

**SOUTHEASTERN
OKLAHOMA STATE
UNIVERSITY**

June 30, 2013

SOUTHEASTERN OKLAHOMA STATE UNIVERSITY

June 30, 2013

AUDITED FINANCIAL STATEMENTS

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Independent Auditors' Report

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

Report on the Financial Statements

We have audited the accompanying financial statements of Southeastern Oklahoma State University (the "University"), a component unit of the State of Oklahoma, which comprise the statement of net position as of June 30, 2013, and the related statements of revenues, expenses, and changes in net position and cash flows for the year then ended and the related notes to the financial statements.

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

Our responsibility is to express an opinion on these financial statements based on our audit. We did not audit the financial statements of the University's discretely presented component unit, Southeastern Foundation, Inc. (the "Foundation"). Those financial statements were audited by another auditor, whose report has been furnished to us, and our opinion, insofar as it relates to the amounts included for the Foundation, is based solely on the report of the other auditors. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. The financial statements of the Foundation were not audited in accordance with *Government Auditing Standards*.

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

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a reasonable basis for our audit opinion.

Opinion

In our opinion, based on our audit and the report of the other auditor, the financial statements referred to above present fairly, in all material respects, the financial position of Southeastern Oklahoma State University and its discretely presented component unit as of June 30, 2013, and the respective changes in financial position and, where applicable, cash flows thereof for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Emphasis of Matter

As discussed in Note A to the financial statements, in 2013, the University adopted several new accounting pronouncements issued by the Governmental Accounting Standards Board, including GASB Statements No. 63 and 65. The provisions of GASB Statements No. 63 and 65 required the University to retroactively restate its 2012 financial statements upon adoption. Our opinion is not modified with respect to this matter.

Other Matters

Required Supplementary Information

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

Other Supplementary Information

Our audit was conducted for the purpose of forming an opinion on the financial statements that collectively comprise the University’s basic financial statements. The accompanying schedule of state contract revenues and expenditures-budget versus actual is presented for purposes of additional analysis, as required by the Oklahoma Department of Commerce, and is not a required part of the basic financial statements. The accompanying schedule of state contract revenues and expenditures-budget versus actual is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic financial statements or to the basic financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, based on our audit and the procedures performed as described above the accompanying schedule of state contract revenues and expenditures-budget versus actual is fairly stated, in all material respects, in relation to the basic financial statements as a whole.

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated October 29, 2013 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, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the University’s internal control over financial reporting and compliance.

Cole & Reed P.C.

Oklahoma City, Oklahoma
October 29, 2013

MANAGEMENT'S DISCUSSION AND ANALYSIS

SOUTHEASTERN OKLAHOMA STATE UNIVERSITY

June 30, 2013

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, 2013, with selected comparative information for the year ended June 30, 2012. Management's discussion and analysis is designed to focus on current activities, resulting changes, and current known facts, so it should be read in conjunction with the University's financial statements and footnotes.

USING THIS REPORT

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

These statements are prepared applying the following principles and standards:

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

MANAGEMENT'S DISCUSSION AND ANALYSIS--Continued

SOUTHEASTERN OKLAHOMA STATE UNIVERSITY

June 30, 2013

FINANCIAL HIGHLIGHTS

State appropriations increased by \$0.3 million, student tuition and fees increased by \$0.2 million, and financial aid and grants decreased by \$0.1 million. Rates for tuition & mandatory fees increased by 5.3% for resident students and 6.5% for non-resident students. Student credit hours decreased by 3.0% for resident tuition and increased by 4.2% for non-resident tuition.

Operating expenses increased by \$1.1 million with increases in contractual services by \$0.2 million and supplies and materials by \$.5 million and depreciation by \$0.2 million, communication expenses by \$0.1 million and other operating expenses by \$0.3 million, and decrease in scholarships by \$0.2 million (related to waivers).

Thirteen capital projects totaling \$5.2 million were in the construction phase with eleven being completed and two still under construction at year end. The projects still under construction were Strength & Conditioning Center and the Athletic & Intramural Complex. The completed projects were the Landscaping, Baseball Field, Water Tower Project, Fine Arts/Russell/Paul Laird Field, Hallie McKinney Phase I, II, III, IV, Siemens Bld Tech Phase II, Library Facility Improvements, ADA Projects, and Glen D. Johnson Student Union. These projects were funded by the Department of Education Grant, external fund raising and the University.

Auxiliary revenue increased by \$0.1 million and was due to an increase in rates for room and board of 4.6% and 4.1% respectively. Occupancy decreased by 0.8%.

Bonds payable and capital lease obligations were decreased by \$1.5 million, leaving a balance of \$29.8 million. This decrease was from debt service payments reducing debt by \$1.5 million, which included paying off the Series 2003A issue. This is the fifth consecutive year that no additional debt was needed to fund capital projects or equipment.

MANAGEMENT'S DISCUSSION AND ANALYSIS--Continued

SOUTHEASTERN OKLAHOMA STATE UNIVERSITY

June 30, 2013

STATEMENTS OF NET POSITION

Schedule A is prepared from the University's Statements of Net Position (page 14) and summarizes the assets, liabilities, and net position as of June 30, 2013.

SCHEDULE A

CONDENSED STATEMENTS OF NET POSITION

	June 30, 2013	June 30, 2012	Increase (Decrease)	Percent Change
	<i>(in Millions)</i>			
CURRENT ASSETS	\$ 6.0	\$ 8.2	\$ (2.2)	-26.8%
NONCURRENT ASSETS				
Capital Assets, Net of Depreciation	54.0	52.3	1.7	3.3%
Other	<u>2.2</u>	<u>2.0</u>	<u>0.2</u>	10.0%
TOTAL ASSETS	<u>\$ 62.2</u>	<u>\$ 62.5</u>	<u>\$ (0.3)</u>	-0.5%
DEFERRED OUTFLOWS OF RESOURCES	<u>\$ 0.6</u>	<u>\$ 0.8</u>	<u>\$ (0.2)</u>	-25.0%
CURRENT LIABILITIES	\$ 5.9	\$ 5.4	\$ 0.5	9.3%
NONCURRENT LIABILITIES	<u>28.3</u>	<u>30.3</u>	<u>(2.0)</u>	-6.6%
TOTAL LIABILITIES	<u>\$ 34.2</u>	<u>\$ 35.7</u>	<u>\$ (1.5)</u>	-4.2%
NET POSITION				
Investment in Capital Assets	\$ 24.2	\$ 22.0	\$ 2.2	10.0%
Restricted	0.7	2.1	(1.4)	-66.7%
Unrestricted	<u>3.7</u>	<u>3.5</u>	<u>0.2</u>	5.7%
TOTAL NET POSITION	<u>\$ 28.6</u>	<u>\$ 27.6</u>	<u>\$ 1.0</u>	3.6%

Total assets decreased \$0.3 million with increases in capital assets, net by \$1.7 million, prepaid pension asset by \$0.5 million, and decreases in cash and cash equivalents by \$2.2 million, and investments held by other by \$0.3 million.

Deferred outflows of resources decreased \$0.2 million.

Total liabilities decreased \$1.5 million with increases in accounts payable by \$0.2 million, current portion of noncurrent liabilities \$0.5 million and decreases in unearned revenue by \$0.1 million, deposits held in custody for others by \$0.1 million, outstanding debt by \$2.0 million.

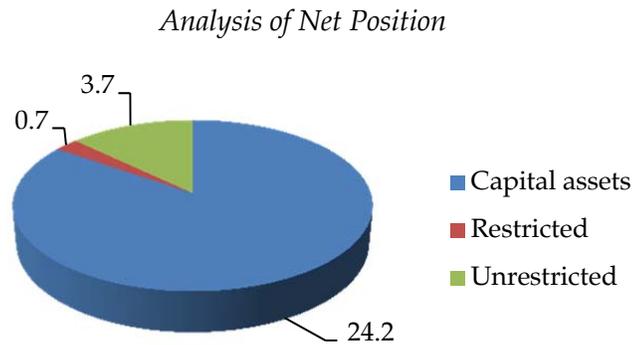
MANAGEMENT'S DISCUSSION AND ANALYSIS--Continued

SOUTHEASTERN OKLAHOMA STATE UNIVERSITY

June 30, 2013

STATEMENTS OF NET POSITION--Continued

The following graph indicates that the bulk of the University's Net Position at June 30, 2013, is capital assets invested in land, buildings, infrastructure, library, and equipment.



STATEMENTS OF REVENUES, EXPENSES, AND CHANGES IN NET POSITION

The statement of revenues, expenses, and changes in net position presents the University's results of operations for the year and the effect on net position. 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.

MANAGEMENT'S DISCUSSION AND ANALYSIS--Continued

SOUTHEASTERN OKLAHOMA STATE UNIVERSITY

June 30, 2013

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

Schedule B is prepared from the University's Statements of Revenues, Expenses, and Changes in Net Position (page 16) and is a summary for the year ended June 30, 2013, compared to the year ended June 30, 2012.

SCHEDULE B

CONDENSED STATEMENTS OF REVENUES, EXPENSES, AND CHANGES IN NET POSITION

	Years Ended June 30,	
	2013	2012
	<i>(in Millions)</i>	
OPERATING REVENUE		
Student tuition and Fees (net of scholarship allowance of \$10.5 and \$9.7, respectively)	\$ 15.2	\$ 15.0
Federal, State, and Local Grants/Contracts	5.5	5.9
Auxiliary	2.7	2.6
Other	1.8	2.4
TOTAL OPERATING REVENUE	<u>25.2</u>	<u>25.9</u>
OPERATING EXPENSES		
Compensation and employee benefits	32.0	31.9
Contractual Services	3.9	3.7
Supplies and materials	4.2	3.7
Depreciation	3.6	3.5
Utilities	1.5	1.5
Communication expense	0.4	0.3
Scholarships and fellowships	6.1	6.3
Other operating expense	2.1	1.8
TOTAL OPERATING EXPENSES	<u>53.8</u>	<u>52.7</u>
OPERATING INCOME (LOSS)	(28.6)	(26.8)
NONOPERATING REVENUE		
State Appropriations and Other	20.4	20.1
Financial Aid Grants	8.3	8.4
Contributions	0.2	0.3
Investment Income	0.1	0.1
Interest Expense	(1.1)	(1.3)
NET NONOPERATING REVENUE	<u>27.9</u>	<u>27.6</u>
INCOME BEFORE OTHER REVENUE/EXPENSE	(0.6)	0.7
OTHER REVENUE/EXPENSES	1.6	1.5
CHANGE IN NET POSITION	<u>1.0</u>	<u>2.2</u>
NET ASSETS AT BEGINNING OF YEAR, AS RESTATED	<u>27.6</u>	<u>25.4</u>
NET ASSETS AT END OF YEAR	<u>\$ 28.6</u>	<u>\$ 27.6</u>

MANAGEMENT'S DISCUSSION AND ANALYSIS--Continued

SOUTHEASTERN OKLAHOMA STATE UNIVERSITY

June 30, 2013

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

REVENUES 2013

Total operating revenues decreased by \$0.7 million, and nonoperating revenues increased by \$0.5 million for a total decrease of \$0.2 million.

State appropriations increased by \$0.3 million or 1.5%.

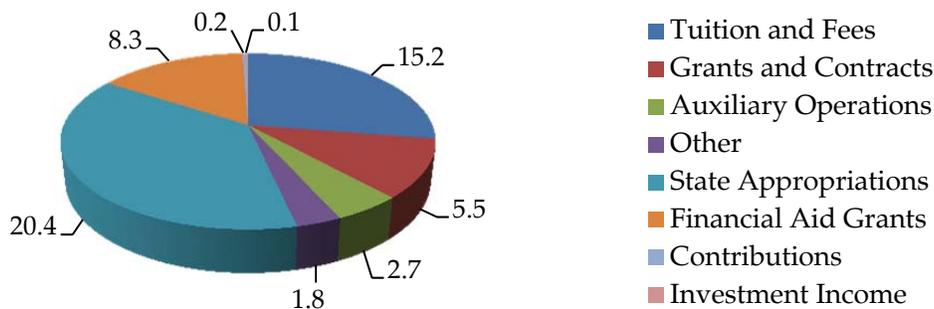
Student tuition and fees plus financial aid grants increased by \$0.1 million or 0.5%. Even though rates for resident and non-resident tuition and mandatory fees increased by 5.3% and 6.5%, respectively, student credit hours (sch) for resident tuition decreased 2,890 or 3.0% with non-resident tuition sch increasing 1,125 or 4.2%.

Federal, state, and local grants contracts decreased by \$0.4 million or 6.3%.

Other net nonoperating revenue: increase in OTRS on-behalf contributions by \$0.1 million and decrease in Interest Expense by \$0.2 million.

The following is a graphical representation of total operating and nonoperating revenue for the year ended June 30, 2013.

*Total Revenues 2013
Operating and Nonoperating
(In Millions)*



MANAGEMENT'S DISCUSSION AND ANALYSIS--Continued

SOUTHEASTERN OKLAHOMA STATE UNIVERSITY

June 30, 2013

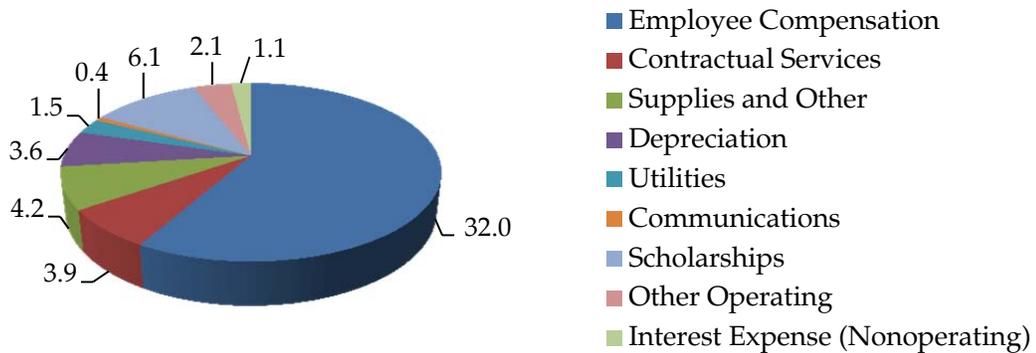
STATEMENTS OF REVENUES, EXPENSES, AND CHANGES IN NET POSITION--Continued

EXPENSES 2013

Operating expenses increased \$1.1 million or 2.0%. Increases in compensation and employee benefits by \$0.1 million, contractual services by \$0.2 million, supplies and materials by \$0.5 million, depreciation by \$0.1 million, communication expense by \$0.1 million, other operating expenses by \$0.3 million, and decrease in scholarships by \$0.2 million (related to waivers).

