



**SOUTHEASTERN
OKLAHOMA STATE
UNIVERSITY**

June 30, 2012

SOUTHEASTERN OKLAHOMA STATE UNIVERSITY

June 30, 2012

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Independent Auditors' Report

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

We have audited the statements of net assets of Southeastern Oklahoma State University (the "University"), a component unit of the State of Oklahoma, as of June 30, 2012 and 2011, and the related statements of revenues, expenses and changes in net assets and cash flows for the years then ended. These financial statements are the responsibility of the University's management. Our responsibility is to express an opinion on these financial statements based on our audits. We did not audit the financial statements of Southeastern Foundation, Inc. (the "Foundation"), a discretely presented component unit of the University. Those financial statements were audited by another auditor, whose reports thereon have been furnished to us, and our opinion, insofar as it relates to the amounts included for the Foundation, are based on the reports of the other auditor.

We conducted our audits in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. The financial statements of the Foundation were audited by other auditors and were not audited in accordance with *Government Auditing Standards*. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and the significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits and the reports of the other auditors provide a reasonable basis for our opinion.

In our opinion, based on our audits and the reports of the other auditor, the financial statements referred to above present fairly, in all material respects, the financial position of Southeastern Oklahoma State University and its discretely presented component unit, Southeastern Foundation, Inc., as of June 30, 2012 and 2011, and the respective changes in net assets and, where applicable, cash flows thereof, for the years then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued our report dated October 30, 2012 on our consideration of the University's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and is important in assessing the results of our audit.

Accounting principles generally accepted in the United States of America require that Management's Discussion and Analysis and the Schedules of Funding Progress for the Supplemental Retirement Annuity Plan and Other Post-Employment Insurance Benefits Plan, 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.

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the University's basic financial statements. The accompanying schedule of state contract revenues and expenditures-budget versus actual is presented for purposes of additional analysis, as required by the Oklahoma Department of Commerce and is not a required part of the basic financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the financial statements. The 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 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 information is fairly stated in all material respects in relation to the basic financial statements as a whole.

Cole & Reed P.C.

Oklahoma City, Oklahoma
October 30, 2012

MANAGEMENT'S DISCUSSION AND ANALYSIS

SOUTHEASTERN OKLAHOMA STATE UNIVERSITY

June 30, 2012

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, 2012, with selected comparative information for the years ended June 30, 2011 and 2010. Management's discussion and analysis is designed to focus on current activities, resulting changes, and current known facts, so it should be read in conjunction with the University's financial statements and footnotes.

USING THIS REPORT

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

These statements are prepared applying the following principles and standards:

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

FINANCIAL HIGHLIGHTS

For fiscal years 2010 and 2011, the University received ARRA funds to replace the decreases in state appropriations. Even though the University received no notable increase in state appropriations for fiscal year 2012, it lost the ARRA funds of \$1.3 million.

Student tuition and fees, plus financial aid and grants, increased \$1.1 million and was due to increases in rates for resident students by 5.5% and non-resident students by 6.5% (increase totaled \$2.0 million) and a decrease in financial aid and grants of \$0.8 million.

MANAGEMENT'S DISCUSSION AND ANALYSIS--Continued

SOUTHEASTERN OKLAHOMA STATE UNIVERSITY

June 30, 2012

FINANCIAL HIGHLIGHTS--Continued

Operating expenses decreased by \$0.5 million with increases in compensation and employee benefits by \$0.1 million, utilities by \$0.1 million and decreases in depreciation by \$0.1 million, communication expenses by \$0.1 million, scholarships by \$0.4 million (related to waivers), and other operating expenses by \$0.1 million.

Eleven capital projects totaling \$2.1 million were in the construction phase with eight being completed and three still under construction at year end. The projects still under construction were FineArtsRussellPaulLaird, Native American, and the Glen D. Johnson Student Union. The completed projects were the Stimulus State Energy Program, Landscaping, MontgomeryLightingRigging, PhaseII SiemensBldTech, Science Bld Research Labs, Renovation Biotech/Chem Lab, Safety Projects, and Parking. A residential property was purchased with location adjacent to the University. These projects were funded by the State Regents Master Lease Program 2007B, National Institute of Health Grant, external fundraising and the University.

Residential housing occupancy decreased by 2.1% resulting in a decrease in revenue of \$0.2 million.

Bonds payable and capital lease obligations were decreased by \$2.2 million leaving a balance of \$31.3 million. This decrease was from debt service payments reducing debt by \$2.2 million, which included paying off a note payable thereby reducing debt by \$0.2 million and an increase of \$0.2 million from the refinance of the 2002C series bonds by ODFA with the 2011B series bonds. This is the fourth 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, 2012

STATEMENTS OF NET ASSETS

Schedule A is prepared from the University's Statements of Net Assets (page 17) and summarizes the assets, liabilities, and net assets as of June 30, 2012. Schedule A-1 is comparative data for years ending June 30, 2011 and 2010.

SCHEDULE A

CONDENSED STATEMENTS OF NET ASSETS

June 30, 2012 Compared to 2011

(In Millions)

	2012	2011	Increase (Decrease)	Percent Change
CURRENT ASSETS	\$ 8.2	\$ 7.1	\$ 1.1	15.5%
NONCURRENT ASSETS				
Capital Assets, Net of Depreciation	52.3	53.3	(1.0)	-1.9%
Other	3.1	3.5	(0.4)	-11.4%
TOTAL ASSETS	<u>\$ 63.6</u>	<u>\$ 63.9</u>	<u>\$ (0.3)</u>	-0.5%
CURRENT LIABILITIES	\$ 5.4	\$ 6.1	\$ (0.7)	-11.5%
NONCURRENT LIABILITIES	30.3	32.2	(1.9)	-5.9%
TOTAL LIABILITIES	<u>\$ 35.7</u>	<u>\$ 38.3</u>	<u>\$ (2.6)</u>	-6.8%
NET ASSETS				
Investment in Capital Assets	\$ 22.0	\$ 20.7	\$ 1.3	6.3%
Restricted	2.1	2.4	(0.3)	-12.5%
Unrestricted	3.8	2.5	1.3	52.0%
TOTAL NET ASSETS	<u>\$ 27.9</u>	<u>\$ 25.6</u>	<u>\$ 2.3</u>	9.0%

Total assets decreased \$0.3 million with increases in cash and cash equivalents by \$1.1 million, receivable from state agency by \$0.1 million, prepaid pension asset by \$0.4 million, and decreases in investments held by other by \$0.8 million, bond issuance costs by \$0.1 million, capital assets, net by \$1.0 million.

Total liabilities decreased \$2.6 million with increase in accounts payable by \$0.1 million and decreases in deferred revenue by \$0.2 million, deposits held in custody for others by \$0.4 million, outstanding debt by \$2.1 million.

MANAGEMENT'S DISCUSSION AND ANALYSIS--Continued

SOUTHEASTERN OKLAHOMA STATE UNIVERSITY

June 30, 2012

STATEMENTS OF NET ASSETS--Continued

SCHEDULE A-1
 CONDENSED STATEMENTS OF NET ASSETS
 June 30, 2011 Compared to 2010
 (In Millions)

	<u>2011</u>	<u>2010</u>	<u>Increase (Decrease)</u>	<u>Percent Change</u>
CURRENT ASSETS	\$ 7.1	\$ 4.9	\$ 2.2	44.9%
NONCURRENT ASSETS				
Capital Assets, Net of Depreciation	53.3	54.2	(0.9)	-1.7%
Other	3.5	3.6	(0.1)	-2.8%
TOTAL ASSETS	<u>\$ 63.9</u>	<u>\$ 62.7</u>	<u>\$ 1.2</u>	1.9%
CURRENT LIABILITIES	\$ 6.1	\$ 5.9	\$ 0.2	3.4%
NONCURRENT LIABILITIES	32.2	33.1	(0.9)	-2.7%
TOTAL LIABILITIES	<u>\$ 38.3</u>	<u>\$ 39.0</u>	<u>\$ (0.7)</u>	-1.8%
NET ASSETS				
Investment in Capital Assets	\$ 20.7	\$ 19.6	\$ 1.1	5.6%
Restricted	2.4	1.7	0.7	41.2%
Unrestricted	2.5	2.4	0.1	4.2%
TOTAL NET ASSETS	<u>\$ 25.6</u>	<u>\$ 23.7</u>	<u>\$ 1.9</u>	8.0%

Total Assets increased \$1.2 million with increases in cash and cash equivalents by \$1.5 million, accounts receivable, net by \$0.5 million, prepaid pension asset by \$0.3 million, other assets by \$0.8 million and decreases in receivable from state agencies by \$1.0 million, capital assets, net by \$0.9 million.

Total liabilities decreased \$0.7 million with increase in deposits held in custody for others by \$0.4 million, and decrease in outstanding debt by \$1.1 million.

MANAGEMENT'S DISCUSSION AND ANALYSIS--Continued

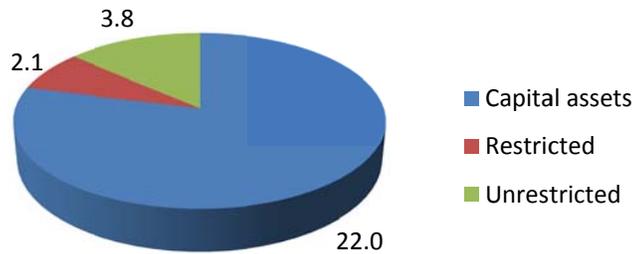
SOUTHEASTERN OKLAHOMA STATE UNIVERSITY

June 30, 2012

STATEMENTS OF NET ASSETS--Continued

The following graph indicates that the bulk of the university's net assets at June 30, 2012 are capital assets invested in land, buildings, infrastructure, library and equipment.

Analysis of Net Assets



STATEMENTS OF REVENUES, EXPENSES, AND CHANGES IN NET ASSETS

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

MANAGEMENT'S DISCUSSION AND ANALYSIS--Continued

SOUTHEASTERN OKLAHOMA STATE UNIVERSITY

June 30, 2012

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

Schedule B is prepared from the University's Statements of Revenues, Expenses, and Changes in Net Assets (page 18) and is a summary for the year ended June 30, 2012 compared to the year ended June 30, 2011. Schedule B-1 is comparative data for years ending June 30, 2011 and 2010.

