



East Central University

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

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

JUNE 30, 2020

East Central University

A DEPARTMENT OF THE REGIONAL UNIVERSITY SYSTEM OF OKLAHOMA

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June 30, 2020

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**HINKLE &
COMPANY**
Strategic PC
Business Advisors

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, 2020, 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, 2020, and the respective changes in financial position, and, where applicable, cash flows thereof for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Emphasis of Matter

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

Other Matters

Required Supplementary Information

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

Other Information

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the 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 30, 2020 on our consideration of the University's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the result of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the University's internal control over financial reporting and compliance.

Hick & Company, PC

Greenwood Village, Colorado
October 30, 2020



MANAGEMENT'S DISCUSSION AND ANALYSIS (UNAUDITED)
EAST CENTRAL UNIVERSITY
A DEPARTMENT OF THE REGIONAL UNIVERSITY SYSTEM OF OKLAHOMA
Year Ended June 30, 2020

OVERVIEW OF FINANCIAL STATEMENTS AND FINANCIAL ANALYSIS

East Central University (the "University") presents its financial statements for fiscal year 2020. 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 2020 fiscal year data in comparison with the 2019 fiscal year data. While the 2019 data is not a part of the financial statements, significant fluctuations between the 2020 and 2019 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)
EAST CENTRAL UNIVERSITY
A DEPARTMENT OF THE REGIONAL UNIVERSITY SYSTEM OF OKLAHOMA
Year Ended June 30, 2020

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)
EAST CENTRAL UNIVERSITY
A DEPARTMENT OF THE REGIONAL UNIVERSITY SYSTEM OF OKLAHOMA
Year Ended June 30, 2020

	June 30	
	2020	2019
	<i>(Thousands of Dollars)</i>	
ASSETS		
Current assets	\$ 23,754	\$ 25,425
Capital assets, net	84,558	86,700
Other assets	5,049	5,360
TOTAL ASSETS	<u>\$ 113,361</u>	<u>\$ 117,485</u>
DEFERRED OUTFLOWS OF RESOURCES		
Deferred charge on OCIA lease restructure	<u>\$ 632</u>	<u>\$ 666</u>
LIABILITIES		
Current Liabilities	\$ 5,042	\$ 5,176
Noncurrent Liabilities	31,413	33,141
TOTAL LIABILITIES	<u>\$ 36,455</u>	<u>\$ 38,317</u>
DEFERRED INFLOWS OF RESOURCES		
Deferred gain on OCIA lease restructure	<u>\$ 203</u>	<u>\$ 223</u>
NET POSITION		
Net investment in capital assets	\$ 52,904	\$ 53,058
Restricted-expendable	8,261	9,573
Unrestricted	16,170	16,980
TOTAL NET POSITION	<u>\$ 77,335</u>	<u>\$ 79,611</u>

MANAGEMENT'S DISCUSSION AND ANALYSIS (UNAUDITED)
EAST CENTRAL UNIVERSITY
A DEPARTMENT OF THE REGIONAL UNIVERSITY SYSTEM OF OKLAHOMA
Year Ended June 30, 2020

STATEMENTS OF NET POSITION (Continued)

The decrease in current assets is due to a decrease in cash and cash equivalents. This decrease results from the implementation of our enterprise resource planning system and faculty salary increases. The decrease in capital assets of approximately \$2,141,000 was due to capital asset additions of approximately \$1,500,000 offset by depreciation expense of approximately \$4,000,000. Major asset additions included several roof replacements, a new football scoreboard, and several various large equipment purchases.

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)
EAST CENTRAL UNIVERSITY
A DEPARTMENT OF THE REGIONAL UNIVERSITY SYSTEM OF OKLAHOMA
Year Ended June 30, 2020

STATEMENTS OF REVENUES, EXPENSES, AND CHANGES IN NET POSITION (Continued)

	Years Ended June 30,	
	2020	2019
	<i>(Thousands of Dollars)</i>	
OPERATING REVENUES		
Tuition, fees, housing, & food service	\$ 25,591	\$ 24,734
Grants and contracts	5,269	5,142
Other operating revenues	1,914	1,660
TOTAL OPERATING REVENUES	32,774	31,536
OPERATING EXPENSES		
Compensation	33,068	31,301
Contractual services	5,668	4,532
Supplies & materials	4,214	4,524
Depreciation	4,014	3,538
Other operating expenses	17,980	15,747
TOTAL OPERATING EXPENSES	64,944	59,642
NET OPERATING INCOME (LOSS)	(32,170)	(28,106)
NON-OPERATING REVENUES (EXPENSES)		
State appropriations	13,956	13,590
Grants and contracts	14,705	13,498
Other revenues	337	384
Interest expense	(1,125)	(1,166)
TOTAL NON-OPERATING REVENUES (EXPENSES)	27,873	26,306
OTHER REVENUES AND GAINS	1,795	1,811
CHANGE IN NET POSITION	(2,502)	11
NET POSITION, BEGINNING OF YEAR	79,612	79,601
Implementation of GASB Statement No. 84	225	-
NET POSITION, BEGINNING OF YEAR RESTATED	79,837	79,601
NET POSITION, END OF YEAR	\$ 77,335	\$ 79,612

MANAGEMENT'S DISCUSSION AND ANALYSIS (UNAUDITED)
EAST CENTRAL UNIVERSITY
A DEPARTMENT OF THE REGIONAL UNIVERSITY SYSTEM OF OKLAHOMA
Year Ended June 30, 2020

STATEMENT OF REVENUES, EXPENSES, AND CHANGES IN NET POSITION (Continued)

The University experienced an enrollment increase of 1.8% for fiscal year 2020 and increased tuition and fees by 3.5%. This resulted in increased tuition and fee revenue for fiscal year 2020. In 2019, the University experienced an enrollment decreases of 4.69% for fiscal and increased in tuition and fees by between 3.1%. This resulted in a decrease in tuition, fees, housing, and food service revenues remaining relatively flat for fiscal year 2019.

