

**SOUTHEASTERN  
OKLAHOMA STATE  
UNIVERSITY**

**June 30, 2009**

SOUTHEASTERN OKLAHOMA STATE UNIVERSITY

June 30, 2009

AUDITED FINANCIAL STATEMENTS

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Independent Auditors' Report

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

We have audited the statement of net assets of Southeastern Oklahoma State University (the "University"), a component unit of the State of Oklahoma, as of June 30, 2009, and the related statements of revenues, expenses and changes in net assets and cash flows for the year then ended. These financial statements are the responsibility of the University's management. Our responsibility is to express an opinion on these financial statements based on our audit. The financial statements of the University as of and for the year ended June 30, 2008, before they were restated for the matter discussed in Note A to the financial statements, were audited by other auditors whose report, dated October 24, 2008, expressed an unqualified opinion on those financial statements. We did not audit the financial statements of Southeastern Foundation, Inc. (the "Foundation"), a discretely presented component unit of the University. Those financial statements were audited by another auditor, whose reports thereon have been furnished to us, and in our opinion, insofar as they relate to the amounts included for the Foundation, are based on the report of the other auditor.

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 of material misstatement. The financial statements of the Foundation were audited by other auditors and were not audited in accordance with *Government Auditing Standards*. Accordingly, we express no such opinion. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and the significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our 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 financial position of Southeastern Oklahoma State University and its discretely presented component unit, Southeastern Foundation, Inc., as of June 30, 2009, and the respective changes in net assets and, where applicable, cash flows thereof, for the year then ended in conformity with accounting principles generally accepted in the United States of America.



The previously issued financial statements as of and for the year ended June 30, 2008 have been restated. The independent auditors' report issued by predecessor auditors, dated October 24, 2008, should not be relied upon insofar as it relates to the material misstatement, as described in Note A to the financial statements. We have audited the adjustments described in Note A that were applied to restate the 2008 financial statements. In our opinion, such adjustments are appropriate and have been properly applied.

In accordance with *Government Auditing Standards*, we have also issued our report dated October 27, 2009 on our consideration of the University's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on 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* and is important in assessing the results of our audit.

Management's Discussion and Analysis and the Schedules of Funding Progress for the Supplemental Retirement Annuity Plan and Other Post-Employment Insurance Benefits Plan are not a required part of the basic financial statements but are supplementary information required by accounting principles generally accepted in the United States of America. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

Our audit was conducted for the purpose of forming an opinion on the financial statements that collectively comprise the University's basic financial statements. The accompanying schedule of state contract revenues and expenditures-budget versus actual is presented for purposes of additional analysis as required by the Oklahoma Department of Commerce and is not a required part of the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, is fairly stated in all material respects, in relation to the basic financial statements taken as a whole.

Cole & Reed P.C.

Oklahoma City, Oklahoma  
October 27, 2009

**Southeastern Oklahoma State University  
Management's Discussion and Analysis  
Fiscal Year Ended June 30, 2009**

*Introduction*

The discussion and analysis of Southeastern Oklahoma State University's (the "University") financial statements provides an overview of the University's financial activities for the fiscal year ending June 30, 2009, with selected comparative information for the year ended June 30, 2008. Management's discussion and analysis is designed to focus on current activities, resulting changes, and current known facts, so it should be read in conjunction with the University's financial statements and footnotes.

*Using this report*

The financial statement format focuses on the University as a whole. The basic financial statements are designed to emulate corporate presentation models whereby all University activities are consolidated into one total. This report is provided to highlight and explain significant changes in the financial operations and condition of the University.

These statements are prepared applying the following principles and standards:

- Reporting is on a full accrual basis of accounting. All current year's revenues and expenses are recognized when earned or incurred, regardless of when the cash is received or disbursed.
- Depreciation expense on capital assets is reported as an operating expense on the Statement of Revenues, Expenses, and Changes in Net Assets. The historical value of capital assets and the accumulated depreciation are reported on the Statement of Net Assets.
- Revenue and expenses are categorized as operating or nonoperating. Revenues from state appropriations, gifts, and investment income are reported as nonoperating revenue.

*Financial Highlights*

The University received an annual increase in State Appropriations of \$0.5 million. This included a reimbursement of \$0.1 million of fiscal year 2008 allocation reduction. Student tuition and fees increased \$1.7 million by increasing tuition and mandatory fees 9.9% and academic service fees 2.0%. There was no significant change in student credit hours. Operating expenses increased \$2.1 million primarily in the areas of scholarship waivers \$0.7 million and other operating expenses \$0.6 million. Compensation and employee benefits, depreciation, utilities, and contractual services each increased \$0.2 million. Departments reallocated operational budgets reducing supplies and materials by \$0.7 million while increasing contractual services \$0.2 million, communication expense \$0.1 million and other operating expenses relating to travel \$0.4 million.

**Southeastern Oklahoma State University  
Management's Discussion and Analysis  
Fiscal Year Ended June 30, 2009**

*Financial Highlights--Continued*

Four capital projects totaling \$8.9 million were in the construction phase with three being completed and one still under construction. Completed projects were the arena and renovations to the theatre building and the McCurtain Branch Campus chemistry room. The project still under construction was the general classroom building and is to be completed by December 2009. The renovation of the McCurtain allied health building was at the 25% design stage with a construction completion date of January 2010.

Residential housing occupancy increased by 22 students or 1.8% and room/board rates were increased 9.3% and 6.2% respectively. This increased revenue by \$0.2 million.

Bonds payable and capital lease obligations were decreased by \$1.9 million leaving a balance of \$36.4 million. No additional debt was needed to fund capital projects or equipment during the year.

*Statement of Net Assets*

Schedule A is prepared from the University's Statements of Net Assets (page 13) and summarizes the assets, liabilities, and net assets as of June 30, 2009. Comparative data for year ending June 30, 2008 is provided.

**Schedule A  
Condensed Statements of Net Assets  
June 30, 2009 and 2008  
(In Millions)**

	<u>2009</u>	<u>2008</u>	<u>Increase (Decrease)</u>	<u>Percent Change</u>
CURRENT ASSETS	\$ 3.9	\$ 2.3	\$ 1.6	69.6%
Noncurrent Assets				
Capital Assets, Net of Depreciation	53.1	51.3	1.8	3.5%
Other	8.6	11.6	(3.0)	(26.5)%
TOTAL ASSETS	<u>\$ 65.6</u>	<u>\$ 65.2</u>	<u>\$ 0.4</u>	<u>0.5%</u>
CURRENT LIABILITIES	\$ 7.3	\$ 5.8	\$ 1.5	25.9%
Noncurrent Liabilities	35.7	37.8	(2.1)	(5.6)%
TOTAL LIABILITIES	<u>\$ 43.0</u>	<u>\$ 43.6</u>	<u>\$ (0.6)</u>	<u>(1.4)%</u>
NET ASSETS				
Investment in Capital Assets	\$ 19.8	\$ 20.1	\$ (0.3)	(1.5)%
Restricted	1.4	1.0	0.4	40.0%
Unrestricted	1.4	0.5	0.9	(180.0)%
TOTAL NET ASSETS	<u>\$ 22.6</u>	<u>\$ 21.6</u>	<u>\$ 1.0</u>	<u>4.6%</u>

**Southeastern Oklahoma State University  
Management's Discussion and Analysis  
Fiscal Year Ended June 30, 2009**

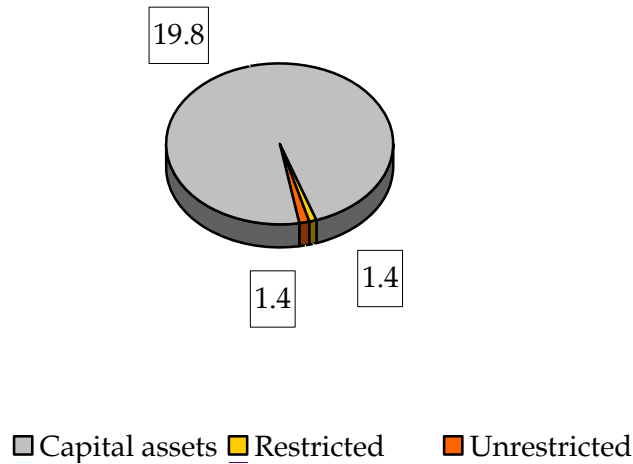
*Statement of Net Assets--Continued*

Total Assets increased \$0.4 million. Cash and cash equivalents increase \$1.2 million, Accounts receivable, net increased \$0.2 million, Capital Assets, net increased \$1.8 million and Receivable from State agency decreased by \$2.9 million.

Total Liabilities decreased \$0.6 million. Accounts Payable increased \$0.6 million, Deferred Revenue increased \$0.4 million, Deposits held in custody by others increased \$0.3 million and Outstanding debt decreased \$2.0 million.

The following graph indicates that the bulk of the university's net assets are capital assets invested in land, buildings, infrastructure, library and equipment.

**Analysis of Net Assets**



*Statement of Revenues, Expenses, and Changes in Net Assets*

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

**Southeastern Oklahoma State University  
Management's Discussion and Analysis  
Fiscal Year Ended June 30, 2009**

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

Schedule B is prepared from the University's Statements of Revenues, Expenses, and Changes in Net Assets (page 14) and is a summary for the year ended June 30, 2009 compared to the year ended June 30, 2008.

**Schedule B  
Condensed Statements of Revenues, Expenses and Changes in Net Assets  
Years Ended June 30, 2009 and 2008  
(In Millions)**

	2009	2008
OPERATING REVENUE		
Student tuition and Fees (net of scholarship allowance of \$6.7 and \$5.8, respectively)	\$ 16.5	\$ 14.8
Federal, State and Local Grants/Contracts	5.0	5.8
Auxiliary	3.0	2.8
Other	0.8	1.1
TOTAL OPERATING REVENUES	25.3	24.5
OPERATING EXPENSES		
Compensation and employee benefits	30.9	30.7
Contractual Services	5.9	5.5
Supplies and materials	2.4	3.2
Depreciation	3.3	3.1
Utilities	1.6	1.4
Communication expense	0.4	0.3
Scholarships and fellowships	5.4	4.7
Other operating expense	2.3	1.2
TOTAL OPERATING EXPENSES	52.2	50.1
Operating Income (Loss)	(26.9)	(25.6)
NONOPERATING REVENUES (LOSS)		
State Appropriations and Other	21.8	21.8
Financial aid grants	5.5	4.7
Investment Income	0.6	0.8
Interest Expense	(1.6)	(1.6)
Net Nonoperating Revenue	26.3	25.7
Income (Loss) before Other Revenue/Expense	(0.6)	0.1
Other Revenue/Expenses	1.6	1.5
CHANGE IN NET ASSETS	1.0	1.6
NET ASSETS, BEGINNING OF YEAR	21.6	20.0
NET ASSETS, END OF YEAR	\$ 22.6	\$ 21.6

**Southeastern Oklahoma State University  
Management's Discussion and Analysis  
Fiscal Year Ended June 30, 2009**

*Revenues*

Tuition and fees revenue increased \$1.7 million or 11.5%. The increase was due to an increase in Tuition & Mandatory Fees (9.9% residence and 9.9% non-residence) and an increase in Academic Service Fees by 2.0%. Student Credit Hours were 93,545 in fiscal year 2009 and 93,654 in fiscal year 2008.

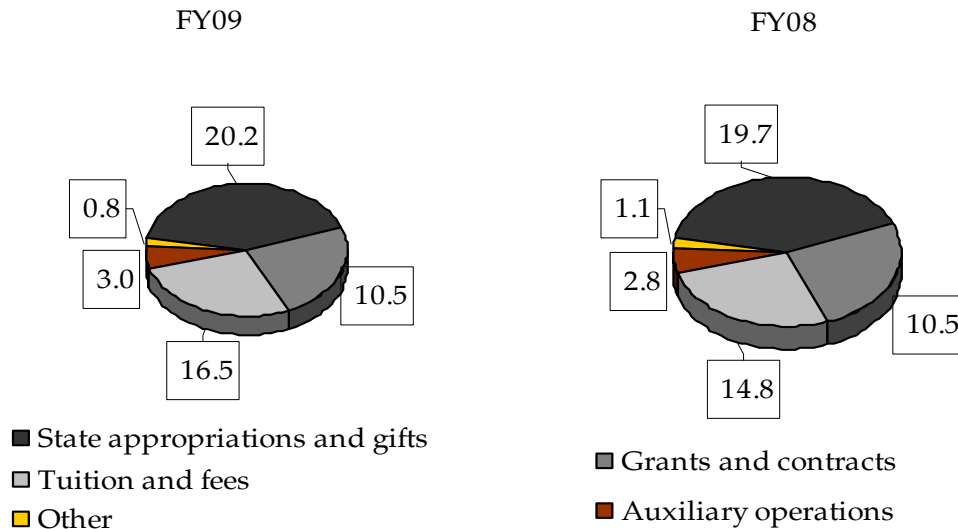
Auxiliary operations revenue increased \$0.2 million or 7.1%. The increase was due to residential occupancy increase of 1.8% and raising room/board rates by 9.3% and 6.2%, respectively.

Although State Appropriations & Other revenue reflected no change, State Appropriations increased \$0.5 million and Gifts decreased \$0.5 million due to completion of the Student Union Campaign.

Investment Income decreased \$0.2 million due to nationwide economic conditions.

The following is a graphical representation of revenue.

**Total Revenue  
(in millions)**



**Southeastern Oklahoma State University  
Management's Discussion and Analysis  
Fiscal Year Ended June 30, 2009**

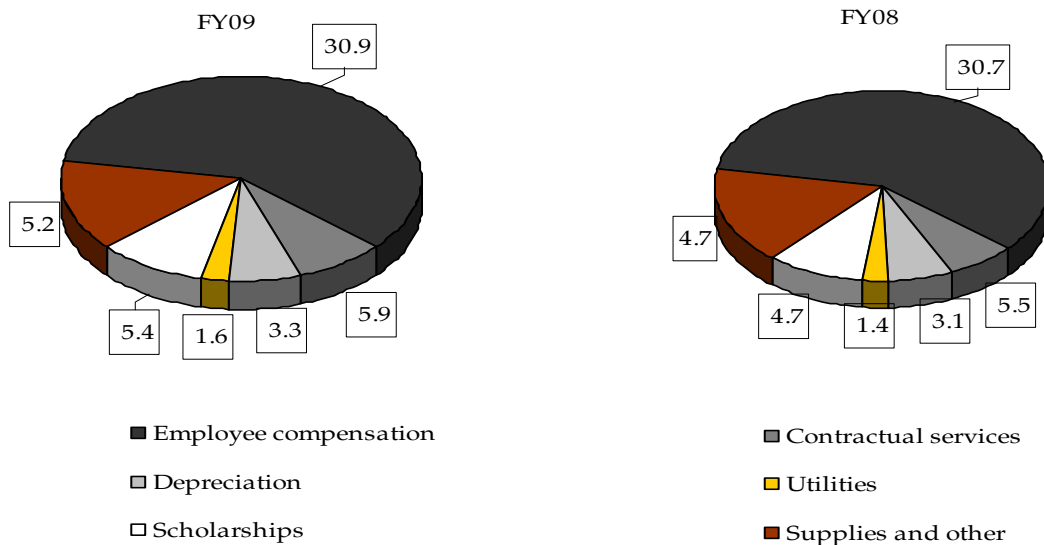
*Expenses*

Operating expenses increased \$2.1 million or 4.2%. Compensation and employee benefits increased \$0.2 million due to the federal increase in minimum wage and higher premium rates for employee benefits. Scholarship waivers increased \$0.7 million due to increase in tuition and a change in the non-resident waiver policy to recruit students from North Texas. Depreciation increased \$0.2 million due to completion of Bloomer Sullivan Arena and Theatre building. Utilities increased \$0.2 million due to higher utility rates, bringing new facilities on-line and entering into the construction phase of the new General Classroom. Contractual services increased \$0.2 million due to entering into agreements to service (12) elevators and to monitor 24/7 all fire alarm systems. Other operating expenses increased \$0.6 million due to more students qualifying for cancellation of their Perkins Loan, increase in uncollectable on student accounts, travel supported by grants and increase in reimbursements to participating institutions offering courses at the outreach centers in Grayson County, Ardmore, McAlester and Idabel.