The following is a graphic illustration of expenses for the year ended June 30, 2013.

*Total Expenditures 2013
(In Millions)*



MANAGEMENT'S DISCUSSION AND ANALYSIS--Continued

SOUTHEASTERN OKLAHOMA STATE UNIVERSITY

June 30, 2013

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, 2013 compared to the year ended June 30, 2012 and is prepared from the Statements of Cash Flows (page 17).

SCHEDULE C

CONDENSED STATEMENTS OF CASH FLOWS

	Years Ended June 30,	
	2013	2012
	<i>(in Millions)</i>	
CASH PROVIDED BY (USED IN):		
Operating activities	\$ (23.8)	\$ (22.7)
Noncapital financing activities	27.1	27.2
Investing activities	0.3	0.8
Capital and related financing activities	<u>(5.9)</u>	<u>(4.2)</u>
NET DECREASE IN CASH	(2.3)	1.1
CASH AT BEGINNING OF YEAR	<u>6.1</u>	<u>5.0</u>
CASH AT END OF YEAR	<u>\$ 3.8</u>	<u>\$ 6.1</u>

State appropriations are included in noncapital financing activities rather than operating activities. This accounting classification creates the negative \$23.8 million for 2013 and negative \$22.7 million for 2012 as shown in Schedule C.

The decrease of \$2.3 million in 2013 for cash at end of the year was due to \$0.7 million in E&G, \$1.5 million in plant funds for capital projects and deferred maintenance, and \$0.1 million in Financial Aid Grants.

MANAGEMENT'S DISCUSSION AND ANALYSIS--Continued

SOUTHEASTERN OKLAHOMA STATE UNIVERSITY

June 30, 2013

CAPITAL ASSETS

At June 30, 2013, the University had approximately \$54.0 million invested in capital assets, net of accumulated depreciation of \$55.3 million. Depreciation charges totaled approximately \$3.6 million for the current fiscal year, compared to \$3.4 million for the previous fiscal year. Projects in fiscal year 2013 were Landscaping, Baseball Field, Water Tower Project, Fine Arts/Russell/Paul Laird, Hallie McKinney Phase I, II, III, IV, Siemens Bld Tech Phase II, Library Facility Improvements, ADA Projects, and Glen D Johnson Student Union, Athletic & Intramural Complex, Strength & Conditioning Center.

CAPITAL ASSETS, net

	June 30,	
	2013	2012
	<i>(in Millions)</i>	
Land	\$ 3.1	\$ 3.2
Capitalized collections	0.4	0.3
Construction in-progress	0.1	0.5
Infrastructure	4.1	3.9
Land improvements	0.4	0.5
Buildings	45.1	43.2
Furniture, fixtures, and equipment	0.7	0.6
Library materials	0.1	0.1
TOTALS	<u>\$ 54.0</u>	<u>\$ 52.3</u>

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

MANAGEMENT'S DISCUSSION AND ANALYSIS--Continued

SOUTHEASTERN OKLAHOMA STATE UNIVERSITY

June 30, 2013

DEBT

At year-end, the University had approximately \$29.8 million in debt outstanding, compared to \$31.3 million at the end of the previous fiscal year. The table below summarizes these amounts by type.

OUTSTANDING DEBT

	June 30,	
	2013	2012
	<i>(in Millions)</i>	
Revenue bonds	\$ 5.9	\$ 6.2
OCIA Capital Lease Obligations	11.3	11.4
ODFA Capital Lease Obligations	10.8	11.7
Notes payable	-	-
Capital Lease Obligations	1.8	2.0
TOTALS	<u>\$ 29.8</u>	<u>\$ 31.3</u>

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

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, 2013, and 2012, lease principal and interest payments were made on behalf of the University totaling \$297,000 and \$276,000, respectively. These on-behalf amounts have been recorded as restricted state appropriations in the University's statements of revenues, expenses, and changes in net position.

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. During the time period from 2001-2013, the University participated in ten bond issues with four being paid off and one being refinanced.

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 E to the financial statements.

MANAGEMENT'S DISCUSSION AND ANALYSIS--Continued

SOUTHEASTERN OKLAHOMA STATE UNIVERSITY

June 30, 2013

ECONOMIC OUTLOOK

The economic stability of the University is directly related to the state's economic stability. The twelve-month collections at the end of September 2013 topped \$11.33 billion, up by almost \$20 million from August's total. Until July of this year, the 12-month record high had stood since December 2008: four years and seven months. Oklahoma's economy continues its climb up the expansion side of the business cycle.

Enrollment data for fall 2013 reflects a decrease in student credit hours of 6.9%. The University is developing a stronger infrastructure to support the veterans and international student programs and will be offering soon the Occupational Safety & Health academic program on the Grayson County Campus in Van Alstyne.

The administration will continue its initiatives to increase student credit hours and meet the objectives of the Complete College America degree completion plans by delivering more courses to outreach sites; developing more online and hybrid courses; continue implementing the conversion plan to move the McCurtain Branch Campus from a higher education program to a four year degree program; and building an advancement program that will raise additional funds through grants, contracts and fund raising initiatives. These efforts will continue along with new initiatives to promote student enrichment experiences, expand the universities regional image, optimize the learning environment, and enhance collaboration and partnerships. As the economy changes, the administration will continue to revise the budget recovery program that started in fiscal year 2009.

STATEMENT OF NET POSITION

SOUTHEASTERN OKLAHOMA STATE UNIVERSITY

June 30, 2013

	<u>University</u>	<u>Component Unit</u>
ASSETS		
CURRENT ASSETS		
Cash and cash equivalents	\$ 3,597,939	\$ 5,070,281
Restricted cash and cash equivalents	207,816	520,780
Accounts receivable, net	1,446,788	35,821
Interest receivable	5,123	60,164
Receivable from state agencies	683,712	-
Other assets	-	133,764
Current portion of notes receivable, net	<u>8,262</u>	<u>-</u>
TOTAL CURRENT ASSETS	5,949,640	5,820,810
NONCURRENT ASSETS		
Investments	-	15,292,331
Investments held by others	18,795	-
Notes receivable, net	-	15,912
Prepaid pension asset	2,232,772	-
Other assets	-	344,049
Capital assets, net	<u>53,955,452</u>	<u>7,089,140</u>
TOTAL NONCURRENT ASSETS	56,207,019	22,741,432
TOTAL ASSETS	<u>\$ 62,156,659</u>	<u>\$ 28,562,242</u>
DEFERRED OUTFLOWS OF RESOURCES		
Deferred charge on capital lease restructures	<u>\$ 645,263</u>	<u>\$ -</u>

STATEMENT OF NET POSITION--Continued

SOUTHEASTERN OKLAHOMA STATE UNIVERSITY

June 30, 2013

	<u>University</u>	<u>Component Unit</u>
LIABILITIES AND NET ASSETS		
CURRENT LIABILITIES		
Accounts payable	\$ 1,162,371	\$ 253,900
Accrued payroll	89,472	-
Accrued interest payable	139,715	40,319
Unearned revenue	1,554,827	14,649
Deposits held in custody for others	254,730	-
Current portion of non current liabilities	<u>2,670,568</u>	<u>-</u>
TOTAL CURRENT LIABILITIES	5,871,683	308,868
NONCURRENT LIABILITIES		
Accrued compensated absences	369,887	-
Notes payable	-	8,719,355
Capital lease obligation	22,214,266	-
Revenue bonds payable	5,645,000	-
OPEB obligation	<u>129,843</u>	<u>-</u>
TOTAL NONCURRENT LIABILITIES	<u>28,358,996</u>	<u>8,719,355</u>
TOTAL LIABILITIES	<u>\$ 34,230,679</u>	<u>\$ 9,028,223</u>
NET POSITION		
Net investment in capital assets	\$ 24,170,263	\$ -
Restricted:		
Nonexpendable	-	11,963,246
Expendable:		
Scholarships, instruction, and other	-	6,561,861
Loans	101,987	-
Capital projects and debt service	572,305	-
Unrestricted	<u>3,726,688</u>	<u>1,008,912</u>
TOTAL NET POSITION	<u>\$ 28,571,243</u>	<u>\$ 19,534,019</u>

See notes to financial statements.

STATEMENT OF REVENUES, EXPENSES, AND CHANGES IN NET POSITION

SOUTHEASTERN OKLAHOMA STATE UNIVERSITY

Year Ended June 30, 2013

	<u>University</u>	<u>Component Unit</u>
OPERATING REVENUES		
Student tuition and fees, net of scholarship discounts and allowances of \$10,441,225 (revenues of \$1,303,791 are pledged as security on Student Union Series 2003 revenue bonds)	\$ 14,915,643	\$ -
Federal grants and contracts	4,828,890	-
State and local grants and contracts	944,974	-
Housing and food service	2,329,121	-
Aerospace operations	393,624	-
Investment Income	-	1,138,413
Contributions	-	1,230,855
Other operating revenues	1,793,403	1,517,239
TOTAL OPERATING REVENUES	<u>25,205,655</u>	<u>3,886,507</u>
OPERATING EXPENSES		
Compensation and employee benefits	31,978,987	-
Contractual services	3,873,805	-
Supplies and materials	4,191,398	-
Depreciation	3,593,056	228,659
Utilities	1,499,286	-
Communications expense	381,015	-
Scholarships and fellowships	6,169,673	893,636
Other operating expenses	2,098,793	1,149,094
TOTAL OPERATING EXPENSES	<u>53,786,013</u>	<u>2,271,389</u>
OPERATING INCOME (LOSS)	(28,580,358)	1,615,118
NONOPERATING REVENUES (EXPENSES)		
State appropriations	18,702,428	-
Financial aid grants	8,292,463	-
OTRS on-behalf contributions	1,712,974	-
Contributions	239,848	-
Investment income	120,894	-
Interest expense	(1,133,178)	-
NET NONOPERATING REVENUE (EXPENSES)	<u>27,935,429</u>	<u>-</u>
Income (loss) before other revenues, expenses, gains, and losses	(644,929)	1,615,118
State appropriations restricted for capital purposes	1,290,174	-
OCIA on-behalf payments	297,353	-
CHANGE IN NET POSITION	942,598	1,615,118
NET POSITION, BEGINNING OF YEAR, AS RESTATED	<u>27,628,645</u>	<u>17,918,901</u>
NET POSITION, END OF YEAR	<u>\$ 28,571,243</u>	<u>\$ 19,534,019</u>

See notes to financial statements.

STATEMENT OF CASH FLOWS

SOUTHEASTERN OKLAHOMA STATE UNIVERSITY

Year Ended June 30, 2013

CASH FLOWS FROM OPERATING ACTIVITIES

Tuition and fees	\$ 14,927,441
Grants and contracts	5,523,434
Other operating receipts	4,665,355
Payments to employees for salaries and benefits	(30,745,204)
Payments to suppliers	<u>(18,213,911)</u>
NET CASH USED IN OPERATING ACTIVITIES	(23,842,885)

CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES

State appropriations	18,702,428
Financial aid grants	8,292,463
Contributions	127,313
Direct Loan receipts	12,102,578
Direct Loan payments	<u>(12,102,578)</u>
NET CASH PROVIDED BY NONCAPITAL FINANCING ACTIVITIES	27,122,204

CASH FLOWS FROM INVESTING ACTIVITIES

Net decrease in investments held with others	226,054
Interest income received	<u>76,661</u>
NET CASH PROVIDED BY INVESTING ACTIVITIES	302,715

CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES

Cash paid for capital assets	(4,919,585)
Capital appropriations received	1,290,174
Interest paid	(853,476)
Repayments of capital debt and leases	<u>(1,386,530)</u>
NET CASH USED IN CAPITAL AND RELATED FINANCING ACTIVITIES	<u>(5,869,417)</u>

NET CHANGE IN CASH AND CASH EQUIVALENTS (2,287,383)

CASH AND CASH EQUIVALENTS, BEGINNING OF YEAR 6,093,138

CASH AND CASH EQUIVALENTS, END OF YEAR \$ 3,805,755

STATEMENT OF CASH FLOWS--Continued

SOUTHEASTERN OKLAHOMA STATE UNIVERSITY

Year Ended June 30, 2013

RECONCILIATION OF OPERATING LOSS TO
NET CASH USED IN OPERATING ACTIVITIES

Operating loss	\$ (28,580,358)
Adjustments to reconcile operating loss to net cash used in operating activities:	
Depreciation	3,593,056
(Gain) / loss on disposal of assets	128,690
On-behalf contributions to teachers' retirement system	1,712,974
Changes in assets and liabilities:	
Accounts receivable	(3,660)
Loans receivable	5,132
Prepaid pension asset	(452,126)
Accounts payable and student deposits	(128,631)
Accrued payroll	(32,005)
Unearned revenues	(90,898)
Compensated absences	(2,109)
Other liabilities	7,050
NET CASH USED IN OPERATING ACTIVITIES	<u>\$ (23,842,885)</u>

NONCASH INVESTING, NONCAPITAL FINANCING
AND CAPITAL AND RELATED FINANCING ACTIVITIES

Interest on capital debt paid by state agency on behalf of the University	\$ 187,607
Principal on capital debt paid by state agency on behalf of the University	<u>109,746</u>
TOTAL NONCASH INVESTING, NONCAPITAL FINANCING, AND RELATED FINANCING ACTIVITIES	<u>\$ 297,353</u>

RECONCILIATION OF CASH AND CASH
EQUIVALENTS TO STATEMENT OF NET POSITION

Current assets:	
Cash and cash equivalents	\$ 3,597,939
Restricted cash and cash equivalents	<u>207,816</u>
TOTAL CASH AND CASH EQUIVALENTS	<u>\$ 3,805,755</u>

See notes to financial statements.