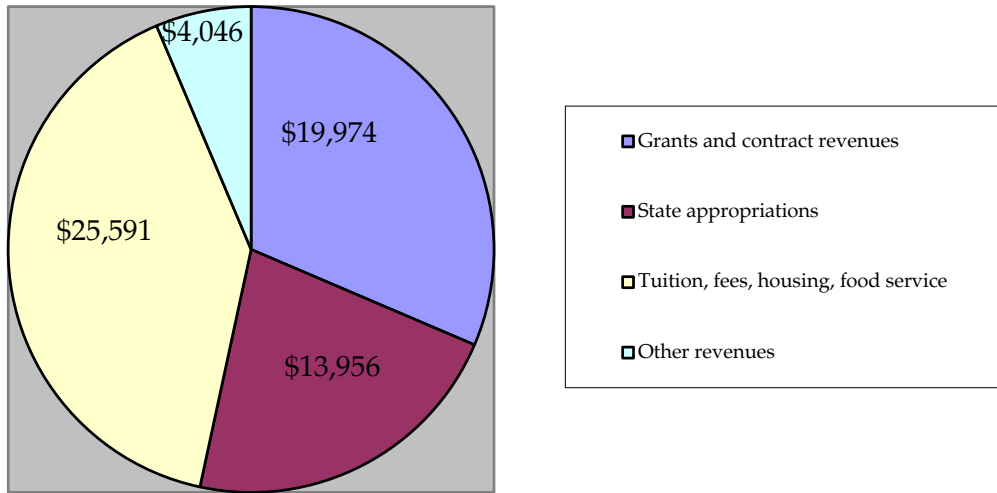
Operating revenues increased by approximately \$1,000,000 due to the tuition and fee increase. Operating expenses increased by \$5,300,000 due mainly to increases in both compensation and employee benefits of \$1,700,000 and scholarships and fellowships of \$3,100,000. Compensation did increase for faculty due a 3.5% salary increase that was funded thru funds passed on thru the state legislature. The other increase was in the areas of benefits.

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).

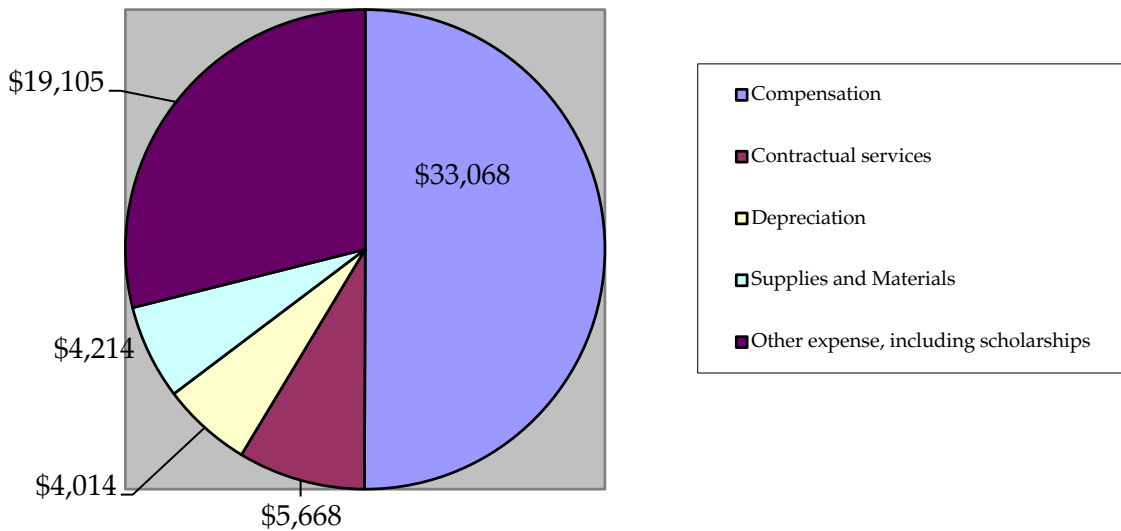
MANAGEMENT'S DISCUSSION AND ANALYSIS (UNAUDITED)
EAST CENTRAL UNIVERSITY
A DEPARTMENT OF THE REGIONAL UNIVERSITY SYSTEM OF OKLAHOMA
Year Ended June 30, 2020

STATEMENT OF REVENUES, EXPENSES, AND CHANGES IN NET POSITION (Continued)

REVENUES



EXPENSES



MANAGEMENT'S DISCUSSION AND ANALYSIS (UNAUDITED)
EAST CENTRAL UNIVERSITY
A DEPARTMENT OF THE REGIONAL UNIVERSITY SYSTEM OF OKLAHOMA
Year Ended June 30, 2020

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 13 and 14 of the financial statements.

ECONOMIC OUTLOOK

During the 2020 fiscal year, total expenses exceeded total revenues by approximately \$2,500,000. This was due to strategic spending of reserves for the beginning the implementation of the enterprise resource planning system and for other capital improvements on campus. In fiscal year 2020, tuition, fees, housing, and food service revenue accounted for 40% of the University's total revenue. The University held undergraduate and graduate tuition and fees flat for the 2020-2021 school years. The Fall 2020 enrollment was consistent with the prior year and with the number of credit hours budgeted.