Departments reallocated operational budgets reducing Supplies and materials by \$0.7 million while increasing Contractual services \$0.2 million, Communication expense \$0.1 million and Other operating expenses relating to travel \$0.4 million.

The following is a graphic illustration of expenses.

**Expenditures  
(in millions)**



**Southeastern Oklahoma State University  
Management's Discussion and Analysis  
Fiscal Year Ended June 30, 2009**

*Statement of Cash Flows*

The primary purpose of the Statement of Cash Flows is to provide information about the cash receipts and disbursements of an entity during a period. This statement also aids in the assessment of an entity's ability to generate future net cash flows, ability to meet obligations as they come due, and needs for external financing.

Schedule C is a summary of the cash flows for the year ended June 30, 2009 compared to the year ended June 30, 2008 and is prepared from the Statements of Cash Flows (page 15).

**Schedule C  
Condensed Statements of Cash Flows  
Years Ended June 30, 2009 and 2008  
(in millions)**

	2009	2008
CASH PROVIDED (USED) BY:		
Operating activities	\$ (21.9)	\$ (21.6)
Noncapital financing activities	25.9	24.5
Investing Activities	0.5	1.5
Capital and related financing activities	(3.2)	(6.0)
NET CHANGE IN CASH	1.3	(1.6)
CASH, BEGINNING OF YEAR	0.9	2.5
CASH, END OF YEAR	\$ 2.2	\$ 0.9

State appropriations are included in noncapital financing activities rather than operating activities. This accounting classification creates the negative \$21.9 million cash used for operating activities in fiscal year 2009 as shown in Schedule C.

The increase of \$1.3 million in Cash, end of the year is due to capital projects not requiring University funds for completion that in prior years did due to rising construction cost.

**Southeastern Oklahoma State University  
Management's Discussion and Analysis  
Fiscal Year Ended June 30, 2009**

*Capital Assets*

At June 30, 2009, the University had approximately \$53.1 million invested in capital assets, net of accumulated depreciation of \$42.5 million. Depreciation charges totaled approximately \$3.3 million for the current fiscal year compared to approximately \$3.1 million for the previous fiscal year. Projects in fiscal year 2009 were: Bloomer Sullivan Arena, Theatre Building, General Classroom Building, McCurtain Branch Campus Chemistry, (2) Parking Lots and (2) ADA ramps at Morrison.

**Capital Assets, Net, at Year-End  
(In Millions)**

	June 30	
	2009	2008
Land	\$ 2.5	\$ 2.5
Capitalized Collections	0.3	0.3
Construction in Progress	2.7	1.5
Infrastructure	4.5	4.0
Land Improvements	0.9	1.1
Buildings	40.8	40.2
Furniture, fixtures, and equipment	1.0	1.2
Library materials	0.4	0.5
Totals	\$ 53.1	\$ 51.3

More detailed information about the University's Capital Assets is presented in Note E to the financial statements.

*Debt*

At year-end, the University had approximately \$36.4 million in debt outstanding compared to \$38.3 million at the end of the previous fiscal year. The table below summarizes these amounts by type.

**Outstanding Debt, at Year-End  
(In Millions)**

	June 30	
	2009	2008
Revenue Bonds	\$ 6.9	\$ 7.2
OCIA Capital Lease Obligations	11.0	11.4
ODFA Capital Lease Obligations	15.5	16.6
Notes Payable	0.5	0.5
Capital Lease Obligations	2.5	2.6
Totals	\$ 36.4	\$ 38.3

**Southeastern Oklahoma State University  
Management's Discussion and Analysis  
Fiscal Year Ended June 30, 2009**

*Debt--Continued*

The University's Revenue Bonds were issued in 2004 for \$8 million to construct the new student union.

The Oklahoma Capital Improvement Authority (OCIA) lease obligations were originally for \$1.8 million in 1999 (Biology Building) and \$10.6 million in 2006 (new classroom building and renovations to nine existing buildings). During the years ended June 30, 2009 and 2008, lease principal and interest payments were made on behalf of the University totaling \$797,700 and \$862,677, respectively. These on-behalf amounts have been recorded as restricted state appropriations in the University's statements of revenues, expenses and changes in net assets.

The Oklahoma Development Finance Authority (ODFA) lease obligations originally for \$21.1 million have provided: \$615,000 for (4) planes; \$213,000 for (2) T-hangers; \$650,000 for departmental equipment, computers for student labs, and IETV equipment for classrooms; \$7,000,000 for the energy performance contract with Siemens Building Technologies; \$1,600,000 for installation/upgrading of elevators, fire alarm/suppression systems, and portable buildings; \$1,000,000 for expansion of network/communication system; \$2,500,000 to construct the new student union, \$250,000 for HVAC improvements at the McCurtain County Branch Campus, \$1,971,000 for Extension of Central Plant/Tennis Court Complex, \$1,200,008 for Aviation Equipment/Student Union Food Service Equipment, and \$2,500,000 for the new General Classroom/ Faculty Offices/ Parking Lots.

The Notes Payable was to purchase the Thompson Bookstore and 78 acres for the athletic/intramural program.

The Capital lease obligation was to fund the Phase II contract with Siemens Building Technologies.

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

*Economic Outlook*

The economic stability of the University is directly related to the state's economic stability. The general revenue collections through the first three months of fiscal year 2010 were well below the official tax commission estimates and last year's actual collections. First quarter collections are down \$462.1 million or 29.5% below the prior year and \$388.3 million or 26.0% below the estimate. Monthly allocations have been reduced 5% to all state agencies. This reflects the impact of lower energy prices and the nationwide economic conditions on Oklahoma's economy.

**Southeastern Oklahoma State University  
Management's Discussion and Analysis  
Fiscal Year Ended June 30, 2009**

*Economic Outlook--Continued*

Enrollment data for fall 2009 reflects an increase in student credit hours of 8.3%. This increase is the result of the administration's initiatives for delivering more courses to outreach sites; developing more online and hybrid courses, implementing the conversion plan to move the McCurtain Branch Campus from a higher education program to a four year degree program; and building an advancement program that will raise additional funds through grants, contracts and fund raising initiatives. These efforts will continue along with new initiatives to promote student enrichment experiences, expand the University's regional image, optimize the learning environment and enhance collaboration and partnerships.

## STATEMENTS OF NET ASSETS

## SOUTHEASTERN OKLAHOMA STATE UNIVERSITY

	University		Component Unit	
	June 30,		June 30,	
	2009	2008 (restated)	2009	2008
<b>ASSETS</b>				
<b>CURRENT ASSETS</b>				
Cash and cash equivalents	\$ 2,136,911	\$ 900,164	\$ 2,764,447	\$ 2,075,871
Restricted cash and cash equivalents	37,794	-	-	-
Accounts receivable, net	1,189,625	932,491	36,293	51,919
Interest receivable	5,187	1,901	17,420	19,510
Receivable from state agencies	401,141	368,361	-	-
Other assets	-	-	2,466	2,729
Current portion of notes receivable, net	100,000	100,000	-	-
<b>TOTAL CURRENT ASSETS</b>	<b>3,870,658</b>	<b>2,302,917</b>	<b>2,820,626</b>	<b>2,150,029</b>
<b>NONCURRENT ASSETS</b>				
Restricted cash and cash equivalents	-	-	-	-
Restricted investments	-	-	9,399,438	10,608,093
Investments held by others	995,657	976,862	210,682	233,264
Receivable from State agency	5,455,166	8,389,360	-	-
Notes receivable, net	547,706	631,538	346,765	392,211
Prepaid pension asset	1,165,757	1,233,498	-	-
Bond issuance costs	419,109	440,238	-	-
Other assets	-	-	163,890	380,728
Capital assets, net	53,121,060	51,291,650	8,241,618	8,549,657
<b>TOTAL NONCURRENT ASSETS</b>	<b>61,704,455</b>	<b>62,963,146</b>	<b>18,362,393</b>	<b>20,163,953</b>
<b>TOTAL ASSETS</b>	<b>\$ 65,575,113</b>	<b>\$ 65,266,063</b>	<b>\$ 21,183,019</b>	<b>\$ 22,313,982</b>
<b>LIABILITIES</b>				
<b>CURRENT LIABILITIES</b>				
Accounts payable	\$ 2,020,878	\$ 1,359,466	\$ 84,622	\$ 199,348
Accrued payroll	142,733	74,052	-	-
Accrued interest payable	186,956	216,417	43,507	44,199
Deferred revenue	1,575,170	1,217,980	18,462	29,624
Deposits held in custody for others	520,860	226,687	-	-
OPEB obligation	106,779	137,068	-	-
Current portion of non current liabilities	2,702,749	2,598,244	-	-
<b>TOTAL CURRENT LIABILITIES</b>	<b>7,256,125</b>	<b>5,829,914</b>	<b>146,591</b>	<b>273,171</b>
<b>NONCURRENT LIABILITIES</b>				
Accrued compensated absences	358,327	392,224	-	-
Federal loan program contributions refundable	679,203	758,981	-	-
Capital lease obligation	27,376,697	29,001,539	-	-
Notes payable	334,446	442,411	9,408,630	9,558,366
Revenue bonds payable	6,675,000	6,915,000	-	-
Premium on bonds payable	277,597	292,444	-	-
<b>TOTAL NONCURRENT LIABILITIES</b>	<b>35,701,270</b>	<b>37,802,599</b>	<b>9,408,630</b>	<b>9,558,366</b>
<b>TOTAL LIABILITIES</b>	<b>42,957,395</b>	<b>43,632,513</b>	<b>9,555,221</b>	<b>9,831,537</b>
<b>NET ASSETS</b>				
Invested in capital assets, net of related debt	19,798,296	20,069,512	-	-
Restricted				
Nonexpendable	-	-	8,299,865	12,984,348
Expendable				
Scholarships, instruction and other	-	-	3,667,070	-
Loans	92,267	64,313	-	-
Capital projects and debt service	1,420,542	1,007,725	-	-
Unrestricted	1,306,613	492,000	(339,137)	(501,903)
<b>TOTAL NET ASSETS</b>	<b>\$ 22,617,718</b>	<b>\$ 21,633,550</b>	<b>\$ 11,627,798</b>	<b>\$ 12,482,445</b>

See notes to financial statements.

STATEMENTS OF REVENUES, EXPENSES AND CHANGES IN NET ASSETS

SOUTHEASTERN OKLAHOMA STATE UNIVERSITY

	University		Component Unit	
	Year Ended June 30, 2009	2008 (restated)	Year Ended June 30, 2009	2008
<b>OPERATING REVENUES</b>				
Student tuition and fees, net of scholarship discounts and allowances of \$6,735,616 and \$5,849,278 (revenues of \$1,001,692 in 2009 and \$1,026,800 in 2008 are pledged as security on Student Union Series 2003 revenue bonds.)	\$ 16,459,953	\$ 14,798,370	\$ -	\$ -
Federal grants and contracts	4,000,606	4,840,243	-	-
State and local grants and contracts	997,994	956,044	-	-
Housing and food service	2,462,830	2,146,150	-	-
Aerospace operations	507,555	683,359	-	-
Interest earned on loans to students	24,000	9,334	-	-
Other operating revenues	891,500	1,061,470	1,819,819	3,248,922
TOTAL OPERATING REVENUES	25,344,438	24,494,970	1,819,819	3,248,922
<b>OPERATING EXPENSES</b>				
Compensation and employee benefits	30,874,387	30,618,230	-	-
Contractual services	5,917,441	5,532,912	-	-
Supplies and materials	2,383,271	3,242,684	-	-
Depreciation	3,337,733	3,149,606	308,037	308,038
Utilities	1,603,413	1,382,668	-	-
Communications expense	380,341	282,875	-	-
Scholarships and fellowships	5,374,909	4,716,007	977,467	369,990
Other operating expenses	2,371,851	1,142,725	1,388,962	2,085,732
TOTAL OPERATING EXPENSES	52,243,346	50,067,707	2,674,466	2,763,760
OPERATING INCOME (LOSS)	(26,898,908)	(25,572,737)	(854,647)	485,162
<b>NONOPERATING REVENUES (EXPENSES)</b>				
State appropriations	20,229,710	19,700,471	-	-
Financial aid grants	5,564,151	4,740,342	-	-
OTRS on-behalf contributions	1,414,835	1,549,609	-	-
Gifts	129,133	602,582	-	-
Investment income	573,192	740,351	-	-
Interest expense	(1,564,985)	(1,688,067)	-	-
NET NONOPERATING REVENUE (EXPENSES)	26,346,036	25,645,288	-	-
Income (loss) before other revenues, expenses, gains and losses	(552,872)	72,551	(854,647)	485,162
State appropriations restricted for capital purposes	739,340	656,097	-	-
OCIA on-behalf payments	797,700	873,728	-	-
CHANGE IN NET ASSETS	984,168	1,602,376	(854,647)	485,162
NET ASSETS, BEGINNING OF YEAR	21,633,550	20,031,174	12,482,445	11,997,283
NET ASSETS, END OF YEAR	\$ 22,617,718	\$ 21,633,550	\$ 11,627,798	\$ 12,482,445

See notes to financial statements.

