

**SOUTHEASTERN OKLAHOMA  
STATE UNIVERSITY**

**FINANCIAL REPORT**

**JUNE 30, 2008**

**SOUTHEASTERN OKLAHOMA STATE UNIVERSITY**  
**JUNE 30, 2008**

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## **INDEPENDENT AUDITOR'S 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"), component unit of the State of Oklahoma, as of June 30, 2008 and 2007, and the related statements of revenues, expenses and changes in net assets and cash flows for the years 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 audits.

We conducted our audits 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 discretely presented component unit Southeastern Oklahoma State University Foundation, Inc. were not audited in accordance with *Government Auditing Standards*. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes 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 audits provide a reasonable basis for our opinion.

In our opinion, the June 30, 2008 and 2007 financial statements referred to above present fairly, in all material respects, the respective financial position of Southeastern Oklahoma State University and its discretely presented component unit, Southeastern Oklahoma State University Foundation, Inc. as of June 30, 2008 and 2007, and the respective changes in financial position and, where applicable, cash flows thereof for the years then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued our report dated October 24, 2008 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 important for assessing the results of our audit.

Management's Discussion and Analysis on Pages 3-11 and the Schedules of Funding Progress for the Supplemental Retirement Annuity Plan and for the Other Post-Employment Insurance Benefits Plan on Page 49 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 audits were conducted for the purpose of forming opinions 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 the schedule of expenditures of federal awards is presented for purposes of additional analysis as required by the U.S. Office of Management and Budget Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*, and are 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.

Oklahoma City, Oklahoma  
October 24, 2008

**Southeastern Oklahoma State University**  
**Management's Discussion and Analysis**  
**Fiscal Year Ended June 30, 2008**

## **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, 2008, with selected comparative information for the year ended June 30, 2007. 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 new financial statement format (implemented for the fiscal year ending June 30, 2001) 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 was reduced by \$0.1 million due to the short fall in revenue generated by the Oklahoma lottery that was designated as the revenue source to pay the debt service on the OCIA 2005 Capital Bond Issue. Student tuition and fees increased \$2.1 million by increasing Tuition & Mandatory Fees (9.9% residence and 9.9% non-residence) and the Academic Service Fee for on-line courses by 78%. There was a decrease of \$2.1 million in gifts due primarily with the capital fund raising campaign on the student union project coming to an end. Additional funding of \$2.5 million was raised through debt service by participating in the State Regents Master Lease Program Real Property 2007B series to support the cost of construction on the new General Classroom/Faculty Offices/Parking Lots project.

Eight capital projects totaling \$1.6 million were in the construction phase with five being completed and three still under construction. Completed projects were: renovation to Administrative Building, Science Building, Campus Bookstore; purchase and site preparation parking lot; and the new Tennis Court Complex. Projects still under construction were: renovation Theater Building; new Arena; and renovation McCurtain Branch Campus Chemistry Room. The new General Classroom Building/Faculty Offices/Parking Lot project was at the 75% design stage.

Residential housing occupancy increased by 70 students or 12.6% and room/board rates were increased 15% and 5% respectively. This increased revenue by \$0.5 million.

## Statement of Net Assets

Schedule A is prepared from the University's Statements of Net Assets (page 12) and summarizes the assets, liabilities, and net assets as of June 30, 2008. Comparative data for year ending June 30, 2007 is provided.

**Schedule A**  
**Condensed Statements of Net Assets**  
**June 30, 2008 and 2007**  
**(In Millions)**

	<u>2008</u>	<u>2007</u>	<u>Increase (Decrease)</u>	<u>Percent Change</u>
Current Assets	\$ 2.3	\$ 3.7	\$ (1.4)	-37.8%
Noncurrent Assets				
Capital Assets, Net of Depreciation	52.1	51.3	0.8	1.6%
Other	11.7	10.9	0.8	7.3%
Total Assets	<u>66.1</u>	<u>65.9</u>	<u>0.2</u>	<u>0.3%</u>
Current Liabilities	5.8	8.2	(2.4)	-29.3%
Noncurrent Liabilities	37.8	37.4	0.4	1.1%
Total Liabilities	<u>43.6</u>	<u>45.6</u>	<u>(2.0)</u>	<u>-4.4%</u>
Net Assets				
Investment in Capital Assets	20.9	19.8	1.1	5.6%
Restricted	0.7	0.2	0.5	250.0%
Unrestricted	0.8	0.3	0.5	166.7%
Total Net Assets	<u>\$ 22.4</u>	<u>\$ 20.3</u>	<u>\$ 2.1</u>	<u>10.3%</u>

Total Net Assets increased by \$2.1 million. Cash and cash equivalents decreased by \$1.2 million while Receivable from State agency increased \$1.4 million. Investments held by others decreased \$0.6 million. Source of funds were increased for capital projects through the State Regents Master Lease Program- Real Property by \$2.5 million: 2007B Series – General Classroom/Faculty Offices/Parking Lots. This additional funding increased total Liabilities through lease obligation by \$2.5 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.

Schedule B is prepared from the University's Statements of Revenues, Expenses, and Changes in Net Assets (page 13) is a summary for the year ended June 30, 2008 compared to the year ended June 30, 2007.

**Schedule B**  
**Condensed Statements of Revenues, Expenses and Changes in Net Assets**  
**Years Ended June 30, 2008 and 2007**  
**(In Millions)**

	<u>2008</u>	<u>2007</u>
<b>Operating Revenue</b>		
Student tuition and Fees (net of scholarship allowance of \$5.8 and \$5.1, respectively)	\$ 14.8	\$ 12.7
Federal, State and Local Grants/Contracts	10.5	10.8
Auxiliary	2.8	2.5
Other	<u>1.3</u>	<u>0.9</u>
Total Operating Revenues	<u>29.4</u>	<u>26.9</u>
<b>Operating Expenses</b>		
Compensation and employee benefits	30.7	29.7
Contractual Services	5.5	5.1
Supplies and materials	3.2	4.4
Depreciation	3.1	3.3
Utilities	1.4	1.2
Communication expense	0.3	0.2
Scholarships and fellowships	4.7	4.9
Other operating expense	<u>1.2</u>	<u>1.9</u>
Total Operating Expenses	<u>50.1</u>	<u>50.7</u>
<b>Operating Income (Loss)</b>		
	<u>(20.7)</u>	<u>(23.8)</u>
<b>Nonoperating Revenue (Loss)</b>		
State Appropriations and Other	21.8	23.1
Investment Income	0.4	0.4
Interest Expense	<u>(1.1)</u>	<u>(1.0)</u>
Net Nonoperating Revenue	<u>21.1</u>	<u>22.5</u>
<b>Income (Loss) before Other Revenue/Expense</b>	<u>0.4</u>	<u>(1.3)</u>
<b>Other Revenue/Expenses</b>	<u>1.7</u>	<u>1.9</u>
<b>Change in Net Assets</b>	<u>2.1</u>	<u>0.6</u>
<b>Net Assets, Beginning of Year</b>	<u>20.3</u>	<u>19.7</u>
<b>Net Assets, End of Year</b>	<u>\$ 22.4</u>	<u>\$ 20.3</u>

## *Revenues*

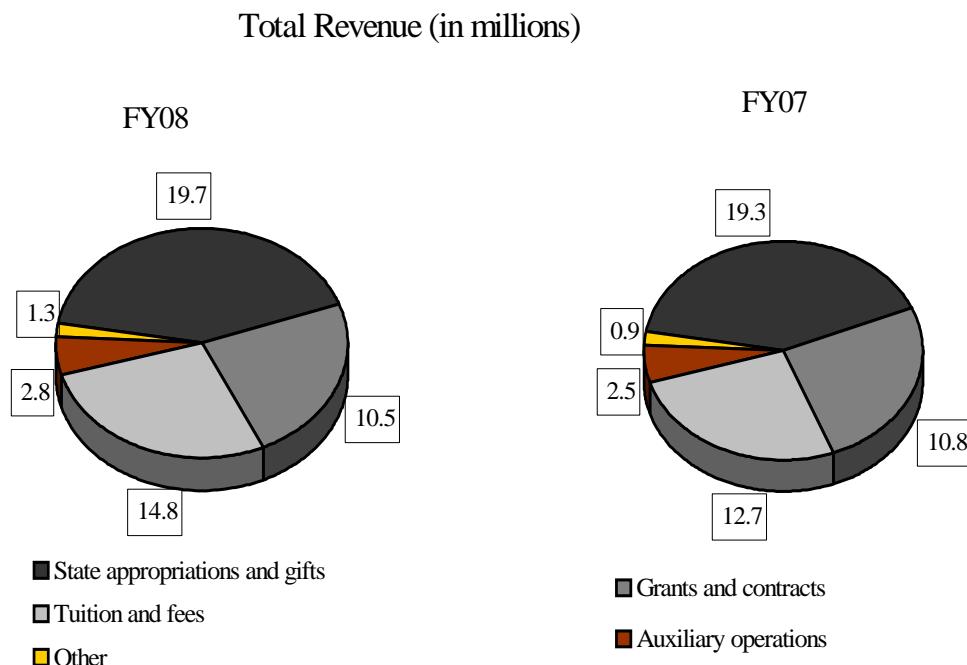
Tuition and fees generated revenue of \$14.8 million in FY2008 and \$12.7 million in FY2007. The increase was due to an increase in Tuition & Mandatory Fees (9.9% residence and 9.9% non-residence) and the Academic Service Fee for on-line courses by 78%.

Grants and Contracts generated revenues of \$10.5 million in FY2008 and \$10.8 million in FY2007. The decrease was due to reduction in Gear-up Program funding.

Auxiliary operations generated revenues of \$2.8 million in FY2008 and \$2.5 million in FY2007. The increase was due to residential occupancy increase of 12.6% and raising room/board rates by 15% and 5% respectively.