NOTES TO FINANCIAL STATEMENTS

SOUTHEASTERN OKLAHOMA STATE UNIVERSITY

June 30, 2013

NOTE A--SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

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

Reporting Entity: The financial reporting entity, as defined by Governmental Accounting Standards Board ("GASB") Statement No. 14, *The Financial Reporting Entity*, and as amended by GASB Statement No. 39, *Determining Whether Certain Organizations Are Component Units*, and Statement No. 61, *The Financial Reporting Entity--Omnibus--An Amendment of GASB Statements No. 14 and No. 34*, consists of the primary government, organizations for which the primary government is financially accountable, and other organizations for which the nature and significance of their relationship with the primary government are such that exclusion could cause the financial statements to be misleading. The accompanying financial statements include the accounts and funds of the University and its discretely presented component unit, Southeastern Foundation, Inc. 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 Units: Southeastern Foundation, Inc. (the "Foundation"), is a legally separate, tax-exempt component unit 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. Because these restricted resources held by the Foundation can only be used by, or for the benefit of, the University, the Foundation is considered a component unit of the University, and its financial statements are discretely presented in the University's financial statements. A complete report of the Foundation's financial statements and footnotes can be requested from the Foundation's director.

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

Financial Statement Presentation: The University's financial statements are presented in accordance with the requirements of GASB Statement No. 34, *Basic Financial Statement and Management's Discussion and Analysis - for State and Local Governments*, and GASB Statement No. 35, *Basic Financial Statements and Management's Discussion and Analysis for Public Colleges and Universities*.

NOTES TO FINANCIAL STATEMENTS--Continued

SOUTHEASTERN OKLAHOMA STATE UNIVERSITY

June 30, 2013

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

Financial Statement Presentation--Continued: Under GASB Statements No. 34 and 35, the University is required to present a statement of net position classified between current and noncurrent assets and liabilities and deferred outflows and inflows; a statement of revenues, expenses, and changes in net position, with separate presentation for operating and nonoperating revenues and expenses; and a statement of cash flows using the direct method.

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

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

Deposits and 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*. In accordance with GASB Statement No. 40, *Deposit and Investment Risk Disclosures*, the University has disclosed its deposit and investment policies related to the risks identified in GASB Statement No. 40. Changes in unrealized gain (loss) on the carrying value of investments are reported as a component of investment income in the statements of revenues, expenses, and changes in net position.

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

Accounts Receivable: Accounts receivable consist 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. Student accounts receivable are carried at the unpaid balance of the original amount billed to students, less an estimate made for doubtful accounts based on a review of all outstanding amounts. Management determines the allowance for doubtful accounts by identifying troubled accounts and by using historical experience applied to an aging of accounts. A student account receivable is considered to be past due if any portion of the receivable balance is outstanding after the end of the semester.

NOTES TO FINANCIAL STATEMENTS--Continued

SOUTHEASTERN OKLAHOMA STATE UNIVERSITY

June 30, 2013

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

Accounts Receivable--Continued: 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. Other accounts receivable also include the distribution from the Oklahoma State Regents' endowment trust fund. No allowance for doubtful accounts has been provided for other receivables.

Capital Assets: Capital assets are recorded at cost at the date of acquisition, or fair market value at the date of donation in the case of gifts. For equipment, the University's capitalization policy includes all items with a unit cost of \$5,000 or more and an estimated useful life of greater than one year. Renovations to buildings, infrastructure, and land improvements that significantly increase the value or extend the useful life of the structure are capitalized. Routine repairs and maintenance are charged to operating expense in the year in which the expense was incurred.

Depreciation is computed using the straight-line method over the estimated useful lives of the assets, generally 40 to 60 years for buildings; 10 to 30 years for infrastructure, land improvements, and building renovations; and 5 to 10 years for library materials and equipment.

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

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

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

Deferred Outflows of Resources: Deferred outflows are the consumption of net position by the University that is applicable to a future reporting period. At June 30, 2013, the University's deferred outflows of resources were comprised of deferred charges on capital lease restructure.

Deferred Inflows of Resources: Deferred inflows are the acquisition of net position by the University that is applicable to a future reporting period. At June 30, 2013, the University has no deferred inflows of resources.

NOTES TO FINANCIAL STATEMENTS--Continued

SOUTHEASTERN OKLAHOMA STATE UNIVERSITY

June 30, 2013

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

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

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

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

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

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

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. However, the University may be subject to income taxes on unrelated business income under Internal Revenue Code Section 511(a)(2)(b).

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

NOTES TO FINANCIAL STATEMENTS--Continued

SOUTHEASTERN OKLAHOMA STATE UNIVERSITY

June 30, 2013

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

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

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

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

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

New Accounting Pronouncements Adopted in Fiscal Year 2013: The University adopted several new accounting pronouncements during the year ended June 30, 2013 as follows:

- *Statement No. 60, Accounting and Financial Reporting for Service Concession Arrangements.*
GASB No. 60 addresses issues related to service concession arrangements (SCAs), which are a type of public-private or public-public partnership. This Statement applies only to those arrangements in which specific criteria determining whether a transferor has control over the facility are met. The University will only be required to adopt the provisions of GASB No. 60 if it enters into an SCA, and it currently has not entered into any such arrangements.

NOTES TO FINANCIAL STATEMENTS--Continued

SOUTHEASTERN OKLAHOMA STATE UNIVERSITY

June 30, 2013

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

New Accounting Pronouncements Adopted in Fiscal Year 2013--Continued:

- *Statement No. 61, The Financial Reporting Entity: Omnibus - An Amendment of GASB Statements No. 14 and No. 34.*

GASB No. 61 modifies certain requirements for inclusion of component units in the financial reporting entity. This Statement also amends the criteria for reporting component units as if they were part of the primary government (that is, blending) in certain circumstances. The adoption of GASB No. 61 did not have an impact on the University's financial statement presentation.

- *Statement No. 62, Codification of Accounting and Financial Reporting Guidance Contained in Pre-November 30, 1989 FASB and AICPA Pronouncements.*

GASB No. 62 is intended to enhance the usefulness of its Codification by incorporating guidance that previously could only be found in certain FASB and AICPA pronouncements. The adoption of GASB No. 62 did not have an impact on the University's financial position or changes in financial position or cash flows or its financial statement presentation.

- *Statement No. 63, Financial Reporting of Deferred Outflows of Resources, Deferred Inflows of Resources, and Net Position.*

GASB No. 63 provides financial reporting guidance for deferred outflows of resources and deferred inflows of resources. Previous financial reporting standards do not include guidance for reporting those financial statement elements, which are distinct from assets and liabilities. Adoption of this statement has required the University to make changes in its financial statement presentation and required certain financial statement elements previously reported as assets to be reported as deferred outflows of resources.

- *Statement No. 65, Items Previously Reported as Assets and Liabilities.*

GASB Statement No. 65 establishes accounting and financial reporting standards that reclassify as deferred outflows of resources or deferred inflows of resources certain items that were previously reported as assets and liabilities and recognizes as outflows of resources (expenses) or inflows of resources (revenues) certain items that were previously recognized as assets and liabilities. The University has chosen to early adopt GASB Statement No. 65 in 2013. The adoption of GASB No. 65 required the University to adjust \$239,482 of bond issuance costs to net position as of July 1, 2012. The University's net position was previously reported as \$27,868,127 and has been adjusted to \$27,628,645 as a result of adopting GASB No. 65.

NOTES TO FINANCIAL STATEMENTS--Continued

SOUTHEASTERN OKLAHOMA STATE UNIVERSITY

June 30, 2013

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

New Accounting Pronouncements Issued Not Yet Adopted: The GASB has also issued several new accounting pronouncements which will be effective to the University in subsequent years. A description of the new accounting pronouncements, the fiscal year in which they are effective, and the University's consideration of the impact of these pronouncements are described below:

Fiscal Year Ended June 30, 2014

- *Statement No. 70, Accounting and Financial Reporting for Nonexchange Financial Guarantees.*

GASB No. 70 requires a government that extends a nonexchange financial guarantee to recognize a liability when qualitative factors and historical data, if any, indicate that it is more likely than not that the government will be required to make a payment on the guarantee. The government is required to report the guaranteed obligation until it is legally released as an obligor, and when it is legally released, it should recognize revenue as a result of this release. The provisions of this Statement are effective for reporting periods beginning after June 15, 2013. Earlier application is encouraged. Except for certain disclosure requirements which may be applied prospectively, the provisions of this Statement are required to be applied retroactively. The University has not yet evaluated the effects that GASB No. 70 will have on its financial statements.

Fiscal Year Ended June 30, 2015

- *Statement No. 68, Accounting and Financial Reporting for Pensions, an Amendment of GASB Statement No. 27.*

GASB No. 68 establishes standards for measuring and recognizing liabilities, deferred outflows of resources, deferred inflows of resources, and pension expenses. GASB No. 68 also details the recognition and disclosure requirements for employers with liabilities to a defined benefit pension plan and for employers whose employees are provided with defined contribution pensions. Defined benefit pensions are further classified by GASB No. 68 as single employer plans, agent employer plans, and cost-sharing plans, and recognition and disclosure requirements are addressed for each classification. GASB No. 68 was issued in June 2012, and implementation guidance is expected to be issued in November 2013. Although the University has not yet quantified the impact that GASB No. 68 will have on its financial statements, it believes that adoption will result in a significant decrease in its Net Position.

- *Statement No. 69, Government Combinations and Disposals of Government Operations.*

GASB No. 69 was issued in January 2013 and establishes accounting and financial reporting standards related to government combinations and disposals of government operations. Government combinations can include a variety of transactions, including mergers, acquisitions, and transfers of operations. A disposal of a government's operations results in the removal of specific activities of a government. The requirements of this Statement are effective for government combinations and disposals of government operations occurring in financial reporting periods beginning after December 15, 2013, and should be applied on a prospective basis. Earlier application is encouraged.

NOTES TO FINANCIAL STATEMENTS--Continued

SOUTHEASTERN OKLAHOMA STATE UNIVERSITY

June 30, 2013

NOTE B--DEPOSITS AND INVESTMENTS

Deposits: Custodial credit risk for deposits is the risk that in the event of a bank failure, the University's deposits may not be returned or the University will not be able to recover collateral securities in the possession of an outside party. Generally, the University deposits its funds with the Office of the State Treasurer ("OST"), and those funds are pooled with funds of other state agencies and then, in accordance with statutory limitations, are placed in financial institutions or invested as the OST may determine, in the state's name. State statutes require the OST to ensure that all state funds are either insured by Federal Deposit Insurance, collateralized by securities held by the cognizant Federal Reserve Bank, or invested in U.S. government obligations. The OST's responsibilities include receiving and collateralizing the deposit of State funds, investing State funds in compliance with statutory requirements, and maintaining adequate liquidity to meet the cash flow needs of the State and all its funds and agencies. If the University deposits funds directly with financial institutions, those funds must be insured by Federal Deposit Insurance Corporation ("FDIC") 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 obligations of the United States Government, its agencies and instrumentalities, including agency senior debt and mortgage-backed pass-through securities, tri-party repurchase agreements, money market mutual funds, collateralized certificates of deposit, commercial paper, obligations of state and local governments, State of Israel Bonds, and various other investments, as allowed by law.

At June 30, 2013, the bank balance of all University deposits with the OST and other financial institutions was \$3,745,286. This amount consisted of deposits with the OST (\$3,735,419), unremitted collections by a third party (\$2,477), and change funds (\$7,390). Of funds on deposit with the OST, amounts invested in *OK INVEST* total \$2,674,466 in 2013. The differences between the bank balance of deposits and the related carrying amounts were generally not significant and are due to outstanding checks and deposits in transit.

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* is as follows at June 30, 2013:

OK INVEST Portfolio	Cost	Market Value
U.S. Agency Securities	\$ 1,051,287	\$ 1,046,842
Money Market Mutual Fund	250,963	250,963
End of Day Commerical Paper Sweep	56,213	56,213
Certificates of Deposit	68,321	68,321
Mortgage Backed Agency Securities	1,149,227	1,154,870
Municipal Bonds	45,056	49,874
Foreign Bonds	21,125	21,112
U.S. Treasury Obligations	32,274	39,384
TOTAL	<u>\$ 2,674,466</u>	<u>\$ 2,687,579</u>

NOTES TO FINANCIAL STATEMENTS--Continued

SOUTHEASTERN OKLAHOMA STATE UNIVERSITY

June 30, 2013

NOTE B--DEPOSITS AND INVESTMENTS--Continued

Deposits--Continued: Agencies and funds that are considered to be part of the State's reporting entity in the State's Comprehensive Annual Financial Report are allowed to participate in *OK INVEST*. Oklahoma statutes and the OST establish the primary objectives and guidelines governing the investment of funds in *OK INVEST*. Safety, liquidity, and return on investment are the objectives which establish the framework for the day to day *OK INVEST* management with an emphasis on safety of the capital and the probable income to be derived and meeting the State and its funds and agencies' daily cash flow requirements. Guidelines in the Investment Policy address credit quality requirements, diversification percentages and specify the types and maturities of allowable investments, and the specifics regarding these policies can be found on the OST website at <http://www.treasurer.state.ok.us/>. The State Treasurer, at his discretion, may further limit or restrict such investments on a day to day basis. *OK INVEST* includes a substantial investment in securities with an overnight maturity as well as in U.S. government securities with a maturity of up to ten years. *OK INVEST* maintains an overall weighted average maturity of no more than four years.

Participants in *OK INVEST* maintain an interest in its underlying investments and, accordingly, may be exposed to certain risks. As stated in the OST information statement, the main risks are interest rate risk, credit/default risk, liquidity risk, and U.S. government securities risk. Interest rate risk is the risk that during periods of rising interest rates, the yield and market value of the securities will tend to be lower than prevailing market rates; in periods of falling interest rates, the yield will tend to be higher. Credit/default risk is the risk that an issuer or guarantor of a security, or a bank or other financial institution that has entered into a repurchase agreement, may default on its payment obligations.