STATEMENT OF CASH FLOWS

SOUTHEASTERN OKLAHOMA STATE UNIVERSITY

	Year Ended June 30,	
	2009	2008
		(restated)
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>		
Tuition and fees	\$ 16,483,125	\$ 14,680,347
Grants and contracts	4,970,878	5,848,514
Other operating receipts	3,966,491	4,010,389
Loans made to students	(60,445)	(207,199)
Collection of loans to students	66,886	115,476
Interest received on student loans	24,000	9,334
Payments to employees for salaries and benefits	(29,352,783)	(28,795,226)
Payments to suppliers	(18,023,556)	(17,309,604)
NET CASH USED IN OPERATING ACTIVITIES	(21,925,404)	(21,647,969)
<b>CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES</b>		
State appropriations	20,229,710	19,700,471
Financial aid grants	5,564,151	4,740,342
Other student financial assistance received	5,168,784	4,841,473
Payments of other student financial assistance	(5,168,784)	(4,841,473)
Gifts for other than capital purposes	96,355	97,066
NET CASH PROVIDED BY NONCAPITAL FINANCING ACTIVITIES	25,890,216	24,537,879
<b>CASH FLOWS FROM INVESTING ACTIVITIES</b>		
Net (increase) decrease in investments held with others	(18,795)	583,344
Interest income received	569,906	957,182
NET CASH PROVIDED BY INVESTING ACTIVITIES	551,111	1,540,526
<b>CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES</b>		
Cash paid for capital assets	(3,773,138)	(4,577,745)
Capital appropriations received	739,340	1,024,458
Interest paid	(1,547,555)	(2,030,925)
Proceeds from capital debt and leases	2,934,194	889,667
Repayments of capital debt and leases	(1,594,223)	(1,368,663)
NET CASH USED IN CAPITAL AND RELATED FINANCING ACTIVITIES	(3,241,382)	(6,063,208)
NET CHANGE IN CASH AND CASH EQUIVALENTS	1,274,541	(1,632,772)
CASH AND CASH EQUIVALENTS, BEGINNING OF YEAR	900,164	2,532,936
CASH AND CASH EQUIVALENTS, END OF YEAR	\$ 2,174,705	\$ 900,164

See notes to financial statements.

## STATEMENT OF CASH FLOWS--Continued

## SOUTHEASTERN OKLAHOMA STATE UNIVERSITY

	Year Ended June 30,	
	<u>2009</u>	<u>2008</u>
RECONCILIATION OF OPERATING LOSS TO NET CASH USED IN OPERATING ACTIVITIES		
Operating loss	\$ (26,898,908)	\$ (25,572,737)
Adjustments to reconcile operating loss to net cash used in operating activities		
Depreciation	3,337,733	3,149,606
Loss on disposal of assets	2,195	823
On-behalf contributions to teachers' retirement system	1,414,835	1,549,609
Changes in assets and liabilities		
Accounts receivable	(257,134)	(114,142)
Student loans	83,832	(3,963)
Prepaid pension asset	67,741	104,934
Accounts payable and student deposits	7,862	(953,729)
Accrued payroll	68,681	(35,104)
Deferred revenues	357,190	167,756
Compensated absences	636	66,497
Other liabilities	(30,289)	-
Federal loan program contributions refundable	<u>(79,778)</u>	<u>(7,519)</u>
NET CASH USED IN OPERATING ACTIVITIES	<u>\$ (21,925,404)</u>	<u>\$ (21,647,969)</u>
NONCASH INVESTING, NONCAPITAL FINANCING AND CAPITAL AND RELATED FINANCING ACTIVITIES		
Interest on capital debt paid by state agency on behalf of the University	\$ 489,086	\$ 239,832
Principal on capital debt paid by state agency on behalf of the University	<u>308,614</u>	<u>633,896</u>
Total Noncash investing, noncapital financing and related financing activities	<u>\$ 797,700</u>	<u>\$ 873,728</u>
RECONCILIATION OF CASH AND CASH EQUIVALENTS TO STATEMENTS OF NET ASSETS		
Current assets		
Cash and cash equivalents	\$ 2,136,911	\$ 900,164
Restricted cash and cash equivalents	<u>37,794</u>	<u>-</u>
TOTAL CASH AND CASH EQUIVALENTS	<u>\$ 2,174,705</u>	<u>\$ 900,164</u>

See notes to financial statements.

## NOTES TO FINANCIAL STATEMENTS

### SOUTHEASTERN OKLAHOMA STATE UNIVERSITY

June 30, 2009

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

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

Reporting Entity: The financial reporting entity, as defined by Governmental Accounting Standards Board (GASB) Statement No. 14, *The Financial Reporting Entity*, and Governmental Accounting Standards Board (GASB) Statement No. 39, *Determining whether Certain Organizations Are Component Units-an amendment of GASB Statement No. 14*, includes the accounts of the University and its discretely presented component unit, Southeastern Foundation, Inc. (the "Foundation"). The University is a component of State of Oklahoma and is included in the general-purpose financial statements of the state as part of the Higher Education component unit.

Discretely Presented Component Units: The University implemented GASB Statement No. 39 in 2004. Southeastern Foundation, Inc. (the "Foundation") is a component unit of the University under GASB 39 that is required to be discretely presented with the financial statements of the University. The University is the beneficiary of the Foundation, a separate legal entity with its own Board of Trustees. The Foundation is organized for the benefit of the University, and its faculty, student body and programs. The Foundation provides scholarships and support and enhances the further development of the University.

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 assets classified between current and noncurrent assets and liabilities, a statement of revenues, expenses and changes in net assets, 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 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.

NOTES TO FINANCIAL STATEMENTS--Continued

SOUTHEASTERN OKLAHOMA STATE UNIVERSITY

June 30, 2009

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

Basis of Accounting--Continued: The University has the option to apply all Financial Accounting Standards Board (FASB) pronouncements issued after November 30, 1989, unless FASB conflicts with GASB. The University has elected to not apply FASB pronouncements issued after the applicable date.

Changes in Accounting Principles: The University adopted the provisions of Governmental Accounting Standards Board (GASB) Statement No. 45, *Accounting and Financial Reporting By Employers for Postemployment Benefits Other Than Pensions*. Statement No. 45 establishes standards for the measurement, recognition and display of Other Postemployment Benefits (OPEB) expenses and related liabilities (assets), note disclosures and, if applicable, required supplementary information (RSI) in the financial statements of the University.

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

Investments: The University accounts for its investments at fair value in accordance with GASB Statement No. 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 statements of revenues, expenses and changes in net assets.

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

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

NOTES TO FINANCIAL STATEMENTS--Continued

SOUTHEASTERN OKLAHOMA STATE UNIVERSITY

June 30, 2009

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

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

Deferred Revenue: Deferred 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. Deferred revenues also include amounts received from grant and contract sponsors 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 vacation payable in the statements of net assets, and as a component of compensation and benefit expense in the statements of revenues, expenses and changes in net assets.

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

Net Assets: The University's net assets are classified as follows:

Invested in capital assets, net of related debt: This represents the University's total investment in capital assets, net of outstanding debt obligations related to those capital assets. 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 assets – expendable: Restricted expendable net assets include resources in which the University is legally or contractually obligated to spend resources in accordance with restrictions imposed by external third parties.

NOTES TO FINANCIAL STATEMENTS--Continued

SOUTHEASTERN OKLAHOMA STATE UNIVERSITY

June 30, 2009

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

Net Assets--Continued:

Unrestricted net assets: Unrestricted net assets 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.

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

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

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

Nonoperating revenues: Nonoperating revenues include activities that have the characteristics of nonexchange transactions, such as gifts and contributions, and other revenue sources that are defined as nonoperating revenues by GASB No. 9 *Reporting Cash Flows of Proprietary 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.

NOTES TO FINANCIAL STATEMENTS--Continued

SOUTHEASTERN OKLAHOMA STATE UNIVERSITY

June 30, 2009

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

Scholarship Discounts and Allowances: Student tuition and fee revenues, and certain other revenues from students, are reported net of scholarship discounts and allowances in the statements of revenues, expenses, and changes in net assets. 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 either operating or 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.

Change in Accounting Policy: In 2009, certain federal student financial aid revenues were reclassified from operating revenues to nonoperating revenue based on the University's administrative involvement in the programs and because the grants are nonexchange transactions. The reclassifications were also made to the 2008 financial statements to conform with the 2009 presentation. This change in accounting policy was a result of an amendment to the GASB Staff *"Comprehensive Implementation Guide, Chapter 7: Basic Financial Statements and Management's Discussion and Analysis"*.

Restatements and Reclassifications: Certain reclassifications have been made to the 2008 financial statements to conform with the 2009 financial statement presentation. Additionally, during the fiscal year ended June 30, 2009, the University determined that capital lease transactions entered into with OCIA for which principal and interest payments are made by the State of Oklahoma on behalf of the University incorporate characteristics more closely resembling a capital grant or gift than a traditional bond financed transaction. As such, interest expense previously capitalized during construction financed by OCIA capital leases have been restated to be reflected as interest expense in the statement of revenues, expenses and changes in net assets.

NOTES TO FINANCIAL STATEMENTS--Continued

SOUTHEASTERN OKLAHOMA STATE UNIVERSITY

June 30, 2009

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

Restatements and Reclassifications--Continued: The net assets as of July 1, 2007 and the changes in net assets for the year ended June 30, 2008, have been restated, as shown in the table below:

	<u>Invested in Capital Assets</u>	<u>Restricted</u>	<u>Unrestricted</u>	<u>Total</u>
Net assets as previously reported July 1, 2007	\$ 19,817,047	\$ 562,826	\$ (56,326)	\$ 20,323,547
Restatement adjustment: Removal of capitalized interest expense	<u>(292,373)</u>	<u>-</u>	<u>-</u>	<u>(292,373)</u>
Restated net assets at July 1, 2007	19,524,674	562,826	(56,326)	20,031,174
Change in net assets during 2008, as previously reported	1,061,109	509,212	548,326	2,118,647
Restatement adjustment Removal of capitalized interest expense	<u>(516,271)</u>	<u>-</u>	<u>-</u>	<u>(516,271)</u>
Change in net assets, as restated	<u>544,838</u>	<u>509,212</u>	<u>548,326</u>	<u>1,602,376</u>
Restated net assets at June 30, 2008	<u>\$ 20,069,512</u>	<u>\$ 1,072,038</u>	<u>\$ 492,000</u>	<u>\$ 21,633,550</u>

NOTES TO FINANCIAL STATEMENTS--Continued

SOUTHEASTERN OKLAHOMA STATE UNIVERSITY

June 30, 2009

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. State statutes require the OST to ensure that all state funds are either insured by Federal Deposit Insurance, collateralized by securities held by the cognizant Federal Reserve Bank, or invested in U.S. government obligations. The OST's responsibilities include receiving and collateralizing the deposit of State funds, investing State funds in compliance with statutory requirements, and maintaining adequate liquidity to meet the cash flow needs of the State and all its funds and agencies. If the University deposits funds directly with financial institutions, those funds must be insured by Federal Deposit Insurance or collateralized by securities held by the cognizant Federal Reserve Bank in the University's name. Some deposits with the OST are placed in the OST's internal investment pool *OK INVEST*. *OK INVEST* pools the resources of all state funds and agencies and invests them in (a) U.S. treasury securities which are explicitly backed by the full faith and credit of the U.S. government; (b) U.S. agency securities which carry an implicit guarantee of the full faith and credit of the U.S. government; (c) money market mutual funds which participates in investments, either directly or indirectly, in securities issued by the U.S. treasury and/or agency and repurchase agreements relating to such securities; and (d) investments related to tri-party repurchase agreements which are collateralized at 102% and, whereby, the collateral is held by a third party in the name of the OST.

At June 30, 2009 and 2008, the carrying amount of all University deposits with the OST and other financial institutions were \$2,136,911 and \$900,164, respectively. These amounts consisted of deposits with the OST (\$2,124,356 and \$889,985), unremitted collections by a third party (\$5,962 and \$3,589) and change funds (\$6,590 and \$6,590). Of funds on deposit with the OST, amounts invested in *OK INVEST* total \$1,871,142 in 2009 and \$496,578 in 2008.

NOTES TO FINANCIAL STATEMENTS--Continued

SOUTHEASTERN OKLAHOMA STATE UNIVERSITY

June 30, 2009

NOTE B--DEPOSITS AND INVESTMENTS--Continued

Deposits--Continued: For financial reporting purposes, deposits with the OST that are invested in *OK INVEST* are classified as cash equivalents. The distribution of deposits in *OK INVEST* are as follows:

<u>OK INVEST Portfolio</u>	<u>Cost</u>	<u>Market Value</u>
U.S. Agency securities	\$ 823,505	\$ 848,182
Certificates of deposit	119,255	119,255
Money market mutual funds	147,530	147,530
Tri-party repurchase agreements	146,156	146,156
Mortgage backed agency securities	424,287	429,430
Municipal bonds	30,090	30,337
Foreign bonds	3,564	3,564
U.S. Treasury Obligations	176,755	182,932
TOTAL	<u>\$ 1,871,142</u>	<u>\$ 1,907,386</u>

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 OST establish the primary objectives and guidelines governing the investment of funds in *OK INVEST*. Safety, liquidity, and return on investment are the objectives which establish the framework for the day to day *OK INVEST* management with an emphasis on safety of the capital and the probable income to be derived and meeting the State and its funds and agencies' daily cash flow requirements. Guidelines in the Investment Policy address credit quality requirements, diversification percentages and specify the types and maturities of allowable investments, and the specifics regarding these policies can be found on the OST website at <http://www.treasurer.state.ok.us/>. The State Treasurer, at his discretion, may further limit or restrict such investments on a day to day basis. *OK INVEST* includes a substantial investment in securities with an overnight maturity as well as in U.S. government securities with a maturity of up to three years. *OK INVEST* maintains an overall weighted average maturity of less than two years.

NOTES TO FINANCIAL STATEMENTS--Continued

SOUTHEASTERN OKLAHOMA STATE UNIVERSITY

June 30, 2009

NOTE B--DEPOSITS AND INVESTMENTS--Continued

Deposits--Continued: Participants in *OK INVEST* maintain an interest in its underlying investments and, accordingly, may be exposed to certain risks. As stated in the OST information statement, the main risks are interest rate risk, credit/default risk, liquidity risk, and U.S. government securities risk. Interest rate risk is the risk that during periods of rising interest rates, the yield and market value of the securities will tend to be lower than prevailing market rates; in periods of falling interest rates, the yield will tend to be higher. Credit/default risk is the risk that an issuer or guarantor of a security, or a bank or other financial institution that has entered into a repurchase agreement, may default on its payment obligations. Liquidity risk is the risk that *OK INVEST* will be unable to pay redemption proceeds within the stated time period because of unusual market conditions, an unusually high volume of redemption requests, or other reasons.

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

Investments: Investment *credit risk* is the risk that an issuer or other counterparty to an investment will not fulfill its obligations. Generally, the University's investments are managed by the State Treasurer. In accordance with state statutes the State Treasurer may only purchase and invest in (a) obligations of the United States government, its agencies and instrumentalities; (b) prime banker's acceptances; (c) investment grade obligations of state and local governments; (d) money market funds; (e) collateralized or insured certificates of deposits; (f) negotiable certificates of deposits; (g) prime commercial paper; and (h) repurchase agreements. *Interest rate risk* is the risk that changes in interest rates will adversely affect the fair value of an investment. Investments that are held for longer periods of time are subject to increased risk of adverse interest changes. Neither the University nor state statutes limit investment maturities as a means of managing exposure to fair value losses arising from increasing interest rates; however, the OST Investment Policy limits the average maturity on its portfolio to four (4) years, with certain individual securities having more restrictive limits as defined in the policy. *Concentration of credit risk* is the risk of loss attributed to the magnitude of the University's investment in a single issuer. Neither the University's investment policy nor state statutes place limits on amounts that can be invested in any one issuer; however, the OST Investment Policy states that, with the exception of U.S. Treasury securities, no more than 50% of the State's total funds may be invested in a single security type or with a single financial institution, with diversification percentages being more restrictive on individual securities.