State Appropriations & Other generated revenue of \$21.8 million in FY2008 and \$23.1 million in FY2007. State Appropriations increased \$0.4 million, OTRS on behalf contributions increased \$0.4 million, and Gifts deceased \$2.1 million.

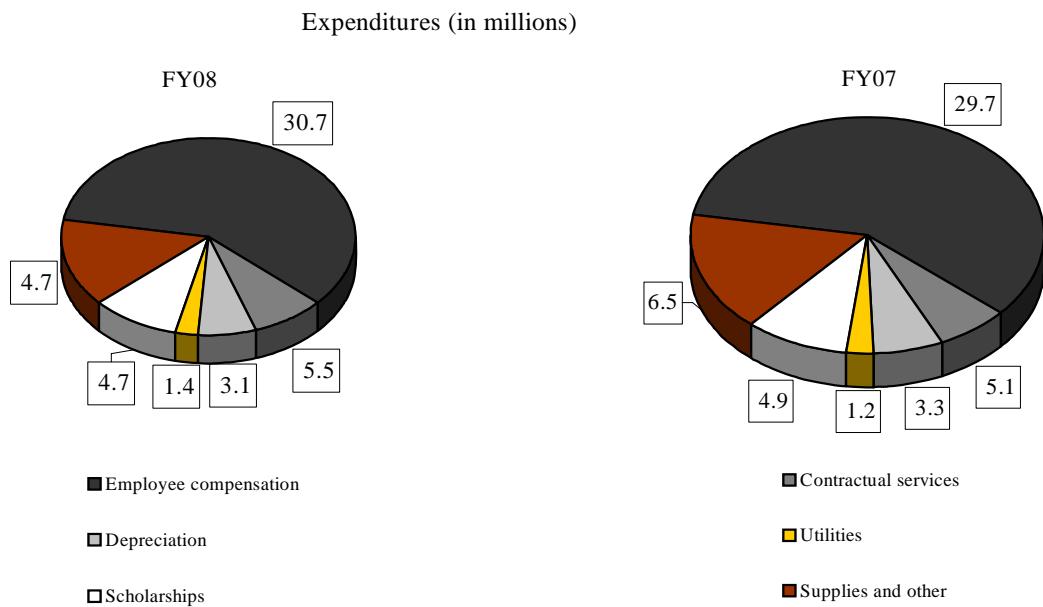
The following is a graphical representation of revenue.



## *Expenses*

Operating expenses decreased \$0.6 million or 1.0%. Increases were Compensation and employee benefits (\$1.0 million) and Contractual Services (\$0.4 million). Decreases were: Supplies and materials (\$1.2 million) and Other operating expenses (\$0.7 million).

The following is a graphic illustration of expenses.



## **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, 2008 compared to the year ended June 30, 2007 and is prepared from the Statements of Cash Flows (page 14).

**Schedule C**  
**Condensed Statements of Cash Flows**  
**Years Ended June 30, 2008 and 2007**  
**(in millions)**

	<u>2008</u>	<u>2007</u>
Cash provided (used) by:		
Operating activities	\$ (16.7)	\$ (17.6)
Noncapital financing activities	19.6	20.1
Investing Activities	1.5	-
Capital and related financing activities	(6.0)	(1.9)
Net decrease in cash	<u>(1.6)</u>	<u>0.6</u>
Cash, beginning of the year	2.5	1.9
Cash, end of the year	<u>\$ 0.9</u>	<u>\$ 2.5</u>

State appropriations are included in noncapital financing activities rather than operating activities. This accounting classification creates the negative \$16.7 million cash used for operating activities in FY2008 as shown in Schedule C.

The decrease in cash is due primarily to funding the increase in construction cost to complete the capital projects.

## **Capital Assets**

At June 30, 2008, the University had approximately \$51.5 million invested in capital assets, net of accumulated depreciation of \$39.4 million. Depreciation charges totaled approximately \$3.1 million for the current fiscal year compared to approximately \$3.3 million for the previous fiscal year. Projects in fiscal year 2008 were: renovation of Administrative Building, Science Building, Theatre Building and Campus bookstore; purchase and site development for parking lot; new Tennis Court Complex; new Arena; and new General Classroom/Faculty Offices/Parking Lots.

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

	June 30	
	2008	2007
Land	\$ 2.5	\$ 2.3
Capitalized Collections	0.3	0.3
Construction in Progress	1.7	0.8
Infrastructure	4.0	4.7
Land Improvements	1.1	1.3
Buildings	40.2	40.4
Furniture, fixtures, and equipment	1.2	1.1
Library materials	0.5	0.4
Totals	<u>\$ 51.5</u>	<u>\$ 51.3</u>

## **Debt**

At year-end, the University had approximately \$38.3 million in debt outstanding compared to \$37.7 million at the end of the previous fiscal year. New debt was issued through the State Regents Master Lease Program-Real Property: 2007B Series – General Classroom/Faculty Offices/Parking Lots (\$2.5 million). The 2002B Series originally for \$650,000 was paid off in FY2007. The table below summarizes these amounts by type.

Outstanding Debt, at Year-End  
(In Millions)

	June 30	
	2008	2007
Revenue Bonds	\$ 7.2	\$ 7.4
OCIA Capital Lease Obligations	11.4	11.8
ODFA Capital Lease Obligations	16.6	15.1
Notes Payable	0.5	0.6
Capital Lease Obligations	2.6	2.8
<b>Totals</b>	<b>\$ 38.3</b>	<b>\$ 37.7</b>

The University's Revenue Bonds were issued in 2004 for \$8 million to construct the new student union. The Oklahoma Capital Bond 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, 2007 and 2008, lease principal and interest payments were made on behalf of the University totaling \$862,677 and \$905,338, 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 VI 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 two months of fiscal year 2009 were more than 11.0% (\$93.5 million) above the first two months of fiscal year 2008 and more than 8.5% (\$74.2 million) above projections. This was due to strong collections from sales taxes and the gross production tax on natural gas. With the ongoing economic downturn of the national and international financial market, the impact to the state's general revenue collections is unknown. This economic crisis will also impact students in their decision to continue or begin their college experience. Enrollment data for fall 2008 reflects a decrease in student credit hours of 2.5%. The administration will focus on: delivering more courses to outreach sites thereby reducing the students travel cost and time; developing more online and hybrid courses to give students more flexibility in managing their schedule; 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.

**SOUTHEASTERN OKLAHOMA STATE UNIVERSITY**  
**STATEMENTS OF NET ASSETS**  
**JUNE 30, 2008 AND 2007**

	<b>University</b>		<b>Component Unit</b>	
	<b>2008</b>	<b>2007</b>	<b>2008</b>	<b>2007</b>
<b><u>Assets</u></b>				
Current assets:				
Cash and cash equivalents	\$ 900,164	\$ 2,141,233	\$ 2,075,871	\$ 1,019,734
Restricted cash and cash equivalents	-	176,213	-	-
Accounts receivable, net	932,491	912,044	51,919	10,688
Interest receivable	1,901	3,749	19,510	19,204
Receivable from state agency	368,361	311,018	-	-
Other assets	-	-	2,729	1,917
Current portion of notes receivable, net	100,000	150,000	-	-
Total current assets	2,302,917	3,694,257	2,150,029	1,051,543
Noncurrent assets:				
Restricted cash and cash equivalents	-	215,490	-	-
Restricted investments	-	-	10,608,093	10,964,155
Investments held by others	976,862	1,560,206	233,264	237,539
Receivable from State agency	8,389,360	6,779,027	-	-
Notes receivable, net	631,538	577,575	392,211	412,257
Prepaid pension asset	1,233,498	1,338,432	-	-
Bond issuance costs	440,238	457,107	-	-
Other assets	-	-	380,728	405,483
Capital assets, net	52,100,294	51,325,522	8,549,657	8,878,019
Total noncurrent assets	63,771,790	62,253,359	20,163,953	20,897,453
Total Assets	66,074,707	65,947,616	22,313,982	21,948,996
<b><u>Liabilities</u></b>				
Current liabilities:				
Accounts payable	1,359,466	4,002,532	199,348	189,397
Accrued payroll	74,052	109,156	-	-
Accrued interest payable	216,417	244,756	44,199	44,845
Deferred revenue	1,217,980	1,050,224	29,624	19,366
Deposits held in custody for others	226,687	461,390	-	-
Other liabilities	137,068	-	-	-
Current portion of non current liabilties	2,598,244	2,325,301	-	-
Total current liabilities	5,829,914	8,193,359	273,171	253,608
Noncurrent liabilities, net of current portion:				
Accrued compensated absences	392,224	427,055	-	-
Federal loan program contributions refundable	758,981	766,500	-	-
Capital lease obligation	13,509,122	14,123,985	-	-
Lease obligation payable to state agency	15,492,417	14,113,174	-	-
Notes payable	442,411	547,786	9,558,366	9,698,105
Revenue bonds payable	6,915,000	7,145,000	-	-
Premium on sale of bonds	292,444	307,210	-	-
Total noncurrent liabilities	37,802,599	37,430,710	9,558,366	9,698,105
Total Liabilities	43,632,513	45,624,069	9,831,537	9,951,713
<b><u>Net Assets</u></b>				
Invested in capital assets, net of related debt	20,878,156	19,817,047	-	-
Restricted				
Unexpended	-	-	12,984,348	12,551,302
Expendable				
Scholarships, instruction and other	(347,763)	(287,473)	-	-
Loans	64,313	144,018	-	-
Capital projects and debt service	1,007,725	418,808	-	-
Unrestricted	839,763	231,147	(501,903)	(554,019)
Total Net Assets	\$ 22,442,194	\$ 20,323,547	\$ 12,482,445	\$ 11,997,283