State appropriations were approximately 24% of total revenues for fiscal year 2020. 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 31% of total revenues for fiscal year 2020. 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, 2020

	University	Component Unit
ASSETS		
CURRENT ASSETS		
Cash and cash equivalents	\$ 21,067,818	\$ 1,861,809
Accounts receivable, net	1,587,599	492,535
Grants and contracts receivable	955,943	-
Interest receivable	23,519	32,156
Other receivable	119,479	-
TOTAL CURRENT ASSETS	23,754,358	2,386,500
NONCURRENT ASSETS		
Restricted cash and cash equivalents	4,591,317	-
Restricted investments	240,950	-
Investments	-	33,507,708
Receivable from OSRHE Endowment Trust Fund	216,110	-
Other assets	-	32,101
Capital assets, net	84,558,469	342,186
TOTAL NONCURRENT ASSETS	89,606,846	33,881,995
TOTAL ASSETS	\$ 113,361,204	\$ 36,268,495
DEFERRED OUTFLOWS OF RESOURCES		
Deferred charge on capital lease restructure	\$ 631,667	\$ -

(Continued)

East Central University
A DEPARTMENT OF THE REGIONAL UNIVERSITY SYSTEM OF OKLAHOMA
STATEMENT OF NET POSITION
June 30, 2020
(Continued)

	University	Component Unit
LIABILITIES		
CURRENT LIABILITIES		
Accounts and scholarships payable	\$ 1,177,951	\$ 9,514
Accrued payroll	19,889	-
Accrued interest	56,938	-
Unearned revenue	1,287,239	-
Current portion of noncurrent liabilities	2,500,430	-
TOTAL CURRENT LIABILITIES	5,042,447	9,514
NONCURRENT LIABILITIES		
Accrued compensated absences	934,763	-
Bonds payable	3,531,736	-
Unearned revenue	845,481	-
ODFA master lease obligations	20,597,498	47,100
Lease obligations payable to OCIA	5,503,078	-
TOTAL NONCURRENT LIABILITIES	31,412,556	47,100
TOTAL LIABILITIES	\$ 36,455,003	\$ 56,614
DEFERRED INFLOWS OF RESOURCES		
Deferred gain on OCIA lease restructure	\$ 202,769	\$ -
NET POSITION		
Net investment in capital assets	\$ 52,904,256	\$ -
Restricted:		
Nonexpendable:		
Grants, bequests and contributions	-	35,272,361
Expendable:		
Scholarships, instruction and other	3,669,652	-
Loans	72,935	-
Capital projects	4,518,382	-
Unrestricted	16,169,874	939,520
TOTAL NET POSITION	\$ 77,335,099	\$ 36,211,881

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, 2020

	University	Component Unit
OPERATING REVENUES		
Student tuition and fees, net of scholarship discounts and allowances of \$10,210,843	\$ 20,205,929	\$ -
Federal grants and contracts	4,459,440	-
State and local grants and contracts	809,257	-
Bookstore operations	94,252	-
Housing and food service (revenues of \$3,567,358 pledged as security on ODFA 2014 bonds).	5,384,761	-
Investment income	-	1,021,344
Contributions	-	2,102,784
Other operating revenues	1,819,943	-
TOTAL OPERATING REVENUES	32,773,582	3,124,128
OPERATING EXPENSES		
Compensation and employee benefits	33,068,016	-
Contractual services	5,668,023	-
Supplies and materials	4,213,739	-
Depreciation	4,013,691	198
Utilities	950,914	-
Communication expense	165,606	-
Scholarships and fellowships	14,527,551	-
Other operating expenses	2,335,600	2,476,148
TOTAL OPERATING EXPENSES	64,943,140	2,476,346
OPERATING INCOME (LOSS)	(32,169,558)	647,782
NONOPERATING REVENUES (EXPENSES)		
State appropriations	13,955,920	-
Federal Grants	7,971,048	-
State Grants	6,733,501	-
Investment income	334,987	-
Other Non-Operating Revenues	2,453	-
Interest expense	(1,124,571)	-
NET NONOPERATING REVENUE (EXPENSES)	27,873,338	-
Income before other revenues, expenses, gains, and losses	(4,296,220)	647,782
CAPITAL GIFTS AND GRANTS		
State appropriations restricted for capital purposes	1,007,423	-
Capital Contributions	457,129	-
OCIA on-behalf state appropriations	330,386	-
TOTAL CAPITAL GIFTS AND GRANTS	1,794,938	-
CHANGE IN NET POSITION	(2,501,282)	647,782
NET POSITION, BEGINNING OF YEAR	79,611,719	35,564,099
Implementation of GASB Statement No. 84	224,662	-
NET POSITION, BEGINNING OF YEAR RESTATED	79,836,381	35,564,099
NET POSITION, END OF YEAR	\$ 77,335,099	\$ 36,211,881

East Central University
A DEPARTMENT OF THE REGIONAL UNIVERSITY SYSTEM OF OKLAHOMA
STATEMENT OF CASH FLOWS
For the Year Ended June 30, 2020

CASH FLOWS FROM OPERATING ACTIVITIES

Tuition and fees	\$ 19,893,357
Grants and contracts	6,257,593
Auxiliary enterprise charges	7,298,956
Payments to employees for salaries and benefits	(32,989,083)
Payments to suppliers	(27,781,396)
	(27,320,573)

NET CASH USED IN OPERATING ACTIVITIES (27,320,573)

CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES

State appropriations	13,955,920
Nonoperating grants, primarily student financial assistance	14,704,549
Cash received from Non-Operating Revenues	1,735
Direct loan/FFEL receipts	11,429,583
Direct loan/FFEL payments	(11,429,583)

NET CASH PROVIDED BY NONCAPITAL
FINANCING ACTIVITIES 28,662,204

CASH FLOWS FROM INVESTING ACTIVITIES

Proceeds from sales of investments	324,396
Purchase of investments	(332,623)
Investment income received	342,074

NET CASH PROVIDED BY INVESTING ACTIVITIES 333,847

**CASH FLOWS FROM CAPITAL AND
RELATED FINANCING ACTIVITIES**

Cash paid for capital assets	(1,850,820)
Capital appropriations received	1,524,105
Drawdown of ODFA receivable	(1,127)
Repayments of capital debt and leases	(1,699,138)
Interest paid on capital debt and leases	(944,163)

NET CASH USED IN CAPITAL AND
RELATED FINANCING ACTIVITIES (2,971,143)

NET INCREASE (DECREASE) IN CASH EQUIVALENTS (1,295,665)

CASH AND CASH EQUIVALENTS, BEGINNING OF YEAR 26,954,800

CASH AND CASH EQUIVALENTS, END OF YEAR \$ 25,659,135

(Continued)

East Central University
A DEPARTMENT OF THE REGIONAL UNIVERSITY SYSTEM OF OKLAHOMA
STATEMENT OF CASH FLOWS
For the Year Ended June 30, 2020
(Continued)

RECONCILIATION OF OPERATING LOSS TO
NET CASH USED IN OPERATING ACTIVITIES

Operating loss	\$ (32,169,558)
Adjustments to reconcile operating loss to net cash used by operating activities:	
Depreciation	4,013,691
Loss on the disposal of capital assets	718
Changes in assets and liabilities:	
Student accounts receivable	(299,242)
Grants and Other receivables	988,896
Accounts payable and accrued liabilities	79,319
Accrued payroll	(27,763)
Unearned revenue	(13,330)
Compensated absences	<u>106,696</u>

NET CASH USED IN OPERATING ACTIVITIES \$ (27,320,573)

NONCASH INVESTING, NONCAPITAL FINANCING AND
CAPITAL AND RELATED FINANCING ACTIVITIES

Interest on capital debt paid by OCIA on behalf of the University	\$ <u>263,646</u>
Principal on capital debt paid by OCIA on behalf of the University	\$ <u>66,740</u>
Deferred cost on OCIA lease restructure	<u>\$ -</u>
Deferred gain on OCIA lease restructure	<u>\$ -</u>

RECONCILIATION OF CASH AND CASH EQUIVALENTS
TO STATEMENTS OF NET ASSETS

Current assets:	
Cash and cash equivalents	\$ 21,067,818
Noncurrent assets:	
Restricted cash and cash equivalents	<u>4,591,317</u>

TOTAL CASH AND CASH EQUIVALENTS \$ 25,659,135

NOTES TO FINANCIAL STATEMENTS

East Central University

A DEPARTMENT OF THE REGIONAL UNIVERSITY SYSTEM OF OKLAHOMA

June 30, 2020

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.

NOTES TO FINANCIAL STATEMENTS

East Central University

A DEPARTMENT OF THE REGIONAL UNIVERSITY SYSTEM OF OKLAHOMA

June 30, 2020

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

Financial Statement Presentation: The University's financial statements are presented in accordance with the requirements of GASB Statement No. 34, *Basic Financial 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.

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

NOTES TO FINANCIAL STATEMENTS

East Central University

A DEPARTMENT OF THE REGIONAL UNIVERSITY SYSTEM OF OKLAHOMA

June 30, 2020

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

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. Computer Equipment with a unit cost of \$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.

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, 2020, 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, 2020, the University's deferred inflows of resources were comprised of deferred gain on capital lease restructure.

NOTES TO FINANCIAL STATEMENTS

East Central University

A DEPARTMENT OF THE REGIONAL UNIVERSITY SYSTEM OF OKLAHOMA

June 30, 2020

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

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

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

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

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

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.

NOTES TO FINANCIAL STATEMENTS

East Central University

A DEPARTMENT OF THE REGIONAL UNIVERSITY SYSTEM OF OKLAHOMA

June 30, 2020

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

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: 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.

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

Beginning net position, as previously reported	\$ 79,611,719
Implementation of GASB Statement No. 84	224,662
Beginning net position, restated	<u>\$ 79,836,381</u>

Subsequent Events:

The University has evaluated subsequent events through October 30, 2020, the date the financial statements were available to be issued.

NOTES TO FINANCIAL STATEMENTS

East Central University

A DEPARTMENT OF THE REGIONAL UNIVERSITY SYSTEM OF OKLAHOMA

June 30, 2020

NOTE B--DEPOSITS AND INVESTMENTS

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

There is \$25,902,033 in cash and cash equivalents on deposit with the State Treasurer as of June 30, 2020, of which \$249,196 represents amounts held in agency funds. Of the \$25,902,033 on deposit with the State Treasurer, \$13,857,714, 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.

NOTES TO FINANCIAL STATEMENTS

East Central University

A DEPARTMENT OF THE REGIONAL UNIVERSITY SYSTEM OF OKLAHOMA

June 30, 2020

NOTE B--DEPOSITS AND INVESTMENTS (Continued)

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

Neither the University's investment policy nor state statutes place limits on amounts that can be invested in any one issuer; however, the OST investment policy states that, with the exception of U.S. Treasury securities, no more than 50% of the State's total funds may be invested in a single security type or with a single financial institution, with diversification percentages being more restrictive on individual securities. *Custodial credit risk* for investments is the risk that, in the event of failure of the counterparty, the University will not be able to recover the value of its investments or collateral securities in the possession of an outside party. As of June 30, 2020, none of the University's investments were subject to custody credit risk.