NOTES TO FINANCIAL STATEMENTS--Continued

SOUTHEASTERN OKLAHOMA STATE UNIVERSITY

June 30, 2009

NOTE B--DEPOSITS AND INVESTMENTS--Continued

Investments--Continued: *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, 2009 and 2008, none of the University's investments were subject to custodial credit risk.

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

At June 30, 2009 and 2008, the University had no cash and investments in restricted bond funds.

Investments held by others: At June 30, 2009 and 2008, the University had investments in money market funds totaling \$995,657 and \$976,862, respectively, related to the OFDA Lease program. These funds had a fair market value of \$995,657 at June 30, 2009. The money market funds are not subject to maturity dates and are due on demand. The money market funds had an average credit rating of AAAm-G at June 30, 2009 according to Standard and Poor's.

NOTE C--ACCOUNTS RECEIVABLE

Accounts receivable consisted of the following at June 30, 2009 and 2008:

	2009	2008
Student tuition and fees	\$ 1,163,995	\$ 1,016,238
Auxiliary enterprises and other operating activities	170,669	204,119
Federal, state, and private grants and contracts	591,172	396,910
	1,925,836	1,617,267
Less allowance for doubtful accounts	(736,211)	(684,776)
Net accounts receivable	\$ 1,189,625	\$ 932,491

NOTES TO FINANCIAL STATEMENTS--Continued

SOUTHEASTERN OKLAHOMA STATE UNIVERSITY

June 30, 2009

NOTE D--NOTES RECEIVABLE

Student loans made through the Federal Perkins Loan Program (the "Program") comprise substantially all of the loans receivable at June 30, 2009 and 2008. Under this program, the federal government provides funds for approximately 75% of the total contribution for student loans with the University providing the balance. Under certain conditions such loans can be forgiven at annual rates of 10% to 30% of the original balance up to maximums of 50% to 100% of the original loan. The federal government reimburses the University to the extent of 10% of the amounts forgiven for loans originated prior to July 1, 1993 and under the Federal Perkins Loan Program. No reimbursements are provided for loans originated after this date. Amounts refundable to the U.S. Government upon cessation of the Program of \$679,203 and \$758,981 at June 30, 2009 and 2008, respectively, are reflected in the accompanying statements of net assets as noncurrent liabilities.

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

At June 30, 2009 and 2008, loans receivable consisted of the following:

	<u>2009</u>	<u>2008</u>
Perkins loans receivable	\$ 740,354	\$ 839,724
Other loans receivable	3,755	6,346
Less allowance for uncollectible loans	<u>(96,403)</u>	<u>(114,532)</u>
Net loans receivable	<u>\$ 647,706</u>	<u>\$ 731,538</u>

NOTES TO FINANCIAL STATEMENTS--Continued

SOUTHEASTERN OKLAHOMA STATE UNIVERSITY

June 30, 2009

NOTE E--CAPITAL ASSETS

Following are the changes in capital assets for the year ended June 30, 2009:

	Balance June 30, 2008	Additions	Transfers	Retirements/ Adjustments	Balance June 30, 2009
Capital assets not being depreciated					
Land	\$ 2,485,967	\$ -	\$ -	\$ -	\$ 2,485,967
Capitalized collections	259,300	-	-	-	259,300
Construction in progress	<u>1,502,015</u>	<u>4,776,707</u>	<u>(3,594,852)</u>	-	<u>2,683,870</u>
Total capital assets not being depreciated	<u>\$ 4,247,282</u>	<u>\$ 4,776,707</u>	<u>\$ (3,594,852)</u>	<u>\$ -</u>	<u>\$ 5,429,137</u>
Other capital assets					
Non-major infrastructure networks	7,495,693	-	1,241,658	-	8,737,351
Land improvements	2,622,681	-	-	-	2,622,681
Buildings	61,978,646	-	2,353,193	-	64,331,839
Furniture, fixtures and equipment	7,806,636	256,923	-	(218,293)	7,845,266
Library materials	<u>6,544,578</u>	<u>135,708</u>	-	<u>(16,196)</u>	<u>6,664,090</u>
Total other capital assets	86,448,234	392,631	3,594,851	(234,489)	90,201,227
Less accumulated depreciation for					
Non-major infrastructure networks	(3,432,929)	(802,375)	-	-	(4,235,304)
Land improvements	(1,489,084)	(174,199)	-	-	(1,663,283)
Buildings	(21,816,307)	(1,649,443)	-	-	(23,465,750)
Furniture, fixtures and equipment	(6,578,750)	(501,697)	-	218,293	(6,862,154)
Library materials	<u>(6,086,796)</u>	<u>(210,019)</u>	-	<u>14,001</u>	<u>(6,282,814)</u>
Total accumulated depreciation	<u>(39,403,866)</u>	<u>(3,337,733)</u>	-	<u>232,294</u>	<u>(42,509,305)</u>
Other capital assets, net	<u>\$ 47,044,368</u>	<u>\$ (2,945,102)</u>	<u>\$ 3,594,851</u>	<u>\$ (2,195)</u>	<u>\$ 47,691,922</u>
Capital asset summary:					
Capital assets not being depreciated	4,247,282	4,776,707	(3,594,852)	-	5,429,137
Other capital assets, at cost	<u>86,448,234</u>	<u>392,631</u>	<u>3,594,852</u>	<u>(234,489)</u>	<u>90,201,228</u>
Total cost of capital assets	90,695,516	5,169,338	-	(234,489)	95,630,365
Less accumulated depreciation	<u>(39,403,866)</u>	<u>(3,337,733)</u>	-	<u>232,294</u>	<u>(42,509,305)</u>
Capital assets, net	<u>\$ 51,291,650</u>	<u>\$ 1,831,605</u>	<u>\$ -</u>	<u>\$ (2,195)</u>	<u>\$ 53,121,060</u>

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

NOTES TO FINANCIAL STATEMENTS--Continued

SOUTHEASTERN OKLAHOMA STATE UNIVERSITY

June 30, 2009

NOTE E--CAPITAL ASSETS--Continued

Following are the changes in capital assets for the year ended June 30, 2008:

	Balance June 30, 2007	Additions	Transfers	Retirements/ Adjustments	Balance June 30, 2008
Capital assets not being depreciated					
Land	\$ 2,339,296	\$ -	\$ 146,671	\$ -	\$ 2,485,967
Capitalized collections	259,300	-	-	-	259,300
Construction in progress	511,160	2,520,294	(1,529,439)	-	1,502,015
Total capital assets not being depreciated	<u>\$ 3,109,756</u>	<u>\$ 2,520,294</u>	<u>\$ (1,382,768)</u>	<u>\$ -</u>	<u>\$ 4,247,282</u>
Other capital assets					
Non-major infrastructure networks	7,458,564	-	37,129	-	7,495,693
Land improvements	2,622,681	-	-	-	2,622,681
Buildings	60,633,007	-	1,345,639	-	61,978,646
Furniture, fixtures and equipment	7,594,840	651,738	-	(439,942)	7,806,636
Library materials	6,316,184	236,899	-	(8,505)	6,544,578
Total other capital assets	84,625,276	888,637	1,382,768	(448,447)	86,448,234
Less accumulated depreciation for					
Non-major infrastructure networks	(2,807,925)	(625,004)	-	-	(3,432,929)
Land improvements	(1,313,147)	(175,937)	-	-	(1,489,084)
Buildings	(20,228,275)	(1,588,032)	-	-	(21,816,307)
Furniture, fixtures and equipment	(6,487,232)	(531,460)	439,942	-	(6,578,750)
Library materials	(5,865,304)	(229,174)	7,682	-	(6,086,796)
Total accumulated depreciation	(36,701,883)	(3,149,607)	447,624	-	(39,403,866)
Other capital assets, net	<u>\$ 47,923,393</u>	<u>\$ (2,260,970)</u>	<u>\$ 1,830,392</u>	<u>\$ (448,447)</u>	<u>\$ 47,044,368</u>
Capital asset summary:					
Capital assets not being depreciated	3,109,756	2,520,294	(1,382,768)	-	4,247,282
Other capital assets, at cost	84,625,276	888,637	1,382,768	(448,447)	86,448,234
Total cost of capital assets	87,735,032	3,408,931	-	(448,447)	90,695,516
Less accumulated depreciation	(36,701,883)	(3,149,607)	447,624	-	(39,403,866)
Capital assets, net	<u>\$ 51,033,149</u>	<u>\$ 259,324</u>	<u>\$ 447,624</u>	<u>\$ (448,447)</u>	<u>\$ 51,291,650</u>

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

NOTES TO FINANCIAL STATEMENTS--Continued

SOUTHEASTERN OKLAHOMA STATE UNIVERSITY

June 30, 2009

NOTE F--LONG-TERM LIABILITIES

Long-term liability activity for the year ended June 30, 2009 was as follows:

	Balance June 30, 2008	Additions	Reductions	Balance June 30, 2009	Amounts due within one year
Bonds payable and capital lease obligations					
Revenue bonds payable	\$ 7,145,000	\$ -	\$ (230,000)	\$ 6,915,000	\$ 240,000
OCIA Leases	11,338,308	-	(308,614)	11,029,694	322,243
ODFA Leases	16,613,167	-	(1,102,742)	15,510,425	1,162,500
Notes payable	547,786	-	(105,375)	442,411	107,965
Capital lease obligation	<u>2,640,197</u>	<u>-</u>	<u>(156,105)</u>	<u>2,484,092</u>	<u>162,772</u>
Total bonds and capital leases	38,284,458	-	(1,902,836)	36,381,622	1,995,480
Other liabilities					
Federal loan program contributions	758,981	-	(79,778)	679,203	-
Accrued compensated absences	<u>1,064,960</u>	<u>684,093</u>	<u>(683,457)</u>	<u>1,065,996</u>	<u>707,269</u>
Total other liabilities	<u>1,823,941</u>	<u>684,093</u>	<u>(763,235)</u>	<u>1,744,799</u>	<u>707,269</u>
Total long-term liabilities	<u>\$ 40,108,399</u>	<u>\$ 684,093</u>	<u>\$ (2,666,071)</u>	<u>\$ 38,126,421</u>	<u>\$ 2,702,749</u>

Long-term liability activity for the year ended June 30, 2008 was as follows:

	Balance June 30, 2007	Additions	Reductions	Balance June 30, 2008	Amounts due within one year
Bonds payable and capital lease obligations					
Revenue bonds payable	\$ 7,370,000	\$ -	\$ (225,000)	\$ 7,145,000	\$ 230,000
OCIA Leases	11,789,100	-	(450,793)	11,338,307	313,278
ODFA Leases	15,107,118	2,500,000	(993,951)	16,613,167	1,120,750
Notes payable	627,704	-	(79,918)	547,786	105,375
Capital lease obligation	<u>2,789,909</u>	<u>-</u>	<u>(149,712)</u>	<u>2,640,197</u>	<u>156,105</u>
Total bonds and capital leases	37,683,831	2,500,000	(1,899,374)	38,284,457	1,925,508
Other liabilities					
Federal loan program contributions	766,500	-	(7,519)	758,981	-
Accrued compensated absences	<u>998,463</u>	<u>706,388</u>	<u>(639,891)</u>	<u>1,064,960</u>	<u>672,736</u>
Total other liabilities	<u>1,764,963</u>	<u>706,388</u>	<u>(647,410)</u>	<u>1,823,941</u>	<u>672,736</u>
Total long-term liabilities	<u>\$ 39,448,794</u>	<u>\$ 3,206,388</u>	<u>\$ (2,546,784)</u>	<u>\$ 40,108,398</u>	<u>\$ 2,598,244</u>

NOTES TO FINANCIAL STATEMENTS--Continued

SOUTHEASTERN OKLAHOMA STATE UNIVERSITY

June 30, 2009

NOTE F--LONG-TERM LIABILITIES--Continued

Revenue Bonds Payable

During November 2003, the University issued the Southeastern Oklahoma State University Student Union Revenue Serial Bonds Series 2003 for \$3,860,000 and the Southeastern Oklahoma State University Student Union Revenue Term Bonds Series 2003 for \$4,140,000 (collectively known as the "Bonds") for the purpose of constructing a new Student Union. The Serial Bonds are due annually beginning November 1, 2004 through 2018 in amounts ranging between \$205,000 and \$325,000. The Term Bonds mature on November 1, 2023 for \$1,835,000 and the remaining Bonds will mature for \$2,305,000 on November 1, 2028. The interest rates on the Bonds range from 3% to 4.625%, and interest payments are due on November 1 and May 1 of each year.

At June 30, 2009, future maturities of principal and interest requirements on the Bonds payable are as follows:

	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
Year Ending June 30:			
2010	\$ 240,000	\$ 288,071	\$ 528,071
2011	245,000	280,871	525,871
2012	255,000	273,521	528,521
2013	260,000	265,361	525,361
2014	270,000	256,521	526,521
2015-2019	1,505,000	1,126,506	2,631,506
2020-2024	1,835,000	945,906	2,780,906
2025-2029	2,305,000	533,031	2,838,031
	<u>\$ 6,915,000</u>	<u>\$ 3,969,788</u>	<u>\$ 10,884,788</u>

NOTES TO FINANCIAL STATEMENTS--Continued

SOUTHEASTERN OKLAHOMA STATE UNIVERSITY

June 30, 2009

NOTE F--LONG-TERM LIABILITIES--Continued

Capital Lease Obligations

*Oklahoma Capital Improvement Authority Leases*

In September 1999, the Oklahoma Capital Improvement Authority (OCIA) issued its OCIA Bond Issues, 1999 Series A, B and C. Of the total bond indebtedness, the State Regents for Higher Education allocated \$1,750,000 and \$200,245 to the University. Concurrently with the allocation, the University entered into a lease agreement with OCIA, which includes the two projects being funded by the OCIA bonds. The lease agreement provides for the University to make specified monthly payments to OCIA over the respective terms of the agreement, which is for 20 years. The proceeds of the bonds and subsequent lease are to provide for capital improvements at the University.

Through June 30, 2009, the University has drawn down all of the \$1,750,000 and \$200,245 of its total allotment, for expenditures incurred in connection with specific projects. These expenses have been capitalized as capital assets (building and construction in-progress) in accordance with University policy. The University has recorded a lease obligation payable to OCIA for the total amount of the allotment, less payments made on the University's behalf during the year, which is \$1,214,967 and \$1,196,707 at June 30, 2009 and 2008, respectively. The University has also recorded an asset for its pro-rata share of the bond issuance costs, and is amortizing that asset over the term of the lease agreement. At June 30, 2009 and 2008, the unamortized bond issuance totaled \$1,089 and \$1,196, respectively.