Liquidity risk is the risk that *OK INVEST* will be unable to pay redemption proceeds within the stated time period because of unusual market conditions, an unusually high volume of redemption requests, or other reasons. U.S. Government securities risk is the risk that the U.S. government will not provide financial support to U.S. government agencies, instrumentalities, or sponsored enterprises if it is not obligated to do so by law. Various investment restrictions and limitations are enumerated in the State Treasurer's Investment Policy to mitigate those risks; however, any interest in *OK INVEST* is not insured or guaranteed by the State of Oklahoma, the FDIC, or any other government agency.

NOTES TO FINANCIAL STATEMENTS--Continued

SOUTHEASTERN OKLAHOMA STATE UNIVERSITY

June 30, 2013

NOTE B--DEPOSITS AND INVESTMENTS--Continued

Investments: Investment *credit risk* is the risk that an issuer or other counterparty to an investment will not fulfill its obligations. Generally, the University's investments are managed by the State Treasurer. In accordance with state statutes, the State Treasurer may only purchase and invest in (a) obligations of the United States government, its agencies, and instrumentalities; (b) prime banker's acceptances; (c) investment grade obligations of state and local governments; (d) money market funds; (e) collateralized or insured certificates of deposits; (f) negotiable certificates of deposits; (g) prime commercial paper; and (h) repurchase agreements. *Interest rate risk* is the risk that changes in interest rates will adversely affect the fair value of an investment. Investments that are held for longer periods of time are subject to increased risk of adverse interest changes. Neither the University nor state statutes limit investment maturities as a means of managing exposure to fair value losses arising from increasing interest rates; however, the OST Investment Policy limits the average maturity on its portfolio to four (4) years, with certain individual securities having more restrictive limits as defined in the policy. *Concentration of credit risk* is the risk of loss attributed to the magnitude of the University's investment in a single issuer. Neither the University's investment policy nor state statutes place limits on amounts that can be invested in any one issuer; however, the OST Investment Policy states that, with the exception of U.S. Treasury securities, no more than 50% of the State's total funds may be invested in a single security type or with a single financial institution, with diversification percentages being more restrictive on individual securities. *Custodial credit risk* for investments is the risk that, in the event of failure of the counterparty, the University will not be able to recover the value of its investments or collateral securities in the possession of an outside party. As of June 30, 2013, none of the University's investments were subject to custodial credit risk.

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

At June 30, 2013, the University had no cash and investments in restricted bond funds.

Investments Held by Others: At June 30, 2013, the University had investments in money market funds totaling \$18,795, related to the Oklahoma Development Finance Authority Master Lease Program ("ODFA"). These funds had a fair market value of \$18,795 at June 30, 2013. 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, 2013, according to Standard and Poor's.

NOTES TO FINANCIAL STATEMENTS--Continued

SOUTHEASTERN OKLAHOMA STATE UNIVERSITY

June 30, 2013

NOTE C--ACCOUNTS RECEIVABLE

Accounts receivable consisted of the following at June 30, 2013:

Student tuition and fees	\$ 1,856,627
Auxiliary enterprises and other operating activities	353,696
Federal, state, and private grants and contracts	390,165
	<u>2,600,488</u>
Less: allowance for doubtful accounts	<u>(1,153,700)</u>
Net accounts receivable	<u>\$ 1,446,788</u>

NOTE D--CAPITAL ASSETS

Following are the changes in capital assets for the year ended June 30, 2013:

	Balance June 30, 2012	Additions	Transfers	Retirements/ Adjustments	Balance June 30, 2013
Capital assets not being depreciated:					
Land	\$ 3,181,449	\$ -	\$ -	\$ (125,716)	\$ 3,055,733
Capitalized collections	259,300	112,535	-	-	371,835
Construction in progress	514,324	4,723,484	(5,180,541)	-	57,267
Total capital assets not being depreciated	<u>\$ 3,955,073</u>	<u>\$ 4,836,019</u>	<u>\$ (5,180,541)</u>	<u>\$ (125,716)</u>	<u>\$ 3,484,835</u>
Other capital assets:					
Non-major infrastructure networks	\$ 10,790,054	\$ -	\$ 1,189,110	\$ -	\$ 11,979,164
Improvements	2,622,681	-	53,250	-	2,675,931
Buildings	72,175,533	-	3,938,181	-	76,113,714
Furniture, fixtures and equipment	8,019,082	463,437	-	(313,360)	8,169,159
Library materials	6,826,165	66,447	-	(62,749)	6,829,863
Total other capital assets	100,433,515	529,884	5,180,541	(376,109)	105,767,831
Less: accumulated depreciation for:					
Non-major infrastructure networks	(6,860,639)	(989,439)	-	-	(7,850,078)
Improvements	(2,147,848)	(137,252)	-	-	(2,285,100)
Buildings	(28,934,152)	(2,053,416)	-	-	(30,987,568)
Furniture, fixtures and equipment	(7,457,280)	(329,236)	-	311,905	(7,474,611)
Library materials	(6,677,374)	(83,713)	-	61,230	(6,699,857)
Total accumulated depreciation	<u>(52,077,293)</u>	<u>(3,593,056)</u>	<u>-</u>	<u>373,135</u>	<u>(55,297,214)</u>
Other capital assets, net	<u>\$ 48,356,222</u>	<u>\$ (3,063,172)</u>	<u>\$ 5,180,541</u>	<u>\$ (2,974)</u>	<u>\$ 50,470,617</u>
Capital asset summary:					
Capital assets not being depreciated	\$ 3,955,073	\$ 4,836,019	\$ (5,180,541)	\$ (125,716)	\$ 3,484,835
Other capital assets, at cost	100,433,515	529,884	5,180,541	(376,109)	105,767,831
Total cost of capital assets	104,388,588	5,365,903	-	(501,825)	109,252,666
Less: accumulated depreciation	<u>(52,077,293)</u>	<u>(3,593,056)</u>	<u>-</u>	<u>373,135</u>	<u>(55,297,214)</u>
Capital assets, net	<u>\$ 52,311,295</u>	<u>\$ 1,772,847</u>	<u>\$ -</u>	<u>\$ (128,690)</u>	<u>\$ 53,955,452</u>

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

NOTES TO FINANCIAL STATEMENTS--Continued

SOUTHEASTERN OKLAHOMA STATE UNIVERSITY

June 30, 2013

NOTE E--LONG-TERM LIABILITIES

Long-term liability activity for the year ended June 30, 2013, was as follows:

	Balance June 30, 2012	Additions	Reductions	Balance June 30, 2013	Amounts due within one year
Bonds payable and capital lease obligations:					
Revenue bonds payable	\$ 6,175,000	\$ -	\$ (260,000)	\$ 5,915,000	\$ 270,000
OCIA Leases	11,430,582	-	(109,746)	\$ 11,320,836	397,763
ODFA Leases	11,701,258	-	(942,000)	10,759,258	1,065,750
Capital lease obligation	1,974,625	-	(184,530)	1,790,095	192,410
Total bonds and capital leases	31,281,465	-	(1,496,276)	29,785,189	1,925,923
Other liabilities:					
Accrued compensated absences	1,116,641	708,095	(710,204)	1,114,532	744,645
Total other liabilities	1,116,641	708,095	(710,204)	1,114,532	744,645
Total long-term liabilities	\$ 32,398,106	\$ 708,095	\$ (2,206,481)	\$ 30,899,720	\$ 2,670,568

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

At June 30, 2013, future maturities of principal and interest requirements on the Bonds payable are as follows:

Year Ending June 30:	Principal	Interest	Total
2014	\$ 270,000	\$ 256,521	\$ 526,521
2015	280,000	247,071	527,071
2016	290,000	236,851	526,851
2017	300,000	225,976	525,976
2018	310,000	214,426	524,426
2019-2023	1,760,000	865,756	2,625,756
2024-2028	2,200,000	430,781	2,630,781
2029-2032	505,000	23,356	528,356
	<u>\$ 5,915,000</u>	<u>\$ 2,500,740</u>	<u>\$ 8,415,740</u>

NOTES TO FINANCIAL STATEMENTS--Continued

SOUTHEASTERN OKLAHOMA STATE UNIVERSITY

June 30, 2013

NOTE E--LONG-TERM LIABILITIES--Continued

Capital Lease Obligations:

Oklahoma Capital Improvement Authority Leases

In 2004, the Oklahoma Capital Improvement Authority Leases ("OCIA") issued bond series 2004A that refunded a significant portion of the 1999A bonds. The amortization of the 1999A bond issue ended in 2010. The lease agreement no longer secures the 1999A bond issue but now acts as security for the 2004A bond issue over the term of the lease through the year 2020. The University has drawn down all of its allotment for expenditures incurred in connection with specific projects which have been capitalized as capital assets (building and construction in-progress) in accordance with University policy. The University has recorded a lease obligation payable to OCIA for the total amount of the allotment, less payments made on the University's behalf, which is \$805,970 at June 30, 2013.

In November 2005, OCIA issued its OCIA Bond Issues, 2005 Series F and G. Of the total bond indebtedness, the State Regents Higher Education allocated the University \$10,662,758. 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. 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, which is \$6,904,333 at June 30, 2013.

In 2011, the OCIA issued Bond Series 2010A and 2010B to partially refund the Series 2005F Revenue Bonds. The advance partial refunding was to provide budgetary relief for fiscal years 2011 and 2012 by extending and restructuring the debt service. As a result, the total liability of the remaining 2005F bonds combined with the new 2010A and 2010B bond issues will be more than the original outstanding liability for the 2005F bonds. Consequently, the lease agreement with OCIA was automatically restructured to secure the new bond issues. This lease restructuring has extended certain principal payments into the future, resulting in a charge or cost on restructuring. The University has recorded a charge of \$927,419 on restructuring as a deferred outflow of resources that will be amortized over a period of six years. As of June 30, 2013, the unamortized cost totaled \$463,710. This restructuring resulted in an aggregate debt service difference for principal and interest between the original lease agreement and the restructured lease agreement of \$45,806, which also approximates the economic cost of the lease restructuring. Although this restructuring resulted in a cost to the University, it is anticipated that the on-behalf payments provided to cover the original lease agreement will also cover the deferred lease restructuring charge. 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, which is \$3,610,533 at June 30, 2013.

NOTES TO FINANCIAL STATEMENTS--Continued

SOUTHEASTERN OKLAHOMA STATE UNIVERSITY

June 30, 2013

NOTE E--LONG-TERM LIABILITIES--Continued

Capital Lease Obligations--Continued:

Oklahoma Capital Improvement Authority Leases--Continued

Through June 30, 2013, the University has drawn down its total allotment for expenditures incurred in connection with specified projects which have been capitalized as capital assets in accordance with University policy. There are no remaining funds to be drawn down by the University at June 30, 2013. 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 ended June 30, 2013, OCIA made lease principal and interest payments totaling \$297,353 on behalf of the University. These on-behalf payments have been recorded as restricted state appropriations in the statement of revenues, expenses, and changes in net position.

Oklahoma Development Finance Authority Master Lease Program

Master Leases payable consisted of the following at June 30, 2013:

ODFA Oklahoma State System of Higher Education Master Lease Revenue Bonds, Series 2002C refinanced to 2011B, allocated to the University in the refinanced amount of \$4,964,000 and mature in varying annual amounts to December 1, 2022.	\$ 4,777,417
ODFA Oklahoma State System of Higher Education Master Lease Revenue Bonds, Series 2003B, allocated to the University in the original amount of \$250,000 and mature in varying annual amounts to July 1, 2023.	150,000
ODFA Oklahoma State System of Higher Education Master Lease Revenue Bonds, Series 2004C, allocated to the University in the original amount of \$3,563,000 and mature in varying annual amounts to December 1, 2024.	2,356,583
ODFA Oklahoma State System of Higher Education Master Lease Revenue Bonds, Series 2006A, allocated to the University in the original amount of \$1,971,000 and mature in varying annual amounts to December 1, 2021.	1,239,500
ODFA Oklahoma State System of Higher Education Master Lease Revenue Bonds, Series 2006B, allocated to the University in the original amount of \$1,200,000 and mature in varying annual amounts to June 1, 2016.	401,758
ODFA Oklahoma State System of Higher Education Master Lease Revenue Bonds, Series 2007B, allocated to the University in the original amount of \$2,518,000 and mature in varying annual amounts to December 1, 2022.	1,834,000
	<u>\$ 10,759,258</u>

NOTES TO FINANCIAL STATEMENTS--Continued

SOUTHEASTERN OKLAHOMA STATE UNIVERSITY

June 30, 2013

NOTE E--LONG-TERM LIABILITIES--Continued

Capital Lease Obligations--Continued:

Oklahoma Development Finance Authority Master Lease Program--Continued

There were no remaining funds to be drawn down by the University under the ODFA master lease programs at June 30, 2013.

In 2011, the ODFA issued Bond Series 2011B to refund the Series 2002C Master Lease Revenue Bonds. As a result, the total liability of the remaining 2002C bonds combined with the new 2011B bond issues will be more than the original outstanding liability for the 2002C bonds. The University has recorded a charge of \$213,973 on restructuring as a deferred outflow of resources that will be amortized over the life of the Master Lease Revenue Bonds. As of June 30, 2013, the unamortized cost totaled \$181,553. This restructuring resulted in an aggregate debt service difference for principal and interest between the original lease agreement and the restructured lease agreement of \$448,000, which also approximates the economic cost of the lease restructuring. The lease agreement calls for monthly payments to ODFA in an amount that equals debt service requirements on the portion of the bonds used to finance the lease. The final payment is due December 1, 2022.

Suntrust Capital Lease

In March 2006, the University entered into a capital lease agreement with Suntrust Leasing Corporation for \$3,000,000 with annual rental payments of principal and interest to be paid through September 2020 bearing an annual interest rate of 4.26%. This capital lease was obtained to make building improvements. The University has recorded a lease obligation payable in the accompanying financial statements with an outstanding balance of \$1,790,095 at June 30, 2013.