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

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

At June 30, 2020, the University had restricted investments in bond funds amounting to \$240,950. The investment funds had a fair market value of \$240,950 at June 30, 2020. The invested bond funds are not subject to maturity dates and are due on demand.

NOTES TO FINANCIAL STATEMENTS

East Central University

A DEPARTMENT OF THE REGIONAL UNIVERSITY SYSTEM OF OKLAHOMA

June 30, 2020

NOTE B--DEPOSITS AND INVESTMENTS (Continued)

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 \$240,950 had an average credit rating of Aaa-mf at June 30, 2020, 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, 2020:

- Money Market Mutual Funds of \$240,950 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, 2020:

Student tuition and fees	\$ 10,583,991
Less: allowance for doubtful accounts	<u>(8,996,392)</u>
Net accounts receivable	<u>\$ 1,587,599</u>

NOTES TO FINANCIAL STATEMENTS

East Central University

A DEPARTMENT OF THE REGIONAL UNIVERSITY SYSTEM OF OKLAHOMA

June 30, 2020

NOTE D--CAPITAL ASSETS

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

	Balance June 30, 2019	Additions	Transfers	Retirements/ Adjustments	Balance June 30, 2020
Capital assets not being depreciated					
Land	\$ 4,784,300	\$ -	\$ -	\$ -	\$ 4,784,300
Art	170,485	-	-	-	170,485
Construction in progress	129,827	392,806	(153,975)	-	368,658
Total assets not being depreciated	<u>\$ 5,084,612</u>	<u>\$ 392,806</u>	<u>\$ (153,975)</u>	<u>\$ -</u>	<u>\$ 5,323,443</u>
Other capital assets					
Non-major infrastructure networks	\$ 2,118,923	\$ 580,760	\$ -	\$ -	\$ 2,699,683
Land improvements	4,154,302	-	153,975	-	4,308,277
Buildings	117,920,782	16,600	-	-	117,937,382
Furniture, fixtures, and equipment	14,730,800	841,946	-	(318,818)	15,253,928
Software	1,017,933	9,357	-	-	1,027,290
Library materials	6,555,520	31,768	-	(26,935)	6,560,353
Total other capital assets	<u>146,498,260</u>	<u>1,480,431</u>	<u>153,975</u>	<u>(345,753)</u>	<u>147,786,913</u>
Less: accumulated depreciation for					
Non-major infrastructure networks	(501,062)	(98,705)	-	-	(599,767)
Land improvements	(2,032,665)	(220,230)	-	-	(2,252,895)
Buildings	(42,990,887)	(2,768,064)	-	-	(45,758,951)
Furniture, fixtures, and equipment	(12,069,220)	(813,683)	-	318,100	(12,564,803)
Software	(916,573)	(34,537)	-	-	(951,110)
Library materials	(6,372,824)	(78,472)	-	26,935	(6,424,361)
Total accumulated depreciation	<u>(64,883,231)</u>	<u>(4,013,691)</u>	<u>-</u>	<u>345,035</u>	<u>(68,551,887)</u>
Other capital assets, net	<u>\$ 81,615,029</u>	<u>\$ (2,533,260)</u>	<u>\$ 153,975</u>	<u>\$ (718)</u>	<u>\$ 79,235,026</u>
Capital asset summary:					
Capital assets not being depreciated	\$ 5,084,612	\$ 392,806	\$ (153,975)	\$ -	\$ 5,323,443
Other capital assets, at cost	146,498,260	1,480,431	153,975	(345,753)	147,786,913
Total cost of capital assets	151,582,872	1,873,237	-	(345,753)	153,110,356
Less: accumulated depreciation	(64,883,231)	(4,013,691)	-	345,035	(68,551,887)
Capital assets, net	<u>\$ 86,699,641</u>	<u>\$ (2,140,454)</u>	<u>\$ -</u>	<u>\$ (718)</u>	<u>\$ 84,558,469</u>

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

NOTES TO FINANCIAL STATEMENTS

East Central University

A DEPARTMENT OF THE REGIONAL UNIVERSITY SYSTEM OF OKLAHOMA

June 30, 2020

NOTE E--LONG-TERM LIABILITIES

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

	Balance			Balance	
	June 30, 2019	Additions	Reductions	June 30, 2019	Amounts due within one year
Bonds payable and capital lease obligations					
Revenue Bonds Payable	\$ 3,650,000	\$ -	\$ (185,000)	\$ 3,465,000	\$ 195,000
Revenue Bonds Premium	279,184	-	(8,724)	270,460	8,724
	<u>3,929,184</u>	<u>-</u>	<u>(193,724)</u>	<u>3,735,460</u>	<u>203,724</u>
ODFA Master lease obligation	22,741,165	-	(1,514,138)	21,227,027	1,562,750
Master Lease Premiums	1,088,025	-	(86,563)	1,001,462	68,241
OCIA lease obligations	5,569,818	-	(66,740)	5,503,078	-
Total bonds and capital lease	<u>29,399,008</u>	<u>-</u>	<u>(1,667,441)</u>	<u>27,731,567</u>	<u>1,630,991</u>
Other liabilities					
Unearned Revenue	1,107,547	-	(131,032)	976,515	131,032
Accrued compensated absences	1,362,750	602,557	(495,861)	1,469,446	534,683
Total long-term liabilities	<u>\$ 35,798,489</u>	<u>\$ 602,557</u>	<u>\$ (2,488,058)</u>	<u>\$ 33,912,988</u>	<u>\$ 2,500,430</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, 2020, the unamortized cost totaled \$298,302.

