credit Risks-Deposits: The Foundation had the following depository accounts as of June 30, 2019. All deposits are carried at cost.

| <u>Depository Account</u> | <u>Reported Amount</u> | <u>Bank Balance</u> |
|--------------------------------|----------------------------|-------------------------|
| Insured | \$ 100,972 | \$ 136,606 |
| Uninsured and uncollateralized | <u>1,027,046</u> | <u>1,027,046</u> |
| | <u>\$ 1,128,018</u> | <u>\$ 1,163,652</u> |

Custodial credit risk is the risk that in the event of a bank failure, the Foundation's deposits may not be returned. While the Foundation's investment policy does not address bank balances (other than money markets) that are uninsured or uncollateralized, deposits are generally required to be insured or collateralized.

Pledges Receivable

Pledges receivable represent commitments by donors to contribute to the Foundation. The scheduled amounts to be received as of June 30, 2019, were as follows:

| | <u>Total</u> |
|------------------|-------------------|
| Amounts due in: | |
| Less than a year | \$ 568,990 |
| 1 to 5 years | 413,335 |
| Total | <u>\$ 982,325</u> |

Pledges receivable that are expected to be collected in less than 1 year are recorded at net realizable value. Pledges receivable in subsequent years have not been discounted to net realizable value, the effect of which is considered to be insignificant to the financial statements. The commitments are to be paid as specified by the individual pledge agreements and, accordingly, are presented as unrestricted, temporarily restricted, or permanently restricted net position in the accompanying financial statements.

An allowance for possible uncollectible pledge receivables is not considered necessary by management.

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Notes to Financial Statements

June 30, 2019

NOTE L--EAST CENTRAL UNIVERSITY FOUNDATION, INC.--DISCRETELY PRESENTED COMPONENT UNIT--Continued

Investments

The Foundation primarily uses an investment manager to manage the investments, which includes purchasing and sales. As of June 30, 2019, the investment manager was TIAA.

As of June 30, 2019, the Foundation's target allocation and allocation range for assets was as follows:

| Asset class | Target Asset Allocation | Allocation Range |
|--|-------------------------|------------------|
| Cash equivalents | 1% | 1%-4% |
| Core fixed income | 24% | |
| Treasury inflation protected securities (TIPS) | 8% | |
| High yield fixed income | 6% | |
| International fixed income | 6% | |
| Total fixed income | 44% | 35%-55% |
| U.S. large cap equity | 23% | |
| U.S. mid cap equity | 7% | |
| U.S. small cap equity | 4% | |
| International large/mid cap equity | 12% | |
| International small cap equity | 3% | |
| Emerging markets equity | 3% | |
| Real estate (REIT) | 3% | |
| Total equity | 55% | 45%-65% |
| Total | 100% | |

The investment policy also has certain specific prohibitions, such as no more than a 25% concentration of investments in one industry, nor more than a 5% ownership of any one company or more than 5% ownership of securities of a single issuer, other than the U.S. government. The policy requires evaluation and reallocation as needed.

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Notes to Financial Statements

June 30, 2019

NOTE L--EAST CENTRAL UNIVERSITY FOUNDATION, INC.--DISCRETELY PRESENTED COMPONENT UNIT--Continued

Investments--Continued

Investment securities are presented at fair value. Fair values were determined on the basis of closing prices at June 30, 2019, as quoted on major stock exchanges or over-the-counter markets.

| | Cost | Market | Excess (Deficit) of Market Over Cost |
|----------------------------|----------------------|----------------------|--|
| U.S. Government securities | \$ 4,539,076 | \$ 4,521,631 | \$ (17,445) |
| Corporate bonds | 2,923,821 | 3,124,436 | 200,615 |
| Mutual funds | 23,445,898 | 25,119,064 | 1,673,166 |
| Corporate stock-private | 112,406 | 112,406 | - |
| Certificates of deposit | 141,254 | 141,254 | - |
| Total | <u>\$ 31,162,455</u> | <u>\$ 33,018,791</u> | <u>\$ 1,856,336</u> |

The Foundation recognized \$1,408,360 during 2019 from net gains on sale of investments. These gains have been combined with other earnings on investments and allocated throughout the year through the consolidated investment pool.