SCHEDULE B

CONDENSED STATEMENTS OF REVENUES, EXPENSES AND CHANGES IN NET ASSETS

Years Ended June 30, 2012 and 2011

(In Millions)

	<u>2012</u>	<u>2011</u>
OPERATING REVENUE		
Student tuition and Fees (net of scholarship allowance of \$9.7 and \$9.6, respectively)	\$ 15.0	\$ 13.1
Federal, State and Local Grants/Contracts	5.9	5.6
Auxiliary	2.6	2.8
Other	<u>2.4</u>	<u>2.4</u>
TOTAL OPERATING REVENUE	<u>25.9</u>	<u>23.9</u>
OPERATING EXPENSES		
Compensation and employee benefits	31.9	31.8
Contractual Services	3.7	3.7
Supplies and materials	3.7	3.7
Depreciation	3.5	3.5
Utilities	1.5	1.5
Communication expense	0.3	0.4
Scholarships and fellowships	6.3	6.7
Other operating expense	<u>1.8</u>	<u>1.9</u>
TOTAL OPERATING EXPENSES	<u>52.7</u>	<u>53.2</u>
OPERATING INCOME (LOSS)	<u>(26.8)</u>	<u>(29.3)</u>
NONOPERATING REVENUE		
State Appropriations and Other	20.1	19.9
State Appropriations - ARRA funds	-	1.3
Financial Aid Grants	8.4	9.2
Contributions	0.3	0.4
Investment Income	0.1	0.1
Interest Expense	<u>(1.3)</u>	<u>(1.1)</u>
NET NONOPERATING REVENUE	<u>27.6</u>	<u>29.8</u>
INCOME BEFORE OTHER REVENUE/EXPENSE	<u>0.8</u>	<u>0.5</u>
OTHER REVENUE/EXPENSES	<u>1.5</u>	<u>1.4</u>
CHANGE IN NET ASSETS	<u>2.3</u>	<u>1.9</u>
NET ASSETS AT BEGINNING OF YEAR	<u>25.6</u>	<u>23.7</u>
NET ASSETS AT END OF YEAR	<u>\$ 27.9</u>	<u>\$ 25.6</u>

MANAGEMENT'S DISCUSSION AND ANALYSIS--Continued

SOUTHEASTERN OKLAHOMA STATE UNIVERSITY

June 30, 2012

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

REVENUES 2012

Total operating revenues increased by \$2.0 million and nonoperating revenues decreased by \$2.2 million for a total decrease of \$0.2 million.

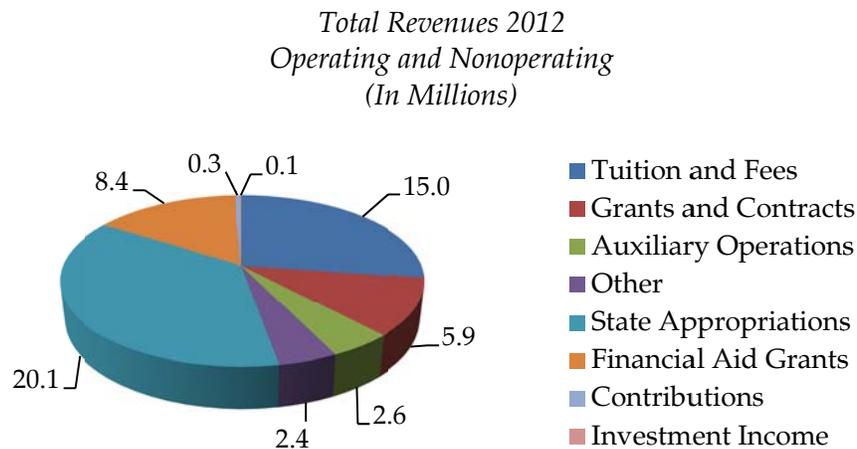
State appropriations (including ARRA funds) decreased by \$1.1 million or 5.2%.

Student tuition and fees plus financial aid grants increased by \$1.1 million or 4.9%. This was due to increases in rates for resident students and non-resident students by, 5.5% and 6.5% respectively. Student credit hours (sch) for resident tuition decreased 2,814 sch or 2.8%, and non-resident tuition increased 564 sch or 2.1%.

Federal, state, and local grants contracts increased by \$0.3 million or 5.4%.

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

The following is a graphical representation of total operating and nonoperating revenue for the year ended June 30, 2012.



MANAGEMENT'S DISCUSSION AND ANALYSIS--Continued

SOUTHEASTERN OKLAHOMA STATE UNIVERSITY

June 30, 2012

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

SCHEDULE B-1

CONDENSED STATEMENTS OF REVENUES, EXPENSES AND CHANGES IN NET ASSETS

Years Ended June 30, 2011 and 2010

(In Millions)

	<u>2011</u>	<u>2010</u>
OPERATING REVENUE		
Student tuition and Fees (net of scholarship allowance of \$9.6 and \$9.4, respectively)	\$ 13.1	\$ 13.1
Federal, State and Local Grants/Contracts	5.6	5.6
Auxiliary	2.8	2.9
Other	<u>2.4</u>	<u>2.1</u>
TOTAL OPERATING REVENUE	<u>23.9</u>	<u>23.7</u>
OPERATING EXPENSES		
Compensation and employee benefits	31.8	31.8
Contractual Services	3.7	3.9
Supplies and materials	3.7	3.9
Depreciation	3.5	3.4
Utilities	1.5	1.6
Communication expense	0.4	0.4
Scholarships and fellowships	6.7	6.3
Other operating expense	<u>1.9</u>	<u>1.6</u>
TOTAL OPERATING EXPENSES	<u>53.2</u>	<u>52.9</u>
OPERATING INCOME (LOSS)	<u>(29.3)</u>	<u>(29.2)</u>
NONOPERATING REVENUE (LOSS)		
State Appropriations and Other	19.9	19.7
State Appropriations - ARRA funds	1.3	1.5
Financial Aid Grants	9.2	8.4
Investment Income	0.5	0.4
Interest Expense	<u>(1.1)</u>	<u>(1.6)</u>
NET NONOPERATING REVENUE	<u>29.8</u>	<u>28.4</u>
INCOME (LOSS) BEFORE OTHER REVENUE/EXPENSE	<u>0.5</u>	<u>(0.8)</u>
OTHER REVENUE/EXPENSES	<u>1.4</u>	<u>1.9</u>
CHANGE IN NET ASSETS	1.9	1.1
NET ASSETS AT BEGINNING OF YEAR	<u>23.7</u>	<u>22.6</u>
NET ASSETS AT END OF YEAR	<u>\$ 25.6</u>	<u>\$ 23.7</u>

MANAGEMENT'S DISCUSSION AND ANALYSIS--Continued

SOUTHEASTERN OKLAHOMA STATE UNIVERSITY

June 30, 2012

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

REVENUES 2011

Total operating revenues increased by \$0.2 million and nonoperating revenues increased by \$1.4 million for a total increase of \$1.6 million.

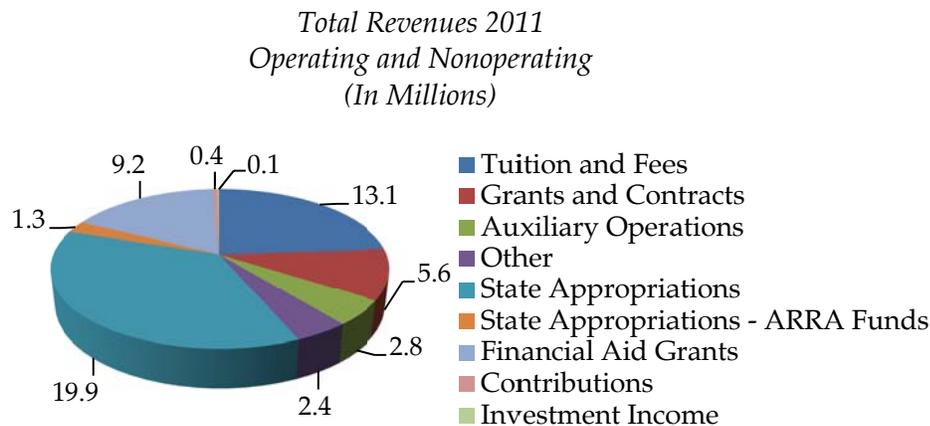
State Appropriations (including ARRA funds) remained at \$21.2 million.

Student tuition and fees plus financial aid grants increased by \$0.8 million or 3.7%. This was due to increases in rates for resident tuition and non-resident tuition by 5.5%. Student credit hours (sch) for resident tuition decreased 1,194 sch or 1.3% and non-resident tuition decreased 129 sch or 0.5%.

Federal, state, and local grants contracts remained at \$5.6 million.

Other net nonoperating revenue: Increases in OTRS on-behalf contributions by \$0.2 million, Investment income \$0.1 million and decrease in interest expense by \$0.5 million.

The following is a graphical representation of total operating and nonoperating revenue for the year ended June 30, 2011.



MANAGEMENT'S DISCUSSION AND ANALYSIS--Continued

SOUTHEASTERN OKLAHOMA STATE UNIVERSITY

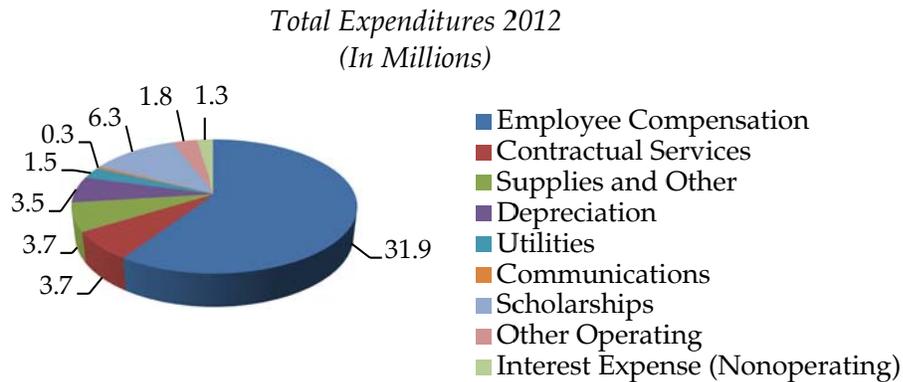
June 30, 2012

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

EXPENSES 2012

Operating expenses decreased \$0.5 million or 0.9%. Increases in compensation and employee benefits by \$0.1 million, and decreases in communication expense by \$0.1 million, scholarships by \$0.4 million (related to waivers), and other operating expenses by \$0.1 million.

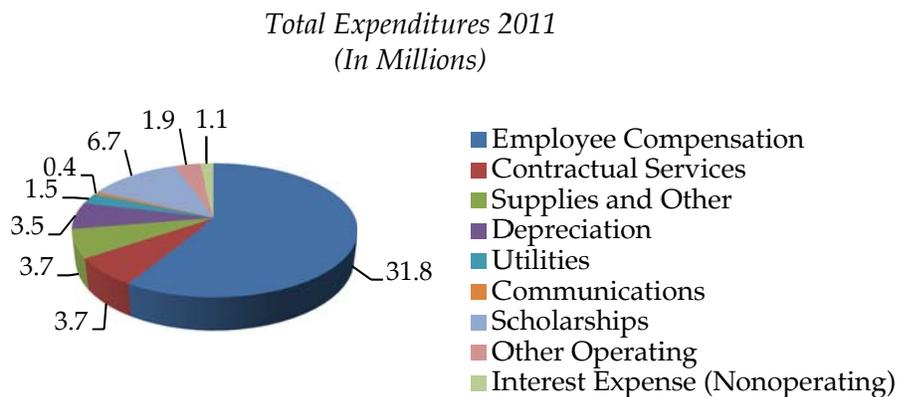
The following is a graphic illustration of expenses for the year ended June 30, 2012.