See accompanying notes

**SOUTHEASTERN OKLAHOMA STATE UNIVERSITY**  
**STATEMENTS OF REVENUES, EXPENSES AND CHANGES IN NET ASSETS**  
**YEARS ENDED JUNE 30, 2008 AND 2007**

	University		Component Unit	
	2008	2007	2008	2007
Operating revenues				
Student tuition and fees, net of scholarship discounts and allowances of \$5,849,278 and \$5,129,860 (Revenues of \$1,026,800 in 2008 and \$828,645 in 2007 are pledged as security on Student Union Series 2003 revenue bonds.)	\$ 14,798,370	\$ 12,689,984	\$ -	\$ -
Federal grants and contracts	9,580,585	9,678,971	-	-
State and local grants and contracts	956,044	1,101,315	-	-
Housing and food service	2,146,150	1,683,408	-	-
Aerospace operations	683,359	761,028	-	-
Interest earned on loans to students	9,334	11,536	-	-
Other operating revenues	1,286,848	937,922	3,248,922	4,182,596
Total operating revenues	<u>29,460,690</u>	<u>26,864,164</u>	<u>3,248,922</u>	<u>4,182,596</u>
Operating expenses				
Compensation and employee benefits	30,618,230	29,728,370	-	-
Contractual services	5,532,912	5,048,940	-	-
Supplies and materials	3,242,684	4,430,538	-	-
Depreciation	3,149,606	3,294,194	308,038	314,194
Utilities	1,382,668	1,219,432	-	-
Communications expense	282,875	258,158	-	-
Scholarships and fellowships	4,716,007	4,871,774	369,990	262,314
Other operating expenses	1,197,674	1,877,853	2,085,732	2,309,916
Total operating expenses	<u>50,122,656</u>	<u>50,729,259</u>	<u>2,763,760</u>	<u>2,886,424</u>
Operating income (loss)	(20,661,966)	(23,865,095)	485,162	1,296,172
Nonoperating revenues (expenses)				
State appropriations	19,700,471	19,289,361	-	-
OTRS on-behalf contributions	1,549,609	1,165,801	-	-
Gifts	602,582	2,687,172	-	-
Investment income	371,990	475,645	-	-
Interest expense	(1,116,847)	(958,524)	-	-
Net nonoperating revenues (expenses)	<u>21,107,805</u>	<u>22,659,455</u>	<u>-</u>	<u>-</u>
Income (loss) before other revenues, expenses, gains and losses	445,839	(1,205,640)	485,162	1,296,172
State appropriations restricted for capital purposes	799,080	1,562,968	-	-
OCIA on-behalf payments	<u>873,728</u>	<u>311,018</u>	<u>-</u>	<u>-</u>
Change in Net Assets	2,118,647	668,346	485,162	1,296,172
Net assets				
Net assets, beginning of year	20,323,547	19,655,201	11,997,283	10,701,111
Net assets, end of year	<u>\$ 22,442,194</u>	<u>\$ 20,323,547</u>	<u>\$ 12,482,445</u>	<u>\$ 11,997,283</u>

See accompanying notes

**SOUTHEASTERN OKLAHOMA STATE UNIVERSITY**  
**STATEMENTS OF CASH FLOWS**  
**YEARS ENDED JUNE 30, 2008 AND 2007**

	<b>2008</b>	<b>2007</b>
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>		
Tuition and fees	\$ 14,680,347	\$ 12,869,897
Grants and contracts	10,588,856	11,016,754
Other operating receipts	4,644,183	3,397,470
Loans made to students	(115,476)	(149,872)
Collections of loans to students	207,199	155,062
Interest received on student loans	172,139	11,536
Payments to employees for salaries and benefits	(28,795,226)	(28,328,133)
Payments to suppliers	(18,119,220)	(16,611,836)
Net cash provided (used) by operating activities	<u>(16,737,198)</u>	<u>(17,639,122)</u>
<b>CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES</b>		
State appropriations	19,475,094	19,289,361
Other student financial assistance received	4,841,473	6,990,850
Payments of other student financial assistance	(4,841,473)	(6,990,850)
Gifts for other than capital purposes	97,066	822,835
Net cash provided (used) by noncapital financing activities	<u>19,572,160</u>	<u>20,112,196</u>
<b>CASH FLOWS FROM INVESTING ACTIVITIES</b>		
Net (increase) decrease in investments held with others	583,344	(485,176)
Interest income received	957,182	475,645
Net cash provided (used) by investing activities	<u>1,540,526</u>	<u>(9,531)</u>
<b>CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES</b>		
Cash paid for fixed assets	(5,094,016)	(6,121,885)
Capital appropriations received	1,024,457	1,194,886
Interest paid	(1,459,705)	(796,738)
Proceeds from capital debt and leases	889,667	5,277,362
Repayments of capital debt and leases	(1,368,663)	(1,404,640)
Net cash provided (used) by capital and related financing activities	<u>(6,008,260)</u>	<u>(1,851,015)</u>
Net increase (decrease) in cash and cash equivalents	(1,632,772)	612,528
Cash and cash equivalents, beginning of year	<u>2,532,936</u>	<u>1,920,408</u>
Cash and cash equivalents, end of year	<u>\$ 900,164</u>	<u>\$ 2,532,936</u>

See accompanying notes

**SOUTHEASTERN OKLAHOMA STATE UNIVERSITY**  
**STATEMENTS OF CASH FLOWS**  
**YEARS ENDED JUNE 30, 2008 AND 2007**

	<b>2008</b>	<b>2007</b>
<b>RECONCILIATION OF OPERATING LOSS TO NET CASH USED IN OPERATING ACTIVITIES</b>		
Operating loss	\$ (20,661,966)	\$ (23,865,095)
Adjustments to reconcile operating loss to net cash used by operating activities		
Depreciation expense	3,149,606	3,294,194
Loss on disposal of assets	823	25,659
On-behalf contributions to teachers' retirement system	1,549,609	1,165,801
Changes in assets and liabilities		
Accounts receivable	(114,142)	373,057
Student loans	(3,963)	73,584
Prepaid pension asset	104,934	239,940
Accounts payable and student deposits	(953,729)	1,005,587
Accrued payroll	(35,104)	(35,295)
Deferred revenues	167,756	86,829
Compensated absences	66,497	63,680
Federal loan program contributions refundable	(7,519)	(67,063)
Net cash provided (used) by operating activities	<u>\$ (16,737,198)</u>	<u>\$ (17,639,122)</u>
<b>NONCASH INVESTING, NONCAPITAL FINANCING AND RELATED FINANCING ACTIVITIES</b>		
Interest on capital debt paid by state agency on behalf of the University	\$ 239,832	\$ 222,673
Principal on capital debt paid by state agency on behalf of the University	633,896	88,345
Total Noncash investing, noncapital financing and related financing activities	<u>\$ 873,728</u>	<u>\$ 311,018</u>
<b>RECONCILIATION OF CASH AND CASH EQUIVALENTS TO STATEMENTS OF NET ASSETS</b>		
Current assets		
Cash and cash equivalents	\$ 900,164	\$ 2,141,233
Restricted cash and cash equivalents	-	176,213
Noncurrent assets		
Restricted cash and cash equivalents	-	215,490
Total cash and cash equivalents	<u>\$ 900,164</u>	<u>\$ 2,532,936</u>

See accompanying notes

**SOUTHEASTERN OKLAHOMA STATE UNIVERSITY**  
**NOTES TO FINANCIAL STATEMENTS**  
**JUNE 30, 2008**

**I. 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 unit of the 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 Unit:** 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 Statements 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.

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.

**SOUTHEASTERN OKLAHOMA STATE UNIVERSITY**  
**NOTES TO FINANCIAL STATEMENTS**  
**JUNE 30, 2008**

**I. Summary of Significant Accounting Policies (continued)**

**Changes in Accounting Principles:** The University adopted the provisions of Governmental Accounting Standards Board (GASB) Statement Number 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.

**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 is 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.

**SOUTHEASTERN OKLAHOMA STATE UNIVERSITY**  
**NOTES TO FINANCIAL STATEMENTS**  
**JUNE 30, 2008**

**I. Summary of Significant Accounting Policies (continued)**

**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.

*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.

**SOUTHEASTERN OKLAHOMA STATE UNIVERSITY**  
**NOTES TO FINANCIAL STATEMENTS**  
**JUNE 30, 2008**

**I. Summary of Significant Accounting Policies (continued)**

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

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

*Operating revenues:* Operating revenues include activities that have the characteristics of exchange transactions, such as (1) student tuition and fees, net of scholarship discounts and allowances, (2) sales and services of auxiliary enterprises, net of scholarship discounts and allowances, (3) most federal, state and local 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 and investment income.

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

**Southeastern Foundation, Inc.**

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.

**SOUTHEASTERN OKLAHOMA STATE UNIVERSITY**  
**NOTES TO FINANCIAL STATEMENTS**  
**JUNE 30, 2008**

**I. Summary of Significant Accounting Policies (continued)**

**Southeastern Foundation, Inc.**

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.

**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.

**SOUTHEASTERN OKLAHOMA STATE UNIVERSITY**  
**NOTES TO FINANCIAL STATEMENTS**  
**JUNE 30, 2008**

**I. Summary of Significant Accounting Policies (continued)**

**Southeastern Foundation, Inc.**

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 Southeastern 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 in which a written or oral agreement to contribute cash, investments or other assets is received.

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.

Effective July 1, 1996, the Foundation changed its method of accounting for investment securities to a market value method in accordance with the requirements of the Financial Accounting Standards Board's Statement of Financial Accounting Standards No. 124, *Accounting for Certain Investments Held By Not-For-Profit Organizations*. This pronouncement requires investment securities with readily determinable market value information to be adjusted to market value with realized and unrealized appreciation and/or depreciation on investments to be recorded in the statement of activities and changes in net assets. The net unrealized and realized gains associated with investments are recorded as increases in the funds per Foundation Board Policy. This is shown in the Statement of Activities under Market Valuation - Investments and Net Realized Gains (Losses) on Sale of Investments.