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

	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
Year Ending June 30:			
2014	\$ 1,655,923	\$ 959,544	\$ 2,615,467
2015	2,205,619	895,823	3,101,442
2016	2,259,963	815,763	3,075,726
2017	2,346,622	783,168	3,129,790
2018	2,437,551	691,169	3,128,720
2019-2023	7,461,957	2,149,159	9,611,116
2024-2028	3,360,313	1,022,002	4,382,315
2029-2033	2,142,241	216,435	2,358,676
	<u>\$ 23,870,189</u>	<u>\$ 7,533,063</u>	<u>\$ 31,403,252</u>

NOTES TO FINANCIAL STATEMENTS--Continued

SOUTHEASTERN OKLAHOMA STATE UNIVERSITY

June 30, 2013

NOTE F--RETIREMENT PLANS

The University's academic and nonacademic personnel are covered by various retirement plans. The plans available to University personnel include the Oklahoma Teachers' Retirement System (the "OTRS"), which is a State of Oklahoma public employees' retirement system, the Teachers' Insurance Annuity Association, which is a defined contribution plan, and the Supplemental Retirement Annuity (SRA), a single employer defined benefit pension plan available to employees hired prior to July 1, 1995. 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 OTRS, a cost-sharing multiple-employer defined benefit pension plan sponsored by the State of Oklahoma. The OTRS provides defined retirement benefits based on members' final compensation, age, and term of service. In addition, the retirement program provides for benefits upon disability and to survivors upon the death of eligible members. The benefit provisions are established and may be amended by the legislature of the State of Oklahoma. Title 70 of the Oklahoma Statutes, Sections 17-101 through 17-116.9, as amended, assigns the authority for management and operation of the Plan to the Board of Trustees of the OTRS. The 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 the OTRS. That report may be obtained by writing to Teachers' Retirement System of Oklahoma, P.O. Box 53524, Oklahoma City, Oklahoma 73152, or by calling (405) 521-2387.

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

Employees' contributions are also determined by state statute. For all employees, the contribution rate was 7% of covered salaries and fringe benefits in 2013, 2012, and 2011. For compensation in excess of \$25,000, the employee's contributions are paid directly by the University to the OTRS.

The University's contributions to the OTRS for the year ended June 30, 2013, 2012, and 2011 were approximately \$3,596,000, \$3,560,000, and \$3,502,000, respectively, equal to the required contributions for each year. These contributions included the University's statutory contribution and the share of the employee's contribution.

NOTES TO FINANCIAL STATEMENTS--Continued

SOUTHEASTERN OKLAHOMA STATE UNIVERSITY

June 30, 2013

NOTE F--RETIREMENT PLANS--Continued

Oklahoma Teachers' Retirement System (OTRS)--Continued

Funding Policy--Continued: The State of Oklahoma is also required to contribute to the OTRS on behalf of the participating employers. For 2013, the State of Oklahoma contributed 5% of state revenues from sales and use taxes and individual income taxes to the OTRS on behalf of participating employers. The University has estimated the amounts contributed to the OTRS by the State of Oklahoma on its behalf by multiplying the ratio of its covered salaries to total covered salaries to total covered salaries for the OTRS for the year by the applicable percentage of taxes collected during the year. For the year ended June 30, 2013, the total amount contributed to the OTRS by the State of Oklahoma on behalf of the University was approximately \$1,713,000. These on-behalf payments have been recorded as both revenues and expenses in the statements of revenues, expenses, and changes in net position.

Defined Contribution Plans

The University also has a defined contribution 403(b) plan ("DCP") available to full-time employees. The DCP is administered by the RUSO system, and the plan provisions are established and may be amended by the Board of Regents. Plan members may make voluntary contributions in accordance with Internal Revenue Service ("IRS") regulations. The University has no contribution requirements but may make discretionary contributions. No contributions were made during the year ended June 30, 2013.

Supplemental Retirement Annuity (SRA)

Plan Description: The University's SRA plan is a single employer, defined benefit pension plan administered by the University's Board of Regents. The SRA was established by the University's Board of Regents to provide supplemental retirement and death benefits to University employees who were hired prior to July 1, 1995, or to those eligible employees' beneficiaries. The authority to amend the SRA's benefit provisions rests with the University's Board of Regents. The SRA 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. Under a policy adopted in December 2002, the Plan must achieve 80% funding of the pension benefit obligation by December 1, 2022.

NOTES TO FINANCIAL STATEMENTS--Continued

SOUTHEASTERN OKLAHOMA STATE UNIVERSITY

June 30, 2013

NOTE F--RETIREMENT PLANS--Continued

Supplemental Retirement Annuity (SRA)--Continued

Annual Pension Cost and Net Pension Obligation (Asset): Annual pension cost and net pension obligation (asset) of the SRA for 2013 are as follows:

Annual required contribution	\$ 248,183
Interest on net pension obligation (asset)	(142,452)
Adjustment to annual required contribution	181,363
Annual pension cost	<u>287,094</u>
Contribution made	(739,220)
Increase in net pension obligation (asset)	(452,126)
Net pension obligation (asset) beginning of year	<u>(1,780,646)</u>
Net pension obligation (asset) end of year	<u><u>\$ (2,232,772)</u></u>

The annual required contribution for 2013 was determined as part of an actuarial valuation on June 30, 2013, using the projected unit credit actuarial cost method. The actuarial assumptions included (a) a discount rate of 6.5% per year to determine the present value of future benefit payments; (b) retirement at age 63; (c) an 8% rate of return on investments; (d) projected salary increases of 2.5% per year; and (e) a 3.5% 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.

Trend Information:

<u>Year Ended</u> <u>June 30</u>	<u>Annual Pension</u> <u>Cost (APC)</u>	<u>Percentage of APC</u> <u>Contributed</u>	<u>Net Pension</u> <u>Obligation (Asset)</u>
2013	\$ 287,094	257%	\$ (2,232,772)
2012	276,866	231%	(1,780,646)
2011	323,589	185%	(1,416,747)

Funded Status and Funding Progress: The funded status of the plan as of June 30, 2013, was as follows:

Actuarial accrued liability (AAL)	\$ 4,862,791
Actuarial value of plan assets	<u>2,188,964</u>
Unfunded actuarial accrued liability (UAAL)	<u>\$ 2,673,827</u>
Funded ratio (actuarial value of plan assets/AAL)	45.0%
Covered payroll (active plan members)	\$ 2,929,129
UAAL as a percentage of covered payroll	91.3%

The schedule of funding progress, presented as required supplementary information, presents multi-year trend information, as available, about whether the actuarial value of plan assets are increasing or decreasing over time relative to the actuarial accrued liability for benefits.

NOTES TO FINANCIAL STATEMENTS--Continued

SOUTHEASTERN OKLAHOMA STATE UNIVERSITY

June 30, 2013

NOTE G--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, 2013, there were 374 participants in the plan. The retirement insurance program was adopted by the Board of Regents in 1985. In March of 2008, the Retiree Medical Trust for Regional University System of Oklahoma was established to hold assets and pay benefits on behalf of the University's postemployment healthcare plan, and was administered by The Bank Oklahoma, N.A. Prior to the establishment of the trust, the insurance benefits were accounted for on a pay-as-you-go basis so that premiums were made from current operating funds. The plan does not issue a stand-alone financial report nor is it included in the financial report of another entity.

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 ("ARC"), 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 \$268,909 and represents 1.2% of covered payroll.

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

Projections of benefits for financial reporting purposes are based on the substantive plan and include the types of benefits provided at the time of each valuation. The actuarial methods and assumptions used include techniques that are designed to reduce short-term volatility in actuarial accrued liabilities and the actuarial value of assets, consistent with the long-term perspective of the calculations. For the June 30, 2013, actuarial valuation, the projected unit cost method was used. The actuarial assumptions included a 7.0% investment rate of return and an annual healthcare cost inflationary increase of 8.5%.

NOTES TO FINANCIAL STATEMENTS--Continued

SOUTHEASTERN OKLAHOMA STATE UNIVERSITY

June 30, 2013

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

Postemployment Healthcare Plan--Continued

Annual OPEB Cost and Net OPEB Obligation (Asset): Annual OPEB cost and net OPEB obligation (asset) for 2013 are as follows:

Annual required contribution	\$ 268,909
Adjustment to annual required contribution	-
Annual OPEB cost	268,909
Contributions made	<u>(261,860)</u>
Increase (decrease) in net OPEB obligation	7,049
OPEB obligation (asset) at beginning of year	<u>122,794</u>
OPEB obligation (asset) at end of year	<u><u>\$ 129,843</u></u>

Funded and Funding Progress: The funded status of the plan as of June 30, 2013, was as follows:

Actuarial accrued liability (AAL)	\$ 2,750,491
Actuarial value of plan assets	<u>746,248</u>
Unfunded actuarial accrued liability (UAAL)	<u>\$ 2,004,243</u>
Funded ratio (actuarial value of plan assets/AAL)	27.1%
Covered payroll (active plan members)	\$ 22,724,800
UAAL as a percentage of covered payroll	8.8%

The schedule of funding progress, presented as required supplementary information, presents multi-year trend information, as available, about whether the actuarial value of plan assets are increasing or decreasing over time relative to the actuarial accrued liability for benefits.

Trend Information:

Fiscal Year Ended	Annual OPEB Cost	Annual OPEB Cost Contributed/Percentage	Net OPEB Obligation (Asset)
6/30/2013	\$ 268,909	97.4%	\$ 129,843
6/30/2012	265,527	101.6%	122,794
6/30/2011	282,055	102.5%	127,147

NOTES TO FINANCIAL STATEMENTS--Continued

SOUTHEASTERN OKLAHOMA STATE UNIVERSITY

June 30, 2013

NOTE H--FUNDS HELD IN TRUST BY OTHERS

Beneficial Interest in State School Land Funds: The University has a beneficial interest in the "Section Thirteen Fund State Educational Institutions" and the "New College Fund" administered by the Commissioners of the Land Office as trustees for the various educational institutions entitled thereto. The University has the right to receive annually 3.7% of the distributions of income produced by "Section Thirteen Fund State Educational Institutions" assets and 100% of the distributions of income produced by Southeastern Oklahoma State University's "New College Fund." The University received approximately \$1,274,000 during the year ended June 30, 2013, which is restricted to the construction or acquisition of buildings, equipment, or other capital items. This amount is recorded as restricted appropriations for capital purposes in the statement of revenues, expenses, and changes in net position. State law prohibits the distribution of any corpus of these funds to the beneficiaries. The total cost basis of the trust reserve for Southeastern Oklahoma State University, held in trust by the commissioners of Land Office, was approximately \$16,010,000 at June 30, 2013.

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 4.5% of the market value at year-end of 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 \$684,000 at June 30, 2013, have been reflected as assets in the statement of net position. 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, 2013 was approximately \$4,268,000.

NOTE I--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 year ended June 30, 2013, total support provided by the Foundation to the University, including scholarships awarded to University students, was approximately \$894,000. Additionally, during the year ended June 30, 2013, the Foundation's consolidated Housing L.L.C., which was organized for the purpose of building and housing students of the University, incurred expenses of \$1,098,644.

NOTES TO FINANCIAL STATEMENTS--Continued

SOUTHEASTERN OKLAHOMA STATE UNIVERSITY

June 30, 2013

NOTE J--COMMITMENTS AND CONTINGENCIES

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

The University participates in the Federal Direct Student Loan Program (Direct Lending Program). The William D. Ford Direct Loan Program requires the University to draw down cash from the U.S. Department of Education, as well as perform certain administrative functions under the William D. Ford Direct Loan Program. For the year ended June 30, 2013, approximately \$12,102,578 of Direct Loan Program loans was provided to University students.

During the ordinary course of business, the University may be subjected to various lawsuits and civil action claims. Management believes that resolution of any such matters pending at June 30, 2013, will not have material adverse impact to the University.

NOTE K--RISK MANAGEMENT

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

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

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

NOTES TO FINANCIAL STATEMENTS--Continued

SOUTHEASTERN OKLAHOMA STATE UNIVERSITY

June 30, 2013

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

Nature of Activities and Summary of Significant Accounting Policies

Principles of Consolidation: The accompanying financial statements reflect all accounts of Southeastern Foundation, Inc. (the "Foundation") and its wholly owned subsidiary SOSU Foundation, L.L.C. (the "L.L.C."). All Trustees of the Foundation also serve as Trustees of the L.L.C.

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

As gifts are received by the Foundation, they are placed into new or existing funds, as appropriate, in accordance with the stipulations of the donors. When a donor restriction is satisfied, that is, when a stipulated time restriction ends or a purpose restriction is accomplished, temporarily restricted net assets are reclassified to unrestricted net assets and reported in the consolidated statements of activities and changes in net assets released from restrictions.

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

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

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

Basis of Accounting: These financials have been prepared on the accrual basis of accounting.

Basis of Presentation: The organization 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.

Revenues are reported as increases in unrestricted net assets unless use of the related assets is limited by donor-imposed restrictions. Expenses are reported as decreases in unrestricted net assets. Gains or losses on investments and other assets or liabilities are reported as increases or decreases in unrestricted net assets unless their use is restricted by explicit donor stipulation or by law.

NOTES TO FINANCIAL STATEMENTS--Continued

SOUTHEASTERN OKLAHOMA STATE UNIVERSITY

June 30, 2013

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

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

Cash and Cash Equivalents: For purposes of the statement of cash flows, the organization considers all highly liquid investments with an initial maturity of three months or less to be cash equivalents.

Deferred Revenue: A portion of the housing revenues from the summer session are deferred and recognized over the months to which the rents relate.

Donated Assets: Donated marketable securities and other noncash donations are recorded as contributions at their fair values at the date of donation.

Expense Allocation: Directly identifiable expenses are charged to programs and supporting services. Expenses related to more than one function are charged to programs and supporting services on the basis of periodic time and expense studies. Management and general expenses include those expenses that are not directly identifiable with any other specific function but provide for the overall support and direction of the Foundation.