EXPENSES 2011

Operating expenses increased \$0.3 million or 0.6%. Increases were scholarships by \$0.4 million (related to waivers), other operating expenses by \$0.3 million, depreciation of \$0.1 million, and decreases in contractual services by \$0.2 million, supplies and materials by \$0.2 million, and utilities by \$0.1 million.

The following is a graphic illustration of expenses for the year ended June 30, 2011.



MANAGEMENT'S DISCUSSION AND ANALYSIS--Continued

SOUTHEASTERN OKLAHOMA STATE UNIVERSITY

June 30, 2012

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, 2012 compared to the years ended June 30, 2011 and 2010 and is prepared from the Statements of Cash Flows (page 19).

SCHEDULE C

CONDENSED STATEMENTS OF CASH FLOWS

Years Ended June 30, 2012, 2011, and 2010

(In Millions)

	<u>2012</u>	<u>2011</u>	<u>2010</u>
CASH PROVIDED BY (USED IN):			
Operating activities	\$ (22.7)	\$ (24.6)	\$ (24.6)
Noncapital financing activities	27.2	29.3	28.3
Investing activities	0.8	-	0.3
Capital and related financing activities	<u>(4.2)</u>	<u>(3.2)</u>	<u>(2.7)</u>
NET DECREASE IN CASH	1.1	1.5	1.3
CASH AT BEGINNING OF YEAR	<u>5.0</u>	<u>3.5</u>	<u>2.2</u>
CASH AT END OF YEAR	<u>\$ 6.1</u>	<u>\$ 5.0</u>	<u>\$ 3.5</u>

State appropriations are included in noncapital financing activities rather than operating activities. This accounting classification creates the negative \$22.7 million for 2012, negative \$24.6 million for 2011 and negative \$24.6 million for 2010 cash used for operating activities as shown in Schedule C.

The increase of \$1.1 million in 2012 for cash at end of the year was due to increase of \$0.5 million in E&G reserves, \$0.7 million in plant funds for capital projects and deferred maintenance and a decrease of \$0.1 million in auxiliary funds.

MANAGEMENT'S DISCUSSION AND ANALYSIS--Continued

SOUTHEASTERN OKLAHOMA STATE UNIVERSITY

June 30, 2012

CAPITAL ASSETS

At June 30, 2012, the University had approximately \$52.3 million invested in capital assets, net of accumulated depreciation of \$52.1 million. Depreciation charges totaled approximately \$3.4 million for the current fiscal year compared to \$3.5 million for the previous fiscal year. Projects in fiscal year 2012 were: Stimulus State Energy Program, Landscaping, Montgomery Lighting Rigging, Fine Arts Russell Paul Laird, Phase II Siemens Bldg Tech, Science Bldg Research Labs, Native American, Renovation Biotech/Chem Lab, Glen D Johnson Student Union, Safety Projects, Parking and the purchase of residential property adjacent to university.

CAPITAL ASSETS, net
June 30, 2012, 2011, and 2010
(In Millions)

	2012	2011	2010
Land	\$ 3.2	\$ 3.0	\$ 2.6
Capitalized collections	0.3	0.3	0.3
Construction in-progress	0.5	0.5	0.4
Infrastructure	3.9	4.7	3.8
Land improvements	0.5	0.6	0.8
Buildings	43.2	43.3	45.1
Furniture, fixtures, and equipment	0.6	0.7	0.9
Library materials	0.1	0.2	0.3
TOTALS	<u>\$ 52.3</u>	<u>\$ 53.3</u>	<u>\$ 54.2</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, 2012

DEBT

At year-end, the University had approximately \$31.3 million in debt outstanding compared to \$33.5 million at the end of the previous fiscal year. The table below summarizes these amounts by type.

OUTSTANDING DEBT

June 30, 2012, 2011, and 2010

(In Millions)

	2012	2011	2010
Revenue bonds	\$ 6.2	\$ 6.4	\$ 6.7
OCIA Capital Lease Obligations	11.4	11.5	10.7
ODFA Capital Lease Obligations	11.7	13.2	14.4
Notes payable	-	0.2	0.3
Capital Lease Obligations	2.0	2.2	2.3
TOTALS	<u>\$ 31.3</u>	<u>\$ 33.5</u>	<u>\$ 34.4</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, 2012 and 2011, lease principal and interest payments were made on behalf of the University totaling \$276,000 and \$155,000, respectively. These on-behalf amounts have been recorded as restricted state appropriations in the University's statements of revenues, expenses and changes in net assets.

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.

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, 2012

ECONOMIC OUTLOOK

The economic stability of the University is directly related to the state's economic stability. The state's total general revenue collections through the first three months of fiscal year 2013 exceeded the estimate for current year (\$22.3 million or 1.7%).

Enrollment data for fall 2012 reflects a small increase in student credit hours of less than 1.0%. The administration will continue its initiatives to increase student credit hours by delivering more courses to outreach sites; developing more online and hybrid courses, implementing the conversion plan to move the McCurtain Branch Campus from a higher education program to a four year degree program; and building an advancement program that will raise additional funds through grants, contracts and fund raising initiatives. These efforts will continue along with new initiatives to promote student enrichment experiences, expand the universities regional image, optimize the learning environment and enhance collaboration and partnerships. The administration began a budget recovery program in fiscal year 2009 that was revised in 2012 and will continue to be revised as the economy changes.

STATEMENTS OF NET ASSETS

SOUTHEASTERN OKLAHOMA STATE UNIVERSITY

	University		Component Unit	
	June 30,		June 30,	
	2012	2011	2012	2011
ASSETS				
CURRENT ASSETS				
Cash and cash equivalents	\$ 5,929,131	\$ 4,817,456	\$ 5,038,214	\$ 3,990,344
Restricted cash and cash equivalents	164,007	221,566	492,754	463,609
Accounts receivable, net	1,443,128	1,499,326	35,592	25,175
Interest receivable	4,871	3,696	26,793	18,382
Receivable from state agencies	639,731	562,774	-	-
Other assets	-	-	133,332	114,847
Current portion of notes receivable, net	13,394	12,381	-	-
TOTAL CURRENT ASSETS	8,194,261	7,117,199	5,726,685	4,612,357
NONCURRENT ASSETS				
Investments	-	-	13,646,104	11,991,973
Investments held by others	244,849	995,657	210,682	210,682
Receivable from State agency	3,439	3,748	-	-
Notes receivable, net	-	-	19,132	247,035
Prepaid pension asset	1,780,646	1,416,747	-	-
Bond issuance costs	236,044	358,759	139,524	145,679
Other assets	819,284	772,849	50,000	-
Capital assets, net	52,311,295	53,269,814	7,317,798	7,546,458
TOTAL NONCURRENT ASSETS	55,395,558	56,817,574	21,383,240	20,141,827
TOTAL ASSETS	\$ 63,589,819	\$ 63,934,773	\$ 27,109,925	\$ 24,754,184
LIABILITIES AND NET ASSETS				
CURRENT LIABILITIES				
Accounts payable	\$ 947,550	\$ 818,721	\$ 224,950	\$ 216,423
Accrued payroll	121,477	136,681	-	-
Accrued interest payable	145,693	177,363	41,187	42,000
Deferred revenue	1,645,725	1,800,484	17,909	19,479
Deposits held in custody for others	338,057	713,024	-	-
Current portion of non current liabilities	2,186,779	2,477,105	-	-
TOTAL CURRENT LIABILITIES	5,385,282	6,123,378	284,046	277,902
NONCURRENT LIABILITIES				
Accrued compensated absences	413,138	371,443	-	-
Capital lease obligation	23,883,189	25,391,048	-	-
Notes payable	-	173,478	8,906,978	9,082,874
Revenue bonds payable	5,915,000	6,175,000	-	-
OPEB obligation	122,794	127,147	-	-
Premium on bonds payable	2,290	4,270	-	-
TOTAL NONCURRENT LIABILITIES	30,336,411	32,242,386	8,906,978	9,082,874
TOTAL LIABILITIES	35,721,692	38,365,764	9,191,024	9,360,776
NET ASSETS				
Invested in capital assets, net of related debt	21,957,250	20,684,656	-	-
Restricted:				
Nonexpendable	-	-	9,534,246	9,086,863
Expendable:				
Scholarships, instruction and other	-	-	8,640,370	6,611,753
Loans	159,024	117,488	-	-
Capital projects and debt service	1,988,575	2,273,074	-	-
Unrestricted	3,763,278	2,493,791	(255,715)	(305,208)
TOTAL NET ASSETS	27,868,127	25,569,009	17,918,901	15,393,408
TOTAL LIABILITIES AND NET ASSETS	\$ 63,589,819	\$ 63,934,773	\$ 27,109,925	\$ 24,754,184

See notes to financial statements.

STATEMENTS OF REVENUES, EXPENSES AND CHANGES IN NET ASSETS

SOUTHEASTERN OKLAHOMA STATE UNIVERSITY

	University		Component Unit	
	Year Ended June 30, 2012	2011	Year Ended June 30, 2012	2011
OPERATING REVENUES				
Student tuition and fees, net of scholarship discounts and allowances of \$9,675,022 and \$9,610,648 (revenues of \$806,324 in 2012 and \$821,732 in 2011 are pledged as security on Student Union Series 2003 revenue bonds.)	\$ 14,974,100	\$ 13,115,082	\$ -	\$ -
Federal grants and contracts	5,161,641	4,767,521	-	-
State and local grants and contracts	675,951	751,331	-	-
Housing and food service	2,212,121	2,378,388	-	-
Aerospace operations	401,023	448,353	-	-
Investment Income	-	-	912,740	1,804,015
Contributions	-	-	2,261,094	1,755,851
Other operating revenues	<u>2,438,510</u>	<u>2,403,267</u>	<u>1,545,995</u>	<u>1,347,968</u>
TOTAL OPERATING REVENUES	25,863,346	23,863,942	4,719,829	4,907,834
OPERATING EXPENSES				
Compensation and employee benefits	31,938,469	31,848,146	-	-
Contractual services	3,690,165	3,690,864	-	-
Supplies and materials	3,737,798	3,725,243	-	-
Depreciation	3,445,393	3,521,798	228,659	261,692
Utilities	1,508,969	1,448,511	-	-
Communications expense	295,863	418,799	-	-
Scholarships and fellowships	6,321,316	6,701,370	830,018	833,502
Other operating expenses	<u>1,772,977</u>	<u>1,867,414</u>	<u>1,135,659</u>	<u>1,168,128</u>
TOTAL OPERATING EXPENSES	52,710,950	53,222,145	2,194,336	2,263,322
OPERATING INCOME (LOSS)	(26,847,604)	(29,358,203)	2,525,493	2,644,512
NONOPERATING REVENUES (EXPENSES)				
State appropriations	18,477,200	18,473,649	-	-
State appropriations - ARRA funds	-	1,336,685	-	-
Financial aid grants	8,399,605	9,177,844	-	-
OTRS on-behalf contributions	1,643,751	1,440,950	-	-
Contributions	283,769	351,054	-	-
Investment income	124,570	120,864	-	-
Interest expense	<u>(1,299,371)</u>	<u>(1,060,629)</u>	<u>-</u>	<u>-</u>
NET NONOPERATING REVENUE (EXPENSES)	27,629,524	29,840,417	-	-
Income before other revenues, expenses, gains and losses	781,920	482,214	2,525,493	2,644,512
State appropriations restricted for capital purposes	1,241,155	988,453	-	-
OCIA on-behalf payments	<u>276,043</u>	<u>411,756</u>	<u>-</u>	<u>-</u>
CHANGE IN NET ASSETS	2,299,118	1,882,423	2,525,493	2,644,512
NET ASSETS, BEGINNING OF YEAR	<u>25,569,009</u>	<u>23,686,586</u>	<u>15,393,408</u>	<u>12,748,896</u>
NET ASSETS, END OF YEAR	<u>\$ 27,868,127</u>	<u>\$ 25,569,009</u>	<u>\$ 17,918,901</u>	<u>\$ 15,393,408</u>

See notes to financial statements.