During the years ended June 30, 2009 and 2008, OCIA made lease principal and interest payments totaling \$159,718 and \$155,207, respectively, on behalf of the University. These on-behalf payments have been recorded as restricted state appropriations in the statements of revenues, expenses and changes in net assets.

In November 2005, the Oklahoma Capital Improvement Authority (OCIA) issued its OCIA Bond Issues, 2005 Series F and G. Of the total bond indebtedness, the State Regents Higher Education allocated the University \$10,662,758 to the University. Concurrently with the allocation, the University entered into a lease agreement with OCIA, which includes the two projects being funded by the OCIA bonds. The lease agreement provides for the University to make specified monthly payments to OCIA over the term of the agreement. Both projects have a thirty (30) year repayment term. The proceeds of the bonds and subsequent leases are to provide for capital improvements at the University.

NOTES TO FINANCIAL STATEMENTS--Continued

SOUTHEASTERN OKLAHOMA STATE UNIVERSITY

June 30, 2009

NOTE F--LONG-TERM LIABILITIES--Continued

Capital Lease Obligations--Continued

*Oklahoma Capital Improvement Authority Leases--Continued*

Through June 30, 2009, the University has drawn down \$7,650,713 of its total allotment, for expenditures incurred in connection with specified projects. These expenditures have been capitalized as capital assets in accordance with University policy. Remaining funds, including earned interest, to be drawn down by the University of \$3,951,564 and \$6,003,597 at June 30, 2009 and 2008, respectively, have been recorded as receivable from state agency in the accompanying financial statements. The University has recorded a lease obligation payable to OCIA for the total amount of the allotment, less repayments made on the University's behalf during the year. The University has also recorded an asset for its pro-rata share of the bond premium, and is amortizing that asset over the term of the lease agreement.

During the years ended June 30, 2009 and 2008, OCIA made lease principal and interest payments totaling \$637,982 and \$707,470, respectively, on behalf of the University. These on-behalf payments have been recorded as restricted state appropriations in the University's statements of revenues, expenses and change in net assets.

*Oklahoma Development Finance Authority Master Lease Program*

Master Lease payable consisted of the following at June 30:

	<u>2009</u>	<u>2008</u>
ODFA Oklahoma State System of Higher Education Master Lease Revenue Bonds, Series 2001C, allocated to the University in the original amount of \$692,000 and mature in varying annual amounts to December 1, 2011	\$ 190,250	\$ 264,000
ODFA Oklahoma State System of Higher Education Master Lease Revenue Bonds, Series 2002A, allocated to the University in the original amount of \$213,000 and mature in varying annual amounts to December 1, 2011	60,417	85,417

NOTES TO FINANCIAL STATEMENTS--Continued

SOUTHEASTERN OKLAHOMA STATE UNIVERSITY

June 30, 2009

NOTE F--LONG-TERM LIABILITIES--Continued

Capital Lease Obligations--Continued

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

	<u>2009</u>	<u>2008</u>
ODFA Oklahoma State System of Higher Education Master Lease Revenue Bonds, Series 2002CB, allocated to the University in the original amount of \$8,235,000 and mature in varying annual amounts to December 1, 2022	\$ 6,365,000	\$ 6,720,833
ODFA Oklahoma State System of Higher Education Master Lease Revenue Bonds, Series 2003A, allocated to the University in the original amount of \$1,732,000 and mature in varying annual amounts to June 1, 2013	748,833	927,166
ODFA Oklahoma State System of Higher Education Master Lease Revenue Bonds, Series 2003B, allocated to the University in the original amount of \$250,000 and mature in varying annual amounts to July 1, 2023	190,000	200,000
ODFA Oklahoma State System of Higher Education Master Lease Revenue Bonds, Series 2004C, allocated to the University in the original amount of \$3,563,000 and mature in varying annual amounts to December 1, 2024	2,955,583	3,098,583
ODFA Oklahoma State System of Higher Education Master Lease Revenue Bonds, Series 2006A, allocated to the University in the original amount of \$1,971,000 and mature in varying annual amounts to June 30, 2022	1,708,000	1,814,333

NOTES TO FINANCIAL STATEMENTS--Continued

SOUTHEASTERN OKLAHOMA STATE UNIVERSITY

June 30, 2009

Capital Lease Obligations--Continued

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

	<u>2009</u>	<u>2008</u>
ODFA Oklahoma State System of Higher Education Master Lease Revenue Bonds, Series 2006B, allocated to the University in the original amount of \$1,200,000 and mature in varying annual amounts to June 30, 2016	\$ 894,342	\$ 984,835
ODFA Oklahoma State System of Higher Education Master Lease Revenue Bonds, Series 2007B, allocated to the University in the original amount of \$2,518,000 and mature in varying annual amounts to June 30, 2023	<u>2,398,000</u>	<u>2,518,000</u>
	<u>\$ 15,510,425</u>	<u>\$ 16,613,167</u>

Remaining funds to be draw down by the University under the ODFA master lease programs of \$1,503,602 and \$2,385,763 at June 30, 2009 and 2008, respectively, have been recorded as receivable from state agency in the accompanying financial statements.

*Suntrust Capital Lease*

In March 2006, the University entered into a capital lease agreement with Suntrust Leasing Corporation for \$3,000,000. The proceeds were deposited with an escrow agent and the University recorded this as investments held by others on the statement of net assets. At June 30, 2009, the University had drawn down the total \$3,000,000. This capital lease was obtained to make building improvements. The University has recorded a lease obligation payable in the accompanying financial statements with an outstanding balance of \$2,484,092 and \$2,640,197 at June 30, 2009 and 2008, respectively.

NOTES TO FINANCIAL STATEMENTS--Continued

SOUTHEASTERN OKLAHOMA STATE UNIVERSITY

June 30, 2009

NOTE F--LONG-TERM LIABILITIES--Continued

Capital Lease Obligations--Continued

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

Year Ending June 30:	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2010	\$ 1,647,515	\$ 1,219,295	\$ 2,866,810
2011	1,727,338	1,173,696	2,901,034
2012	1,736,920	1,118,675	2,855,595
2013	1,741,117	1,051,947	2,793,064
2014	1,617,194	985,207	2,602,401
2015-2019	8,942,080	3,909,197	12,851,277
2020-2024	7,446,696	1,955,033	9,401,729
2025-2029	3,416,335	698,091	4,114,426
2030	749,016	37,197	786,213
	<u>\$ 29,024,211</u>	<u>\$ 12,148,338</u>	<u>\$ 41,172,549</u>

Notes Payable

*Southeastern Foundation, Inc.*

The University financed the purchase of real estate from the Southeastern Foundation, Inc. with a note payable with the Foundation. The purchase price and note amount is \$380,000 with an interest rate of 6% and a term of ten years. The outstanding balance on this note payable is \$319,133 and \$362,265 at June 30, 2009 and 2008, respectively.

*Thompson Bookstore*

The University financed the purchase of real estate from the owners of Thompson Bookstore with a note payable to the Thompson's. The purchase price and note amount is \$200,000 with an interest rate of 6% and a term of four years. The outstanding balance on this note payable is \$50,000 and \$100,000 at June 30, 2009 and 2008, respectively.

NOTES TO FINANCIAL STATEMENTS--Continued

SOUTHEASTERN OKLAHOMA STATE UNIVERSITY

June 30, 2009

NOTE F--LONG-TERM LIABILITIES--Continued

Notes Payable--Continued

*Durant Community Facilities Authority*

The University financed the renovation and improvement to Paul Laird Field through a note with the Durant Community Facilities Authority. The financed amount is \$122,130 with an interest rate of 3% and a term of ten years. The outstanding balance on this note payable is \$73,278 and \$85,521 at June 30, 2009 and 2008, respectively.

Future minimum payments under the University's notes payable are as follows:

Year Ending June 30:	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2010	\$ 107,965	\$ 20,071	\$ 128,036
2011	60,710	17,161	77,871
2012	63,620	14,076	77,696
2013	66,704	10,807	77,511
2014	69,974	7,341	77,315
2015-2016	<u>73,438</u>	<u>3,668</u>	<u>77,106</u>
	<u>\$ 442,411</u>	<u>\$ 73,124</u>	<u>\$ 515,535</u>

NOTE G--RETIREMENT PLANS

The University's academic and nonacademic personnel are covered by various retirement plans. The plans available to University personnel include the Oklahoma Teachers' Retirement System ("OTRS"), which is a State of Oklahoma public employees' retirement system, the Teachers' Insurance Annuity Association, which is a defined contribution plan, and the Supplemental Retirement Annuity (SRA), a single employer defined benefit pension plan available to employees hired prior to July 1, 1987. The University does not maintain the accounting records, hold the investments for, or administer these plans.

NOTES TO FINANCIAL STATEMENTS--Continued

SOUTHEASTERN OKLAHOMA STATE UNIVERSITY

June 30, 2009

NOTE G--RETIREMENT PLANS--Continued

*Oklahoma Teachers' Retirement System (OTRS)*

Plan Description

The University contributes to the Oklahoma Teachers' Retirement System, a cost-sharing multiple-employer defined benefit pension plan sponsored by the State of Oklahoma. OTRS provides defined retirement benefits based on members' final compensation, age and term of service. In addition, the retirement program provides for benefits upon disability and to survivors upon the death of eligible members. The benefit provisions are established and may be amended by the legislature of the State of Oklahoma. Title 70 of the Oklahoma Statutes, Sections 17-101 through 17-116.9, as amended, assigns the authority for management and operation of the Plan to the Board of Trustees of OTRS. OTRS does not provide for a cost-of-living adjustment. The OTRS issues a publicly available financial report that includes financial statements and supplementary information for OTRS. That report may be obtained by writing to Teachers' Retirement System of Oklahoma, P.O. Box 53524, Oklahoma City, Oklahoma 73152, or by calling (405) 521-2387.

Funding Policy

The University is required to contribute a fixed percentage of annual compensation on behalf of active members. The employer contribution rate was 7.05% for fiscal year 2007 and was 7.05% for the first six months of fiscal year 2008. On January 1, 2008, the contribution rate changed to 7.55%. On January 1, 2009, the contribution rate changed to 8.05%. This rate 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 2009, 2008 and 2007. For compensation in excess of \$25,000, the employee's contributions are paid directly by the University to the OTRS.

The University's contributions to the OTRS for the years ended June 30, 2009, 2008 and 2007, were approximately \$2,643,000, \$2,475,000, and \$2,339,000, respectively, equal to the required contributions for each year. These contributions included the University's statutory contribution and the share of the employee's contribution paid directly by the University.

NOTES TO FINANCIAL STATEMENTS--Continued

SOUTHEASTERN OKLAHOMA STATE UNIVERSITY

June 30, 2009

NOTE G--RETIREMENT PLANS--Continued

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

Funding Policy--Continued

The State of Oklahoma is also required to contribute to the OTRS on behalf of the participating employers. For 2009, the State of Oklahoma contributed 5% of state revenues from sales and use taxes and individual income taxes, to the OTRS on behalf of participating employers. The University has estimated the amounts contributed to the OTRS by the State of Oklahoma on its behalf by multiplying the ratio of its covered salaries to total covered salaries to total covered salaries for the OTRS for the year by the applicable percentage of taxes collected during the year. For the years ended June 30, 2009 and 2008, the total amounts contributed to the OTRS by the State of Oklahoma on behalf of the University were approximately \$1,415,000 and \$1,550,000, respectively. These on-behalf payments have been recorded as both revenues and expenses in the statements of revenues, expenses and changes in net assets.

*Defined Contribution Plans*

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 but may make discretionary contributions. Contributions made during the years ended June 30, 2009, 2008 and 2007 were \$0, \$669,657 and \$790,122, respectively.

*Supplemental Retirement Annuity (SRA)*

Plan Description

The University's SRA plan is a single employer, defined benefit pension plan administered by the University's Board of Regents. The SRA was established by the University's Board of Regents to provide supplemental retirement and death benefits to University employees who were hired prior to July 1, 1987, or to those eligible employees' beneficiaries. The authority to amend the SRA's benefit provisions rests with the University's Board of Regents. The SRA does not issue a stand-alone financial report nor is it included in the financial report of another entity.

NOTES TO FINANCIAL STATEMENTS--Continued

SOUTHEASTERN OKLAHOMA STATE UNIVERSITY

June 30, 2009

NOTE G--RETIREMENT PLANS--Continued

*Supplemental Retirement Annuity (SRA)--Continued*

Funding Policy

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

Annual Pension Cost and Net Pension Obligation (Asset)

Annual pension cost and net pension obligation (asset) of the SRA for 2009 and 2008 are as follows:

	<u>2009</u>	<u>2008</u>
Annual required contribution	\$ 269,075	\$ 228,288
Interest on net pension obligation (asset)	(98,680)	(107,075)
Adjustment to annual required contribution	<u>125,634</u>	<u>136,322</u>
Annual pension cost	296,029	257,535
Contribution made	<u>(228,288)</u>	<u>(152,601)</u>
Increase in net pension obligation (asset)	67,741	104,934
Net pension obligation (asset) beginning of year	<u>(1,233,498)</u>	<u>(1,338,432)</u>
Net pension obligation (asset) end of year	<u>\$ (1,165,757)</u>	<u>\$ (1,233,498)</u>

The annual required contributions for 2009 and 2008 were determined as part of an actuarial valuation on June 30, 2009 and 2008, using the projected unit credit actuarial cost method. The actuarial assumptions included (a) a discount rate of 8% per year to determine the present value of future benefit payments; (b) retirement at age 65; (c) an 8% rate of return on investments; (d) projected salary increases of 3.5% per year; and (e) a 6% interest rate for post-retirement individual annuity settlement benefits. The value of the SRA assets is based on the TIAA-CREF group annuity account asset value. The unfunded actuarial accrued liability is being amortized over fifteen years as a level dollar amount on a closed basis.