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

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

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

Investments: Investments in marketable equity securities with readily determinable fair values are stated at fair value. The organization's investment committee monitors the performance of all investments and instructs Foundation management as to the mix of assets maintained in the investment pool. Unrealized gains and losses are included in the changes in net assets in the accompanying statement of activities. The Foundation carries its real estate investments at the fair market value as of the dates the investments were donated.

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.

NOTES TO FINANCIAL STATEMENTS--Continued

SOUTHEASTERN OKLAHOMA STATE UNIVERSITY

June 30, 2013

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

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

Investment Pools: The organization maintains master investment accounts for its donor restricted and board designated endowments. Realized and unrealized gains and losses from securities in the master investment accounts are allocated monthly to the individual endowments based on the relationship of the market value of each endowment to the market value of the master investment accounts, as adjusted for additions to or deductions from those accounts.

Property and Equipment: Land, buildings, equipment, and mineral interests are stated at cost if purchased or at fair value at date of donation. The buildings owned by the Foundation are being depreciated over estimated useful lives of 31.5 and 40 years on a straight-line basis. Furniture and fixtures are depreciated over 7 years on a straight-line basis. The Foundation follows the policy of capitalizing all expenditures for property in excess of \$2,500.

Collections: Collection items acquired on or after July 1, 2011 are recorded at cost if purchased and at fair value at date of accession if donated. Gains and losses from deaccessions are reported as changes in net assets on the absence or existence and nature of donor-imposed restrictions. Collection items are protected, kept, encumbered, cared for, and preserved.

Fair Value of Financial Instruments: The carrying amount of cash, accounts receivable, prepaid expenses, accounts payable, scholarships payable, deferred revenue approximate fair value because of the short-term maturity of these financial instruments.

Taxes: The Foundation is exempt from income taxes by the Internal Revenue Service in accordance with Internal Revenue Code 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.

Fair Value Measurements: The Foundation follows the ASC Topic 820, *Fair Value Measurements and Disclosures*, with respect to financial assets and liabilities. Topic 820 defines fair value, establishes a framework for measuring fair value, and expands disclosure about fair value measurements. Fair value is defined as the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. Topic 820 establishes a fair value hierarchy that prioritizes the inputs to valuations techniques used to measure fair value into three broad levels. The following is a brief description of those three levels.

Level 1: Quoted prices in active markets for identical assets or liabilities;

Level 2: Inputs that are derived principally from or corroborated by observable market data;
and

Level 3: Inputs that are unobservable and significant to the overall fair value measurement.

Financial assets carried at fair value on a recurring basis include investments. The Foundation has no liabilities carried at fair value on a recurring basis.

NOTES TO FINANCIAL STATEMENTS--Continued

SOUTHEASTERN OKLAHOMA STATE UNIVERSITY

June 30, 2013

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

Variable Interest Entity

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

The Housing LLC reflects liabilities of \$8,719,355 as of June 30, 2013, the majority of which is a guarantee of debt to the 2005 Revenue Bond.

Concentration of Contributions

During the current year, the organization received approximately \$1.2 million of its contribution revenues from four donors.

Concentration of Credit Risk for Cash Deposits

Financial instruments that potentially subject the Foundation to concentrations of credit risk consist principally of cash deposits. Accounts at each institution are insured by the Federal Deposit Insurance Corporation (FDIC) up to \$250,000. At June 30, 2013, the LLC was covered in full with the deposits that were eligible for FDIC coverage.

The Foundation has invested in the Charles Schwab money market fund. This fund is neither insured nor guaranteed by the FDIC or any other governmental agency. The total invested in this fund for the current year is \$2,300,983. 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. The total invested in this fund for the current year is \$2,553,772.

Restrictions on Cash

The Housing L.L.C. is required to maintain a permanent debt service escrow account and a capital maintenance reserve fund with balances of \$351,924 and \$168,856 respectively at year-end. These funds must be held in separate interest bearing accounts. The capital maintenance is being funded at a rate of \$2,083 per month; funds can only be disbursed for approved capital asset expenditures.

NOTES TO FINANCIAL STATEMENTS--Continued

SOUTHEASTERN OKLAHOMA STATE UNIVERSITY

June 30, 2013

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

Certificates of Deposits

Certificates of deposits totaling \$130,907 are reported in the accompanying statement of financial position. The certificates bear interest ranging from 0.4%-5.2% and have maturities ranging from six to nine months, with penalties for early withdrawal. Any penalties for early withdrawal would not have a material effect on the financial statements.

Accounts Receivable

The accounts receivable are generated from student housing at Shearer Hall and Suites and rent collections to be remitted from the University. The amounts reported in the financial statements are reported net of the allowance for bad debts of \$65,446 for the year ended June 30, 2013.

Notes Receivable

As of June 30, 2013, notes receivable consisted of the following:

	<u>Carrying Value</u>
Note receivable from a general partnership, 6.5% interest due in monthly installments of \$364. Secured by a mortgage on real estate.	\$ 15,912
	<u>\$ 15,912</u>

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, 2013, as quoted on major stock exchanges or over-the-counter markets.

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

	<u>Fair Value</u>	<u>Carrying Value</u>
US government securities	\$ 497,322	\$ 497,322
Mutual funds	1,506,447	1,506,447
Common stock	7,732,991	7,732,991
Corporate bonds	5,555,571	5,555,571
	<u>\$ 15,292,331</u>	<u>\$ 15,292,331</u>
Investment income is summarized as follows:		
Interest	\$ 399,628	
Dividends	237,547	
	<u>\$ 637,175</u>	
Realized and unrealized gain or (loss) on investments	<u>\$ 504,280</u>	

NOTES TO FINANCIAL STATEMENTS--Continued

SOUTHEASTERN OKLAHOMA STATE UNIVERSITY

June 30, 2013

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

Building, Furniture, and Fixtures

Property and equipment at June 30, 2013, consisted of the following:

Building	\$ 9,040,266
Furniture and equipment	<u>397,395</u>
	9,437,661
Less: accumulated depreciation	<u>(2,348,521)</u>
	<u>\$ 7,089,140</u>

Bond Issuance Costs

The issuance cost of \$184,681 on long-term debt is amortized using the straight-line method over the term of the related issue. Amortization expense and accumulated amortization was \$6,156 and \$51,313 for the year ended June 30, 2013.

Scholarship Awards

Prior to year-end, the Foundation Scholarship Committee meets and awards scholarships for the upcoming year. Additional scholarships are awarded as recommended by the University faculty and administration. These scholarships are contingent upon the acceptance and enrollment of the recipients and many contain additional requirements. Those scholarships awarded and accepted in the amount of \$253,900 were accrued as current liabilities at June 30, 2013.

Real Estate Lease

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

The liability of the Lessee, with respect to its obligation under the ground lease, shall be non-recourse and the satisfaction of any of the Lessee's obligations shall be limited to the Lessee's interest in the property.

There were no ground lease expenses for the years ended June 30, 2013.

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.

NOTES TO FINANCIAL STATEMENTS--Continued

SOUTHEASTERN OKLAHOMA STATE UNIVERSITY

June 30, 2013

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

Restriction on Net Assets

Substantially all of the restrictions on net assets at the end of June 30, 2013 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. Permanently restricted funds are contributions and investments designated by donors for endowments and scholarships. At this time, there is a minimum \$15,000 requirement before contributions may be endowed.

Long-Term Debt

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

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

Years ending June 30,	
2014	\$ 207,356
2015	219,313
2016	231,962
2017	245,340
2018	295,202
Thereafter	<u>7,520,182</u>
	<u>\$ 8,719,355</u>

Related Party Transactions

The Foundation has entered into a lease agreement with the University whereby the University has exclusive use of a downtown, main street building known as the Massey Building. The University may use the building for its various functions or rent it out. In exchange for the use of the Massey Building, the University provides the Foundation with office space, office supplies, support materials and fund-raising assistance from its employees. If the formula for exchange ever shows the University is giving more to the Foundation than the Foundation is providing to the University, the Foundation is required to compensate the University for this overage. There were no overages for the years ended June 30, 2013. The Foundation benefits from voluntary services, donated by members of the Foundation and its trustees, which have not been reflected in the financial statements. The impact of those services upon the financial statements is unknown.

NOTES TO FINANCIAL STATEMENTS--Continued

SOUTHEASTERN OKLAHOMA STATE UNIVERSITY

June 30, 2013

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

Uncertain Tax Positions

The organization is exempt from income taxes except on income derived from unrelated business activities. The organization believes that it has appropriate support for any tax positions taken, and as such, does not have any uncertain tax positions that are material to the financial statements. The organization's federal Exempt Organization Business Income Tax Returns for 2011, 2010, and 2009 are subject to examination by the IRS, generally for three years after they were filed.

Unrestricted Net Assets

The consolidated statement of net assets reports unrestricted net assets of \$1,008,912. Unrestricted net assets of the Foundation total \$1,964,783, while the L.L.C. has a (deficiency) in assets totaling \$(955,871). Included in Foundation net assets are board-designated permanently restricted funds totaling \$510,967. The L.L.C.'s deficiency in assets arose from operating deficits related to housing rental activities in the early years that were ultimately funded by University subsidies. The University will continue to pay unfunded expenses; however, management believes that the L.L.C.'s housing revenues have been adjusted so that it will now be self-sustaining and will not require further subsidies from the University. In the current year, the L.L.C. funded all of its allocable operating expenses.

Classification of Income

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

Board Designated Endowments

At its February 2013 meeting, the Board approved transferring \$275,000 from the Foundation's General Fund account along with \$235,967 of existing board-controlled endowment funds to a permanently restricted fund. At June 30, 2013, these funds total \$510,967. The Board voted that only current year earnings from these funds could be used for Foundation activities. Since this results from an internal designation and is not donor-restricted, it is classified and reported as unrestricted net assets in the Foundation financial statements.

NOTES TO FINANCIAL STATEMENTS--Continued

SOUTHEASTERN OKLAHOMA STATE UNIVERSITY

June 30, 2013

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

Donor Designated Endowments

The Organization's endowment consists of approximately 200 individual funds established for a variety of purposes. Its endowment includes both donor-restricted funds and funds designated by the Board of Trustees to function as endowments. As required by generally accepted accounting principles, net assets associated with endowment funds, including funds designated by the Board of Trustees to function as endowments, are classified and reported based on the existence or absence of donor-imposed restrictions.

The Board of Trustees of the Organization has interpreted the Uniform Prudent Management of Institutional Funds Act (UPMIFA) as requiring the preservation of the fair value of the original gift as of the gift date of the donor-restricted endowment funds absent explicit donor stipulations to the contrary. As a result of this interpretation, the Organization classifies as permanently restricted net assets (a) the original value of gifts donated to the permanent endowment, (b) the original value of subsequent gifts to the permanent endowment, and (c) accumulations to the permanent endowment made in accordance with the direction of the applicable donor gift instrument at the time the accumulation is added to the fund.

The remaining portion of the donor-restricted endowment fund that is not classified in permanently restricted net assets is classified as temporarily restricted net assets until those amounts are appropriated for expenditure by the Organization in a manner consistent with the standard of prudence prescribed by UPMIFA. In accordance with UPMIFA, the Organization considers the following factors in making a determination to appropriate or accumulate donor-restricted endowment funds: (1) the duration and preservation of the various funds, (2) the purposes of the donor-restricted endowment funds, (3) general economic conditions, (4) the possible effect of inflation and deflation, (5) the expected total return from income and the appreciation of investments, (6) other resources of the Organization, and (7) the Organization's investment policies.

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

NOTES TO FINANCIAL STATEMENTS--Continued

SOUTHEASTERN OKLAHOMA STATE UNIVERSITY

June 30, 2013

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

Donor Designated Endowments--Continued

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

Funds with Deficiencies: From time to time, the fair value of assets associated with individual donor restricted endowment funds may fall below the level that the donor requires the Foundation to retain as a fund of perpetual duration. In accordance with GAAP, deficiencies of this nature that are reported in unrestricted net assets were \$59,122 in 8 individual endowments as of June 30, 2013. These deficiencies resulted from unfavorable market fluctuations that occurred shortly after the investment of new permanently restricted contributions and continued appropriation for certain programs that was deemed prudent by the Board.