STATEMENTS OF CASH FLOWS

SOUTHEASTERN OKLAHOMA STATE UNIVERSITY

	Year Ended June 30,	
	<u>2012</u>	<u>2011</u>
CASH FLOWS FROM OPERATING ACTIVITIES		
Tuition and fees	\$ 14,723,751	\$ 13,035,748
Grants and contracts	5,953,045	5,318,848
Other operating receipts	5,086,976	5,027,551
Payments to employees for salaries and benefits	(30,637,029)	(30,667,827)
Payments to suppliers	<u>(17,823,265)</u>	<u>(17,313,076)</u>
NET CASH USED IN OPERATING ACTIVITIES	(22,696,522)	(24,598,756)
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES		
State appropriations	18,477,200	19,810,334
Financial aid grants	8,399,605	9,177,844
Contributions	283,770	351,054
Direct Loan receipts	12,564,497	11,309,161
Direct Loan payments	<u>(12,564,497)</u>	<u>(11,309,161)</u>
NET CASH PROVIDED BY NONCAPITAL FINANCING ACTIVITIES	27,160,575	29,339,232
CASH FLOWS FROM INVESTING ACTIVITIES		
Net (increase) decrease in investments held with others	750,808	-
Interest income received	<u>46,437</u>	<u>17,736</u>
NET CASH PROVIDED BY INVESTING ACTIVITIES	797,245	17,736
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES		
Cash paid for capital assets	(2,157,682)	(2,671,257)
Capital appropriations received	1,241,155	988,453
Interest paid	(1,164,441)	(920,403)
Proceeds from capital debt and leases	-	1,085,812
Repayments of capital debt and leases	<u>(2,126,214)</u>	<u>(1,711,785)</u>
NET CASH USED IN CAPITAL AND RELATED FINANCING ACTIVITIES	<u>(4,207,182)</u>	<u>(3,229,180)</u>
NET CHANGE IN CASH AND CASH EQUIVALENTS	1,054,116	1,529,032
CASH AND CASH EQUIVALENTS, BEGINNING OF YEAR	<u>5,039,022</u>	<u>3,509,990</u>
CASH AND CASH EQUIVALENTS, END OF YEAR	<u>\$ 6,093,138</u>	<u>\$ 5,039,022</u>

See notes to financial statements.

STATEMENT OF CASH FLOWS--Continued

SOUTHEASTERN OKLAHOMA STATE UNIVERSITY

	Year Ended June 30,	
	2012	2011
RECONCILIATION OF OPERATING LOSS TO NET CASH USED IN OPERATING ACTIVITIES		
Operating loss	\$ (26,847,604)	\$ (29,358,203)
Adjustments to reconcile operating loss to net cash used in operating activities:		
Depreciation	3,445,393	3,521,798
(Gain) / loss on disposal of assets	-	4,979
On-behalf contributions to teachers' retirement system	1,643,751	1,440,950
Changes in assets and liabilities:		
Accounts receivable	56,198	(531,235)
Loans receivable	(1,013)	(5,635)
Prepaid pension asset	(363,899)	(276,464)
Accounts payable and student deposits	(496,177)	534,146
Accrued payroll	(15,204)	(8,363)
Deferred revenues	(154,759)	55,075
Compensated absences	41,145	31,129
Other liabilities	(4,353)	(6,933)
NET CASH USED IN OPERATING ACTIVITIES	<u>\$ (22,696,522)</u>	<u>\$ (24,598,756)</u>
NONCASH INVESTING, NONCAPITAL FINANCING AND CAPITAL AND RELATED FINANCING ACTIVITIES		
Interest on capital debt paid by state agency on behalf of the University	\$ 171,453	\$ 55,517
Principal on capital debt paid by state agency on behalf of the University	104,590	99,698
Write-off of bond premium	101,241	256,541
TOTAL NONCASH INVESTING, NONCAPITAL FINANCING, AND RELATED FINANCING ACTIVITIES	<u>\$ 377,284</u>	<u>\$ 411,756</u>
RECONCILIATION OF CASH AND CASH EQUIVALENTS TO STATEMENTS OF NET ASSETS		
Current assets:		
Cash and cash equivalents	\$ 5,929,131	\$ 4,817,456
Restricted cash and cash equivalents	164,007	221,566
TOTAL CASH AND CASH EQUIVALENTS	<u>\$ 6,093,138</u>	<u>\$ 5,039,022</u>

See notes to financial statements.

NOTES TO FINANCIAL STATEMENTS

SOUTHEASTERN OKLAHOMA STATE UNIVERSITY

June 30, 2012

NOTE A--SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

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

Reporting Entity: The financial reporting entity, as defined by Governmental Accounting Standards Board (GASB) Statement No. 14, *The Financial Reporting Entity*, and Governmental Accounting Standards Board (GASB) Statement No. 39, *Determining whether Certain Organizations Are Component Units-an amendment of GASB Statement No. 14*, includes the accounts of the University and its discretely presented component unit, Southeastern Foundation, Inc. (the "Foundation"). The University is a component of 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 component unit of the University under GASB 39 that is required to be discretely presented with the financial statements of the University. The University is the beneficiary of the Foundation, a separate legal entity with its own Board of Trustees. The Foundation is organized for the benefit of the University, and its faculty, student body and programs. The Foundation provides scholarships and support and enhances the further development of the University. Additional and selected disclosures for the Foundation are located in this report beginning with Note M. A complete report of the Foundation's financial statements and footnotes can be requested from the Foundation's director.

Financial Statement Presentation: The University's financial statements are presented in accordance with the requirements of GASB Statement No. 34, *Basic Financial Statement and Management's Discussion and Analysis – for State and Local Governments*, and GASB Statement No. 35, *Basic Financial Statements and Management's Discussion and Analysis for Public Colleges and Universities*. Under GASB Statements No. 34 and 35, the University is required to present a statement of net assets classified between current and noncurrent assets and liabilities, a statement of revenues, expenses and changes in net assets, with separate presentation for operating and nonoperating revenues and expenses, and a statement of cash flows using the direct method.

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

NOTES TO FINANCIAL STATEMENTS--Continued

SOUTHEASTERN OKLAHOMA STATE UNIVERSITY

June 30, 2012

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

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

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

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 assets.

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

Accounts Receivable: Accounts receivable consists of tuition and fee charges to students and to auxiliary enterprise services provided to students, faculty and staff, the majority of each residing in the State of Oklahoma. 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.

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 and amounts due from the Oklahoma Capital Improvement Authority ("OCIA") for proceeds from the capital bond improvement program allocated to the College. No allowance for doubtful accounts has been provided for other receivables.

NOTES TO FINANCIAL STATEMENTS--Continued

SOUTHEASTERN OKLAHOMA STATE UNIVERSITY

June 30, 2012

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

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

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

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

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

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

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

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

Restricted Net Assets – Expendable: Restricted expendable net assets include resources in which the University is legally or contractually obligated to spend resources in accordance with restrictions imposed by external third parties.

NOTES TO FINANCIAL STATEMENTS--Continued

SOUTHEASTERN OKLAHOMA STATE UNIVERSITY

June 30, 2012

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

Net Assets--Continued:

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

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

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

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.

NOTES TO FINANCIAL STATEMENTS--Continued

SOUTHEASTERN OKLAHOMA STATE UNIVERSITY

June 30, 2012

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

Scholarship Discounts and Allowances: Student tuition and fee revenues, and certain other revenues from students, are reported net of scholarship discounts and allowances in the statements of revenues, expenses, and changes in net assets. Scholarship discounts and allowances are the difference between the stated charge for goods and services provided by the University and the amount that is paid by students and/or third parties making payments on the students' behalf. Certain governmental grants, such as Pell grants, and other federal, state or nongovernmental programs, are recorded as 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.

Reclassifications: Certain reclassifications have been made to the 2011 financial statements to conform with the 2012 financial statement presentation. Such reclassifications have had no effect on changes in net assets as previously reported.

NOTE B--DEPOSITS AND INVESTMENTS

Deposits: Custodial credit risk for deposits is the risk that in the event of a bank failure, the University's deposits may not be returned or the University will not be able to recover collateral securities in the possession of an outside party. Generally, the University deposits its funds with the Office of the State Treasurer (OST) and those funds are pooled with funds of other state agencies and then, in accordance with statutory limitations, are placed in financial institutions or invested as the OST may determine, in the state's name. State statutes require the OST to ensure that all state funds are either insured by Federal Deposit Insurance, collateralized by securities held by the cognizant Federal Reserve Bank, or invested in U.S. government obligations. The OST's responsibilities include receiving and collateralizing the deposit of State funds, investing State funds in compliance with statutory requirements, and maintaining adequate liquidity to meet the cash flow needs of the State and all its funds and agencies. If the University deposits funds directly with financial institutions, those funds must be insured by Federal Deposit Insurance or collateralized by securities held by the cognizant Federal Reserve Bank in the University's name.