The following table provides information as of June 30, 2019, concerning the fair value of maturity of investments.

| Type of Investment | 6 Months or Less | More Than 6 Months to to 1 Year | More Than 1 Year to 3 Years | More Than 3 Years to 5 Years | More Than 5 Years | Total Fair Value | Cost |
|--------------------------------------|---------------------|---------------------------------------|-----------------------------------|------------------------------------|----------------------|------------------------|----------------------|
| U.S. Government securities | \$ 353,613 | \$ 653,584 | \$ 1,356,406 | \$ 500,826 | \$ 1,657,202 | \$ 4,521,631 | \$ 4,539,076 |
| Corporate bonds | - | 161,683 | 785,506 | 528,119 | 1,649,128 | 3,124,436 | 2,923,821 |
| Mutual funds(no maturity) | - | - | - | - | - | 25,119,064 | 23,445,898 |
| Corporate stock-private(no maturity) | - | - | - | - | - | 112,406 | 112,406 |
| Certificates of deposit | 52,299 | - | 88,955 | - | - | 141,254 | 141,254 |
| Total | <u>\$ 405,912</u> | <u>\$ 815,267</u> | <u>\$ 2,230,867</u> | <u>\$ 1,028,945</u> | <u>\$ 3,306,330</u> | <u>\$ 33,018,791</u> | <u>\$ 31,162,455</u> |

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Notes to Financial Statements

June 30, 2019

NOTE L--EAST CENTRAL UNIVERSITY FOUNDATION, INC.--DISCRETELY PRESENTED COMPONENT UNIT--Continued

Investments--Continued

Credit Risk: Credit risk is the risk that an insurer or other counterparty to an investment will not fulfill its obligations. The following table provides information concerning credit risk as of June:

| Moody's Rating | Cost | Fair Value (FV) | FV as a % of Total FV |
|-------------------------|---------------|--------------------|--------------------------|
| AAA | \$ 4,597,994 | \$ 4,686,413 | 14.193% |
| AA2 | 260,961 | 266,251 | 0.806% |
| A1 | 267,137 | 281,214 | 0.852% |
| A2 | 866,700 | 903,616 | 2.737% |
| A3 | 723,089 | 734,353 | 2.224% |
| BAA1* | 232,105 | 237,494 | 0.719% |
| BAA2* | 353,760 | 375,043 | 1.136% |
| BAA3 | 161,151 | 161,683 | 0.490% |
| Not rated: | | | |
| Mutual funds | 23,445,898 | 25,119,064 | 76.075% |
| Corporate stock-private | 112,406 | 112,406 | 0.340% |
| Certificates of deposit | 141,254 | 141,254 | 0.428% |
| Total | \$ 31,162,455 | \$ 33,018,791 | 100.000% |

Individual investments had a Standard & Poor's (S&P) rating of BBB, respectively, at June 30, 2019.

Custodial Risk: For investments, custodial risk is the risk that in the event of the failure of the counterparty, the Foundation will not be able to recover the value of its investments or collateral securities in the possession of an outside party.

Art

During the year ended June 30, 2014, the Foundation received a donation of various pieces of art. The art is not being held as an investment. Each item is cataloged for educational, research, scientific, or curatorial purposes, and activities verifying the existence and assessing the condition of the items are performed continuously. The art was recorded at appraised value at the date the gift was given. There will be no planned depreciation of the art as it will be reviewed periodically for impairment. As of June 30 2019, the art had a value of approximately \$330,000, and is reported as capital assets in the accompanying financial statements.

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Notes to Financial Statements

June 30, 2019

NOTE L--EAST CENTRAL UNIVERSITY FOUNDATION, INC.--DISCRETELY PRESENTED COMPONENT UNIT--Continued

Furniture and Equipment

As of June 30, 2019, furniture and equipment consisted of the following:

| | 2018 |
|-------------------------------|---------------|
| Furniture and equipment | \$ 33,347 |
| Less accumulated depreciation | (33,149) |
| Net furniture and equipment | <u>\$ 198</u> |

Depreciation expense was \$715 for 2019.

Restricted Net Position Composition

Expendable and nonexpendable net position is predominantly restricted for scholarships.

Related-Party Transactions

The Foundation occupies, without charge, certain premises located on the campus of the University.

The Foundation benefits from voluntary services donated by individuals and businesses which have not been reflected in the financial statements due to their immateriality.

During 2019, the Foundation had Board member who served as an officer of local banks where the Foundation has a certificate of deposit. As of June 30, 2019, the certificate of deposit had a book balance of \$100,972.

General University Education Assistance

General university education assistance to programs consists of general expenses for various University organizations and programs.

Endowments

The Foundation's endowments consist of 321 individual donor-restricted funds established for a variety of scholarships and activities. As required by accounting principles generally accepted in the United States, net position associated with endowment funds are classified and reported based on donor-imposed restrictions. The endowments represent only those net position that are under the control of the Foundation.