NOTES TO FINANCIAL STATEMENTS--Continued

SOUTHEASTERN OKLAHOMA STATE UNIVERSITY

June 30, 2009

NOTE G--RETIREMENT PLANS--Continued

*Supplemental Retirement Annuity (SRA)--Continued*

Trend Information

Year Ended June 30	Annual Pension Cost (APC)	Percentage of APC Contributed	Net Pension Obligation (Asset)
2009	\$ 269,075	85%	\$ (1,165,757)
2008	228,288	67%	(1,233,498)
2007	239,940	0%	(1,338,432)

Funded Status and Funding Progress

The funded status of the plan as of June 30, was as follows:

	2009	2008
Actuarial accrued liability (AAL)	\$ 3,970,285	\$ 3,969,647
Actuarial value of plan assets	1,147,055	1,390,645
Unfunded actuarial accrued liability (UAAL)	\$ 2,823,230	\$ 2,579,002
Funded ratio (actuarial value of plan assets/AAL)	28.9%	35.0%
Covered payroll (active plan members)	\$ 3,693,035	\$ 3,910,180
UAAL as a percentage of covered payroll	76.4%	66.0%

NOTES TO FINANCIAL STATEMENTS--Continued

SOUTHEASTERN OKLAHOMA STATE UNIVERSITY

June 30, 2009

NOTE H--OTHER POST-EMPLOYMENT INSURANCE BENEFITS

*Postemployment Healthcare Plan*

Plan Description

The University's postemployment healthcare plan is an agent multiple-employer defined benefit plan administered by the Regional University System of Oklahoma Board of Regents (the University's Board). The plan provides medical and life insurance benefits to eligible retired employees until age 65. A retiring employee must have been employed full-time in the Regional University System of Oklahoma for not less than ten years immediately preceding the date of retirement; been a member of the Oklahoma Teachers' Retirement System during that time; and elected to receive a vested benefit under the provision of the Oklahoma Teachers' Retirement System. As of June 30, 2009, there were 450 active participants in the plan. The retirement insurance program was adopted by the Board of Regents in 1985. In March of 2008, the Retiree Medical Trust for Regional University System of Oklahoma was established to hold assets and pay benefits on behalf of the University's postemployment healthcare plan, and was administered by The Bank Oklahoma, N.A. Prior to the establishment of the trust, the insurance benefits were accounted for on a pay-as-you-go basis so that premiums were made from current operating funds.

Funding Policy

The contribution requirements of the University are established and may be amended by the Regional University System of Oklahoma Board of Regents. The University is required to contribute the *annual required contribution of the employer*, in an amount actuarially determined in accordance with the parameters of GASB Statement 45. The ARC 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. The current ARC is \$266,160 and represents 1.3% (percent) of covered payroll.

NOTES TO FINANCIAL STATEMENTS--Continued

SOUTHEASTERN OKLAHOMA STATE UNIVERSITY

June 30, 2009

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

*Postemployment Healthcare Plan--Continued*

Actuarial Methods and Assumptions

Actuarial valuation of an ongoing plan involves estimates of the value of reported amounts and assumptions about the probability of occurrence of events far into the future. Examples include assumptions about future employment, mortality, and the healthcare cost trend. Amounts determined regarding the funded status of the plan and the annual required contributions of the employer are subject to continual revision as actual results are compared with past expectations and new estimates are made about the future. The schedule of funding progress, presented below for the most recent valuation and further presented as required supplementary information following the notes to the financial statements, presents multiyear trend information that shows whether the actuarial value of plan assets is increasing or decreasing over time relative to the actuarial accrued liabilities for benefits.

Projections of benefits for financial reporting purposes are based on the substantive plan and include the types of benefits provided at the time of each valuation. The actuarial methods and assumptions used include techniques that are designed to reduce short-term volatility in actuarial accrued liabilities and the actuarial value of assets, consistent with the long-term perspective of the calculations. For the June 30, 2009 actuarial valuation, the projected unit cost method was used. The actuarial assumptions included a 7.0% investment rate of return and an annual healthcare cost inflationary increase of 9.5%.

Annual OPEB Cost and Net OPEB Obligation (Asset)

Annual OPEB cost and net OPEB obligation (asset) for 2009 is as follows:

Annual required contribution	\$	266,160
Interest on prior year net OPEB obligation		-
Adjustment to annual required contribution		-
Annual OPEB cost		<u>266,160</u>
Contributions made		<u>(296,449)</u>
Increase (decrease) in net OPEB obligation		(30,289)
OPEB obligation (asset) at beginning of year		<u>137,068</u>
OPEB obligation (asset) at end of year	\$	<u><u>106,779</u></u>

NOTES TO FINANCIAL STATEMENTS--Continued

SOUTHEASTERN OKLAHOMA STATE UNIVERSITY

June 30, 2009

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

*Postemployment Healthcare Plan--Continued*

Funded and Funding Progress

The funded status of the plan as of June 30, 2009, was as follows:

Actuarial accrued liability (AAL)	\$	2,111,419
Actuarial value of plan assets		<u>137,092</u>
Unfunded actuarial accrued liability (UAAL)	\$	<u>1,974,327</u>
Funded ratio (actuarial value of plan assets/AAL)		6.5%
Covered payroll (active plan members)	\$	21,420,468
UAAL as a percentage of covered payroll		9.2%

Trend Information

GASB 45 was not implemented until FY 2008; therefore, only two years of trend information is available.

<u>Fiscal Year Ended</u>	<u>Annual OPEB Cost</u>	<u>Annual OPEB Cost Contributed/Percentage</u>	<u>Net OPEB Obligation (Asset)</u>
6/30/2009	\$ 266,160	51.5%	\$ 106,799
6/30/2008	291,000	52.9%	137,068
6/30/2007	N/A	N/A	N/A

NOTES TO FINANCIAL STATEMENTS--Continued

SOUTHEASTERN OKLAHOMA STATE UNIVERSITY

June 30, 2009

NOTE I--FUNDS HELD IN TRUST BY OTHERS

Beneficial Interest in State School Land Funds

The University has a beneficial interest in the "Section Thirteen Fund State Educational Institutions" and the "New College Fund" administered by the Commissioners of the Land Office as trustees for the various educational institutions entitled thereto. The University has the right to receive annually 3.7% of the distributions of income produced by "Section Thirteen Fund State Educational Institutions" assets and 100% of the distributions of income produced by Southeastern Oklahoma State University's "New College Fund". The University received approximately \$739,000 and \$656,000 during the years ended June 30, 2009 and 2008, respectively, which is restricted to the construction or acquisition of buildings, equipment, or other capital items. These amounts are recorded as restricted appropriations for capital purposes in the statements of revenues, expenses and changes in net assets. State law prohibits the distribution of any corpus of these funds to the beneficiaries. The total trust reserve for Southeastern Oklahoma State University, held in trust by the commissioners of Land Office, was approximately \$12,374,000 and \$13,931,000 at June 30, 2009 and 2008, respectively.

Oklahoma State Regents Endowment Trust Fund

The University participates in the Oklahoma State Regents' Endowment Program (the "Endowment Program"). Under the Endowment Program, the State of Oklahoma matches contributions received. Such contributions generally come from private donations through the Foundation, for endowed chairs, lectureships, fellowships, and similar activities. The University is entitled to receive an annual distribution of 5% of the market value at year-end on these funds. As legal title of the State Regents matching endowment funds is retained by the Oklahoma State Regents, only the funds available for distribution, or approximately \$401,000 and \$350,000 at June 30, 2009 and 2008, respectively, have been reflected as assets in the statements of net assets. The total market value of endowment funds on deposit with the Oklahoma State Regents and held for the benefit of the University at June 30, 2009 and 2008 was approximately \$3,447,000 and \$4,401,000, respectively.

NOTE J--RELATED PARTY TRANSACTIONS

The University contracts with the Foundation to provide limited services and office space without charge in exchange for the support the University receives. During the years ended June 30, 2009 and 2008, total support provided by the Foundation to the University, including scholarships awarded to University students, was approximately \$977,000 and \$1,181,000, respectively.

NOTES TO FINANCIAL STATEMENTS--Continued

SOUTHEASTERN OKLAHOMA STATE UNIVERSITY

June 30, 2009

NOTE K--COMMITMENTS AND CONTINGENCIES

The University conducts certain programs pursuant to various grants and contracts, which are subject to audit by federal and state agencies. 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 Family Education Loan Program (the "FFEL Program"). The FFEL Program does not require the University to draw down cash; however, the University is required to perform certain administrative functions under the FFEL Program. Failure to perform such functions may require the University to reimburse the loan guarantee agencies. For the years ended June 30, 2009 and 2008, approximately \$5,169,000 and \$4,841,000, respectively, of FFEL Program loans were provided to University students.

During the ordinary course of business, the University may be subjected to various lawsuits and civil action claims. Management believes that resolution of any such matters pending at June 30, 2009 and 2008, will not have material adverse impact to the University.

NOTE L--RISK MANAGEMENT

The University is exposed to various risks of loss from torts; theft of, damage to, and destruction of assets; 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, 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.

NOTES TO FINANCIAL STATEMENTS--Continued

SOUTHEASTERN OKLAHOMA STATE UNIVERSITY

June 30, 2009

NOTE L--RISK MANAGEMENT--Continued

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

NOTE M--ACCOUNTING STANDARDS ISSUED NOT YET ADOPTED

In 2007, GASB issued Statement No. 51, *Accounting and Financial Reporting for Intangible Assets*. GASB No. 51 establishes standards of accounting and financial reporting for intangible assets and requires that all intangible assets not specifically excluded by its scope provisions be classified as capital assets. Accordingly, existing authoritative guidance related to the accounting and financial reporting for capital assets should be applied to these intangible assets, as applicable. This Statement also establishes guidance specific to intangible assets related to amortization. The requirements of this Statement are effective for financial statements for periods beginning after June 15, 2009 and generally are required to be applied retroactively. Management has not yet determined the effect this Statement will have on the University's financial condition or results of operations.

In 2008, GASB issued Statement No. 53, *Accounting and Financial Reporting for Derivative Instruments*. GASB No. 53 addresses the recognition, measurement, and disclosure of information regarding derivative instruments entered into by state and local governments. A key provision in this Statement is that derivative instruments covered in its scope, with the exception of synthetic guaranteed investment contracts (SGICs) that are fully benefit-responsive, are reported at fair value. The requirements of this Statement are effective for financial statements for periods beginning after June 15, 2009. Earlier application is encouraged. Management is evaluating the effect this Statement will have on the University's financial condition or results of operations.

NOTES TO FINANCIAL STATEMENTS--Continued

SOUTHEASTERN OKLAHOMA STATE UNIVERSITY

June 30, 2009

NOTE N--SOUTHEASTERN FOUNDATION, INC.--DISCRETELY PRESENTED COMPONENT UNIT

*Nature of Activities and Summary of Significant Accounting Policies*

Principles of Consolidation: The accompanying financial statements reflect the consolidated financial statements of Southeastern Foundation, Inc. (the "Foundation") and SOSU Foundation, L.L.C. (the "L.L.C."). All Trustees of the Foundation also serve as Trustees of the L.L.C.

Nature of Activities: The Foundation is a nonprofit corporation organized for the purpose of receiving and administering gifts for the benefit of Southeastern Oklahoma State University (the "University"), located in Durant, Oklahoma.

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. When a donor restriction is satisfied, that is, when a stipulated time restriction ends or a purpose restriction is accomplished, temporarily restricted net assets are reclassified to unrestricted net assets and reported in the consolidated statements of activities and changes in net assets released from restrictions.

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

The L.L.C. is a limited liability corporation organized for the purpose of building and housing students of the University.

The accompanying consolidated financial statements reflect only transactions for which appropriate approvals have been received by the Foundation as of the financial reporting date.

Basis of Accounting: The Foundation presents its financial statements on the accrual basis of accounting.

NOTES TO FINANCIAL STATEMENTS--Continued

SOUTHEASTERN OKLAHOMA STATE UNIVERSITY

June 30, 2009

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

*Nature of Activities and Summary of Significant Accounting Policies--Continued*

Basis of Presentation: Financial statement presentation follows the recommendations of the Financial Standards Board in its Statement of Financial Accounting Standards (SFAS) No. 117, *Financial Statements of Not-for-Profit Organizations*. Under SFAS No. 117, the Foundation is required to report information regarding its financial position and activities according to three classes of net assets: unrestricted net assets, temporarily restricted net assets, and permanently restricted net assets. As permitted by the statement, the Foundation does not use fund accounting.

Unrestricted Net Assets: This category consists of gifts received by the Foundation without stipulation and accumulated earnings which the Foundation uses for its operations.

Temporarily Restricted Net Assets: This category primarily consists of gifts received by the Foundation which have been designated for a particular project or activity and accumulated earnings from endowment funds to be used in accordance with the donor's instructions. When a donor restriction is satisfied, temporarily restricted net assets are reclassified to unrestricted net assets.

Permanently Restricted Net Assets: This category represents gifts received by the Foundation with donor restrictions which require the principal to be invested in perpetuity. Generally, income earned from these assets is available to be used for purposes established by the donors.

Functional Expense Allocation: Except for certain expenses that are directly allocable, all expenses have been apportioned to program and supporting functions based upon the estimated time spent by each employee for each function, estimated floor space used for each function, or certain estimates received from the Foundation.

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

Pledges: The Foundation records pledges as income in the period payment is received. Pledges are used for budgetary purposes only and do not meet the criteria for recording in the financial statements.

NOTES TO FINANCIAL STATEMENTS--Continued

SOUTHEASTERN OKLAHOMA STATE UNIVERSITY

June 30, 2009

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

*Nature of Activities and Summary of Significant Accounting Policies--Continued*

Accounts Receivable: The accounts receivable reflect amounts due from students to the Housing LLC for dorm room leases. The accounts receivable are presented net of the allowance for bad debts using the direct write off method. This method approximates generally accepted accounting principles.

Investments: The Foundation maintains the majority of its assets in separate investment funds. Investments are presented in the financial statements of the Foundation at fair market value. Investments include certificates of deposit, corporate stock and bonds, U.S. government securities and mutual funds. 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. Unrealized gains and losses are included in the changes in net assets in the accompanying Statement of Activities. The Foundation carries its real estate investments at the fair market value as of the dates the investments were donated.

Implementation of FSP FAS 117-1: In August 2008, The Financial Accounting Standards Board issued FASB Staff Position No. FAS 117-1, "Endowment of Not-for-Profit Organizations: Net Asset Classification of Funds Subject to an Enacted Version of the Uniform Prudent Management of Institutional Funds Act, and Enhanced Disclosures for All Endowment Funds" (FSP FAS 117-1). FSP FAS 117-1 provides guidance on the net asset classification of donor-restricted endowment funds for a nonprofit organization that is subject to an enacted version of the Uniform Prudent Management of Institutional Funds Act of 2006 (UPMIFA). FSP FAS 117-1 also requires additional disclosures about an organization's endowment funds (both donor-restricted endowment funds and board-designated endowment funds) whether or not the organization is subject to UPMIFA.

The State of Oklahoma enacted UPMIFA effective November, 1, 2007, the provisions of which apply to endowment funds existing on or established after that date. The Organization has adopted FSP FAS 117-1 for the year ending June 30, 2009. The Board of Trustees, on the advice of legal counsel, had determined that the majority of the Organization's permanently restricted net assets meet the definition of endowment funds under UPMIFA. Based on the Organization's interpretation of UPMIFA, the Organization has reviewed all of its endowment funds and has reclassified approximately \$734,058 from permanently restricted net assets to temporarily restricted net assets as of June 30, 2009.