NOTES TO FINANCIAL STATEMENTS--Continued

SOUTHEASTERN OKLAHOMA STATE UNIVERSITY

June 30, 2012

NOTE B--DEPOSITS AND INVESTMENTS--Continued

Deposits--Continued: 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, 2012 and 2011, the carrying amount of all University deposits with the OST and other financial institutions were \$6,751,671 and \$4,795,305, respectively. These amounts consisted of deposits with the OST (\$6,741,604 and \$4,785,238), unremitted collections by a third party (\$2,477 and \$2,477) and change funds (\$7,590 and \$7,590). Of funds on deposit with the OST, amounts invested in *OK INVEST* total \$5,297,260 in 2012 and \$4,291,221 in 2011. The difference 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* are as follows:

At June 30, 2012		
<u>OK INVEST Portfolio</u>	<u>Cost</u>	<u>Market Value</u>
U.S. Agency Securities	\$ 1,872,850	\$ 1,878,355
Certificates of Deposit	171,099	171,099
Money Market Mutual Fund	725,091	725,091
Mortgage Backed Agency Securities	2,338,129	2,484,163
Municipal Bonds	95,016	108,402
Foreign Bonds	26,657	26,657
U.S. Treasury Obligations	68,418	85,357
TOTAL	<u>\$ 5,297,260</u>	<u>\$ 5,479,124</u>

NOTES TO FINANCIAL STATEMENTS--Continued

SOUTHEASTERN OKLAHOMA STATE UNIVERSITY

June 30, 2012

NOTE B--DEPOSITS AND INVESTMENTS--Continued

At June 30, 2011		
OK INVEST Portfolio	Cost	Market Value
U.S. Agency Securities	\$ 1,567,304	\$ 1,579,870
Certificates of Deposit	202,619	202,619
Money Market Mutual Fund	471,796	471,796
Tri-Party Repurchase Agreements	289,576	289,576
Mortgage Backed Agency Securities	1,556,644	1,625,393
Municipal Bonds	85,533	92,623
Foreign Bonds	15,955	15,955
Commercial Paper	39,882	39,886
U.S. Treasury Obligations	61,912	73,359
TOTAL	<u>\$ 4,291,221</u>	<u>\$ 4,391,077</u>

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

NOTES TO FINANCIAL STATEMENTS--Continued

SOUTHEASTERN OKLAHOMA STATE UNIVERSITY

June 30, 2012

NOTE B--DEPOSITS AND INVESTMENTS--Continued

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

Investments: Investment *credit risk* is the risk that an issuer or other counterparty to an investment will not fulfill its obligations. Generally, the University's investments are managed by the State Treasurer. In accordance with state statutes the State Treasurer may only purchase and invest in (a) obligations of the United States government, its agencies and instrumentalities; (b) prime banker's acceptances; (c) investment grade obligations of state and local governments; (d) money market funds; (e) collateralized or insured certificates of deposits; (f) negotiable certificates of deposits; (g) prime commercial paper; and (h) repurchase agreements. *Interest rate risk* is the risk that changes in interest rates will adversely affect the fair value of an investment. Investments that are held for longer periods of time are subject to increased risk of adverse interest changes. Neither the University nor state statutes limit investment maturities as a means of managing exposure to fair value losses arising from increasing interest rates; however, the OST Investment Policy limits the average maturity on its portfolio to four (4) years, with certain individual securities having more restrictive limits as defined in the policy. *Concentration of credit risk* is the risk of loss attributed to the magnitude of the University's investment in a single issuer. Neither the University's investment policy nor state statutes place limits on amounts that can be invested in any one issuer; however, the OST Investment Policy states that, with the exception of U.S. Treasury securities, no more than 50% of the State's total funds may be invested in a single security type or with a single financial institution, with diversification percentages being more restrictive on individual securities. *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, 2012 and 2011, none of the University's investments were subject to custodial credit risk.

NOTES TO FINANCIAL STATEMENTS--Continued

SOUTHEASTERN OKLAHOMA STATE UNIVERSITY

June 30, 2012

NOTE B--DEPOSITS AND INVESTMENTS--Continued

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

At June 30, 2012 and 2011, the University had no cash and investments in restricted bond funds.

Investments Held by Others: At June 30, 2012 and 2011, the University had investments in money market funds totaling \$244,849 and \$995,657, respectively, related to the OFDA Lease program. These funds had a fair market value of \$244,849 at June 30, 2012 and \$995,657 in 2011. As of June 30, 2012, the University depleted funds in the amount of \$750,807 towards the refinancing of the ODFA Master Lease Revenue Bonds, 2002C Series as described in Note F. 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, 2012 according to Standard and Poor's.

NOTE C--ACCOUNTS RECEIVABLE

Accounts receivable consisted of the following at June 30, 2012 and 2011:

	2012	2011
Student tuition and fees	\$ 1,712,214	\$ 1,514,298
Auxiliary enterprises and other operating activities	257,173	330,105
Federal, state, and private grants and contracts	380,236	590,287
	<u>2,349,624</u>	<u>2,434,690</u>
Less: allowance for doubtful accounts	(906,495)	(935,364)
Net accounts receivable	<u>\$ 1,443,128</u>	<u>\$ 1,499,326</u>

NOTES TO FINANCIAL STATEMENTS--Continued

SOUTHEASTERN OKLAHOMA STATE UNIVERSITY

June 30, 2012

NOTE D--CAPITAL ASSETS

Following are the changes in capital assets for the year ended June 30, 2012:

	Balance June 30, 2011	Additions	Transfers	Retirements/ Adjustments	Balance June 30, 2012
Capital assets not being depreciated					
Land	\$ 2,997,239	\$ 184,210	\$ -	\$ -	\$ 3,181,449
Capitalized collections	259,300	-	-	-	259,300
Construction in progress	505,977	2,023,380	(2,015,033)	-	514,324
Total capital assets not being depreciated	<u>\$ 3,762,516</u>	<u>\$ 2,207,590</u>	<u>\$ (2,015,033)</u>	<u>\$ -</u>	<u>\$ 3,955,073</u>
Other capital assets					
Non-major infrastructure networks	\$ 10,574,656	\$ -	\$ 215,398	\$ -	\$ 10,790,054
Improvements	2,622,681	-	-	-	2,622,681
Buildings	70,375,898	-	1,799,635	-	72,175,533
Furniture, fixtures and equipment	8,028,860	230,405	-	(240,183)	8,019,082
Library materials	6,797,624	50,659	-	(22,118)	6,826,165
Total other capital assets	98,399,719	281,064	2,015,033	(262,301)	100,433,515
Less accumulated depreciation for					
Non-major infrastructure networks	(5,919,423)	(941,216)	-	-	(6,860,639)
Improvements	(2,011,681)	(136,167)	-	-	(2,147,848)
Buildings	(27,050,341)	(1,883,811)	-	-	(28,934,152)
Furniture, fixtures and equipment	(7,330,566)	(366,896)	-	240,182	(7,457,280)
Library materials	(6,580,410)	(117,303)	-	20,339	(6,677,374)
Total accumulated depreciation	(48,892,421)	(3,445,393)	-	260,521	(52,077,293)
Other capital assets, net	<u>\$ 49,507,298</u>	<u>\$ (3,164,329)</u>	<u>\$ 2,015,033</u>	<u>\$ (1,780)</u>	<u>\$ 48,356,222</u>
Capital asset summary:					
Capital assets not being depreciated	\$ 3,762,516	\$ 2,207,590	\$ (2,015,033)	\$ -	\$ 3,955,073
Other capital assets, at cost	98,399,719	281,064	2,015,033	(262,301)	100,433,515
Total cost of capital assets	102,162,235	2,488,654	-	(262,301)	104,388,588
Less accumulated depreciation	(48,892,421)	(3,445,393)	-	260,521	(52,077,293)
Capital assets, net	<u>\$ 53,269,814</u>	<u>\$ (956,739)</u>	<u>\$ -</u>	<u>\$ (1,780)</u>	<u>\$ 52,311,295</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, 2012

NOTE D--CAPITAL ASSETS--Continued

Following are the changes in capital assets for the year ended June 30, 2011:

	Balance June 30, 2010	Additions	Transfers	Retirements/ Adjustments	Balance June 30, 2011
Capital assets not being depreciated					
Land	\$ 2,619,541	\$ 377,698	\$ -	\$ -	\$ 2,997,239
Capitalized collections	259,300	-	-	-	259,300
Construction in progress	436,682	1,897,165	(1,827,870)	-	505,977
Total capital assets not being depreciated	<u>\$ 3,315,523</u>	<u>\$ 2,274,863</u>	<u>\$ (1,827,870)</u>	<u>\$ -</u>	<u>\$ 3,762,516</u>
Other capital assets					
Non-major infrastructure networks	\$ 8,746,786	\$ -	\$ 1,827,870	\$ -	\$ 10,574,656
Improvements	2,622,681	-	-	-	2,622,681
Buildings	70,375,898	-	-	-	70,375,898
Furniture, fixtures and equipment	8,033,212	239,648	-	(244,000)	8,028,860
Library materials	6,768,363	65,053	-	(35,792)	6,797,624
Total other capital assets	96,546,940	304,701	1,827,870	(279,792)	98,399,719
Less accumulated depreciation for					
Non-major infrastructure networks	(4,996,827)	(922,596)	-	-	(5,919,423)
Improvements	(1,837,482)	(174,199)	-	-	(2,011,681)
Buildings	(25,249,204)	(1,801,137)	-	-	(27,050,341)
Furniture, fixtures and equipment	(7,102,939)	(471,627)	-	244,000	(7,330,566)
Library materials	(6,458,984)	(152,239)	-	30,813	(6,580,410)
Total accumulated depreciation	<u>(45,645,436)</u>	<u>(3,521,798)</u>	<u>-</u>	<u>274,813</u>	<u>(48,892,421)</u>
Other capital assets, net	<u>\$ 50,901,504</u>	<u>\$ (3,217,097)</u>	<u>\$ 1,827,870</u>	<u>\$ (4,979)</u>	<u>\$ 49,507,298</u>
Capital asset summary:					
Capital assets not being depreciated	\$ 3,315,523	\$ 2,274,863	\$ (1,827,870)	\$ -	\$ 3,762,516
Other capital assets, at cost	96,546,940	304,701	1,827,870	(279,792)	98,399,719
Total cost of capital assets	99,862,463	2,579,564	-	(279,792)	102,162,235
Less accumulated depreciation	<u>(45,645,436)</u>	<u>(3,521,798)</u>	<u>-</u>	<u>274,813</u>	<u>(48,892,421)</u>
Capital assets, net	<u>\$ 54,217,027</u>	<u>\$ (942,234)</u>	<u>\$ -</u>	<u>\$ (4,979)</u>	<u>\$ 53,269,814</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, 2012

NOTE E--LONG-TERM LIABILITIES

Long-term liability activity for the year ended June 30, 2012 was as follows:

	Balance June 30, 2011	Additions	Reductions	Balance June 30, 2012	Amounts due within one year
Bonds payable and capital lease obligations:					
Revenue bonds payable	\$ 6,430,000	\$ -	\$ (255,000)	\$ 6,175,000	\$ 260,000
OCIA Leases	11,535,171	-	(104,590)	11,430,582	109,747
ODFA Leases	13,170,925	213,973	(1,683,640)	11,701,258	929,000
Notes payable	224,885	-	(224,885)	-	-
Capital lease obligation	2,151,597	-	(176,972)	1,974,625	184,529
Total bonds and capital leases	<u>33,512,578</u>	<u>213,973</u>	<u>(2,445,087)</u>	<u>31,281,465</u>	<u>1,483,276</u>
Other liabilities:					
Accrued compensated absences	1,075,496	684,831	(643,686)	1,116,641	703,503
Total other liabilities	<u>1,075,496</u>	<u>684,831</u>	<u>(643,686)</u>	<u>1,116,641</u>	<u>703,503</u>
Total long-term liabilities	<u>\$ 34,588,074</u>	<u>\$ 898,804</u>	<u>\$ (3,088,773)</u>	<u>\$ 32,398,106</u>	<u>\$ 2,186,779</u>