EAST CENTRAL UNIVERSITY

A Department of The Regional University System of Oklahoma

Notes to Financial Statements

June 30, 2019

NOTE L--EAST CENTRAL UNIVERSITY FOUNDATION, INC.--DISCRETELY PRESENTED COMPONENT UNIT--Continued

Endowments--Continued

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

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

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

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

The spending policy utilizes the most recent 5-year average ROI percentage, which allows for long-term ROI trends to be built into the spending policy. The spending policy calculation will have an annual floor and ceiling which will enable the Foundation to spend a base amount from the endowment fund in low ROI periods and have extra savings in high ROI periods.

Net Position Composition of Endowments: The net asset composition of endowments by type of fund as of June 30, 2019, was as follows:

| | <u>2018</u> |
|---|----------------------|
| Original donor-restricted gift amounts and amounts required to be maintained in perpetuity by donor | \$ 22,557,759 |
| Accumulated investment earnings | <u>7,067,876</u> |
| Total, restated | <u>\$ 29,625,635</u> |

EAST CENTRAL UNIVERSITY

A Department of The Regional University System of Oklahoma

Notes to Financial Statements

June 30, 2019

NOTE L--EAST CENTRAL UNIVERSITY FOUNDATION, INC.--DISCRETELY PRESENTED COMPONENT UNIT--Continued

Endowments--Continued

Changes in Net Position of Endowments: Changes in the net position of endowments for the year ended June 30, 2019, were as follows:

| | Donor-Restricted in Perpetuity |
|---|-----------------------------------|
| Net position, beginning of year, restated | \$ 26,698,865 |
| Contributions and other revenues | 2,583,679 |
| Investment earnings, net, restated | 1,329,460 |
| Amounts appropriated for expenditures | (986,369) |
| Net position, end of year, restated | <u>\$ 29,625,635</u> |

Disclosure about Fair Value of Financial Instruments

Fair value is defined as the exchange price that would be received for an asset or paid to transfer a liability (an exit price) in the principal or most advantageous market for the asset or liability in an orderly transaction between market participants on the measurement date. In estimating fair value, the Foundation utilizes valuation techniques that are consistent with the market approach, the income approach, and/or the cost approach. Such valuation techniques are consistently applied. Inputs to valuation techniques include the assumptions that market participants would use in pricing an asset. Fair values may not represent actual values of assets that could have been realized on the measurement date or that will be realized in the future. The use of different market assumptions and/or estimation methodologies may have a material effect on the estimated fair value amounts.

The estimated fair values of the Foundation's financial instruments at June 30, 2019 were as follows:

| | Estimated Fair Value and Carrying Amount |
|---------------------------|--|
| Cash and cash equivalents | \$ 1,128,018 |
| Investments | 33,018,791 |
| Total | <u>\$ 34,146,809</u> |

ASC 820 establishes a fair value hierarchy for valuation inputs that gives the highest priority to quote prices in active markets for identical assets or liabilities and the lowest priority to unobservable inputs. The fair value hierarchy is as follows:

- Level 1 inputs to the valuation methodology are quote prices (unadjusted) for identical assets or liabilities in active markets.
- Level 2 inputs to the valuation methodology include quoted prices for similar assets and liabilities in active markets and inputs that are observable for the asset and liability, either directly or indirectly, for substantially the full term of the asset or liability.

EAST CENTRAL UNIVERSITY

A Department of The Regional University System of Oklahoma

Notes to Financial Statements

June 30, 2019

NOTE L--EAST CENTRAL UNIVERSITY FOUNDATION, INC.--DISCRETELY PRESENTED COMPONENT UNIT--Continued

Disclosure about Fair Value of Financial Instruments--Continued

- Level 3 inputs consist of unobservable inputs which are used when observable inputs are unavailable and reflect an entity's own assumptions about the assumptions that the market participants would use in pricing the assets or liabilities. Real Estate held as investments would be valued as level 3 inputs.