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. The Foundation follows the policy of capitalizing all expenditures for property in excess of \$2,500.

**SOUTHEASTERN OKLAHOMA STATE UNIVERSITY  
NOTES TO FINANCIAL STATEMENTS  
JUNE 30, 2008**

**I. Summary of Significant Accounting Policies (continued)**

**Southeastern Foundation, Inc.**

**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.

**II. 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, 2008 and 2007, the carrying amounts of all University deposits with the OST and other financial institutions were \$900,164 and \$911,139, respectively. These amounts consisted of deposits with the OST (\$889,985 and \$892,784), unremitted collections by a third party (\$3,589 and \$11,765) and change funds (\$6,590 and \$6,590). Of funds on deposit with the OST, amounts invested in *OK INVEST* total \$496,578 in 2008 and \$513,031 in 2007.

**SOUTHEASTERN OKLAHOMA STATE UNIVERSITY**  
**NOTES TO FINANCIAL STATEMENTS**  
**JUNE 30, 2008**

**II. Deposits and Investments (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:

<i>OK INVEST</i> Portfolio	Cost	Market Value
U.S. Agency securities	\$ 232,972	\$ 238,060
Money market mutual fund	33,550	33,550
Certificates of deposit	40,588	40,588
Tri-party repurchase agreements	33,666	33,666
Mortgage backed agency securities	85,391	84,744
Foreign bonds	1,017	1,007
U. S. Treasury Obligations	69,394	71,631
<b>Totals</b>	<b>\$ 496,578</b>	<b>\$ 503,246</b>

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 it's 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 270 days.

Participants in *OK INVEST* maintain an interest in it's 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.

**SOUTHEASTERN OKLAHOMA STATE UNIVERSITY**  
**NOTES TO FINANCIAL STATEMENTS**  
**JUNE 30, 2008**

**II. Deposits and Investments (continued)**

*Investments*

Investment **credit risk** is the risk that an issuer or other counterparty to an investment will not fulfill its obligations. Generally, the University's investments are managed by the State Treasurer. In accordance with state statutes the State Treasurer may only purchase and invest in (a) obligations of the United States government, its agencies and instrumentalities; (b) prime banker's acceptances; (c) investment grade obligations of state and local governments; (d) money market funds; (e) collateralized or insured certificates of deposits; (f) negotiable certificates of deposits; (g) prime commercial paper; and (h) repurchase agreements. **Interest rate risk** is the risk that changes in interest rates will adversely affect the fair value of an investment. Investments that are held for longer periods of time are subject to increased risk of adverse interest changes. Neither the University nor state statutes limit investment maturities as a means of managing exposure to fair value losses arising from increasing interest rates; however, the OST Investment Policy limits the average maturity on its portfolio to four (4) years, with certain individual securities having more restrictive limits as defined in the policy. **Concentration of credit risk** is the risk of loss attributed to the magnitude of the University's investment in a single issuer. Neither the University's investment policy nor state statutes place limits on amounts that can be invested in any one issuer; however, the OST Investment Policy states that, with the exception of U.S. Treasury securities, no more than 50% of the State's total funds may be invested in a single security type or with a single financial institution, with diversification percentages being more restrictive on individual securities. **Custodial credit risk** for investments is the risk that, in the event of the 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, 2006 and 2005, none of the University's investments were subject to custody credit risk.

At June 30, 2008 and 2007, the University had investments in money market funds totaling \$976,862 and \$1,560,206, respectively as part of the OFDA Lease program. These funds had a fair market value of \$976,862 at June 30, 2008. 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, 2008 according to Standard and Poor's.

*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.

**SOUTHEASTERN OKLAHOMA STATE UNIVERSITY**  
**NOTES TO FINANCIAL STATEMENTS**  
**JUNE 30, 2008**

**II. Deposits and Investments (continued)**

At June 30, 2008 and 2007, the University had no cash and investments in restricted bond funds.

**Southeastern Foundation, Inc.**

*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 \$100,000. At June 30, 2007, the Foundation had approximately \$204,370 in excess of FDIC insured limits.

*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, 2008 and 2007, as quoted on major stock exchanges or over-the-counter markets.

**SOUTHEASTERN OKLAHOMA STATE UNIVERSITY**  
**NOTES TO FINANCIAL STATEMENTS**  
**JUNE 30, 2008**

**II. Deposits and Investments (continued)**

**Southeastern Foundation, Inc.**

The following tabulation summarizes the relationship between carrying values and market values of investment assets for June 30, 2008:

	Cost	Market	Carrying value
Certificates of Deposit	\$ 199,255	\$ 199,255	\$ 199,255
U.S. Government Securities	3,115,063	3,098,709	3,098,709
Common Stock	4,858,060	3,699,507	3,699,507
Corporate Bonds	445,375	447,341	447,341
Mutual Funds	3,054,192	3,163,281	3,163,281
	<u>\$ 11,671,945</u>	<u>\$ 10,608,093</u>	<u>\$ 10,608,093</u>

Investment income is summarized as follows:

Interest	\$ 240,508
Dividends	220,178
Realized an unrealized gain or (loss) on investments	(515,244)
	<u>\$ (54,558)</u>

The following tabulation summarizes the relationship between carrying values and market values of investment assets for June 30, 2007:

	Cost	Market	Carrying value
Certificates of Deposit	\$ 186,406	\$ 186,348	\$ 186,348
U.S. Government Securities	3,467,402	3,389,055	3,389,055
Common Stock	1,509,784	3,331,397	3,331,397
Corporate Bonds	502,244	499,121	499,121
Mutual Funds	4,326,889	3,558,234	3,558,234
	<u>\$ 9,992,725</u>	<u>\$ 10,964,155</u>	<u>\$ 10,964,155</u>

Investment income is summarized as follows:

Interest	\$ 185,057
Dividends	159,533
Realized an unrealized gain or (loss) on investments	1,141,280
	<u>\$ 1,485,870</u>

**SOUTHEASTERN OKLAHOMA STATE UNIVERSITY**  
**NOTES TO FINANCIAL STATEMENTS**  
**JUNE 30, 2008**

**II. Deposits and Investments (continued)**

**Southeastern Foundation, Inc.**

The Foundation also has investments held on its behalf by the Oklahoma State Regents for Higher Education (the “Regents”). Those investments totaled \$233,264 and \$237,539 as of June 30, 2008 and 2007 respectively. The foundation has no authority or control over how the monies are invested. The Regents determine the allocation percentage for distribution. Distribution of the earnings is specifically for the activities associated with the endowment program and may not be used for general operations and programs of the foundation. These funds were transferred from the Foundation to the Regents and the Foundation may request a return of principal at any time.

**III. Accounts Receivable**

Accounts receivable consisted of the following at June 30, 2008 and 2007:

	<u>2008</u>	<u>2007</u>
Student tuition and fees	\$ 1,016,238	\$ 774,444
Auxiliary enterprises and other operating activities	204,119	251,422
Federal, state, and private grants and contracts	396,910	367,429
Other receivables	-	93,695
	<u>1,617,267</u>	<u>1,486,990</u>
Less allowance for doubtful accounts	(684,776)	(574,946)
Net accounts receivable	<u>\$ 932,491</u>	<u>\$ 912,044</u>

**Southeastern Foundation, Inc.**

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 \$25,401 and \$37,640 for the years ended June 30, 2008 and 2007 respectively.

**IV. Notes Receivable**

Student loans made through the Federal Perkins Loan Program (the “Program”) comprise substantially all of the loans receivable at June 30, 2008 and 2007. 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 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 approximately \$758,981 and \$766,500 at June 30, 2008 and 2007, respectively, are reflected in the accompanying statements of net assets as noncurrent liabilities.

**SOUTHEASTERN OKLAHOMA STATE UNIVERSITY**  
**NOTES TO FINANCIAL STATEMENTS**  
**JUNE 30, 2008**

**IV. Notes Receivable (continued)**

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, 2008 and 2007, loans receivable consisted of the following:

	2008	2007
Perkins loans receivable	\$ 839,724	\$ 839,902
Other loans receivable	6,346	2,650
Less allowance for uncollectible loans	(114,532)	(114,977)
Loans receivable, net	<u><u>\$ 731,538</u></u>	<u><u>\$ 727,575</u></u>

**Southeastern Foundation, Inc.**

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

	2008 Carrying Value	2007 Carrying Value
Note receivable from related party, 6% interest due in annual installments. Secured by real estate	\$ 362,295	\$ 380,000
Note receivable from a general partnership, 6.5% monthly instalments of \$364. Secured by a mortgage on real estate.	29,916	32,257
	<u><u>\$ 392,211</u></u>	<u><u>\$ 412,257</u></u>