Long-term liability activity for the year ended June 30, 2011 was as follows:

	Balance June 30, 2010	Additions	Reductions	Balance June 30, 2011	Amounts due within one year
Bonds payable and capital lease obligations:					
Revenue bonds payable	\$ 6,675,000	\$ -	\$ (245,000)	\$ 6,430,000	\$ 255,000
OCIA Leases	10,707,450	927,419	(99,698)	11,535,171	104,590
ODFA Leases	14,358,425	-	(1,187,500)	13,170,925	1,185,084
Notes payable	334,446	-	(109,561)	224,885	51,407
Capital lease obligation	2,321,321	-	(169,724)	2,151,597	176,971
Total bonds and capital leases	<u>34,396,642</u>	<u>927,419</u>	<u>(1,811,483)</u>	<u>33,512,578</u>	<u>1,773,052</u>
Other liabilities:					
Accrued compensated absences	1,044,367	655,455	(624,326)	1,075,496	704,053
Total other liabilities	<u>1,044,367</u>	<u>655,455</u>	<u>(624,326)</u>	<u>1,075,496</u>	<u>704,053</u>
Total long-term liabilities	<u>\$ 35,441,009</u>	<u>\$ 1,582,874</u>	<u>\$ (2,435,809)</u>	<u>\$ 34,588,074</u>	<u>\$ 2,477,105</u>

NOTES TO FINANCIAL STATEMENTS--Continued

SOUTHEASTERN OKLAHOMA STATE UNIVERSITY

June 30, 2012

NOTE E--LONG-TERM LIABILITIES--Continued

Revenue Bonds Payable

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

At June 30, 2012, future maturities of principal and interest requirements on the Bonds payable are as follows:

	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
Year Ending June 30:			
2013	\$ 260,000	\$ 265,361	\$ 525,361
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
2018-2022	1,685,000	938,251	2,623,251
2023-2027	2,105,000	527,156	2,632,156
2028-2031	985,000	68,914	1,053,914
	<u>\$ 6,175,000</u>	<u>\$ 2,766,101</u>	<u>\$ 8,941,101</u>

NOTES TO FINANCIAL STATEMENTS--Continued

SOUTHEASTERN OKLAHOMA STATE UNIVERSITY

June 30, 2012

NOTE E--LONG-TERM LIABILITIES--Continued

Capital Lease Obligations

Oklahoma Capital Improvement Authority Leases

In 2004, the 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 \$915,717 and \$1,020,307 at June 30, 2012 and 2011, respectively.

In November 2005, the Oklahoma Capital Improvement Authority (OCIA) issued its OCIA Bond Issues, 2005 Series F and G. Of the total bond indebtedness, the State Regents Higher Education allocated the University \$10,662,758. 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, 2012 and 2011, respectively.

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 deferred restructuring charge of \$927,419 that will be amortized over a period of six years, beginning in fiscal year 2011. 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. 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 \$3,610,532 at June 30, 2012 and 2011, respectively.

NOTES TO FINANCIAL STATEMENTS--Continued

SOUTHEASTERN OKLAHOMA STATE UNIVERSITY

June 30, 2012

NOTE E--LONG-TERM LIABILITIES--Continued

Oklahoma Capital Improvement Authority Leases--Continued

Capital Lease Obligations--Continued

Through June 30, 2012, 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, 2012 and 2011, respectively. 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 years ended June 30, 2012 and 2011, OCIA made lease principal and interest payments totaling \$276,043 and \$155,215, respectively, 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 assets.

Oklahoma Development Finance Authority Master Lease Program

Master Lease payable consisted of the following at June 30:

	<u>2012</u>	<u>2011</u>
ODFA Oklahoma State System of Higher Education Master Lease Revenue Bonds, Series 2001C, allocated to the University in the original amount of \$692,000 and mature in varying annual amounts to December 1, 2011.	\$ -	\$ 35,500
ODFA Oklahoma State System of Higher Education Master Lease Revenue Bonds, Series 2002A, allocated to the University in the original amount of \$213,000 and mature in varying annual amounts to December 1, 2011.	-	10,417
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.	4,950,833	5,629,167
ODFA Oklahoma State System of Higher Education Master Lease Revenue Bonds, Series 2003A, allocated to the University in the original amount of \$1,732,000 and mature in varying annual amounts to June 1, 2013.	184,250	381,583

NOTES TO FINANCIAL STATEMENTS--Continued

SOUTHEASTERN OKLAHOMA STATE UNIVERSITY

June 30, 2012

NOTE E--LONG-TERM LIABILITIES--Continued

Capital Lease Obligations--Continued

Oklahoma Development Finance Authority Master Lease Program--Continued

	<u>2012</u>	<u>2011</u>
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.	160,000	170,000
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.	2,514,583	2,666,583
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.	1,363,417	1,485,667
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.	532,175	668,508
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.	<u>1,996,000</u>	<u>2,123,500</u>
	<u>\$ 11,701,258</u>	<u>\$ 13,170,925</u>

There were no remaining funds to be drawn down by the University under the ODFA master lease programs at June 30, 2012 and 2011.

NOTES TO FINANCIAL STATEMENTS--Continued

SOUTHEASTERN OKLAHOMA STATE UNIVERSITY

June 30, 2012

NOTE E--LONG-TERM LIABILITIES--Continued

Capital Lease Obligations--Continued

Oklahoma Development Finance Authority Master Lease Program--Continued

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. This lease restructuring has resulted in a deferred restructuring charge of \$213,973 that will be amortized over the life of the Master Lease Revenue Bonds beginning in fiscal year 2012. A comparison of the present value of the total debt service costs of the 2002 Bonds versus the 2011B Bonds resulted in an economic gain of \$448,000. At June 30, 2012, \$5,460,000 of the Series 2002C which have been defeased in substance is outstanding and is expected to be redeemed in December 2012.

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 \$1,974,625 and \$2,151,597 at June 30, 2012 and 2011, respectively.

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:			
2013	\$ 1,223,276	\$ 705,329	\$ 1,928,605
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
2018-2022	8,926,118	2,522,885	11,449,003
2023-2027	3,686,266	1,200,706	4,886,972
2028-2032	2,802,678	355,175	3,157,853
	<u>\$ 25,106,465</u>	<u>\$ 8,238,393</u>	<u>\$ 33,344,858</u>

NOTES TO FINANCIAL STATEMENTS--Continued

SOUTHEASTERN OKLAHOMA STATE UNIVERSITY

June 30, 2012

NOTE E--LONG-TERM LIABILITIES--Continued

Notes Payable

Southeastern Foundation, Inc.

The University financed the purchase of real estate from the Southeastern Foundation, Inc. with a note payable with the Foundation. The purchase price and note amount is \$380,000 with an interest rate of 6% and a term of ten years. The outstanding balance on this note payable is \$0 and \$244,885 at June 30, 2012 and 2011, respectively. The note payable was paid off during the year ended June 30, 2012.

NOTE F--RETIREMENT PLANS

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

NOTES TO FINANCIAL STATEMENTS--Continued

SOUTHEASTERN OKLAHOMA STATE UNIVERSITY

June 30, 2012

NOTE F--RETIREMENT PLANS--Continued

Oklahoma Teachers' Retirement System (OTRS)--Continued

Funding Policy

The University is required to contribute a fixed percentage of annual compensation on behalf of active members. The employer contribution rate was 8.55% from January 1, 2010 through June 30, 2012 and 8.05% from July 1, 2009 through December 31, 2009 as applied to annual compensation, and are 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 2012, 2011 and 2010. For compensation in excess of \$25,000, the employee's contributions are paid directly by the University to the OTRS.

The University's contributions to the OTRS for the years ended June 30, 2012, 2011 and 2010, were approximately \$3,560,000, \$3,502,000, and \$3,408,000, 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.

The State of Oklahoma is also required to contribute to the OTRS on behalf of the participating employers. For 2012 and 2011, the State of Oklahoma contributed 5% of state revenues from sales and use taxes and individual income taxes, to the OTRS on behalf of participating employers. The University has estimated the amounts contributed to the OTRS by the State of Oklahoma on its behalf by multiplying the ratio of its covered salaries to total covered salaries to total covered salaries for the OTRS for the year by the applicable percentage of taxes collected during the year. For the years ended June 30, 2012 and 2011, the total amounts contributed to the OTRS by the State of Oklahoma on behalf of the University were approximately \$1,644,000 and \$1,441,000, respectively. These on-behalf payments have been recorded as both revenues and expenses in the statements of revenues, expenses and changes in net assets.

Defined Contribution Plans

The University also has a defined contribution 403(b) plan (DCP) available to full-time employees. The DCP is administered by the RUSO system, and the plan provisions are established and may be amended by the Board of Regents. Plan members may make voluntary contributions in accordance with IRS regulations. The University has no contribution requirements but may make discretionary contributions. No contributions were made during the years ended June 30, 2012, 2011, and 2010.

NOTES TO FINANCIAL STATEMENTS--Continued

SOUTHEASTERN OKLAHOMA STATE UNIVERSITY

June 30, 2012

NOTE F--RETIREMENT PLANS--Continued

Supplemental Retirement Annuity (SRA)

Plan Description

The University's SRA plan is a single employer, defined benefit pension plan administered by the University's Board of Regents. The SRA was established by the University's Board of Regents to provide supplemental retirement and death benefits to University employees who were hired prior to July 1, 1995, or to those eligible employees' beneficiaries. The authority to amend the SRA's benefit provisions rests with the University's Board of Regents. The SRA 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.

Annual Pension Cost and Net Pension Obligation (Asset)

Annual pension cost and net pension obligation (asset) of the SRA for 2012 and 2011 are as follows:

	2012	2011
Annual required contribution	\$ 245,907	\$ 298,672
Interest on net pension obligation (asset)	(113,340)	(91,223)
Adjustment to annual required contribution	144,299	116,140
Annual pension cost	276,866	323,589
Contribution made	(640,765)	(600,053)
Increase in net pension obligation (asset)	(363,899)	(276,464)
Net pension obligation (asset) beginning of year	(1,416,747)	(1,140,283)
Net pension obligation (asset) end of year	<u>\$ (1,780,646)</u>	<u>\$ (1,416,747)</u>

NOTES TO FINANCIAL STATEMENTS--Continued

SOUTHEASTERN OKLAHOMA STATE UNIVERSITY

June 30, 2012

NOTE F--RETIREMENT PLANS--Continued

Supplemental Retirement Annuity (SRA)--Continued

Annual Pension Cost and Net Pension Obligation (Asset)--Continued

The annual required contributions for 2012 and 2011 were determined as part of an actuarial valuation on June 30, 2012 and 2011, using the projected unit credit actuarial cost method. The actuarial assumptions included (a) a discount rate of 8% per year to determine the present value of future benefit payments; (b) retirement at age 65; (c) an 8% rate of return on investments; (d) projected salary increases of 3.5% per year; and (e) a 6% interest rate for post-retirement individual annuity settlement benefits. The value of the SRA assets is based on the TIAA-CREF group annuity account asset value. The unfunded actuarial accrued liability is being amortized over fifteen years as a level dollar amount on a closed basis.