The following table presents the fair value measurement of assets recognized in the accompanying statements of financial position at fair value on a recurring basis and the level within the fair value hierarchy in which the fair value measurements fall at June 30:

| | Assets Measured at Fair Value | Quoted Prices in Active Markets for Identical Assets (Level 1) | Significant Other Observable Inputs (Level 2) | Significant Unobservable Inputs (Level 3) |
|----------------------------|-------------------------------------|--|---|--|
| U.S. government securities | \$ 4,521,631 | \$ - | \$ 4,521,631 | \$ - |
| Corporate bonds | 3,124,436 | - | 3,124,436 | - |
| Mutual funds | 25,119,064 | 25,119,064 | - | - |
| Corporate stock-private | 112,406 | - | - | 112,406 |
| Certificates of deposit | 141,254 | - | 141,254 | - |
| Total | <u>\$ 33,018,791</u> | <u>\$ 25,119,064</u> | <u>\$ 7,787,321</u> | <u>\$ 112,406</u> |

The following methods and assumptions were used to estimate the fair value of each class of financial instrument.

- *Cash and Cash Equivalents and Certificates of Deposit:* The carrying amounts approximate fair value.
- *Investments:* The fair values of mutual funds are based on quoted market prices for identical assets in active markets utilizing Level 1 inputs. The fair values of U.S. government securities, international bonds, and corporate bonds, for the most part, are obtained from independent pricing services utilizing Level 2 inputs. The fair value measurements considered to be observable inputs may include dealer quotes, market spreads, cash flows, the U.S. Treasury yield curve, live trading levels, trade execution data, market consensus prepayment speeds, credit information, and the security's terms and conditions, among other things.
- *Real Estate Held as Investments:* The fair values of real estate held as investments are based on management's estimated fair values using unobservable Level 3 inputs. At June 30, 2019 the fair market values remained the same.

The Foundation had real estate held as investments carried at fair value on a nonrecurring basis at June 30, 2019. The fair market values of these investments did not change during the year.

**REPORTS REQUIRED BY *GOVERNMENT AUDITING*
*STANDARDS AND 2 CFR 200***



**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
East Central 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 East Central 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, 2019, 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 31, 2019.

Our report includes a reference to other auditors who audited the financial statements of East Central University, Inc. (the "Foundation"), the University's discretely presented component unit, as described in our report on the University's financial statements. This report does not include the results of the other auditors' testing of internal control over financial reporting or compliance and other matters that are reported on separately by those auditors.

Internal Control over Financial Reporting

In planning and performing our audit of the financial statements, we considered the University's internal control over financial reporting (internal control) to determine the audit procedures that are appropriate in the circumstances for the purpose of expressing our 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 East Central University's financial statements are free from material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

Purpose of this Report

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the 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.

Hick & Company, PC

Greenwood Village, Colorado
October 31, 2019





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 OMB Circular A-133

Board of Regents
Regional University System of Oklahoma
East Central University
Oklahoma City, Oklahoma

Report on Compliance for Each Major Federal Program

We have audited East Central 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 East Central University's major federal programs for the year ended June 30, 2019. 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, East Central 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, 2019.

Report on Internal Control Over Compliance

Management of East Central 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 East Central University as of and for the year ended June 30, 2019 and the related notes to the financial statements, which collectively comprise the University's basic financial statements. We issued our report thereon dated October 31, 2019, 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.

Hick & Company, PC

Greenwood Village, Colorado
October 31, 2019



EAST CENTRAL UNIVERSITY
A Department of the Regional University System of Oklahoma
Schedule of Expenditures of Federal Awards
For the Year Ended June 30, 2019