Endowment Net Asset Composition by Type of Fund as of June 30, 2013, is as follows:

	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Permanently Restricted</u>	<u>Total</u>
Donor restricted endowment funds	\$ 1,245,093	\$ 6,561,861	\$ 11,963,246	\$ 19,770,200

Changes in endowment net assets as of June 30, 2013, are as follows:

	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Permanently Restricted</u>	<u>Total</u>
Endowment net assets beginning of year	\$ 297,567	\$ 8,640,370	\$ 9,534,246	\$ 18,472,183
Contributions	29,958	1,125,486	399,000	1,554,444
Investment income	20,742	613,391	-	634,133
Net appreciation (depreciation)	31,402	534,676	-	566,078
Transfers	1,811,095	(4,352,062)	2,030,000	(510,967)
Amounts appropriated for expenditures	(945,671)	-	-	(945,671)
	<u>\$ 1,245,093</u>	<u>\$ 6,561,861</u>	<u>\$ 11,963,246</u>	<u>\$ 19,770,200</u>

NOTES TO FINANCIAL STATEMENTS--Continued

SOUTHEASTERN OKLAHOMA STATE UNIVERSITY

June 30, 2013

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

Fair Value Measurements

The Foundation has no liabilities measured at fair value. Assets measured at fair value on recurring basis are classified within the fair value hierarchy as follows at June 30, 2013:

	Level 1	Level 2	Level 3	Total
Investments in securities:				
Common stocks:				
Consumer Discretionary	\$ 492,040	\$ -	\$ -	\$ 492,040
Consumer Staples	477,795	-	-	477,795
Energy	2,459,317	-	-	2,459,317
Financials	779,598	-	-	779,598
Healthcare	869,192	-	-	869,192
Industrials	699,841	-	-	699,841
Information Technology	978,152	-	-	978,152
Materials	442,312	-	-	442,312
Telecommunications	447,656	-	-	447,656
Utilities	87,088	-	-	87,088
Corporate Bonds	-	3,240,703	-	3,240,703
Government Bonds	442,377	54,944	-	497,321
Municipal Bonds	-	2,314,868	-	2,314,868
Mutual Funds:				
Cash and equivalents	25,926	-	-	25,926
Equity Based:				
Consumer Services	4,987	-	-	4,987
Energy	6,315	-	-	6,315
Financials	2,166	-	-	2,166
Healthcare	8,542	-	-	8,542
Industrials	36,726	-	-	36,726
Media	2,032	-	-	2,032
Real Estate	2,320	-	-	2,320
Technology	2,119	-	-	2,119
Telecommunications	5,235	-	-	5,235
Utilities	4,056	-	-	4,056
Debt based:				
Corporate Bonds	-	471,548	-	471,548
Government Bonds	-	934,450	-	934,450
Municipal Bonds	26	-	-	26
Total Investments	<u>\$ 8,275,818</u>	<u>\$ 7,016,513</u>	<u>\$ -</u>	<u>\$ 15,292,331</u>

NOTES TO FINANCIAL STATEMENTS--Continued

SOUTHEASTERN OKLAHOMA STATE UNIVERSITY

June 30, 2013

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

Fair Value Measurements--Continued

Following is a description of methodologies used for investments measured at fair value on a recurring basis:

Investments: All of the Foundation's investments are valued by nationally recognized third party pricing services. The Foundation gives the highest priority to quoted market prices in active markets for identical assets accessed at the measurement date. An active market for an asset is a market in which transactions for the assets occur with sufficient frequency and volume to provide pricing information on an ongoing basis and the Foundation classifies all such assets as Level 1. The Foundation gives Level 2 priority where the valuation process involves inputs other than quoted prices included in Level 1 that are observable for the asset, either directly or indirectly. Level 2 inputs include quoted prices for similar assets in active markets, quoted prices for identical or similar assets in markets where there isn't sufficient activity, and/or where price quotations vary substantially either over time or among market makers, or in which little information is released publicly. Inputs that are observable for the assets classified as Level 2 include commonly quoted interest rates, yield curves, volatilities, prepayment speeds, loss severities, credit risks, default rates, and other inputs that are derived principally from or corroborated by observable market data.

Stocks and mutual funds: Stock valuations are determined from quoted prices in active markets. Mutual fund valuations are provided by the mutual fund companies.

Fixed income securities: The valuation of fixed income securities (which include corporate bonds, municipal bonds, government agencies, treasury bills, notes and bonds, and mortgage backed securities) can be determined by benchmark yields, reported trades, broker/dealer quotes, issuer spreads, two sided markets, benchmark securities' bids, and/or offers or other reference data.

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

Subsequent Events

Management has evaluated subsequent events through October 22, 2013, which is the date the financial statements were available to be issued.

REQUIRED SUPPLEMENTARY INFORMATION

REQUIRED SUPPLEMENTARY INFORMATION--UNAUDITED

SOUTHEASTERN OKLAHOMA STATE UNIVERSITY

June 30, 2013

SCHEDULE OF FUNDING PROGRESS FOR SUPPLEMENTARY RETIREMENT ANNUITY PLAN

Actuarial Valuation Date	Actuarial Value of Assets (a)	Actuarial Accrued Liability (AAL) (b)	Unfunded AAL (UAAL) (b-a)	Funded Ratio (a/b)	Covered Payroll (c)	UAAL as a percentage of Covered Payroll (b-a)/(c)
6/30/2006	\$ 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%
6/30/2009	1,147,055	3,970,285	2,823,230	28.9%	3,693,035	76.4%
6/30/2010	1,103,799	4,017,939	2,914,140	27.5%	3,394,321	85.9%
6/30/2011	1,443,647	3,829,056	2,385,409	37.7%	3,167,095	75.3%
6/30/2012	1,735,620	4,116,733	2,381,113	42.2%	2,988,555	79.7%
6/30/2013	2,188,964	4,862,791	2,673,827	45.0%	2,929,129	91.3%

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

SCHEDULE OF FUNDING PROGRESS FOR OTHER POST EMPLOYMENT INSURANCE BENEFITS

Actuarial Valuation Date	Actuarial Value of Assets (a)	Actuarial Accrued Liability (AAL) (b)	Unfunded AAL (UAAL) (b-a)	Funded Ratio (a/b)	Covered Payroll (c)	UAAL as a percentage of Covered Payroll (b-a)/(c)
6/30/2008	\$ -	2,111,419	\$ 2,111,419	0.0%	\$ 16,658,396	12.7%
6/30/2009	137,092	2,325,236	2,188,144	5.9%	21,420,468	10.2%
6/30/2010	245,102	2,409,147	2,164,045	10.2%	21,761,563	9.9%
6/30/2011	422,193	2,544,962	2,122,770	16.6%	22,129,689	9.6%
6/30/2012	572,063	2,655,695	2,083,632	21.5%	22,341,007	9.3%
6/30/2013	746,248	2,750,491	2,004,243	27.1%	22,724,800	8.8%

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

The actuarial valuation for the Supplemental Retirement Annuity Plan as of June 30, 2013, reflects changes in actuarial assumptions used to more accurately reflect management's expectation of the actuarial accrued liability based upon current economic conditions. See Note G for a description of assumptions used.

OTHER SUPPLEMENTARY INFORMATION

OTHER SUPPLEMENTARY INFORMATION

SOUTHEASTERN OKLAHOMA STATE UNIVERSITY

June 30, 2013

Summary of contract revenues and expenditures

Contract Title: Oklahoma Small Business Development

Contract Agency: Oklahoma Department of Commerce

Purchase Order Number: SBDC 1609009501

Contract Dates: July 1, 2012, to June 30, 2013

	Program Budget	Actual Year Ended June 30, 2013
Revenues:		
Contract proceeds	\$ 275,000	\$ 275,000
Expenditures:		
Salaries and fringe benefits	275,000	275,000
Total expenditures	-	-
(Expenditures) in excess of revenues	\$ -	\$ -

REPORTS REQUIRED BY
GOVERNMENT AUDITING STANDARDS
AND OMB CIRCULAR A-133

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

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

We have audited in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States, the financial statements of Southeastern Oklahoma State University (the "University"), a component unit of the State of Oklahoma, which comprise the statement of net position as of June 30, 2013, and the related statements of revenues, expenses, and changes in net position and cash flows for the year then ended, and the related notes to the financial statements, and have issued our report thereon dated October 29, 2013. Our report was modified to include a reference to other auditors who audited the financial statements of Southeastern Foundation, Inc. (the "Foundation"), the University's discretely presented component unit, as described in our report on the University's financial statements. The financial statements of the Foundation were not audited in accordance with *Government Auditing Standards*.

Internal Control Over Financial Reporting

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

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

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

Compliance and Other Matters

As part of obtaining reasonable assurance about whether 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, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

Purpose of this Report

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the University's internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the University's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

Cole & Reed P.C.

Oklahoma City, Oklahoma
October 29, 2013

Independent Auditors' Report
on Compliance for Each Major Federal Program;
Report on Internal Control Over Compliance; and Report on the
Schedule of Expenditures of Federal Awards Required by OMB Circular A-133

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

Report on Compliance for Each Major Federal Program

We have audited Southeastern Oklahoma State University's (the "University") compliance with the types of compliance requirements described in the *OMB Circular A-133 Compliance Supplement* that could have a direct and material effect on each of the University's major federal programs for the year ended June 30, 2013. The University's major federal programs are identified in the summary of auditors' results section of the accompanying schedule of findings and questioned costs.

Management's Responsibility

Management is responsible for compliance with the requirements of laws, regulations, contracts, and grants applicable to its federal programs.

Auditors' Responsibility

Our responsibility is to express an opinion on compliance for each of the University's major federal programs based on our audit of the types of compliance requirements referred to above. We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and OMB Circular A-133, *Audits of States, Local Government, 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 noncompliance 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 on compliance for each major federal program. However, our audit does not provide a legal determination of the University's compliance.



Opinion on Each Major Federal Program

In our opinion, the University complied, in all material respects, with the types of compliance requirements referred to above that could have a direct and material effect on each of its major federal programs for the year ended June 30, 2013.

Other Matters

The results of our auditing procedures disclosed instances of noncompliance, which are required to be reported in accordance with OMB Circular A-133 and which are described in the accompanying schedule of findings and questioned costs as Findings 2013-01 and 2013-03. Our opinion on each major federal program is not modified with respect to these matters.

The University's response to the noncompliance findings identified in our audit is described in the accompanying schedule of findings and questioned costs. The University's response was not subjected to the auditing procedures applied in the audit of compliance and, accordingly, we express no opinion on the response.

Subsequent to the issuance of this report dated October 29, 2013, we became aware of an instance of noncompliance with respect to the University's major program during the year ended June 30, 2013. This report replaces the previously issued report and includes Finding 2013-03 which was not previously reported.

Report on Internal Control Over Compliance

Management of the University is responsible for establishing and maintaining effective internal control over compliance with the types of compliance requirements referred to above. In planning and performing our audit of compliance, we considered the University's internal control over compliance with the types of requirements that could have a direct and material effect on each major federal program to determine the auditing procedures that are appropriate in the circumstances for the purpose of expressing an opinion on compliance for each major federal program and to test and report on the internal control over compliance in accordance with OMB Circular A-133, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of the University's internal control over compliance.

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

Our consideration of internal control over compliance was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over compliance that might be material weaknesses or significant deficiencies and therefore, material weaknesses or significant deficiencies may exist that were not identified. We did not identify any deficiencies in internal control over compliance that we consider to be material weaknesses. However, we identified certain deficiencies in internal control over compliance, as described in the accompanying schedule of findings and questioned costs as Findings 2013-01, 2013-02, and 2013-03 that we consider to be significant deficiencies.

The University's responses to the internal control over compliance findings identified in our audit are described in the accompanying schedule of findings and questioned costs. The University's responses were not subjected to the auditing procedures applied in the audit of compliance and, accordingly, we express no opinion on the responses.

The purpose of this report on internal control over compliance is solely to describe the scope of our testing of internal control over compliance and the results of that testing based on the requirements of OMB Circular A-133. Accordingly, this report is not suitable for any other purpose.

Report on Schedule of Expenditures of Federal Awards Required by OMB Circular A-133

We have audited the financial statements of the University as of and for the year ended June 30, 2013, and have issued our report thereon dated October 29, 2013, which contained an unmodified opinion on the financial statements. Our audit was conducted for the purpose of forming an opinion on the financial statements as a whole. The accompanying schedule of expenditures of federal awards is presented for the purposes of additional analysis as required by OMB Circular A-133 and is not a required part of the financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the financial statements. The information has been subjected to the auditing procedures applied in the audit of the financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements or to the financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the schedule of expenditures of federal awards is fairly stated in all material respects in relation to the financial statements as a whole.

Cole & Reed P.C.

Oklahoma City, Oklahoma
November 8, 2013

SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS

SOUTHEASTERN OKLAHOMA STATE UNIVERSITY

Year Ended June 30, 2013

Federal Grantor/Pass-Through Grantor/Program Title	CFDA Number	1213 Amount Expended
U.S. Department of Education		
Student Financial Aid**		
Federal Pell Grant Program	84.063	\$ 7,472,906
Federal Work Study Program	84.033	251,768
Supplemental Education Opportunity Grant	84.007	183,969
William D Ford Direct Loan Program	84.268	<u>12,102,578</u>
Total Student Financial Aid		20,011,222
Trio Cluster:		
Educational Opportunity Center	84.066A	388,261
Upward Bound	84.047A	450,342
Upward Bound-Math/Science	84.047M	266,544
Talent Search	84.044A	370,158
Student Support Services	84.042A	361,798
Texoma Upward Bound	84.047A	240,559
Student Support Services-Teacher Prep	84.042A	<u>217,617</u>
Total Trio Cluster		2,295,279
Other Direct Programs:		
Native American Excellence in Education	84.299B	99,944
Connect2Complete	84.382C	<u>571,377</u>
Total Other Direct Programs		671,322
Passed through OK State Regents for Higher Ed		
Teachers Training Teachers to Impr Math Ed	84.367B	<u>29,334</u>
Total U.S. Department of Education		23,007,156
U.S. Small Business Administration		
Small Business Development Center	59.037	1,310,460
Veterans Assistance and Services Program	59.037	78,421
Small Business Jobs Act Program	59.037	<u>302,465</u>
Total U.S. Small Business Administration		1,691,347
U.S. Department of Health and Human Services		
Passed through OU Health Science Center		
Equipment	93.389	<u>24,575</u>
Total U.S. Department of Health and Human Services		24,575

SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS--Continued

SOUTHEASTERN OKLAHOMA STATE UNIVERSITY

Year Ended June 30, 2013

<u>Federal Grantor/Pass-Through Grantor/Program Title</u>	<u>CFDA Number</u>	<u>1213 Amount Expended</u>
National Science Foundation		
Passed through Oklahoma State University		
Louis Stokes-OK Alliance for Minority Part	47.076	33,660
Science Educators Training on Globe Objectives	47.080	<u>1</u>
Total National Science Foundation		33,662
U.S. Department of Agriculture		
Passed through OK Department of Education		
Summer Food Service Program/Trio Programs	10.559	5,605
Passed through North Carolina State University		
Watermelon Uses and Prevention of Skin Damage	10.000	2,935
Passed through U.S. Forest Service		
An Assessment of Alligators/Red Slough Area	10.000	<u>13,501</u>
Total U.S. Department of Agriculture		22,041
U.S. Department of Justice		
Community Oriented Policing Plan	16.710	9,512
Passed through East Central University		
RUSO-Violence Prevention Project	16.525	<u>21,441</u>
Total U.S. Department of Justice		30,953
Institute of Museum and Library Services		
Passed through East Central University		
Oklahoma Library Literacy Skills Initiative Pro	45.313	<u>2,453</u>
Total Institute of Museum and Library Services		2,453
National Aeronautics and Space Administration		
Passed through University of Oklahoma		
NASA-Oklahoma Space Grant Consortium	43.008	45,579
NASA-Oklahoma Space Grant Consortium	43.008	<u>6,305</u>
Total National Aeronautics and Space Administration		51,884

SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS--Continued

SOUTHEASTERN OKLAHOMA STATE UNIVERSITY

Year Ended June 30, 2013

<u>Federal Grantor/Pass-Through Grantor/Program Title</u>	<u>CFDA Number</u>	<u>1213 Amount Expended</u>
U.S. Department of Interior		
Passed through U.S. Bureau of Reclamation		
Channel Catfish Diets in the San Juan River	15.529	<u>3,408</u>
Total U.S. Department of Interior		<u>3,408</u>
National Institute of Health		
Passed through OU Health Science Center		
Oklahoma Inbre Summer Internship Supplies	93.389	<u>1,489</u>
Total National Institute of Health		<u>1,489</u>
Corporation for National and Community Service		
Passed through OK State Regents for Higher Ed		
Students in Service	94.006	<u>(108)</u>
Total Corporation for National/Community Service		<u>(108)</u>
Total Expenditures of Federal Awards		<u>\$ 24,868,860</u>

See notes to Schedule of Expenditures of Federal Awards.