NOTES TO FINANCIAL STATEMENTS--Continued

SOUTHEASTERN OKLAHOMA STATE UNIVERSITY

June 30, 2009

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

*Nature of Activities and Summary of Significant Accounting Policies--Continued*

Property and Equipment: Land, buildings, equipment and mineral interests are stated at cost if purchased or at appraised values if received by donation. The assets which have been donated to the Foundation have not been revalued to reflect fair market values due to the prohibitive costs of obtaining annual appraisals. However, the Foundation's management does not believe any adjustment arrived at from new appraisals would be significant to the Consolidated financial position or Statement of activities and changes in net assets. The buildings owned by the Foundation are being depreciated over estimated useful lives of 31.5 and 40 years on a straight-line basis. Furniture and fixtures are depreciated over 7 years on a straight-line basis. The Foundation follows the policy of capitalizing all expenditures for property in excess of \$2,500.

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

Taxes: 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). Additionally, the Foundation has been determined not to be a private foundation within the meaning of Section 509(a) of the Code.

*Variable Interest Entity*

On November 13, 2004, the Housing L.L.C. was organized for the purpose of building and housing students of the University. The L.L.C. is a variable interest entity (VIE) with the primary beneficiary being the Foundation. The Foundation and L.L.C. share the same Board of Trustees. The Foundation is not liable for debt of the L.L.C.

The Trust reflects liabilities of \$9,408,630 as of June 30, 2009, the majority of which is a guarantee of debt to the 2005 Revenue Bond.

NOTES TO FINANCIAL STATEMENTS--Continued

SOUTHEASTERN OKLAHOMA STATE UNIVERSITY

June 30, 2009

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

*Cash and Cash Equivalents*

All highly liquid debt instruments purchased with a maturity of three months or less are considered to be cash equivalents for purposes of the statement of cash flows. The Foundation has opened a corporate sweep account and entered into a Tri-Party Control and Custody Agreement which includes Bank One, N.A., Oklahoma City, Oklahoma, and First United Bank and Trust, Durant, Oklahoma. Bank One, N.A. is authorized to act as custodian pursuant to the terms and conditions of the corporate sweep account, whereby funds in the account are invested in retail purchase agreements which are fully collateralized and guaranteed by securities which are direct obligations of the government of the United States.

*Concentration of Credit Risk for Cash Deposits*

Financial instruments that potentially subject the Foundation to concentrations of credit risk consist principally of cash deposits. Accounts at each institution are insured by the Federal Deposit Insurance Corporation (FDIC) up to \$250,000. At June 30, 2009 the LLC had approximately \$209,057 in excess of FDIC insured limits.

*Restriction on Net Assets*

Substantially all of the restrictions on net assets at the end of June 30, 2009 are related to funds for scholarships, endowments, and special projects. Temporarily restricted funds are contributions to be used for scholarships and special projects that may arise during the fiscal year. Restricted funds are contributions and investments designated by donors for endowments and scholarships. At this time there is a minimum \$15,000 requirement before contributions may be endowed.

NOTES TO FINANCIAL STATEMENTS--Continued

SOUTHEASTERN OKLAHOMA STATE UNIVERSITY

June 30, 2009

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

*Building, Furniture and Fixtures*

Property and equipment at June 30, 2009 consisted of the following:

	<u>2009</u>
Building	9,165,786
Furniture and equipment	<u>397,395</u>
	9,563,181
Less accumulated depreciation	<u>(1,321,563)</u>
	<u>\$ 8,241,618</u>

*Real Estate Lease*

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

The liability of the Lessee, with respect to its obligation under the ground lease, shall be non-recourse and the satisfaction of any of the Lessee's obligations shall be limited to the Lessee's interest in the property. There were no ground lease expenses for the years ended June 30, 2009.

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

*Investments*

Investments are presented in the financial statements at fair market value. Market values were determined on the basis of closing prices on June 30, 2009, as quoted on major stock exchanges or over-the-counter markets.

NOTES TO FINANCIAL STATEMENTS--Continued

SOUTHEASTERN OKLAHOMA STATE UNIVERSITY

June 30, 2009

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

*Investments--Continued*

The following tabulation summarizes the relationship between carrying values and market values of investment assets:

	Cost	Fair Value	Carrying Value
Certificates of deposit	\$ 720,089	\$ 720,701	\$ 720,701
US government securities	2,596,178	2,636,069	2,636,069
Mutual funds	4,858,910	3,002,641	3,002,641
Common stock	2,318,157	2,693,444	2,693,444
Corporate bonds	380,557	346,583	346,583
	<u>\$ 10,873,891</u>	<u>\$ 9,399,438</u>	<u>\$ 9,399,438</u>

Investment income is summarized as follows:

Interest	\$ 265,972
Dividends	250,935
Realized and unrealized gain or (loss) on investments	<u>(1,677,169)</u>
	<u>\$ (1,160,262)</u>

*Bond Issuance Costs*

The issuance cost of \$184,681 on long-term debt is amortized using the straight-line method over the term of the related issue. Amortization expense and accumulated amortization was \$6,156 and \$26,691 for the year ended June 30, 2009.

*Long-Term Debt*

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

NOTES TO FINANCIAL STATEMENTS--Continued

SOUTHEASTERN OKLAHOMA STATE UNIVERSITY

June 30, 2009

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

*Long-Term Debt--Continued*

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

Years ending June 30,	
2010	167,087
2011	176,734
2012	186,937
2013	196,806
2014	207,356
Thereafter	8,473,710
	<u>\$ 9,408,630</u>

*Scholarship Awards*

Prior to year-end, the Foundation Scholarship Committee meets and awards scholarships for the upcoming year. Additional scholarships are awarded as recommended by the University faculty and administration. These scholarships are contingent upon the acceptance and enrollment of the recipients and many contain additional requirements. Those scholarships awarded and accepted in the amount of \$84,556 were accrued as current liabilities at June 30, 2009.

*Related Party Transactions*

The Foundation has entered into a lease agreement with the University whereby the University has exclusive use of a downtown, main street building known as the Massey Building. The University may use the building for its various functions or rent it out. In exchange for the use of the Massey Building, the University provides the Foundation with office space, office supplies, support materials and fund-raising assistance from its employees. If the formula for exchange ever shows the University is giving more to the Foundation than the Foundation is providing to the University, the Foundation is required to compensate the University for this overage. There were no overages for the years ended June 30, 2009.

The Foundation benefits from voluntary services, donated by members of the Foundation and its trustees, which have not been reflected in the financial statements. The impact of those services upon the financial statements is unknown.

NOTES TO FINANCIAL STATEMENTS--Continued

SOUTHEASTERN OKLAHOMA STATE UNIVERSITY

June 30, 2009

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

*Related Party Transactions--Continued*

The Foundation purchased real estate and subsequently leased it back to the University under a lease purchase agreement for a period of ten years beginning September 19, 2005 and ending September 19, 2015. The lease calls for annual lease payments of \$1 for the first two years and \$66,494 for the remaining eight years. This agreement provides that at the end of the term the University may purchase the land for \$1. The transaction has been recorded as a sale of real estate by the Foundation. The total principal to be paid under the agreement is \$380,000. The note is considered to bear interest at 6% for 10 years with 8 years of payments.

*Notes Receivable*

As of June 30, 2009, notes receivable consisted of the following:

	<u>Carrying Value</u>
Note receivable from related party, 6% interest due in annual installments. Secured by real estate.	\$ 319,133
Note receivable from a general partnership, 6.5% interest due in monthly installments of \$364. Secured by a mortgage on real estate.	<u>27,632</u>
	<u>\$ 346,765</u>

*Negative Unrestricted Net Assets*

The consolidated statement of net assets reports negative unrestricted net assets of \$339,137. This is a direct result of the SOSU Housing LLC's negative net assets of \$832,086. This results from the deficit created by the operations of the new student housing project. The housing project rent structure has been adjusted upward to offset these operating deficits. It is the belief of management that the housing project will be self-sustaining in the future and will not require further subsidies from the University.

*Accounts Receivable*

The accounts receivable are generated from student housing at Shearer Hall and Suites and rent collections to be remitted from the University. The amounts reported in the financial statements are reported net of the allowance for bad debts of \$49,252 for the year ended June 30, 2009.

NOTES TO FINANCIAL STATEMENTS--Continued

SOUTHEASTERN OKLAHOMA STATE UNIVERSITY

June 30, 2009

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

*University Subsidy to the SOSU Housing LLC*

Since inception, Shearer Hall and Suites has incurred sustained operating losses. For the year ended June, 30, 2009, there was \$127,483 in operating expenses directly allocable to the Shearer Hall and Suites that were paid by the University. These expenses are in addition to the operating expenses reported in the statement of activities. The University will continue to pay these unfunded expenses until the Shearer Hall and Suites becomes self sustaining. Without this subsidy, the LLC would be forced to seek financing to fund operating losses.

*Classification of Income*

Substantially all of the contributions and income of the organization have been classified as temporarily restricted both by donors or management. This is a direct result of management's decision to record income as temporarily restricted for operations or programs. The organization has provided for a separate project accounting for each restricted gift. These records are maintained independent of the general ledger software. When the financial statements are prepared, the income and expenses are released from restriction and transfers are made to reflect appropriate changes in the three net asset classes balances.

*Donor Designated Endowments*

The Organization's endowment consists of approximately 188 individual funds established for a variety of purposes. Its endowment includes both donor-restricted funds and funds designated by the Board of Trustees to function as endowments. As required by generally accepted accounting principles, net assets associated with endowment funds, including funds designated by the Board of Trustees to function as endowments, are classified and reported based on the existence or absence of donor-imposed restrictions.

NOTES TO FINANCIAL STATEMENTS--Continued

SOUTHEASTERN OKLAHOMA STATE UNIVERSITY

June 30, 2009

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

*Donor Designated Endowments--Continued*

The Board of Trustees of the Organization has interpreted the Uniform Prudent Management of Institutional Funds Act (UPMIFA) as requiring the preservation of the fair value of the original gift as of the gift date of the donor-restricted endowment funds absent explicit donor stipulations to the contrary. As a result of this interpretation, the Organization classifies as permanently restricted net assets (a) the original value of gifts donated to the permanent endowment, (b) the original value of subsequent gifts to the permanent endowment, and (c) accumulations to the permanent endowment made in accordance with the direction of the applicable donor gift instrument at the time the accumulation is added to the fund. The remaining portion of the donor-restricted endowment fund that is not classified in permanently restricted net assets is classified as temporarily restricted net assets until those amounts are appropriated for expenditure by the Organization in a manner consistent with the standard of prudence prescribed by UPMIFA. In accordance with UPMIFA, the Organization considers the following factors in making a determination to appropriate or accumulate donor-restricted endowment funds: (1) the duration and preservation of the various funds, (2) the purposes of the donor-restricted endowment funds, (3) general economic conditions, (4) the possible effect of inflation and deflation, (5) the expected total return from income and the appreciation of investments, (6) other resources of the Organization, and (7) the Organization's investment policies.

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

NOTES TO FINANCIAL STATEMENTS--Continued

SOUTHEASTERN OKLAHOMA STATE UNIVERSITY

June 30, 2009

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

*Donor Designated Endowments--Continued*

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

Funds with Deficiencies: From time to time, the fair value of assets associated with individual donor restricted endowment funds may fall below the level that the donor requires the Foundation to retain as a fund of perpetual duration. In accordance with GAAP, deficiencies of this nature that are reported in unrestricted net assets were \$158,542 in 73 individual endowments as of June 30, 2009. These deficiencies resulted from unfavorable market fluctuations that occurred shortly after the investment of new permanently restricted contributions and continued appropriation for certain programs that was deemed prudent by the Board.

NOTES TO FINANCIAL STATEMENTS--Continued

SOUTHEASTERN OKLAHOMA STATE UNIVERSITY

June 30, 2009

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

*Donor Designated Endowments--Continued*

Funds with Deficiencies--Continued:

	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Permanently Restricted</u>	<u>Total</u>
Donor restricted endowment funds	\$ (158,542)	\$ 3,667,070	\$ 8,299,865	\$ 11,808,393

Changes in endowment net assets  
as of June 30, 2009, are as follows:

	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Permanently Restricted</u>	<u>Total</u>
Endowment net assets beginning of the year	\$ -	\$ 3,742,585	\$ 9,241,763	\$ 12,984,348
Restatement	-	734,058	(734,058)	-
Endowment net assets restated	-	4,476,643	8,507,705	12,984,348
Contributions	-	681,534	25,424	706,958
Other income	-	201,211	-	201,211
Investment income	-	375,646	-	375,646
Net appreciation (depreciation)	(158,542)	(1,702,747)	-	(1,861,289)
Transfers	-	-	(233,264)	(233,264)
Amounts appropriated for expenditures	-	(365,217)	-	(365,217)
	<u>\$ (158,542)</u>	<u>\$ 3,667,070</u>	<u>\$ 8,299,865</u>	<u>\$ 11,808,393</u>

NOTES TO FINANCIAL STATEMENTS--Continued

SOUTHEASTERN OKLAHOMA STATE UNIVERSITY

June 30, 2009

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

*Fair Value Measurements*

FASB Statement No. 157, *Fair Value Measurements*, establishes a framework for measuring fair value. That framework provides a fair value hierarchy that prioritizes the inputs to valuation techniques used to measure fair value. The hierarchy gives the highest priority to unadjusted quoted prices in active markets for identical assets or liabilities (level 1 measurements) and the lowest priority to unobservable inputs (level 3 measurements). The three levels of the fair value hierarchy under FASB No. 157 are described as follows:

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

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Level 2      Inputs to the valuation methodology include

- quoted prices for similar assets or liabilities in active markets;
- quoted prices for identical assets or liabilities in inactive markets;
- inputs other than quoted prices that are observable for the asset or liability;
- inputs that are derived principally from or corroborated by observable market data by correlation or other means.

If the asset or liability has a specified (contractual) term, the level 2 input must be observable for substantially the full term of the asset or liability.

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Level 3      Inputs to the valuation methodology are unobservable and significant to the fair value measurement.

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The asset or liability's fair value measurement level within the fair value hierarchy is based on the lowest level of any input that is significant to the fair value measurement. Valuation techniques used need to maximize the use of observable inputs and minimize the use of unobservable inputs.

As allowed by FSP FAS 157-2, the organization has deferred adopting the provisions of SFAS No. 157 for nonfinancial assets and liabilities that are not measured on a recurring basis.

NOTES TO FINANCIAL STATEMENTS--Continued

SOUTHEASTERN OKLAHOMA STATE UNIVERSITY

June 30, 2009

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

*Fair Value Measurements--Continued*

The following methods and assumptions were used by the Foundation in estimating its fair value disclosures for financial instruments:

*Cash and cash equivalents:* The carrying amounts reported in the statement of financial position approximate fair values because of the short maturities of those instruments.

*Certificates of deposit:* Valued at fair value by discounting the related cash flows based on current yields of similar instruments with comparable durations considering the credit worthiness of the issuer.

*U.S. government securities, corporate bonds common stocks and mutual funds:* Valued at the closing price reported in the active market in which the individual securities are traded.

The preceding methods described may produce a fair value calculation that may not be indicative of net realizable value or reflective of future fair values. Furthermore, although the organization believes its valuation methods are appropriate, the use of different methodologies or assumptions to determine the fair value of certain financial instruments could result in a different fair value measurement at the reporting date.