| Federal Grantor / Pass-Through Grantor / Program Title | CFDA Number | Pass-Through Entity Identification Number | Federal Expenditures | Passed Through to Subrecipients |
|--|----------------|---|-------------------------|---------------------------------------|
| U.S. Department of Education | | | | |
| Student Financial Aid Cluster | | | | |
| Direct programs | | | | |
| Student financial aid cluster | | | | |
| Federal Pell Grant Program | 84.063 | N/A | \$ 6,114,813 | \$ - |
| Federal Supplemental Education Opportunity Grants | 84.007 | N/A | 86,438 | - |
| Federal Work Study Program | 84.033 | N/A | 399,656 | - |
| Direct Lending | 84.268 | N/A | 11,273,246 | - |
| Total student financial aid cluster | | | <u>17,874,153</u> | <u>-</u> |
| Trio Program Cluster | | | | |
| Upward Bound | 84.047 | N/A | 1,550,365 | - |
| secure success, TRIO-Student Support Services | 84.042 | N/A | 468,741 | - |
| McNair Post-Baccalaureate Program | 84.217 | N/A | 250,865 | - |
| Educational Opportunity Centers | 84.066 | N/A | 480,296 | - |
| Total Trio program cluster | | | <u>2,750,267</u> | <u>-</u> |
| Other Direct Programs | | | | |
| Rehabilitation Long-Term Training(Grad Rehap) | 84.129 | N/A | 191,617 | - |
| Higher Education Institutional Air(SIP) | 84.031 | N/A | 363,651 | - |
| Strengthening Minority-Serving Institutions | 84.382 | N/A | 256,405 | - |
| Total other direct programs | | | <u>811,673</u> | <u>-</u> |
| Total U.S. Department of Education | | | <u>21,436,093</u> | <u>-</u> |
| Research and Development (R&D) Cluster | | | | |
| National Science Foundation | | | | |
| Passed through Oklahoma State University | | | | |
| Education and Human Resources (OKAMP) | 47.076 | AA-5-29849 | 32,730 | - |
| Total National Science Foundation | | | <u>32,730</u> | <u>-</u> |
| Total Research and Development Cluster | | | <u>32,730</u> | <u>-</u> |
| U.S. Department of Health and Human Services | | | | |
| Direct programs | | | | |
| Title IV: Child Welfare | 93.575 | N/A | 28,551 | - |
| Substance Abuse and Mental Health Services Projects of | | | | |
| Regional and National Significance(Project Aware/Suicide Prevention) | 93.243 | N/A | 155,884 | - |
| Drug Free Communities Support Program Grants | 93.276 | N/A | 131,441 | - |
| University Centers for Excellence in Developmental Disabilities | | | | |
| Education, Research, and Service(Center of Learning & Leadership) | 93.632 | N/A | 11,193 | - |
| Passed through Oklahoma State Department of Human Services | | | | |
| Medical Assistance Program(Developmental Disabilities) | 93.778 | 00001273 | 254,711 | - |
| Total U.S. Department of Health and Human Services | | | <u>581,780</u> | <u>-</u> |

(Continued)

EAST CENTRAL UNIVERSITY
A Department of the Regional University System of Oklahoma
Schedule of Expenditures of Federal Awards
For the Year Ended June 30, 2019

| Federal Grantor / Pass-Through Grantor / Program Title | CFDA Number | Pass-Through Entity Identification Number | Federal Expenditures | Passed Through to Subrecipients |
|---|----------------|---|-------------------------|---------------------------------------|
| <i>(Continued)</i> | | | | |
| U.S. Environmental Protection Agency | | | | |
| Office of Research and Development Consolidated Research/Training/Fellowships (ERAP) | 66.511 | N/A | 86,339 | - |
| Total U.S. Environmental Protection Agency | | | <u>86,339</u> | <u>-</u> |
| U.S. Department of Agriculture | | | | |
| Passed through Oklahoma State Department of Education Summer Food Service Program for Children | 10.559 | 0 | 3,278 | - |
| Total U.S. Department of Agriculture | | | <u>3,278</u> | <u>-</u> |
| U.S. Department of Justice | | | | |
| OVW Technical Assistance Initiative | 16.526 | N/A | 201,325 | - |
| Total U.S. Department of Justice | | | <u>201,325</u> | <u>-</u> |
| U.S. Department of Defense | | | | |
| In Search of the Firebird | 12.900 | H98230-13-1-0040 | - | - |
| Total U.S. Department of Defense | | | <u>-</u> | <u>-</u> |
| U.S. Department of Transportation | | | | |
| Passed through the Oklahoma Office of Highway Safety National Priority Safety Program (SJEP) | 20.616 | N/A | 18,922 | - |
| Total U.S. Department of Transportation | | | <u>18,922</u> | <u>-</u> |
| National Aeronautics and Space Administration | | | | |
| Passed through University of Oklahoma Education (OKNASA) | 43.008 | 2011-42 | 57,657 | - |
| Total National Aeronautics and Space Administration | | | <u>57,657</u> | <u>-</u> |
| National Endowment for the Arts | | | | |
| Promotion of the Arts Grants to Organizations and Individuals/The Big Read | 45.024 | N/A | 1,046 | - |
| Total National Endowment for the Arts | | | <u>1,046</u> | <u>-</u> |
| National Park Services | | | | |
| National Park Service Conservation, Protection, Outreach, and Education (First Step NRS) | 15.954 | P18AC00447 | 24,670 | - |
| Total National Park Services | | | <u>24,670</u> | <u>-</u> |
| Total Expenditures of Federal Awards | | | <u>\$ 22,443,840</u> | <u>\$ -</u> |

EAST CENTRAL UNIVERSITY

A Department of the Regional University System of Oklahoma

NOTES TO SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS

Year Ended June 30, 2019

NOTE A--BASIS OF PRESENTATION

The accompanying schedule of expenditures of federal awards (the Schedule) includes the federal awards activity of East Central University under programs for the federal government for the year ended June 30, 2019. 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 East Central University, it is not intended to and does not present the financial position, changes in net position, or cash flows of East Central 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, 2019, the University did not provided any federal awards to subrecipients.