**SOUTHEASTERN OKLAHOMA STATE UNIVERSITY**  
**NOTES TO FINANCIAL STATEMENTS**  
**JUNE 30, 2008**

**V. Capital Assets**

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	\$ 2,339,295	\$ -	\$ 146,671	\$ -	\$ 2,485,966
Capitalized collections	259,300	-	-	-	259,300
Construction in-progress	803,532	3,036,565	(1,529,439)	-	2,310,658
Total capital assets not being depreciated	<u>\$ 3,402,127</u>	<u>\$ 3,036,565</u>	<u>\$ (1,382,768)</u>	<u>\$ -</u>	<u>\$ 5,055,924</u>
Other capital assets					
Non-major infrastructure networks	\$ 7,458,564	\$ -	\$ 37,129	\$ -	\$ 7,495,693
Land improvements	2,622,682	-	-	-	2,622,682
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	6,316,187	236,899	-	(8,505)	6,544,581
Total other capital assets	<u>84,625,280</u>	<u>888,637</u>	<u>1,382,768</u>	<u>(448,447)</u>	<u>86,448,238</u>
Less accumulated depreciation for					
Non-major infrastructure networks	(2,807,932)	(625,004)	-	-	(3,432,936)
Land improvements	(1,313,147)	(175,937)	-	-	(1,489,084)
Buildings	(20,228,277)	(1,588,032)	-	-	(21,816,309)
Furniture, fixtures and equipment	(6,487,226)	(531,460)	439,942	-	(6,578,744)
Library materials	(5,865,303)	(229,174)	7,682	-	(6,086,795)
Total accumulated depreciation	<u>(36,701,885)</u>	<u>(3,149,607)</u>	<u>447,624</u>	<u>-</u>	<u>(39,403,868)</u>
Other capital assets, net	<u>\$ 47,923,395</u>	<u>\$ (2,260,970)</u>	<u>\$ 1,830,392</u>	<u>\$ (448,447)</u>	<u>\$ 47,044,370</u>
Capital asset summary:					
Capital assets not being depreciated	\$ 3,402,127	\$ 3,036,565	\$ (1,382,768)	\$ -	\$ 5,055,924
Other capital assets, at cost	84,625,280	888,637	1,382,768	(448,447)	86,448,238
Total cost of capital assets	<u>88,027,407</u>	<u>3,925,202</u>	<u>-</u>	<u>(448,447)</u>	<u>91,504,162</u>
Less accumulated depreciation	(36,701,885)	(3,149,607)	447,624	-	(39,403,868)
Capital assets, net	<u>\$ 51,325,522</u>	<u>\$ 775,595</u>	<u>\$ 447,624</u>	<u>\$ (448,447)</u>	<u>\$ 52,100,294</u>

At June 30, 2008, the cost and related accumulated depreciation of assets held under capital lease obligations was as follows.

	Construction in process					Infrastructure	Improvements	Buildings	Equipment	Total
Cost	\$ 5,872,699	\$ 5,032,101	\$ 574,433	\$ 13,830,461	\$ 1,465,445	\$ 26,775,139				
Less accumulated depreciation	-	(1,824,344)	(184,639)	(1,470,047)	(1,465,445)	(4,944,475)				
Total	<u>\$ 5,872,699</u>	<u>\$ 3,207,757</u>	<u>\$ 389,794</u>	<u>\$ 12,360,414</u>	<u>\$ -</u>	<u>\$ 21,830,664</u>				

**SOUTHEASTERN OKLAHOMA STATE UNIVERSITY**  
**NOTES TO FINANCIAL STATEMENTS**  
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**V. Capital Assets (continued)**

Following are the changes in capital assets for the year ended June 30, 2007:

	Balance June 30, 2006	Additions	Transfers	Retirements/ Adjustments	Balance June 30, 2007
Capital assets not being depreciated					
Land	\$ 2,160,101	\$ -	\$ 179,194	\$ -	\$ 2,339,295
Capitalized collections	259,300	-	-	-	259,300
Construction in-progress	16,063,525	8,494,350	(23,754,343)	-	803,532
Total capital assets not being depreciated	<u>\$ 18,482,926</u>	<u>\$ 8,494,350</u>	<u>\$ (23,575,149)</u>	<u>\$ -</u>	<u>\$ 3,402,127</u>
Other capital assets					
Non-major infrastructure networks	\$ 5,774,139	\$ -	\$ 1,684,425	\$ -	\$ 7,458,564
Land improvements	1,712,175	-	910,507	-	2,622,682
Buildings	39,652,790	-	20,980,217	-	60,633,007
Furniture, fixtures and equipment	6,834,779	760,061	-	-	7,594,840
Library materials	6,106,828	219,830	-	(10,471)	6,316,187
Total other capital assets	<u>60,080,711</u>	<u>979,891</u>	<u>23,575,149</u>	<u>(10,471)</u>	<u>84,625,280</u>
Less accumulated depreciation for					
Non-major infrastructure networks	(2,062,076)	(745,856)	-	-	(2,807,932)
Land improvements	(1,134,810)	(178,337)	-	-	(1,313,147)
Buildings	(18,648,426)	(1,579,851)	-	-	(20,228,277)
Furniture, fixtures and equipment	(5,960,066)	(527,160)	-	-	(6,487,226)
Library materials	(5,609,978)	(264,045)	-	8,720	(5,865,303)
Total accumulated depreciation	<u>(33,415,356)</u>	<u>(3,295,249)</u>	<u>-</u>	<u>8,720</u>	<u>(36,701,885)</u>
Other capital assets, net	<u>\$ 26,665,355</u>	<u>\$ (2,315,358)</u>	<u>\$ 23,575,149</u>	<u>\$ (1,751)</u>	<u>\$ 47,923,395</u>
Capital asset summary:					
Capital assets not being depreciated	\$ 18,482,926	\$ 8,494,350	\$ (23,575,149)	\$ -	\$ 3,402,127
Other capital assets, at cost	60,080,711	979,891	23,575,149	(10,471)	84,625,280
Total cost of capital assets	<u>78,563,637</u>	<u>9,474,241</u>	<u>-</u>	<u>(10,471)</u>	<u>88,027,407</u>
Less accumulated depreciation	(33,415,356)	(3,295,249)	-	8,720	(36,701,885)
Capital assets, net	<u>\$ 45,148,281</u>	<u>\$ 6,178,992</u>	<u>\$ -</u>	<u>\$ (1,751)</u>	<u>\$ 51,325,522</u>

At June 30, 2007, the cost and related accumulated depreciation of assets held under capital lease obligations was as follows.

	Construction in process	Infrastructure	Improvements	Buildings	Equipment	Total
Cost	\$ 453,573	\$ 5,032,101	\$ 574,433	\$ 13,830,461	\$ 1,465,445	\$ 21,356,013
Less accumulated depreciation	-	(1,321,134)	(127,196)	(1,124,285)	(1,465,445)	(4,038,060)
Total	<u>\$ 453,573</u>	<u>\$ 3,710,967</u>	<u>\$ 447,237</u>	<u>\$ 12,706,176</u>	<u>\$ -</u>	<u>\$ 17,317,953</u>

**SOUTHEASTERN OKLAHOMA STATE UNIVERSITY**  
**NOTES TO FINANCIAL STATEMENTS**  
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**V. Capital Assets (continued)**

**Southeastern Foundation, Inc.**

Property and equipment at June 30, 2008 and 2007 consisted of the following:

	2008	2007
Building	\$ 9,165,787	\$ 9,186,112
Furniture and Fixtures	397,395	397,395
	<hr/>	<hr/>
	9,563,182	9,583,507
Less: Accumulated depreciation	(1,013,525)	(705,488)
	<hr/>	<hr/>
	\$ 8,549,657	\$ 8,878,019

**VI. Long-term Liabilities**

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	2,789,909	-	(149,712)	2,640,197	156,105
Total bonds and capital leases	<hr/> 37,683,831	<hr/> 2,500,000	<hr/> (1,899,374)	<hr/> 38,284,457	<hr/> 1,925,508
Other liabilities					
Federal loan program contributions	766,500	-	(7,519)	758,981	-
Accrued compensated absences	998,463	706,388	(639,891)	1,064,960	672,736
Total other liabilities	<hr/> 1,764,963	<hr/> 706,388	<hr/> (647,410)	<hr/> 1,823,941	<hr/> 672,736
Total long-term liabilities	<hr/> <b>\$ 39,448,794</b>	<hr/> <b>\$ 3,206,388</b>	<hr/> <b>\$ (2,546,784)</b>	<hr/> <b>\$ 40,108,398</b>	<hr/> <b>\$ 2,598,244</b>

**SOUTHEASTERN OKLAHOMA STATE UNIVERSITY**  
**NOTES TO FINANCIAL STATEMENTS**  
**JUNE 30, 2008**

**VI. Long-term Liabilities (continued)**

Long-term liability activity for the year ended June 30, 2007 was as follows:

	Balance June 30, 2006	Additions	Reductions	Balance June 30, 2007	Amounts due within one year
Bonds payable and capital lease obligations					
Revenue bonds payable	\$ 7,585,000	\$ -	\$ (215,000)	\$ 7,370,000	225,000
OCIA Leases	11,877,445	-	(88,345)	11,789,100	305,312
ODFA Leases	12,695,667	3,391,000	(979,549)	15,107,118	993,951
Notes payable	689,917	-	(62,213)	627,704	79,918
Capital lease obligation	3,000,000	-	(210,091)	2,789,909	149,712
Total bonds and capital leases	<u>35,848,029</u>	<u>3,391,000</u>	<u>(1,555,198)</u>	<u>37,683,831</u>	<u>1,753,893</u>
Other liabilities					
Federal loan program contributions	833,563	-	(67,063)	766,500	-
Accrued compensated absences	934,783	676,724	(613,044)	998,463	571,408
Total other liabilities	<u>1,768,346</u>	<u>676,724</u>	<u>(680,107)</u>	<u>1,764,963</u>	<u>571,408</u>
Total long-term liabilities	<u><u>\$ 37,616,375</u></u>	<u><u>\$ 4,067,724</u></u>	<u><u>\$ (2,235,305)</u></u>	<u><u>\$ 39,448,794</u></u>	<u><u>\$ 2,325,301</u></u>

**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 November 1 and May 1 of each year.

At June 30, 2008, future maturities of principal and interest on the Bonds payable are as follows:

Years Ending June 30:	Principal	Interest	Total
2009	\$ 230,000	\$ 294,971	\$ 524,971
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
2014-2018	1,450,000	1,180,846	2,630,846
2019-2023	325,000	958,906	1,283,906
2024-2028	1,835,000	615,606	2,450,606
2029	<u>2,305,000</u>	<u>106,606</u>	<u>2,411,606</u>
	<u><u>\$ 7,145,000</u></u>	<u><u>\$ 4,264,759</u></u>	<u><u>\$ 11,409,759</u></u>

**SOUTHEASTERN OKLAHOMA STATE UNIVERSITY**  
**NOTES TO FINANCIAL STATEMENTS**  
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**VI. 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, 2008, the University has drawn down all of the \$1,750,000 and \$200,245 of its total allotment, for expenditures incurred in connection with specified projects. These expenditures have been capitalized as capital assets (buildings 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. 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, 2008 and 2007, the unamortized bond issuance costs totaled \$1,196 and \$1,302, respectively.