The following table presents the organization's fair value hierarchy for the financial assets measured at fair value on a recurring basis:

	<u>Assets at Fair Value as of June 30, 2009</u>			
	<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>	<u>Total</u>
Certificates of deposits	\$ -	\$ 720,701	\$ -	\$ 720,701
U.S. Government securities	2,636,069	-	-	2,636,069
Common Stocks	2,693,444	-	-	2,693,444
Corporate bonds	346,583	-	-	346,583
Mutual funds	3,002,641	-	-	3,002,641
Total at fair value	<u>\$ 8,678,737</u>	<u>\$ 720,701</u>	<u>\$ -</u>	<u>\$ 9,399,438</u>

REQUIRED SUPPLEMENTARY  
INFORMATION

REQUIRED SUPPLEMENTARY INFORMATION--UNAUDITED

SOUTHEASTERN OKLAHOMA STATE UNIVERSITY

June 30, 2009

**SCHEDULE OF FUNDING PROGRESS FOR SUPPLEMENTARY RETIREMENT ANNUITY PLAN**

Actuarial Valuation Date	Actuarial Value of Assets (a)	Actuarial Accrued Liability (AAL) (b)	Unfunded AAL (UAAL) (b-a)	Funded Ratio (a/b)	Covered Payroll (c)	UAAL as a percentage of Covered Payroll (b-a)/(c)
6/30/2007	\$ 1,559,225	\$ 3,743,522	\$ 2,184,297	41.7%	\$ 3,862,565	56.6%
6/30/2008	1,390,645	3,969,647	2,579,002	35.0%	3,910,180	66.0%
6/30/2009	1,147,055	3,970,285	2,823,230	28.9%	3,693,035	76.4%

**SCHEDULE OF FUNDING PROGRESS FOR OTHER POST EMPLOYMENT INSURANCE BENEFITS**

Actuarial Valuation Date	Actuarial Value of Assets (a)	Actuarial Accrued Liability (AAL) (b)	Unfunded AAL (UAAL) (b-a)	Funded Ratio (a/b)	Covered Payroll (c)	UAAL as a percentage of Covered Payroll (b-a)/(c)
6/30/2008	\$ -	\$ 2,268,000	\$ 2,268,000	0.0%	\$ 16,658,396	13.6%
6/30/2009	137,092	2,111,419	1,974,327	6.5%	21,420,468	9.22%

The actuarial liability is based on the projected unit credit method.

OTHER SUPPLEMENTARY  
INFORMATION

OTHER SUPPLEMENTARY INFORMATION

SOUTHEASTERN STATE UNIVERSITY

June 30, 2009

Summary of contract revenues and expenditures

Contract Title: Oklahoma Small Business Development

Contract Agency: Oklahoma Department of Commerce

Contract Number: SBDC 09 13392

Contract Dates: July 1, 2008 to June 30, 2009

	Program Budget	Actual Year Ended June 30, 2009
Revenues		
Contract proceeds	\$ 600,873	\$ 600,873
Expenditures		
Salaries and fringe benefits	600,873	600,873
Total expenditures	<u>600,873</u>	<u>600,873</u>
(Expenditures) in excess of revenues	<u>\$ -</u>	<u>\$ -</u>

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

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

We have audited the financial statements of Southeastern Oklahoma State University (the "University"), a component unit of the State of Oklahoma, as of and for the year ended June 30, 2009, and have issued our report thereon dated October 27, 2009. 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. The report on the audited financial statements contains an explanatory paragraph describing that the financial statements as of and for the year ended June 30, 2008 have been restated. Other auditors audited the financial statements of Southeastern Foundation, Inc. (the "Foundation"), a discretely presented component unit of the University, as described in our report on the University's financial statements. The financial statements of the Foundation were not audited in accordance with *Government Auditing Standards*.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered the University's internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the University's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the University' internal control over financial reporting.

A control deficiency exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect misstatements on a timely basis. A significant deficiency is a control deficiency, or combination of control deficiencies, that adversely affects the entity's ability to initiate, authorize, record, process, or report financial data reliably in accordance with generally accepted accounting principles such that there is more than a remote likelihood that a misstatement of the entity's financial statements that is more than inconsequential will not be prevented or detected by the entity's internal control.

A material weakness is a significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood that a material misstatement of the financial statements will not be prevented or detected by the entity's internal control.

Our consideration of internal control over financial reporting was for the limited purpose described in the first paragraph of this section and would not necessarily identify all deficiencies in internal control that might be significant deficiencies or material weaknesses. We did not identify any deficiencies in internal control over financial reporting that we consider to be material weaknesses, as defined above.

#### Compliance and Other Matters

As part of obtaining reasonable assurance about whether the University's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, non-compliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our test disclosed no instances of non-compliance or other matters that are required to be reported under *Government Auditing Standards*.

This report is intended solely for the information and use of the Board of Regents, management, and federal awarding agencies and pass-through entities and is not intended to be, and should not be, used by anyone other than these specified parties.

Cole & Reed P.C.

Oklahoma City, Oklahoma  
October 27, 2009

Independent Auditors' Report on Compliance with Requirements Applicable to  
Each Major Program and Internal Control Over Compliance  
in Accordance with OMB Circular A-133 and the  
Schedule of Expenditures of Federal Awards

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

Compliance

We have audited the compliance of Southeastern Oklahoma State University (the "University"), a component unit of the State of Oklahoma, with the types of compliance requirements described in the U.S. Office of Management and Budget (OMB) Circular A-133 *Compliance Supplement* that are applicable to each of its major federal programs for the year ended June 30, 2009. The University's major federal programs are identified in the Summary of Auditors' Results Section of the accompanying Schedule of Findings and Questioned Costs. Compliance with the requirements of laws, regulations, contracts, and grants applicable to each of its major federal programs is the responsibility of the University's management. Our responsibility is to express an opinion on the University's compliance based on our audit.

We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. Those standards and OMB Circular A-133 require that we plan and perform the audit to obtain reasonable assurance about whether non-compliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about the University's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion. Our audit does not provide a legal determination of the University's compliance with those requirements.

In our opinion, Southeastern Oklahoma State University complied, in all material respects, with the requirements referred to above that are applicable to each of its major federal programs for the year ended June 30, 2009.

## Internal Control Over Compliance

The management of Southeastern Oklahoma State University is responsible for establishing and maintaining effective internal control over compliance with the requirements of laws, regulations, contracts, and grants applicable to federal programs. In planning and performing our audits, we considered the University's internal control over compliance with requirements that could have a direct and material effect on a major federal program in order to determine our auditing procedures for the purpose of expressing our opinion on compliance, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of the University's internal control over compliance.

A control deficiency in an entity's internal control over compliance exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect noncompliance with a type of compliance requirement of a federal program on a timely basis. A significant deficiency is a control deficiency, or combination of control deficiencies, that adversely affects the entity's ability to administer a federal program such that there is more than a remote likelihood that noncompliance with a type of compliance requirement of a federal program that is more than inconsequential will not be prevented or detected by the entity's internal control.

A material weakness is a significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood that material noncompliance with a type of compliance requirement of a federal program will not be prevented or detected by the entity's internal control.

Our consideration of internal control over compliance was for the limited purpose described in the first paragraph of this section and would not necessarily identify all deficiencies in internal control that might be significant deficiencies or material weaknesses. We did not identify any deficiencies in internal control over compliance that we consider to be material weaknesses, as defined above.

## Schedule of Expenditures of Federal Awards

We have audited the basic financial statements of the University as of and for the year ended June 30, 2009, and have issued our report thereon dated October 27, 2009. Our audit was performed for the purpose of forming an opinion on the basic financial statements taken as a whole. The accompanying schedule of expenditures of federal awards is presented for purposes of additional analysis as required by OMB Circular A-133 and is not a required part of the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, is fairly stated, in all material respects, in relation to the basic financial statements taken as a whole.

This report is intended solely for the information and use of the Board of Regents, management, and federal awarding agencies and pass-through entities and is not intended to be, and should not be, used by anyone other than these specified parties.

Cole & Reed P.C.

Oklahoma City, Oklahoma  
October 27, 2009

SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS

SOUTHEASTERN OKLAHOMA STATE UNIVERSITY

Year Ended June 30, 2009

Federal Grantor/Pass-Through Grantor/Program Title	CFDA Number	Pass-Through Entity Identification Number	Amount Expended
<b>U.S. Department of Education</b>			
Direct Programs			
Student Financial Aid Cluster			
Federal Pell Grant Program	84.063	N/A	\$ 4,482,605
Federal Work Study Program	84.033	N/A	202,698
Federal Supplemental Education Opportunity Grants	84.007	N/A	247,286
Federal Family Education Loan Program	84.032	N/A	5,168,784
Federal Perkins Loan Program	84.038	N/A	51,347
Academic Competitive Grant	84.375	N/A	177,175
National Smart Grant	84.376	N/A	193,317
Total Student Financial Aid Cluster			<u>10,523,212</u>
Trio Cluster			
Upward Bound	84.047A/M	N/A	978,706
Talent Search	84.044A	N/A	399,702
Student Supportive Services	84.042A	N/A	341,188
Educational Opportunity Centers	84.066A	N/A	443,110
Total trio cluster			<u>2,162,706</u>
Other Direct Programs			
Native American Excellence in Education	84.299B	N/A	138,235
Gear Up	84.334A	N/A	27,981
			<u>166,216</u>
Total U.S. Department of Education			12,852,134
<b>Small Business Administration</b>			
Small Business Development Center	59.037	N/A	901,035
<b>U.S. Department of Health and Human Services</b>			
Support for Continuous Research Excellence	93.859	N/A	17,212
<b>National Science Foundation</b>			
SOSU & Choctaw Nation Alliance: Project Impact! Passed through Oklahoma State University	47.07	N/A	188,182
Louis Stokes-Oklahoma Alliance for Minority Participation	47.076	HRD-0402640/ AA-5-85105-SOSU	34,941
Total National Science Foundation			<u>223,123</u>
<b>U.S. Department of Agriculture</b>			
Phytonutrients in Oklahoma organic produce Passed through Oklahoma Department of Education	10.001	N/A	\$ 10,000
Summer food service program/TRIO program	10.559	S-07-16	5,672
			<u>15,672</u>

SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS--Continued

SOUTHEASTERN OKLAHOMA STATE UNIVERSITY

Year Ended June 30, 2009

Federal Grantor/Pass-Through Grantor/Program Title	CFDA Number	Pass-Through Entity Identification Number	Amount Expended
<b>U.S. Department of Justice</b>			
Passed through East Central University RUSO-Violence Prevention Project	16.525	2007-WA-AX-0004	52,219
<b>U.S. Department of Health and Human Services</b>			
Passed through University of Oklahoma Biomedical Research Excellence	93.389	P20RR016478-08/ RS20081508-23	59,409
<b>U.S. Department of Commerce</b>			
Center for Regional Competitiveness	11.306	N/A/	86,654
<b>National Aeronautics and Space Administration</b>			
Passed through University of Oklahoma NASA-Oklahoma Space Grant Consortium	43.001	NNG05GN42H/ Sub No. 2006-23	11,631
<b>National Endowment for the Arts</b>			
Passed through Mid-American Arts Alliance Heartland Arts Fund Visiting Artists	45.025	Various	<u>3,875</u>
Total Expenditures of Federal Awards			<u>\$ 14,222,964</u>

See notes to schedule of expenditures of federal awards.

NOTES TO SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS

SOUTHEASTERN OKLAHOMA STATE UNIVERSITY

June 30, 2009

NOTE A--SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The schedule of expenditures of federal awards activity of Southeastern Oklahoma State University is presented on the accrual basis of accounting. The information in this schedule is presented in accordance with the requirements of OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. Therefore, some amounts presented in the schedule may differ from amounts presented in, or used in the preparation of, the basic financial statements.

NOTE B--FEDERAL FAMILY EDUCATION LOAN

The University participates in the Federal Family Education Loan Program (the "FFEL Program"), CFDA number 84.032, which includes the Federal Stafford Loan Program and Federal Parents Loans for Undergraduate Students. The FFEL Program does not require the University to draw down cash; however, the University is required to perform certain administrative functions under the FFEL Program. Failure to perform such functions may require the University to reimburse the loan guarantee agencies.

NOTE C--LOANS OUTSTANDING

The University has \$740,354 in Federal Perkins loans outstanding at June 30, 2009. These loan balances outstanding are not included as federal expenditures in the schedule of expenditures of federal awards. During the year ended June 30, 2009, the University issued Perkins loans totaling \$51,347.

NOTE D--SUB-RECIPIENTS

Of the federal expenditures presented in this schedule, Southeastern Oklahoma State University provided federal awards to sub recipients as follows:

Program	CFDA Number	Sub-recipient	Amount Provided
Small Business Development Center	59.037	East Central University	\$ 127,241
Small Business Development Center	59.037	Northeastern Oklahoma State University	220,303
Small Business Development Center	59.037	Northwestern Oklahoma State University	174,556
Small Business Development Center	59.037	Rose State College	67,423
Small Business Development Center	59.037	Southwestern Oklahoma State University	201,084
Small Business Development Center	59.037	Langston University	62,453
Small Business Development Center	59.037	University of Central Oklahoma	145,024
			\$ 998,084

SCHEDULE OF FINDINGS AND QUESTIONED COSTS

SOUTHEASTERN OKLAHOMA STATE UNIVERSITY

June 30, 2009

**Section I--Summary of Auditors' Results**

*Financial statements*

Type of auditors' report issued: *Unqualified*

Internal control over financial reporting:

- Material weakness(es) identified?  yes  no
- Significant deficiency(ies) identified that are not considered to be material weakness(es)?  yes  none reported

Noncompliance material to financial statements noted?  yes  no

*Federal Awards*

Internal control over major programs:

- Material weakness(es) identified?  yes  no
- Significant deficiency(ies) identified that are not considered to be material weakness(es)?  yes  none reported

Type of auditors' report issued on compliance for major programs: *Unqualified*

Any audit findings disclosed that are required to be reported in accordance with section 510(a) of Circular A-133?  yes  no

Identification of major programs:

<u>Program</u>	<u>CFDA Number</u>
Student Financial Aid Cluster	*
TRIO Cluster	*

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

Dollar threshold used to distinguish between type A and type B programs: \$426,689

Auditee qualified as low-risk auditee?  yes  no

SCHEDULE OF FINDINGS AND QUESTIONED COSTS--Continued

SOUTHEASTERN OKLAHOMA STATE UNIVERSITY

June 30, 2009

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

None to report for the June 30, 2009 period.

**Section III--Finding Required to be Reported in Accordance with OMB Circular A-133:**

None to report for the June 30, 2009 period.

SUMMARY SCHEDULE OF PRIOR AUDIT FINDINGS

SOUTHEASTERN OKLAHOMA STATE UNIVERSITY

June 30, 2009

No matters were reportable.