NOTE C--FEDERAL DIRECT STUDENT LOAN PROGRAM

The University participates in the Federal Direct Loan Program (the Program), CFDA number 84,268, which includes the Federal Subsidized Direct loan, the Federal Unsubsidized Direct Loan, the Federal Graduate Student PLUS Direct Loan, and Federal Direct Loans Parents of Undergraduate Students. The Program requires the University to draw down cash; and the University is required to perform certain administrative functions under the Program. Failure to perform such functions may require the University to reimburse the loan guarantee agencies. The University is not responsible for the collection of these loans. The value of loans made during the audit period are considered Federal Awards expended for the audit period.

EAST CENTRAL UNIVERSITY

A Department of the Regional University System of Oklahoma
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
Year Ended June 30, 2019

Summary of Auditors' Results

1. The opinion expressed in the independent accountants' report was:
 Unmodified Qualified Adverse Disclaimed

2. The independent accountants' report on internal control over financial reporting described:
Significant deficiencies Yes None reported
Material weaknesses? Yes No

3. Noncompliance considered material to the financial statements was disclosed by the audit? Yes No

4. The independent auditors' report on internal control over compliance for major federal awards programs disclosed:
Significant deficiencies? Yes None reported
Material weaknesses? Yes No

5. The opinion expressed in the independent auditors' report on compliance for major federal awards was:
 Unmodified Qualified Adverse Disclaimed

6. The audit disclosed findings required to be reported by the Uniform Guidance? Yes No

EAST CENTRAL UNIVERSITY

A Department of the Regional University System of Oklahoma
SCHEDULE OF FINDINGS AND QUESTIONED COSTS--Continued
Year Ended June 30, 2019

Summary of Auditors' Results--Continued

7. The University's major program was:

| <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 |

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, 2019.

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

None to report for the year ended June 30, 2019.

EAST CENTRAL UNIVERSITY

A Department of the Regional University System of Oklahoma
SUMMARY SCHEDULE OF PRIOR YEAR AUDIT FINDINGS
Year Ended June 30, 2019

Finding 2018-001--Special Tests and Provisions – Return of Title IV Funds

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

Criteria: In accordance with 34 CFR 668.22(g), the institution must return the total amount of unearned Title IV assistance as calculated under 668.22(e)(3) or 668.22(e)(4). The institution must also return the funds in the order of return as stated under 668.22(f).

Condition: We reperformed the R2T4 calculation for a sample of 10 students and determined one student's return calculation was inaccurate.

Questioned Costs: None

Cause and Effect: The University's process for calculating and /or reviewing calculations for R2T4 funds were not adequate to detect improper calculation and return of Title IV funds to the Department of Education.

Recommendation: We recommend the University reinforce training for these calculations and implement a procedure to detect and correct any miscalculations.

Management's Response: The University will implement a more focused training protocol for calculation of tuition expenses. The Bursar and Financial Aid Director will begin implementation of an additional software module designed to automate the R2T4 calculation process, removing a substantial source of the potential for human error.

Resolution: This finding has been corrected in the current year.

EAST CENTRAL UNIVERSITY

A Department of the Regional University System of Oklahoma
SUMMARY SCHEDULE OF PRIOR YEAR AUDIT FINDINGS--Continued
Year Ended June 30, 2019

Finding 2018-002--Special Tests and Provisions – Enrollment Reporting

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

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

Condition: In our graduate testing, in a sampling population of 5 students, we noted 5 graduated students that did not have their enrollment status change reported to the NSLDS via the National Student Clearinghouse (NCS) within sixty days.

Questioned Costs: None

Cause and Effect: The Registrar and Financial Aid Office are responsible for reporting all students' enrollment status. The reporting errors were caused by an error in the upload format. The file the University was uploading was missing a field that reported graduation status.

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

Management's Response: The report causing the error has been updated by the IT Department. IT, Records Office and Financial Aid will work together to verify that any new updates in software or processes will be implemented in a timely manner. The Records Office and the Financial Aid Office will be spot checking the Graduation Report on NSC and NSLDS, respectively, to verify that the information is reported appropriately.

Resolution: This finding has been corrected in the current year.