NOTES TO FINANCIAL STATEMENTS

East Central University

A DEPARTMENT OF THE REGIONAL UNIVERSITY SYSTEM OF OKLAHOMA

June 30, 2020

NOTE E--LONG-TERM LIABILITIES (Continued)

Revenue Bonds Payable: (Continued)

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

<u>Year Ending June 30:</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
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	220,000	101,800	321,800
2026-2030	1,245,000	366,100	1,611,100
2031-2035	1,190,000	97,600	1,287,600
	<u>\$ 3,465,000</u>	<u>\$ 1,055,525</u>	<u>\$ 4,520,525</u>

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, 2020, the University has \$99,860 available for its intended purpose.

NOTES TO FINANCIAL STATEMENTS

East Central University

A DEPARTMENT OF THE REGIONAL UNIVERSITY SYSTEM OF OKLAHOMA

June 30, 2020

NOTE E--LONG-TERM LIABILITIES (Continued)

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, 2020, the University has \$19,620 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 2016D 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.

NOTES TO FINANCIAL STATEMENTS

East Central University

A DEPARTMENT OF THE REGIONAL UNIVERSITY SYSTEM OF OKLAHOMA

June 30, 2020

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 \$66,740 during the year ended June 30, 2020, 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>
2021	\$ 1,562,750	\$ 1,019,968	\$ 2,582,718
2022	2,086,814	973,225	3,060,039
2023	1,784,726	899,694	2,684,420
2024	1,842,515	828,911	2,671,426
2025	1,899,165	760,586	2,659,751
2026-2030	10,073,186	2,698,538	12,771,724
2031-2035	6,895,252	845,444	7,740,696
2036-2040	585,751	23,429	609,180
	<u>\$ 26,730,159</u>	<u>\$ 8,049,795</u>	<u>\$ 34,779,954</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, 2020 is as follows:

<u>Assets Under Capital Lease</u>	
Buildings	\$ 57,597,697
Less: Accumulated Depreciation	11,960,315
	<u>\$ 45,637,382</u>

NOTES TO FINANCIAL STATEMENTS

East Central University

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June 30, 2020

NOTE E--LONG-TERM LIABILITIES (Continued)

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 Johns Pizza equipment. At June 30, 2020, the University has a liability for approximately \$977,000 in the accompanying statement of net position. The amortization for the year ended June 30, 2020 was approximately \$131,000.

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 employees retirement system, the Supplemental Retirement Annuity (SRA), a single employer defined benefit pension plan available to employees hired prior to July 1, 1995, and a defined contribution 403(b) plan. Personnel may also be eligible to participate in the Other Post-Employment Insurance (OPEB) plan, as described further in Note H. The University does not maintain the accounting records, hold the investments for, or administer these plans.

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.

NOTES TO FINANCIAL STATEMENTS

East Central University

A DEPARTMENT OF THE REGIONAL UNIVERSITY SYSTEM OF OKLAHOMA

June 30, 2020

NOTE F--RETIREMENT PLANS (Continued)

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.

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

The University's contributions to the OTRS for the year ended June 30, 2020, 2019 and 2018 were approximately \$4,705,000, \$4,626,000, and \$4,508,000, 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, 2020.

NOTES TO FINANCIAL STATEMENTS

East Central University

A DEPARTMENT OF THE REGIONAL UNIVERSITY SYSTEM OF OKLAHOMA

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NOTE F--RETIREMENT PLANS (Continued)

Supplemental Retirement Annuity (SRA)

Plan Description: The University's SRA plan is a single employer, defined benefit pension plan administered by the University's Board of Regents. The SRA was established by the University's Board of Regents to provide supplemental retirement and death benefits to University employees who were hired prior to July 1, 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.

Funding Policy: The authority to establish and amend eligible employees' and employer contribution obligations to the SRA rests with the University's Board of Regents. Eligible employees are not required to make contributions to the SRA. The University is required to contribute to the SRA an actuarially determined amount on an annual basis. The plan currently has adopted a funding policy to achieve a 100 percent funding level by December 1, 2030.

The University's contributions to the SRA for the years ended June 30, 2019, 2018, and 2017, were approximately \$585,000, \$560,000, and \$717,000, respectively.

NOTE G--OTHER POST-EMPLOYMENT INSURANCE BENEFITS

Postemployment Healthcare Plan

Plan Description: The University's postemployment healthcare plan is a single employer defined benefit plan administered by the System's Board of Regents. The plan provides medical and life insurance benefits to eligible retired employees until age 65. A retiring employee must have been employed full-time in the 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. 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.

NOTES TO FINANCIAL STATEMENTS

East Central University

A DEPARTMENT OF THE REGIONAL UNIVERSITY SYSTEM OF OKLAHOMA

June 30, 2020

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

Funding Policy: The contribution requirements of the System are established and may be amended by the Regional University System of Oklahoma Board of Regents. The University is required to contribute the *actuarially determined employer contribution*, in an amount actuarially determined by an actuary. The ADEC represents a level of funding that, if paid on an ongoing basis, is projected to cover normal cost each year and amortize any unfunded actuarial liabilities (or funding excess) over a period not to exceed thirty years. In 2020, an updated valuation was not performed for 2020 for funding purposes.