Trend Information

Year Ended June 30	Annual Pension Cost (APC)	Percentage of APC Contributed	Net Pension Obligation (Asset)
2012	\$ 276,866	231%	\$ (1,780,646)
2011	323,589	185%	(1,416,747)
2010	318,763	92%	(1,140,283)

Funded Status and Funding Progress

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

	<u>2012</u>	<u>2011</u>
Actuarial accrued liability (AAL)	\$ 4,116,733	\$ 3,829,056
Actuarial value of plan assets	<u>1,735,620</u>	<u>1,443,647</u>
Unfunded actuarial accrued liability (UAAL)	<u>\$ 2,381,113</u>	<u>\$ 2,385,409</u>
Funded ratio (actuarial value of plan assets/AAL)	42.2%	37.7%
Covered payroll (active plan members)	\$ 2,988,555	\$ 3,167,095
UAAL as a percentage of covered payroll	79.7%	75.3%

NOTES TO FINANCIAL STATEMENTS--Continued

SOUTHEASTERN OKLAHOMA STATE UNIVERSITY

June 30, 2012

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, 2012, there were 337 active participants in the plan. The retirement insurance program was adopted by the Board of Regents in 1985. In March of 2008, the Retiree Medical Trust for Regional University System of Oklahoma was established to hold assets and pay benefits on behalf of the University's postemployment healthcare plan, and was administered by The Bank Oklahoma, N.A. Prior to the establishment of the trust, the insurance benefits were accounted for on a pay-as-you-go basis so that premiums were made from current operating funds. The plan 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*, 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 \$265,527 and represents 1.2% of covered payroll.

NOTES TO FINANCIAL STATEMENTS--Continued

SOUTHEASTERN OKLAHOMA STATE UNIVERSITY

June 30, 2012

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

Postemployment Healthcare Plan--Continued

Actuarial Methods and Assumptions

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

Projections of benefits for financial reporting purposes are based on the substantive plan and include the types of benefits provided at the time of each valuation. The actuarial methods and assumptions used include techniques that are designed to reduce short-term volatility in actuarial accrued liabilities and the actuarial value of assets, consistent with the long-term perspective of the calculations. For the June 30, 2012 actuarial valuation, the projected unit cost method was used. The actuarial assumptions included a 7.0% investment rate of return and an annual healthcare cost inflationary increase of 9.0%.

Annual OPEB Cost and Net OPEB Obligation (Asset)

Annual OPEB cost and net OPEB obligation (asset) for 2012 and 2011 is as follows:

	<u>2012</u>	<u>2011</u>
Annual required contribution	\$ 265,527	\$ 282,055
Adjustment to annual required contribution	<u>-</u>	<u>-</u>
Annual OPEB cost	265,527	282,055
Contributions made	<u>(269,880)</u>	<u>(288,988)</u>
Increase (decrease) in net OPEB obligation	(4,353)	(6,933)
OPEB obligation (asset) at beginning of year	<u>127,147</u>	<u>134,080</u>
OPEB obligation (asset) at end of year	<u><u>\$ 122,794</u></u>	<u><u>\$ 127,147</u></u>

NOTES TO FINANCIAL STATEMENTS--Continued

SOUTHEASTERN OKLAHOMA STATE UNIVERSITY

June 30, 2012

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

Postemployment Healthcare Plan--Continued

Funded and Funding Progress

The funded status of the plan as of June 30, 2012 and 2011 was as follows:

	<u>2012</u>	<u>2011</u>
Actuarial accrued liability (AAL)	\$ 2,544,962	\$ 2,409,147
Actuarial value of plan assets	<u>572,063</u>	<u>422,193</u>
Unfunded actuarial accrued liability (UAAL)	<u>\$ 1,972,899</u>	<u>\$ 1,986,954</u>
Funded ratio (actuarial value of plan assets/AAL)	22.5%	17.5%
Covered payroll (active plan members)	\$ 22,341,007	\$ 22,129,689
UAAL as a percentage of covered payroll	8.8%	9.0%

Trend Information

<u>Fiscal Year Ended</u>	<u>Annual OPEB Cost</u>	<u>Annual OPEB Cost Contributed/Percentage</u>	<u>Net OPEB Obligation (Asset)</u>
6/30/2012	\$ 265,527	101.6%	\$ 122,794
6/30/2011	282,055	102.5%	127,147
6/30/2010	299,247	90.9%	134,080

NOTES TO FINANCIAL STATEMENTS--Continued

SOUTHEASTERN OKLAHOMA STATE UNIVERSITY

June 30, 2012

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 \$1,225,000 and \$972,000 during the years ended June 30, 2012 and 2011, respectively, which is restricted to the construction or acquisition of buildings, equipment, or other capital items. These amounts are recorded as restricted appropriations for capital purposes in the statements of revenues, expenses and changes in net assets. State law prohibits the distribution of any corpus of these funds to the beneficiaries. The total cost basis of the trust reserve for Southeastern Oklahoma State University, held in trust by the commissioners of Land Office, was approximately \$14,781,000 and \$14,497,000 at June 30, 2012 and 2011, respectively.

Oklahoma State Regents Endowment Trust Fund

The University participates in the Oklahoma State Regents' Endowment Program (the "Endowment Program"). Under the Endowment Program, the State of Oklahoma matches contributions received. Such contributions generally come from private donations through the Foundation, for endowed chairs, lectureships, fellowships, and similar activities. The University is entitled to receive an annual distribution of 4.5% of the market value at year-end on these funds. As legal title of the State Regents matching endowment funds is retained by the Oklahoma State Regents, only the funds available for distribution, or approximately \$640,000 and \$563,000 at June 30, 2012 and 2011, respectively, have been reflected as assets in the statements of net assets. The total market value of endowment funds on deposit with the Oklahoma State Regents and held for the benefit of the University at June 30, 2012 and 2011 was approximately \$4,276,000 and \$4,404,000, respectively.

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 years ended June 30, 2012 and 2011, total support provided by the Foundation to the University, including scholarships awarded to University students, was approximately \$830,000 and \$834,000, respectively.

NOTES TO FINANCIAL STATEMENTS--Continued

SOUTHEASTERN OKLAHOMA STATE UNIVERSITY

June 30, 2012

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, 2012, approximately \$12,564,000 of Direct Loan Program loans were provided to College 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, 2012 and June 30, 2011, 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, 2012

NOTE L--ACCOUNTING STANDARDS ISSUED NOT YET ADOPTED

New Accounting Pronouncements: The GASB has 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, 2013

- *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.
- *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 and also amends the criteria for reporting component units as if they were part of the primary government (that is, blending) in certain circumstances. Earlier application is encouraged. The University does not believe that the adoption of GASB No. 61 will have a significant impact on its 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 University does not believe that the adoption GASB No. 62 will have a significant impact on its financial position, activities 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 will require the University to make changes in its financial statement presentation.

NOTES TO FINANCIAL STATEMENTS--Continued

SOUTHEASTERN OKLAHOMA STATE UNIVERSITY

June 30, 2012

NOTE L--ACCOUNTING STANDARDS ISSUED NOT YET ADOPTED--Continued

New Accounting Pronouncements--Continued:

Fiscal Year Ended June 30, 2014

- *Statement No. 65, Items Previously Reported as Assets and Liabilities.*
GASB 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 not quantified the effects of adoption of GASB No. 65 on its net position.

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 the University has not yet determined the impact that implementation of GASB No. 68 will have on its net position.

The University is currently evaluating the effects that the above GASB Pronouncements will have on its financial statements.

NOTES TO FINANCIAL STATEMENTS--Continued

SOUTHEASTERN OKLAHOMA STATE UNIVERSITY

June 30, 2012

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

Basis of Accounting: 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.

NOTES TO FINANCIAL STATEMENTS--Continued

SOUTHEASTERN OKLAHOMA STATE UNIVERSITY

June 30, 2012

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

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

Basis of Presentation--Continued: 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.

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 non cash 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 L.L.C. 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.

NOTES TO FINANCIAL STATEMENTS--Continued

SOUTHEASTERN OKLAHOMA STATE UNIVERSITY

June 30, 2012

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

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

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.

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. In the current year, The Foundation received art work that consisted primarily of Native American artwork. The collection is recorded at fair value and reflected as other assets in the statement of financial position.

NOTES TO FINANCIAL STATEMENTS--Continued

SOUTHEASTERN OKLAHOMA STATE UNIVERSITY

June 30, 2012

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

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

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.

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.

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.

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 L.L.C. reflects liabilities of \$8,966,074 as of June 30, 2012, the majority of which is a guarantee of debt to the 2005 Revenue Bond.

NOTES TO FINANCIAL STATEMENTS--Continued

SOUTHEASTERN OKLAHOMA STATE UNIVERSITY

June 30, 2012

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

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, 2012 the LLC had approximately \$242,500 in excess of FDIC insured limits.

The Foundation has opened a corporate sweep account and entered into a Tri-Party Control and Custody Agreement which includes Bank One, N.A., Oklahoma City, Oklahoma, and First United Bank and Trust, Durant, Oklahoma. Bank One, N.A. is authorized to act as custodian pursuant to the terms and conditions of the corporate sweep account, whereby funds in the account are invested in retail purchase agreements which are fully collateralized and guaranteed by securities which are direct obligations of the government of the United States.

Concentration of Contributions

During the current year, the organization received \$1.5 million of its contribution revenues from four donors.

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 \$349,822 and \$142,932 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.

Certificates of Deposits

Certificates of deposits totaling \$130,592 are reported in the accompanying statement of financial position. The certificates bear interest ranging from .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 \$35,592 for the year ended June 30, 2012.

NOTES TO FINANCIAL STATEMENTS--Continued

SOUTHEASTERN OKLAHOMA STATE UNIVERSITY

June 30, 2012

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

Notes Receivable

As of June 30, 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.	19,132
	<u>\$ 19,132</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, 2012, 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:

Investments as of June 30, 2012 summarized as follows:	<u>Fair Value</u>	<u>Carrying Value</u>
US government securities	\$ 2,155,324	\$ 2,155,324
Mutual funds	3,829,416	3,829,416
Common stock	3,299,072	3,299,072
Corporate bonds	<u>4,362,292</u>	<u>4,362,292</u>
	<u>\$ 13,646,104</u>	<u>\$ 13,646,104</u>
Investment income is summarized as follows:		
Interest	\$ 356,949	
Dividends	<u>199,297</u>	
	<u>\$ 556,246</u>	
Realized and unrealized gain or (loss) on investments	<u>\$ 352,529</u>	

NOTES TO FINANCIAL STATEMENTS--Continued

SOUTHEASTERN OKLAHOMA STATE UNIVERSITY

June 30, 2012

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

Building, Furniture and Fixtures

Property and equipment at June 30, 2012 consisted of the following:

Building	\$ 9,040,266
Furniture and equipment	<u>397,395</u>
	9,437,661
Less: accumulated depreciation	<u>(2,119,863)</u>
	<u>\$ 7,317,798</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 \$45,157 for the year ended June 30, 2012.