During the years ended June 30, 2008 and 2007, OCIA made lease principal and interest payments totaling \$155,207 and \$139,314, 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 For Higher Education allocated \$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.

Through June 30, 2008, the University has drawn down \$5,510,766 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. 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.

**SOUTHEASTERN OKLAHOMA STATE UNIVERSITY**  
**NOTES TO FINANCIAL STATEMENTS**  
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**VI. Long-term Liabilities (continued)**

During the year ended June 30, 2008 and 2007, OCIA made principal and interest payments totaling \$707,470 and \$766,024, 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 changes in net assets.

*Oklahoma Development Finance Authority Master Lease Program*

In December 2001, the Oklahoma Development Finance Authority (“ODFA”) issued the Oklahoma State System of Higher Education Master Lease Revenue Bonds, Series 2001C. Of the total bond indebtedness, the State Regents for Higher Education allocated \$692,000 to the University. The proceeds of the bonds were used to purchase capital equipment for the University. Debt service reserve funds totaling \$69,200 and \$69,200 at June 30, 2008 and 2007, respectively, are maintained with a trustee bank.

In April 2002, ODFA issued the Oklahoma State System of Higher Education Master Lease Revenue Bonds, Series 2002A. Of the total bond indebtedness, the State Regents for Higher Education allocated \$213,000 to the University. The proceeds of the bonds are to provide for capital improvements at the University. Debt service reserve funds totaling \$21,300 and \$21,300 at June 30, 2008 and 2007, respectively, are maintained with a trustee bank.

In August 2002, ODFA issued the Oklahoma State System of Higher Education Master Lease Revenue Bonds, Series 2002B. Of the total bond indebtedness, the State Regents for Higher Education allocated \$735,000 to the University. The proceeds of the bonds are to provide for capital improvements at the University. Debt service reserve funds totaling \$0 at June 30, 2008 and 2007, respectively, are maintained with a trustee bank.

In December 2002, ODFA issued the Oklahoma State System of Higher Education Master Lease Revenue Bonds, Series 2002C. Of the total bond indebtedness, the State Regents for Higher Education allocated \$8,235,000 to the University. The proceeds of the bonds are to provide for capital improvements at the University. Debt service reserve funds totaling \$750,807 and \$750,807 at June 30, 2008 and 2007, respectively, are maintained with a trustee bank.

In May 2003, ODFA issued the Oklahoma State System of Higher Education Master Lease Revenue Bonds, Series 2003A. Of the total bond indebtedness, the State Regents for Higher Education allocated \$1,732,000 to the University. The proceeds of the bonds are to provide for capital improvements at the University. Debt service reserve funds totaling \$135,554 and \$135,554 at June 30, 2008 and 2007, respectively, are maintained with a trustee bank.

In May 2003, ODFA issued the Oklahoma State System of Higher Education Master Lease Revenue Bonds, Series 2003B. Of the total bond indebtedness, the State Regents for Higher Education allocated \$250,000 to the University. The proceeds of the bonds are to provide for capital improvements at the University. Debt service reserve funds totaling \$18,795 and \$18,795 at June 30, 2008 and 2007, respectively, are maintained with a trustee bank.

**SOUTHEASTERN OKLAHOMA STATE UNIVERSITY**  
**NOTES TO FINANCIAL STATEMENTS**  
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**VI. Long-term Liabilities (continued)**

In December 2004, ODFA issued the Oklahoma State System of Higher Education Master Lease Revenue Bonds, Series 2004C. Of the total bond indebtedness, the State Regents for Higher Education allocated \$3,563,000 to the University. The proceeds of the bonds are to provide for capital improvements at the University.

*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, 2008, the University had drawn down \$3,000,000. This capital lease was obtained to make building improvements.

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

Years Ending June 30:	Principal	Interest	Total
2009	\$ 1,590,133	\$ 1,185,732	\$ 2,775,865
2010	1,657,325	1,146,563	2,803,888
2011	1,715,314	1,100,008	2,815,322
2012	1,743,010	1,072,560	2,815,570
2013	1,746,639	1,004,886	2,751,525
2014-2018	8,652,441	4,124,642	12,777,083
2019-2023	8,510,079	2,340,322	10,850,401
2024-2028	3,514,282	874,900	4,389,182
2029-2030	1,462,448	110,067	1,572,515
	<u>\$ 30,591,671</u>	<u>\$ 12,959,680</u>	<u>\$ 43,551,351</u>

Notes payable

*Southeastern Foundation, Inc*

The University financed the purchase of real estate from the Southeastern Foundation, Inc. with a note payable to the Foundation. The purchase price and note amount is \$380,000 with an interest rate of 6% and a term of ten years.

*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.

**SOUTHEASTERN OKLAHOMA STATE UNIVERSITY**  
**NOTES TO FINANCIAL STATEMENTS**  
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**VI. Long-term Liabilities (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.

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

Year Ending June 30,	Principal	Interest	Total
2009	\$ 105,375	\$ 33,000	\$ 138,375
2010	107,965	27,411	135,376
2011	60,710	21,666	82,376
2012	63,620	18,755	82,375
2013	66,704	15,671	82,375
2014-2016	143,412	21,338	164,750
	<hr/> <u>\$ 547,786</u>	<hr/> <u>\$ 137,841</u>	<hr/> <u>\$ 685,627</u>

**Southeastern Foundation, Inc.**

*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 will commence in October 2006.

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

Year Ending June 30,	Total
2009	\$ 157,967
2010	167,087
2011	176,734
2012	186,937
2013	196,806
Thereafter	<hr/> <u>8,672,835</u>
	<hr/> <u>\$ 9,558,366</u>

**SOUTHEASTERN OKLAHOMA STATE UNIVERSITY**  
**NOTES TO FINANCIAL STATEMENTS**  
**JUNE 30, 2008**

**VI. Long-term Liabilities (continued)**

*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 \$20,536 for the year ended June 30, 2008 and amortization expense and accumulated amortization were \$6,156 and \$14,380 for the year ended June 30, 2007.

**VII. 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 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.

*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 member. The employer contribution rate of 7.05% for 2008, 2007 and 2006, respectively, 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 2008, 2007 and 2006, respectively. For compensation in excess of \$25,000, the employee's contributions are paid directly by the University to the OTRS.

**SOUTHEASTERN OKLAHOMA STATE UNIVERSITY**  
**NOTES TO FINANCIAL STATEMENTS**  
**JUNE 30, 2008**

**VII. Retirement Plans (continued)**

The University's contributions to the OTRS for the years ended June 30, 2008, 2007, and 2006, were approximately \$2,475,369, \$2,338,568, and \$2,125,985, respectively, equal to the required contributions for each year. These contributions included the University's statutory contribution and the share of the employee's contribution paid directly by the University.

The State of Oklahoma is also required to contribute to the OTRS on behalf of the participating employers. For 2008, the State of Oklahoma contributed 3.54% of the State's General Revenue Fund 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, 2008 and 2007, the total amounts contributed to the OTRS by the State of Oklahoma on behalf of the University were approximately \$1,549,609 and \$1,371,531, respectively. These on-behalf payments have been recorded as both revenues and expenses in the statements of revenues, expenses and changes in net assets.

*Teachers' Insurance and Annuity Association (TIAA)*

For all eligible, full-time employees enrolled in the OTRS and who have attained twenty-three (23) years of age, the University contributes to the TIAA, a defined contribution pension plan administered by the University's Board of Regents. If the employee was hired prior to July 1, 2001, the amount contributed by the University is vested immediately. Employees hired after July 1, 2001 are subject to a one year vesting requirement for this benefit. Benefit provisions and contribution requirements are contained in the Plan document and were established and can be amended by action of the University's Board of Regents. During the year ended June 30, 2004, the Board of Regents voted to discontinue the University's mandatory contributions to the plan, allowing them instead to either contribute to the plan or use those funds for employee salary increases. The University's contribution rate for the year ended June 30, 2008 and 2007 was 4.0% of an eligible employee's annual base salary (as defined in the Plan document). Eligible employees are not required to make contributions to the defined contribution plan. Contributions made by the University during the years ended June 30, 2008 and 2007, were approximately \$669,657 and \$790,172, respectively. These amounts are included as a component of compensation and benefit expense in the statements of revenues, expenses and changes in net assets.

**SOUTHEASTERN OKLAHOMA STATE UNIVERSITY**  
**NOTES TO FINANCIAL STATEMENTS**  
**JUNE 30, 2008**

**VII. Retirement Plans (continued)**

*Supplemental Retirement Annuity (SRA)*

Plan Description

The University's SRA plan is a single employer, defined benefit pension plan administered by the University's Board of Regents. The SRA was established by the University's Board of Regents to provide supplemental retirement and death benefits to University employees who were hired prior to July 1, 1987, or to those eligible employees' beneficiaries. 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.

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.