The University's contributions to the plan for the years ended June 30, 2016, 2015, and 2014, were approximately \$250,000, \$258,000, and \$437,000, 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 \$1,017,000 during the year ended June 30, 2020, which is restricted to the construction or acquisition of buildings, equipment, or other capital items. These amounts are recorded as state appropriations 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 \$20,253,000 at June 30, 2020.

Oklahoma State Regents Endowment Trust Fund: In connection with the Oklahoma State Regents' Endowment Program (the Endowment Program), the State of Oklahoma has matched contributions received under the program. The state match amounts, plus any retained accumulated earnings, totaled approximately \$3,996,000 at June 30, 2020, and is invested by the Oklahoma State Regents on behalf of the University.

NOTES TO FINANCIAL STATEMENTS

East Central University

A DEPARTMENT OF THE REGIONAL UNIVERSITY SYSTEM OF OKLAHOMA

June 30, 2020

NOTE H--FUNDS HELD IN TRUST BY OTHERS (Continued)

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, 2020, has been reflected as assets in the statement of net position.

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 2020, the Foundation provided approximately \$674,000 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 2020, the Foundation provided approximately \$1,407,000 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, 2020, approximately \$11,430,000 of Direct Lending Program loans was provided to University students.

NOTES TO FINANCIAL STATEMENTS

East Central University

A DEPARTMENT OF THE REGIONAL UNIVERSITY SYSTEM OF OKLAHOMA

June 30, 2020

NOTE J--COMMITMENTS AND CONTINGENCIES (Continued)

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

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 provide by the University for health coverage. Amounts of premiums exceeding benefits are payable by the employee. The governing agreement for OKHEEI specifies that the pool will be self-sustaining through premiums received and with additional stop-loss coverages obtained. If health care claims exceed reserves and reinsurance coverages, additional assessments may be made to participating Colleges and Universities. As of June 30, 2020, additional assessments did not occur.

NOTES TO FINANCIAL STATEMENTS

East Central University

A DEPARTMENT OF THE REGIONAL UNIVERSITY SYSTEM OF OKLAHOMA

June 30, 2020

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.

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.

NOTES TO FINANCIAL STATEMENTS

East Central University

A DEPARTMENT OF THE REGIONAL UNIVERSITY SYSTEM OF OKLAHOMA

June 30, 2020

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

Summary of Significant Accounting Policies (Continued)

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, 2020, 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.

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 reported at fair value calculated in accordance with ASC Topic 820, "Fair Value Measurement" (ASC 820). 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. Fair value is determined based on quoted market prices, observable inputs, or unobservable inputs.

NOTES TO FINANCIAL STATEMENTS

East Central University

A DEPARTMENT OF THE REGIONAL UNIVERSITY SYSTEM OF OKLAHOMA

June 30, 2020

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

Summary of Significant Accounting Policies (Continued)

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.

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. No property investment impairments were recorded in 2020.

Other 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, 2020.

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.

NOTES TO FINANCIAL STATEMENTS

East Central University

A DEPARTMENT OF THE REGIONAL UNIVERSITY SYSTEM OF OKLAHOMA

June 30, 2020

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

Summary of Significant Accounting Policies (Continued)

Note Payable: On April 20, 2020, the Foundation was granted a loan (the "Loan") from Vision Bank in the amount of \$47,100, pursuant to the Paycheck Protection Program (PPP) under Division A, Title I of the CARES Act, which was enacted March 27, 2020. The Loan bears interest at a rate of 1.00% per annum, due on demand or, in no demand, on March 20, 2020. The Loan may be prepaid by the Foundation at any time prior to maturity with no prepayment penalties. Funds from the Loan may only be used for payroll costs, benefits, and certain other qualifying expenses, including rent, utilities, and interest on other debt obligations incurred before February 15, 2020. The Foundation intends to use the entire Loan amount for qualifying expenses. Under the terms of the PPP, certain amounts of the Loan may be forgiven if they are used for qualifying expenses as described in the CARES Act.

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 2020.

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.

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, 2020, 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, 2017.

NOTES TO FINANCIAL STATEMENTS

East Central University

A DEPARTMENT OF THE REGIONAL UNIVERSITY SYSTEM OF OKLAHOMA

June 30, 2020

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

Summary of Significant Accounting Policies (Continued)

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 was 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.

NOTES TO FINANCIAL STATEMENTS

East Central University

A DEPARTMENT OF THE REGIONAL UNIVERSITY SYSTEM OF OKLAHOMA

June 30, 2020

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

Summary of Significant Accounting Policies (Continued)

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

Cash and Cash Equivalents

A summary of the cash and cash equivalents at June 30, 2020, is as follows:

Cash in bank	\$	275,063
Money market account held at TIAA-CREF investors		1,586,746
		<u>\$ 1,861,809</u>

Custodial Credit Risks-Deposits: The Foundation had the following depository accounts as of June 30, 2020. All deposits are carried at cost.

<u>Depository Account</u>	<u>Reported Amount</u>	<u>Bank Balance</u>
Insured	\$ -	\$ 250,000
Uninsured and uncollateralized	1,611,809	1,637,716
	<u>\$ 1,611,809</u>	<u>\$ 1,887,716</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, 2020, were as follows:

Amounts due in:	<u>Total</u>
Less than a year	\$ 382,500
1 to 5 years	110,035
	<u>\$ 492,535</u>

NOTES TO FINANCIAL STATEMENTS

East Central University

A DEPARTMENT OF THE REGIONAL UNIVERSITY SYSTEM OF OKLAHOMA

June 30, 2020

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

Pledges Receivable (Continued)

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.

Investments

The Foundation primarily uses an investment manager to manage the investments, which includes purchasing and sales. As of June 30, 2020, the investment manager was TIAA.