NOTES TO SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS

SOUTHEASTERN OKLAHOMA STATE UNIVERSITY

June 30, 2013

NOTE A--SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

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

NOTE B--FEDERAL DIRECT STUDENT LOAN PROGRAM

Under the Federal Direct Student Loan Program ("Direct Loan Program"), the U.S. Department of Education makes loans to enable a student or parent to pay the costs of the student's attendance at a postsecondary school. The Direct Loan Program enables an eligible student or parent to obtain a loan to pay for the student's cost of attendance directly from the U.S. Department of Education rather than through private lenders. The University administers the origination and disbursement of the loans to eligible students or parents. The University is not responsible for the collection of these loans.

NOTE C--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	\$ 70,846
Small Business Development Center	59.037	Northeastern Oklahoma State University	185,938
Small Business Development Center	59.037	Northwestern Oklahoma State University	164,339
Small Business Development Center	59.037	Rose State College	9,274
Small Business Development Center	59.037	Southwestern Oklahoma State University	160,605
Small Business Development Center	59.037	Langston University	61,371
Small Business Development Center	59.037	University of Central Oklahoma	289,589
			<u>\$ 941,962</u>

SCHEDULE OF FINDINGS AND QUESTIONED COSTS

SOUTHEASTERN OKLAHOMA STATE UNIVERSITY

June 30, 2013

Section I--Summary of Auditors' Results

Financial statements

Type of auditors' report issued:

Unmodified

Internal control over financial reporting:

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

Noncompliance material to financial statements noted?

yes no

Federal Awards

Internal control over major programs:

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

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

Unmodified

Any audit findings disclosed that are required to be reported in accordance with section 510(a) of Circular A-133?

yes no

Identification of major programs:

Program

Student Financial Aid Cluster

CFDA Number

*

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

Dollar threshold used to distinguish between type A and type B programs: \$300,000

Auditee qualified as low-risk auditee?

yes no

SCHEDULE OF FINDINGS AND QUESTIONED COSTS--Continued

SOUTHEASTERN OKLAHOMA STATE UNIVERSITY

June 30, 2013

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

None to report for the June 30, 2013, period

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

See Findings 2013-01, 2013-02, and 2013-03.

SCHEDULE OF FINDINGS AND QUESTIONED COSTS--Continued

SOUTHEASTERN OKLAHOMA STATE UNIVERSITY

June 30, 2013

Finding 2013-01

Program CFDA No:

84.268

CFDA Program Title:

Federal Direct Student Loans

Federal Award Year:

June 30, 2013

Finding:

During testing of Graduated Students, it was noted that Southeastern had reported the incorrect status for two students to the National Student Clearinghouse (NSC). C&R noted one student was reported as Withdrawn ("W") instead of the correct status of Graduated ("G"), and the other was reported as Full-time ("F") instead of the correct status of Graduated ("G").

Cause:

Per discussion with the Financial Aid Director, several students' degrees were not posted until subsequent to the submission of student statuses to NSC. Students with delayed posting of degrees (degree conferment) could include (but was not limited to) students who had outstanding assignments or had not received final grade for whatever reason. As such, these students whose degrees were earned but pending official bestowment were not reported to NCS as graduated, resulting in NCS to automatically change their statuses to "withdrawn."

Criteria:

As specified in the Federal Regulations CFR 682.610 and 685.309, enrollment status compliance reporting is met by reporting the student who ceases to be enrolled on at least a half-time basis within a 30 or 60 day window. Since Clearinghouse participating institutions expect to complete a student status confirmation report, either to NSLDS or to the guarantors, within the next 60 days (based on the institutions' Planned Transmission Schedule), the institution has 60 days to report the enrollment status changes. When a status change is discovered after it has occurred, compliance is determined based on the date the institution identifies the status change ("date of determination"). Accordingly, the applicable regulatory references are CFR 682.605 and CFR 668.22 (b) or (c).

Effect:

Graduated students with delayed posting of degrees (as explained previously in "Cause" section) were automatically granted "withdrawn" status by NCS.

SCHEDULE OF FINDINGS AND QUESTIONED COSTS--Continued

SOUTHEASTERN OKLAHOMA STATE UNIVERSITY

June 30, 2013

Finding 2013-01--Continued

Context:

Per discussion with the Financial Aid Director, the number of students with delayed bestowment of degrees varies semester to semester. As such, students with delayed posting of degrees were automatically granted "withdrawn" status by NCS. This status change is responsible for triggering the commencement of repayment of financial aid. We noted a status of "withdrawn" has the same effect of a "graduated" status in regards to repayment of financial aid.

Recommendation:

We recommend an additional follow-up step to monitor the reporting processes of graduated students. Specifically, an additional level of review should be made prior to submission of student enrollment statuses to NCS and follow-up procedures are implemented to ensure students whose degrees are belatedly conferred are reported to NCS in order for a proper status of "graduated" to be recorded.

Institution Response:

University management concurs with the finding. Upon review of the current process, the University will include additional programming for Student Clearinghouse Reporting which will identify students who had their degrees conferred after the final semester report for the prior term. These students will be reported as graduated "G" in the next scheduled report submitted to the Student Clearinghouse.

Working with IT department and with the Registrar's office, who handles this reporting, the University has noticed the University still has a few students that are reported incorrectly due to field values on the Poise system. The University will institute the following options to ensure these students are correctly reported in the future:

First, a new batch will be added that runs before every submission to add and report previously graduate students up to that point in each semester. At the end of the term, those not enrolled but graduated with the regular class will be added and flagged as graduated. This should solve 99% of the problem. There will still be issues with students who were previously graduated but currently enrolled. The enrollment information would override the graduate information. Therefore, the student wouldn't be reported as a graduate.

Second, the University will sign up for degree verify and report enrollment and degree information separately. This would make sure all degrees are reported and that enrollment status won't conflict with degree status. Per University management, this will solve 100% of the problem. To sign up for degree verify will require a massive upload of all degree information that we have available online to date and then regular uploads of new degrees. It will require at least a week of data verifications before it would be ready to upload the cumulative degree file.

SCHEDULE OF FINDINGS AND QUESTIONED COSTS--Continued

SOUTHEASTERN OKLAHOMA STATE UNIVERSITY

June 30, 2013

Finding 2013-02

Program CFDA No:

84.268 Federal Direct Student Loans

Federal Award Year:

June 30, 2013

Finding:

While testing Federal Direct Loan disbursements made to students, we noted Summer 2013 aid awarded (but not yet disbursed) resulted in over-awards of Subsidized Direct Loan funds. Per discussion with the Financial Aid Director, he was under the impression summer disbursements were treated as their own academic year, and thus, did not subject Direct Loan disbursements for all three academic terms (Fall, Spring and Summer) to loan limits (related to total annual Subsidized Loans) as specified by the Department of Education.

In order to properly calculate summer aid disbursement, funds previously disbursed must be taken into consideration as not to exceed loan limits as specified by the Department of Education. Other considerations include calculating the proper Cost of Attendance in order to modify Total Need of the student. These factors determine the total aid a student can receive for the summer semester.

Cause:

The Financial Aid Department was not aware summer aid disbursements were to be included in the total annual Direct Loan amount that is subject to Direct Loan limits imposed by the Department of Education. Summer disbursements were treated as their own academic year when calculating aid.

Criteria:

In accordance with 34 CFR 685.203, Stafford Loans have annual loan limits. The overall annual loan limit for Direct Loans includes a limited subset which may be comprised of subsidized loans. The loan limits represent the total of all subsidized and unsubsidized Direct Loans an undergraduate student may borrow at each level of study for a single academic year.

SCHEDULE OF FINDINGS AND QUESTIONED COSTS--Continued

SOUTHEASTERN OKLAHOMA STATE UNIVERSITY

June 30, 2013

Finding 2013-02--Continued

Criteria--Continued:

Loan limits as imposed by the Department of Education are as follows:

Dependent Undergrads = 1st Year - \$5,500 (no more than \$3,500 can be subsidized); 2nd Year - \$6,500 (no more than \$4,500 can be subsidized); thereafter - \$7,500 (no more than \$5,500 can be subsidized).
Independent Undergrads = 1st Year- \$9,500 (no more than \$3,500 can be subsidized); 2nd Year- \$10,500 (no more than \$4,500 can be subsidized); thereafter= \$12,500 (no more than \$5,500 can be subsidized).
Graduates/Professional = \$20,500 (no more than \$8,500 can be subsidized). Total aggregate for student with parent who CAN borrow PLUS= \$31,000; Those who cannot borrow PLUS or independent= \$57,500. Graduate students have no annual or aggregate amount limit, except students may not borrow more than difference between COA and other financial aid student expects to receive.

Effect:

The institution could have potentially disbursed more Subsidized Direct Loan aid to students than allowed, resulting in an over-award. The effect of over-borrowing on the student who has inadvertently received more than the annual or aggregate Direct Loan limits is that the student will be ineligible to receive any SFA funds until the over-borrowing is resolved. An arrangement must be made with the loan servicer to repay the excess amount.

Context:

The Financial Aid Department did not properly calculate Summer 2013 Direct Loan awards as specified by the Department of Education's Federal Direct Loan annual limits.

Recommendation:

We recommend that the Financial Aid Department reviews and understands the annual and aggregate limits imposed on Direct Loan disbursements. Loan limits should be considered when calculating the Subsidized and Unsubsidized allocation a student may receive in any given academic term. In addition to compliance with limits imposed on Subsidized Direct loans, total disbursement for the academic year should not exceed annual limits. Additionally, aggregate Direct Loan disbursements should be subject to aggregate limits.

For FY 2013, we recommend SE correct all Summer 2013 aid awards prior to disbursement to ensure disbursements do not exceed annual loan limits.

SCHEDULE OF FINDINGS AND QUESTIONED COSTS--Continued

SOUTHEASTERN OKLAHOMA STATE UNIVERSITY

June 30, 2013

Finding 2013-02--Continued

Institution Response:

University management concurs with the finding that the summer 2013 semester direct loans were incorrectly over-awarded due to a long-time University procedure. The direct loans were correctly adjusted before the first disbursement for the summer and steps were put in place to ensure this over awarding is not a problem in the future. The students were also informed of this change for Summer 2013. The students were also advised to make any adjustments to their awards in the fall and spring if they planned on attending any summer session.

SCHEDULE OF FINDINGS AND QUESTIONED COSTS--Continued

SOUTHEASTERN OKLAHOMA STATE UNIVERSITY

June 30, 2013

Finding 2013-03

Program CFDA No:

84.063 Federal Pell Grant

84.007 Federal Supplemental Education Opportunity Grant

84.033 Federal Work Study

84.268 Federal Direct Student Loans

Federal Award Year:

June 30, 2013

Finding:

The University's procedures related to the management of Federal Student Aid (FSA) funds is not in compliance with Department of Education requirements. The Business Office/Bursar had changed the institution's procedure for disbursement of credit balances related to Federal Student Aid (FSA) to students. Before transferring funds to Higher One, a third-party organization, for disbursement to students, checks were processed to the Business office to be applied towards previously incurred outstanding balances. The institution is required to obtain authorization from a student before applying FSA funds to prior year charges in excess of \$200. This practice was occurring without obtaining the proper authorization from students. It was noted this procedure occurred throughout the period of June 18, 2012 through October 30, 2013.

Cause:

Per discussion with management, this change in procedure occurred without undergoing the proper approval process as dictated by the University.

Criteria:

In accordance with 34 CFR 668.165(b), the institution must obtain authorization from a student (or parent borrower) before applying FSA funds to prior-charges other than for tuition, fees, room, and board.

In accordance with 34 CFT 668.164(d)(2), the institution may use current-year funds to satisfy prior award year charges for tuition and fees, room, or board (and with permission, educationally related charges) for a total of not more than \$200.

Effect:

The institution's procedure for application of FSA funds and disbursement of credit balances related to FSA funds were not in compliance with Department of Education guidelines.

SCHEDULE OF FINDINGS AND QUESTIONED COSTS--Continued

SOUTHEASTERN OKLAHOMA STATE UNIVERSITY

June 30, 2013

Finding 2013-03--continued

Context:

The Business Office/Bursar did not obtain proper approval to modify the institution's FSA application and disbursement procedures. The procedures in place at the institution were not in compliance with Department of Education requirements.

Recommendation:

C&R recommends that the practice of applying FSA funds to prior year charges in excess of \$200 without proper authorization end immediately. Additionally, significant changes in procedures related to FSA funds should be subject to the institution's internal control approval process.

Institution Response:

University management concurs with the finding. The practice of applying FSA funds to prior year charges in excess of \$200 without proper authorization ended as of October 30, 2013. The actions of the Director of the Business Office/Bursar that led to this finding of non-compliance have been addressed in a written Counseling Report and discussed with the employee.

SUMMARY SCHEDULE OF PRIOR AUDIT FINDINGS

SOUTHEASTERN OKLAHOMA STATE UNIVERSITY

June 30, 2013

No matters were reportable.