Annual Pension Cost and Net Pension Obligation (Asset)

Annual pension cost and net pension obligation (asset) of the SRA for 2008 and 2007 are as follows:

	<u>2008</u>	<u>2007</u>
Annual required contribution	\$ 228,288	\$ 205,449
Interest on net pension obligation (asset)	(107,075)	(126,270)
Adjustment to annual required contribution	<u>136,322</u>	<u>160,761</u>
Annual pension cost	<u>257,535</u>	<u>239,940</u>
Contributions made	<u>(152,601)</u>	<u>-</u>
Increase in net pension obligation (asset)	<u>104,934</u>	<u>239,940</u>
Net pension obligation (asset) at beginning of year	<u>(1,338,432)</u>	<u>(1,578,372)</u>
Net pension obligation (asset) at end of year	<u><u>\$ (1,233,498)</u></u>	<u><u>\$ (1,338,432)</u></u>

The annual required contribution for 2007 and 2006 was determined as part of an actuarial valuation on June 30, 2007 and 2006, 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.

**SOUTHEASTERN OKLAHOMA STATE UNIVERSITY**  
**NOTES TO FINANCIAL STATEMENTS**  
**JUNE 30, 2008**

**VII. Retirement Plans (continued)**

**Trend Information**

Year Ended June 30	Annual Pension Cost (APC)	Percentage of APC Contributed	Net Pension Obligation (Asset)
2008	\$ 228,288	66.8%	\$ (1,233,498)
2007	239,940	0.0%	(1,338,432)
2006	228,448	62.0%	(1,578,372)

**VIII. 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, 2008, there were 464 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 of 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 \$291,000 and represents 1.7% (percent) of covered payroll.

*Annual OPEB Cost* – For 2008, the University's annual OPEB cost (expense) of \$291,000 was equal to the ARC. For the years ended June 30, 2006 and 2007, the annual OPEB costs were equal to the premium payments on a cash basis of reporting (prior to GASB Statement 45). The annual OPEB cost, the percentage of annual OPEB cost contributed to the plan, and the net OPEB obligation for 2008 are as follows:

		Annual			
Fiscal Ended	Year	OPEB Cost	Annual Contributed/Percentage	OPEB Cost	New OPEB Obligation
6/30/2008		291,000	52.90%		137,068

**SOUTHEASTERN OKLAHOMA STATE UNIVERSITY**  
**NOTES TO FINANCIAL STATEMENTS**  
**JUNE 30, 2008**

**VIII. Other Post-Employment Insurance Benefits (continued)**

*Funded Status and Funding Progress* - The funded status of the plan as of June 30, 2008, was as follows:

Actuarial accrued liability (AAL)	\$2,268,000
Actuarial value of plan assets	0
Unfunded actuarial accrued liability (UAAL)	<u>\$2,268,000</u>
Funded ratio (actuarial value of plan assets/AAL)	0.0%
Covered payroll (active plan members)	16,658,396
UAAL as a percentage of covered payroll	13.61%

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 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.

*Actuarial Methods and Assumptions* – 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, 2008 actuarial valuation, the entry age actuarial 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%.

**IX. 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 \$449,512 and \$550,625 during the years ended June 30, 2008 and 2007, respectively, which is restricted to the construction or acquisition of buildings, equipment, or other capital items. These amounts are recorded as capital gifts and grants 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.

**SOUTHEASTERN OKLAHOMA STATE UNIVERSITY  
NOTES TO FINANCIAL STATEMENTS  
JUNE 30, 2008**

**IX. Funds Held in Trust by Others (continued)**

The total trust reserve for Southeastern Oklahoma State University, held in trust by the Commissioners of the Land Office, was approximately \$13,931,000 and \$12,924,000 at June 30, 2008 and 2007, 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 \$349,567 at June 30, 2008 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, 2008 and 2007 was approximately \$4,400,967 and \$4,579,014, respectively.

**X. Scholarship Awards**

**Southeastern Foundation, Inc.**

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 \$155,750 and \$76,706 were accrued as current liabilities at June 30, 2008 and 2007, respectively.

**XI. 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, 2008 and 2007, total support provided by the Foundation to the University, including scholarships awarded to University students, was approximately \$1,180,728 and \$940,627, respectively.

**SOUTHEASTERN OKLAHOMA STATE UNIVERSITY  
NOTES TO FINANCIAL STATEMENTS  
JUNE 30, 2008**

**XI. Related Party Transactions (continued)**

**Southeastern Foundation, Inc.**

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 was no overage for the year ended June 30, 2008 and 2007.

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.

The Foundation purchased real estate and subsequently leased 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.

**XII. 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, 2008 and 2007, approximately \$4,841,473 and \$6,990,850, 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, 2008 and 2007, will not have material adverse impact to the University.

**SOUTHEASTERN OKLAHOMA STATE UNIVERSITY**  
**NOTES TO FINANCIAL STATEMENTS**  
**JUNE 30, 2008**

**XIII. 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 reinsurance through commercial carriers for claims in excess of specified stop-loss amounts.

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

**SOUTHEASTERN OKLAHOMA STATE UNIVERSITY**  
**NOTES TO FINANCIAL STATEMENTS**  
**JUNE 30, 2008**

**XIV. Segment Information**

The following financial information represents an identifiable activity for which revenue bonds are outstanding.

**Southeastern Oklahoma State University Revenue Bonds, Student Union Series 2003**

	June 30, 2008	June 30, 2007
Condensed statement of net assets		
Assets		
Current assets	\$ 68,034	\$ 37,208
Capital assets	7,650,365	7,851,691
Other assets	210,088	220,421
Total assets	<u>7,928,487</u>	<u>8,109,320</u>
Liabilities		
Current liabilities	283,367	280,057
Long-term liabilities	<u>6,915,000</u>	<u>7,145,000</u>
Total liabilities	<u>7,198,367</u>	<u>7,425,057</u>
Net assets		
Unrestricted	224,755	202,572
Invested in capital assets, net of debt	505,365	481,691
Total net assets	<u>\$ 730,120</u>	<u>\$ 684,263</u>
Condensed statement of revenues expenses and changes in net assets		
Operating revenue	\$ 1,026,800	\$ 828,645
Depreciation expense	(201,325)	(201,325)
Other operating expenses	(468,940)	(363,749)
Net operating revenue (loss)	<u>356,535</u>	<u>263,571</u>
Nonoperating income (expense)		
Interest expense	(298,346)	(304,947)
Amortization and trustee fee	<u>(12,332)</u>	<u>(12,332)</u>
Nonoperating (expense)	<u>(310,678)</u>	<u>(317,279)</u>
Transfers	-	(765,743)
Change in net assets	45,857	(819,451)
Net assets at beginning of year	684,263	1,503,714
Net assets at end of year	<u>\$ 730,120</u>	<u>\$ 684,263</u>
Condensed Statement of Cash Flows		
Net cash flows used by operating activities	\$ 550,555	\$ 464,896
Net cash flows used by capital and related financing activities	(519,729)	(521,947)
Net increase (decrease) in cash	<u>\$ 30,826</u>	<u>\$ (57,051)</u>
Cash at beginning of year	37,208	94,259
Cash at end of year	<u>\$ 68,034</u>	<u>\$ 37,208</u>

**SOUTHEASTERN OKLAHOMA STATE UNIVERSITY**  
**NOTES TO FINANCIAL STATEMENTS**  
**JUNE 30, 2008**

**XV. Accounting Standards Issued Not Yet Adopted**

In December 2006, GASB issued Statement No. 49, *Sales Accounting and Financial Reporting for Pollution Remediation Obligations*. This statement provides governments with better accounting guidance and consistency on identifying the circumstances under which an entity would be required to report a liability related to pollution remediation. GASB Statement No. 49 is effective for periods beginning after December 15, 2007.

In July 2007, GASB issued Statement No. 51 *Sales Accounting and Financial Reporting for Intangible Assets*. Statement 51 provides additional guidance that addresses the unique nature of intangible assets. GASB Statement No. 51 is effective for periods beginning after June 15, 2009.

In November 2007, GASB issued Statement No. 52 *Land and Other Real Estate Held as Investments by Endowments*. This Statement establishes consistent standards for the reporting of land and other real estate held as investments by essentially similar entities. GASB Statement No. 52 is effective for periods beginning after June 15, 2008.

In June 2008, GASB issued Statement No. 53 *Accounting and Financial Reporting for Derivative Instruments*. This Statement addresses the recognition, measurement, and disclosure of information regarding derivative instruments entered into by state and local governments. GASB Statement No. 53 is effective for periods beginning after June 15, 2009.

**XVI. Restriction on Net Assets**

**Southeastern Foundation, Inc.**

Substantially all of the restrictions on net assets at the end of June 30, 2008 and 2007 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 \$10,000 requirement before contributions may be endowed.

**SOUTHEASTERN OKLAHOMA STATE UNIVERSITY  
NOTES TO FINANCIAL STATEMENTS  
JUNE 30, 2008**

**XVII. Variable Interest Entity**

**Southeastern Foundation, Inc.**

On November 13, 2004, the L.L.C., organized for the purpose of building and housing students of the University.

The LLC is a variable interest entity (VIE) with primary beneficiary the Foundation. The Foundation and LLC share the same Board of Trustees. The Foundation is not liable for debt of the LLC.

The Trust reflects liabilities of \$9,662,189 and \$9,871,011 as of June 30, 2008 and 2007, respectively, the majority of which is a guarantee of debt to the 2005 Revenue Bond.

**XVIII. Ground Lease**

**Southeastern Foundation, Inc.**

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 year ended June 30, 2008 and 2007.

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.

**SOUTHEASTERN OKLAHOMA STATE UNIVERSITY  
NOTES TO FINANCIAL STATEMENTS  
JUNE 30, 2008**

**XX. Negative Unrestricted Net Assets**

**Southeastern Foundation, Inc.**

The consolidated statement of net assets reports negative unrestricted net assets of \$501,903. This is a direct result of the SOSU Housing Foundation, LLC's negative net assets of \$861,332. This results from the deficit created by the operations of the new student housing project. The housing project was not one hundred percent complete and occupied until mid-year. It is the belief of management that the housing project will be self-sustaining in the future and will not require subsidies from the University.