As of June 30, 2020, 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%	

NOTES TO FINANCIAL STATEMENTS

East Central University

A DEPARTMENT OF THE REGIONAL UNIVERSITY SYSTEM OF OKLAHOMA

June 30, 2020

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

Investments (Continued)

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.

Investment securities are presented at fair value. Fair values were determined on the basis of closing prices at June 30, 2020, as quoted on major stock exchanges or over-the-counter markets.

	Cost	Market	Excess (Deficit) of Market Over Cost
U.S. Government securities	\$ 3,890,313	\$ 4,020,749	\$ 130,436
Corporate bonds	3,393,316	3,526,328	133,012
Mutual funds	24,570,253	25,709,894	1,139,641
Corporate stock-private	107,250	107,250	-
Certificates of deposit	143,487	143,487	-
	<u>\$ 32,104,619</u>	<u>\$ 33,507,708</u>	<u>\$ 1,403,089</u>

The Foundation recognized \$784,013 during 2020 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, 2020, 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	\$ -	\$ -	\$ 1,718,721	\$ 1,060,436	\$ 1,241,592	\$ 4,020,749	\$ 3,890,313
Corporate bonds	-	-	758,705	835,957	1,931,666	3,526,328	3,393,316
Mutual funds(no maturity)	-	-	-	-	-	25,709,894	24,570,253
Corporate stock-private(no matu)	-	-	-	-	-	107,250	107,250
Certificates of deposit	53,361	-	90,126	-	-	143,487	143,487
	<u>\$ 53,361</u>	<u>\$ -</u>	<u>\$ 2,567,552</u>	<u>\$ 1,896,393</u>	<u>\$ 3,173,258</u>	<u>\$ 33,507,708</u>	<u>\$ 32,104,619</u>

NOTES TO FINANCIAL STATEMENTS

East Central University

A DEPARTMENT OF THE REGIONAL UNIVERSITY SYSTEM OF OKLAHOMA

June 30, 2020

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
AA+	\$ 879,278	\$ 888,147	2.650%
AA-	488,237	505,891	1.510%
A+	231,619	247,235	0.738%
A	879,209	925,316	2.762%
A-	334,997	348,215	1.039%
BBB+	987,462	1,008,835	3.011%
BBB	318,986	334,068	0.997%
Not rated:			
U.S. Government securities:	3,163,841	3,289,370	9.817%
Mutual funds	24,570,253	25,709,894	76.728%
Corporate stock-private	107,250	107,250	0.320%
Certificates of deposit	143,487	143,487	0.428%
	\$ 32,104,619	\$ 33,507,708	100.000%

*The Foundation used Standard & Poor's (S&P) rating, at June 30, 2020.

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, 2020, the art had a value of approximately \$330,000, and is reported as capital assets in the accompanying financial statements.

NOTES TO FINANCIAL STATEMENTS

East Central University

A DEPARTMENT OF THE REGIONAL UNIVERSITY SYSTEM OF OKLAHOMA

June 30, 2020

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

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 2020, 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, 2020, the certificate of deposit had a book balance of \$275,063.

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 334 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.

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.

NOTES TO FINANCIAL STATEMENTS

East Central University

A DEPARTMENT OF THE REGIONAL UNIVERSITY SYSTEM OF OKLAHOMA

June 30, 2020

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

Endowments (Continued)

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, 2020, was as follows:

	2020
Original donor-restricted gift amounts and amounts required to be maintained in perpetuity by donor	\$ 29,731,557
Accumulated investment earnings	1,508,285
Total, restated	\$ 31,239,842

NOTES TO FINANCIAL STATEMENTS

East Central University

A DEPARTMENT OF THE REGIONAL UNIVERSITY SYSTEM OF OKLAHOMA

June 30, 2020

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

Changes in Net Position of Endowments:

Changes in the net position of endowments for the year ended June 30, 2020, were as follows:

	Donor-Restricted in Perpetuity
Net position, beginning of year, restated	\$ 29,625,635
Contributions and other revenues	1,841,622
Investment earnings, net, restated	754,486
Amounts appropriated for expenditures	(981,901)
Net position, end of year, restated	<u>\$ 31,239,842</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, 2020 were as follows:

	Estimated Fair Value and Carrying Amount
Cash and cash equivalents	\$ 1,861,809
Investments	<u>33,507,708</u>
Total	<u>\$ 35,369,517</u>

NOTES TO FINANCIAL STATEMENTS

East Central University

A DEPARTMENT OF THE REGIONAL UNIVERSITY SYSTEM OF OKLAHOMA

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

Disclosure about Fair Value of Financial Instruments (Continued)

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.
- 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	\$ 4,020,749	\$ -	\$ 4,020,749	\$ -
Corporate bonds	3,526,328	-	3,526,328	-
Mutual funds	25,709,894	25,709,894	-	-
Corporate stock-private	107,250	-	-	107,250
Certificates of deposit	143,487	-	143,487	-
	<u>\$ 33,507,708</u>	<u>\$ 25,709,894</u>	<u>\$ 7,690,564</u>	<u>\$ 107,250</u>

NOTES TO FINANCIAL STATEMENTS

East Central University

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June 30, 2020

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

Disclosure about Fair Value of Financial Instruments (Continued)

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, 2020 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, 2020. The fair market values of these investments did not change during the year.

NOTE M--SUBSEQUENT EVENT

Subsequent to year-end, the United States of America and the State of Colorado have declared an emergency associated with the Coronavirus pandemic. The University has been economically impacted by the event, however the full economic effect has yet to be determined.