**XXI. University Subsidy to the SOSU Housing LLC**

**Southeastern Foundation, Inc.**

Since inception, Shearer Hall and Suites has incurred sustained operating losses. For the year ended June, 30, 2008, there was \$78,000 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.

**XXII. Transfers of Net Asset Balances**

**Southeastern Foundation, Inc.**

The statement of activities for the fiscal year ended June 30, 2007 has been corrected to include a transfer of \$550,629 from temporarily restricted net assets to permanently restricted assets. This change was necessary due to differences in the manner the general ledger had reported activity and the separate records used to track donor restrictions by gift. This transfer does not affect the statement of activities for the year ended June 30, 2008 or net assets reported as of June 30, 2008.

**XXIII. Classification of Income**

**Southeastern Foundation, Inc.**

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.

**SOUTHEASTERN OKLAHOMA STATE UNIVERSITY**  
**REQUIRED SUPPLEMENTAL INFORMATION**  
**UNAUDITED**  
**JUNE 30, 2008**

**SCHEDULE OF FUNDING PROGRESS - SUPPLEMENTAL 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 )
6/30/2006	\$ 1,786,664	\$ 3,708,371	\$ 1,921,707	48.2%	\$ 4,026,282	47.7%
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%

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

**SCHEDULE OF FUNDING PROGRESS - 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%

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

**SOUTHEASTERN OKLAHOMA STATE UNIVERSITY  
SCHEDULE OF STATE CONTRACT REVENUES AND  
EXPENDITURES-BUDGET VERSUS ACTUAL  
YEAR ENDED JUNE 30, 2008**

**Summary of contract revenues and expenditures**

Contract Title: Oklahoma Small Business Development

Contract Agency: Oklahoma Department of Commerce

Contract Number: SBDC 06 11956

Contract Dates: July 1, 2007 to June 30, 2008

	Program Budget	Actual Year Ended June 30, 2008
Revenues		
Contract proceeds	\$ 600,873	\$ 600,873
Expenditures		
Salaries and fringe benefits	<u>600,873</u>	<u>600,873</u>
Total expenditures	<u>600,873</u>	<u>600,873</u>
(Expenditures) in excess of revenues	<u>\$ -</u>	<u>\$ -</u>



**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"), component unit of the State of Oklahoma, as of and for the years ended June 30, 2008 and 2007, and have issued our report thereon dated October 24, 2008. 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 financial statements of the Southeastern Oklahoma State University Foundation, Inc. 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's 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 tests 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.

A handwritten signature in black ink that reads "Hanen, Behrens & Heim". The signature is written in a cursive style with a vertical line extending from the top of the 'H' in "Hanen" down to the bottom of the 'n' in "Heim".

Oklahoma City, Oklahoma  
October 24, 2008



**REPORT ON COMPLIANCE WITH**  
**REQUIREMENTS APPLICABLE TO EACH MAJOR PROGRAM AND**  
**INTERNAL CONTROL OVER COMPLIANCE IN ACCORDANCE WITH**  
**OMB CIRCULAR A-133**

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"), 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, 2008. 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, 2008.

## 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.

This report is intended solely for the information and use of the Audit and Finance Committee, 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.



Oklahoma City, Oklahoma  
October 24, 2008

**SOUTHEASTERN OKLAHOMA STATE UNIVERSITY**  
**SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS**  
**YEAR ENDED JUNE 30, 2008**

Federal Grantor / Pass-Through Grantor / Program Title	CFDA Number	Pass-Through Entity Identification Number	Amount Expended
<b>U.S. Department of Education</b>			
<b>Direct Programs</b>			
<b>Student Financial Aid Cluster</b>			
Federal Pell Grant Program	84.063	N/A	\$ 4,120,263
Federal Work Study Program	84.033	N/A	161,424
Federal Supplemental Education Opportunity Grants	84.007	N/A	205,700
Federal Family Education Loan Program	84.032	N/A	4,841,473
Federal Perkins Loan Program	84.038	N/A	185,436
Academic Competitiveness Grant	84.375	N/A	194,370
National Smart Grant	84.376	N/A	108,376
Total Student Financial Aid Cluster			<u>9,817,042</u>
<b>Trio Cluster</b>			
Upward bound	84.047A	N/A	1,003,197
Talent search	84.044A	N/A	364,092
Student support services	84.042A	N/A	327,269
Educational opportunity centers	84.066A	N/A	488,889
Total trio cluster			<u>2,183,447</u>
<b>Other Direct Programs</b>			
Native American Excellence in Education	84.299B	N/A	340,295
Gear Up	84.334A	N/A	<u>461,131</u>
Total			<u>801,426</u>
<b>Passed through Oklahoma Department of Education</b>			
Summer food service program/TRIO program	10.559	N/A	<u>12,157</u>
Total U.S. Department of Education			<u>12,814,072</u>
<b>Small Business Administration</b>			
<b>Small Business Development Center</b>			
Total Small Business Administration	59.037	N/A	<u>998,007</u>
<u>998,007</u>			
<b>U.S. Department of Health and Human Services</b>			
Support for Continuous Research Excellence	93.859	N/A	<u>155,976</u>
Total U.S. Department of Health and Human Services			<u>155,976</u>
<b>National Science Foundation</b>			
SOSU & Choctaw Nation Alliance: Project Impact!	47.070	N/A	<u>232,129</u>
			<u>232,129</u>
<b>U.S. Department of Agriculture</b>			
Breeding for ripeness reducing melon waste	10.001	N/A	<u>9,170</u>
			<u>9,170</u>
<b>National Aeronautics and Space Administration</b>			
Passed through University of Oklahoma			
NASA-Oklahoma Space Grant Consortium	43.001	NGT5-40111	<u>12,061</u>
Total National Aeronautics and Space Administration			<u>12,061</u>
<b>U.S. Department of Health and Human Services</b>			
Passed Through University of Oklahoma			
Biomedical Research Excellence	93.389	SP20RR0016478-06	<u>119,309</u>
Total U.S. Department of Health and Human Services			<u>119,309</u>
<b>U.S. Department of Justice</b>			
Passed Through East Central University			

See accompanying notes

**SOUTHEASTERN OKLAHOMA STATE UNIVERSITY**  
**SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS**  
**YEAR ENDED JUNE 30, 2008**

Federal Grantor / Pass-Through Grantor / Program Title	CFDA Number	Pass-Through Entity Identification Number	Amount Expended
RUSO-Violence Prevention Project	16.525	N/A	17,948
Total U.S. Department of Education			17,948
 National Science Foundation			
Passed through Oklahoma State University			
Louis Stokes-Oklahoma Alliance for Minority Participation	47.076	AA-5-58610-SEOSU-A3	42,159
Total National Science Foundation			42,159
 National Endowment for the Arts			
Passed through Mid-American Arts Alliance Heartland Arts Fund			
Visiting Artists	45.025	Various	3,475
Total National Endowment for the Arts			3,475
 U.S. Department of Commerce			
Center for Regional Competitiveness	11.306	N/A	75,969
Total U.S. Department of Commerce			75,969
 Total expenditures of federal awards			\$ 14,480,275

**SOUTHEASTERN OKLAHOMA STATE UNIVERSITY**  
**NOTES TO SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS**  
**JUNE 30, 2008**

**I. Summary of Significant Accounting Policies**

This schedule includes the federal awards activity of Southeastern Oklahoma State University and 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.

**II. Federal Family Education Loan Program**

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.

**III. Loans Outstanding**

The University has \$839,724 in Federal Perkins loans outstanding at June 30, 2008. These loan balances outstanding are included as federal expenditures in the schedule of expenditures of federal awards. During the year ended June 30, 2008, the University issued \$185,436 Perkins loans.

**IV. 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	\$ 131,070
Small Business Development Center	59.037	Northeastern Oklahoma State University	248,243
Small Business Development Center	59.037	Northwestern Oklahoma State University	189,602
Small Business Development Center	59.037	Rose State College	90,902
Small Business Development Center	59.037	Southwestern Oklahoma State University	235,330
Small Business Development Center	59.037	Langston University	78,203
Small Business Development Center	59.037	University of Central Oklahoma	183,280
			<u>\$ 1,156,630</u>

**SOUTHEASTERN OKLAHOMA STATE UNIVERSITY  
SCHEDULE OF FINDINGS AND QUESTIONED COSTS  
JUNE 30, 2008**

**Summary of Auditors' Reports**

1. The independent auditors' report on the financial statements expressed an unqualified opinion.
2. No significant deficiencies were reported in the independent auditor's report on internal control over financial reporting.
3. No instance of noncompliance considered material to the financial statements of the University was disclosed during the audit.
4. No significant deficiencies in internal control over compliance with requirements applicable to major federal awards programs were reported in the independent auditors' report on internal control over compliance.
5. The independent auditor's report on compliance with requirements applicable to major federal awards programs expressed an unqualified opinion.
6. The audit disclosed no findings required to be reported by OMB Circular A-133.
7. The University's major programs were:

Program/Cluster	CFDA Number
Student financial aid cluster	
Federal Pell Grant Program	84.063
Federal Supplemental Education Opportunity Grants	84.007
Federal Work Study Program	84.033
Federal Family Education Loan Program	84.032
Federal Perkins Loan Program	84.038
Academic Competitiveness Grant	84.375
National Smart Grant	84.376
Small Business Developmental Office	59.037

8. A threshold of \$418,000 was used to distinguish between Type A and Type B programs as those terms are defined by OMB Circular A-133.
9. The University qualifies as a low risk auditee as that term is defined by OMB Circular A-133.

**Findings Required to be Reported by *Government Auditing Standards***

No matters were reportable.

**Findings Required to be Reported by OMB Circular A-133**

No matters were reportable.

**SOUTHEASTERN OKLAHOMA STATE UNIVERSITY  
SUMMARY SCHEDULE OF PRIOR AUDIT FINDINGS  
JUNE 30, 2008**

No matters were reportable.