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 \$224,950 were accrued as current liabilities at June 30, 2012.

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, 2012.

NOTES TO FINANCIAL STATEMENTS--Continued

SOUTHEASTERN OKLAHOMA STATE UNIVERSITY

June 30, 2012

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

Real Estate Lease--Continued

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 then outstanding of all sums secured by any Permitted Mortgage then in effect, plus all interest accrued through the date of payment of such indebtedness plus redemption premiums, if any.

Restriction on Net Assets

Substantially all of the restrictions on net assets at the end of June 30, 2012 are related to funds for scholarships, endowments, and special projects. Temporarily restricted funds are contributions to be used for scholarships and special projects that may arise during the fiscal year. Restricted funds are contributions and investments designated by donors for endowments and scholarships. At this time there is a minimum \$15,000 requirement before contributions may be endowed.

Long-Term Debt

The Housing 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,	
2013	\$ 196,807
2014	207,356
2015	219,313
2016	231,962
2017	245,340
Thereafter	<u>7,806,200</u>
	<u>\$ 8,906,978</u>

NOTES TO FINANCIAL STATEMENTS--Continued

SOUTHEASTERN OKLAHOMA STATE UNIVERSITY

June 30, 2012

NOTE M--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 2010, 2009 and 2008 are subject to examination by the IRS, generally for three years after they were filed.

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 year ended June 30, 2012. 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.

Negative Unrestricted Net Assets

The consolidated statement of net assets reports negative unrestricted net assets of \$255,715. This is a direct result of the SOSU Housing LLC's negative net assets of \$989,079. This results from the deficit created by the operations of the new student housing project. The housing project rent structure has been adjusted upward to offset these operating deficits. It is the belief of management that the housing project will be self-sustaining in the future and will not require further subsidies from the University.

NOTES TO FINANCIAL STATEMENTS--Continued

SOUTHEASTERN OKLAHOMA STATE UNIVERSITY

June 30, 2012

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

University Subsidy to the SOSU Housing LLC

Since inception, Shearer Hall and Suites has incurred sustained operating losses. In prior years, the University has subsidized operating expenses directly allocable to the Shearer Hall and Suites. The University will continue to pay these unfunded expenses until the Shearer Hall and Suites becomes self sustaining. Without these subsidies, the LLC would be forced to seek financing to fund operating losses. In the current year, Shearer Hall completely funded all 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.

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.

NOTES TO FINANCIAL STATEMENTS--Continued

SOUTHEASTERN OKLAHOMA STATE UNIVERSITY

June 30, 2012

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

Donor Designated Endowments--Continued

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

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

NOTES TO FINANCIAL STATEMENTS--Continued

SOUTHEASTERN OKLAHOMA STATE UNIVERSITY

June 30, 2012

NOTE M--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 \$1,189 in 1 individual endowment as of June 30, 2012. 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, 2012 is as follows:

	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Permanently Restricted</u>	<u>Total</u>
Donor restricted endowment funds	\$ 297,567	\$ 8,640,370	\$ 9,534,246	\$ 18,472,183

Changes in endowment net assets as of June 30, 2012 are as follows:

	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Permanently Restricted</u>	<u>Total</u>
Endowment net assets beginning of year	\$ 425,980	\$ 6,611,753	\$ 9,086,862	\$ 16,124,595
Contributions	-	1,791,829	361,660	2,153,489
Investment income	-	546,146	-	546,146
Net appreciation (depreciation)	-	412,749	-	412,749
Transfers	636,384	(722,107)	85,723	-
Amounts appropriated for expenditures	(764,797)	-	-	(764,797)
	<u>\$ 297,567</u>	<u>\$ 8,640,370</u>	<u>\$ 9,534,246</u>	<u>\$ 18,472,183</u>

NOTES TO FINANCIAL STATEMENTS--Continued

SOUTHEASTERN OKLAHOMA STATE UNIVERSITY

June 30, 2012

NOTE M--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:

	Assets at Fair Value as of June 30, 2012			
	Level 1	Level 2	Level 3	Total
Investments				
Cash and cash equivalents	\$ 71,128	\$ -	\$ -	\$ 71,128
Common stocks:				
Consumer Cyclical	45,159	-	-	45,159
Consumer Discretionary	156,981	-	-	156,981
Consumer Staples	159,357	-	-	159,357
Energy	1,750,166	-	-	1,750,166
Financials	222,690	-	-	222,690
Healthcare	228,354	-	-	228,354
Industrials	199,427	-	-	199,427
Information Technology	376,284	-	-	376,284
Materials	70,262	-	-	70,262
Technology	18,226	-	-	18,226
Telecommunications	57,601	-	-	57,601
Utilities	14,565	-	-	14,565
Corporate bonds	-	1,303,630	-	1,303,630
Government bonds	554,167	1,601,157	-	2,155,324
Municipal bonds	-	3,058,662	-	3,058,662
Mutual Funds:				-
Equity based:				-
Consumer Cyclical	161,990	-	-	161,990
Consumer Defensive	116,407	-	-	116,407
Consumer Services	88,907	-	-	88,907
Energy	132,151	-	-	132,151
Financials	128,247	-	-	128,247
Healthcare	99,855	-	-	99,855
Industrials	128,725	-	-	128,725
Materials	1,329	-	-	1,329
Real Estate	1,008	-	-	1,008
Technology	170,608	-	-	170,608
Telecommunications	82,937	-	-	82,937
Utilities	86,308	-	-	86,308
Debt based:				
Corporate Bonds	-	1,484,737	-	1,484,737
Government Bonds	920	-	-	920
Municipal Bonds	-	1,022,914	-	1,022,914
Asset-backed Securities	-	285	-	285
Mortgage-backed Securities	-	50,960	-	50,960
Total Investments	\$ 5,123,759	\$ 8,522,345	\$ -	\$ 13,646,104

NOTES TO FINANCIAL STATEMENTS--Continued

SOUTHEASTERN OKLAHOMA STATE UNIVERSITY

June 30, 2012

NOTE M--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 September 21, 2012, 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, 2012

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%

SCHEDULE OF FUNDING PROGRESS FOR OTHER POST EMPLOYMENT INSURANCE BENEFITS

Actuarial Valuation Date	Actuarial Value of Assets (a)	Actuarial Accrued Liability (AAL) (b)	Unfunded AAL (UAAL) (b-a)	Funded Ratio (a/b)	Covered Payroll (c)	UAAL as a percentage of Covered Payroll (b-a)/(c)
6/30/2008	\$ -	\$ 2,268,000	\$ 2,268,000	0.0%	\$ 16,658,396	13.6%
6/30/2009	137,092	2,111,419	1,974,327	6.5%	21,420,468	9.2%
6/30/2010	245,102	2,325,236	2,080,134	10.5%	21,761,563	9.6%
6/30/2011	422,193	2,409,147	1,986,955	17.5%	22,129,689	9.0%
6/30/2012	572,063	2,544,962	1,972,899	22.5%	22,341,007	8.8%

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

OTHER SUPPLEMENTARY
INFORMATION

OTHER SUPPLEMENTARY INFORMATION

SOUTHEASTERN STATE UNIVERSITY

June 30, 2012

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, 2011 to June 30, 2012

	Program Budget	Actual Year Ended June 30, 2012
Revenues:		
Contract proceeds	\$ 260,000	\$ 260,000
Expenditures:		
Salaries and fringe benefits	260,000	260,000
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 the financial statements of Southeastern Oklahoma State University (the "University"), a component unit of the State of Oklahoma, as of and for the year ended June 30, 2012, and have issued our report thereon dated October 30, 2012. Our report includes a reference to 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. Other auditors audited the financial statements of Southeastern Foundation, Inc. (the "Foundation"), a discretely presented component unit of the University, as described in our report on the University's financial statements. The financial statements of the Foundation were not audited in accordance with *Government Auditing Standards*.

Internal Control Over Financial Reporting

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

A *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 misstatements on a timely basis. A *material weakness* is a deficiency, or a combination of deficiencies, in internal control such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected on a timely basis.

Our consideration of internal control over financial reporting 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 financial reporting that might be deficiencies, significant deficiencies or material weaknesses. We did not identify any deficiencies in internal control over financial reporting that we consider to be material weaknesses, as defined above.

Compliance and Other Matters

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

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

Cole & Reed P.C.

Oklahoma City, Oklahoma
October 30, 2012

Independent Auditors' Report on Compliance
With Requirements That Could Have a Direct and Material Effect on
Each Major Program and Internal Control Over Compliance in Accordance
With OMB Circular A-133 and the Schedule of Expenditures of Federal Awards

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

Compliance

We have audited the compliance of Southeastern Oklahoma State University (the "University"), a component unit of the State of Oklahoma, with the types of compliance requirements described in the U.S. Office of Management and Budget (OMB) Circular A-133 *Compliance Supplement* that could have a direct and material effect on each of its major federal programs for the year ended June 30, 2012. The University's major federal programs are identified in the Summary of Auditors' Results Section of the accompanying Schedule of Findings and Questioned Costs. Compliance with the requirements of laws, regulations, contracts, and grants applicable to each of its major federal programs is the responsibility of the University's management. Our responsibility is to express an opinion on the University's compliance based on our audit.

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

In our opinion, Southeastern Oklahoma State University complied, in all material respects, with the 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, 2012.

Internal Control Over Compliance

Management of Southeastern Oklahoma State University is responsible for establishing and maintaining effective internal control over compliance with the requirements of laws, regulations, contracts, and grants applicable to federal programs. In planning and performing our audit, we considered the University's internal control over compliance with requirements that could have a direct and material effect on a major federal program in order to determine our auditing procedures for the purpose of expressing our opinion on compliance and to test and report on 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.

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 deficiencies, significant deficiencies, or material weaknesses. We did not identify any deficiencies in internal control over compliance that we consider to be material weaknesses, as defined above.

Schedule of Expenditures of Federal Awards

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the University's basic financial statements. The accompanying schedule of expenditures of federal awards is presented for purposes of additional analysis, as required by the U.S. Office of Management and Budget Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*, and is not a required part of the basic financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the financial statements. The 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 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 information is fairly stated in all material respects in relation to the basic financial statements as a whole.

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

Cole & Reed P.C.

Oklahoma City, Oklahoma
October 30, 2012

SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS

SOUTHEASTERN OKLAHOMA STATE UNIVERSITY

Year Ended June 30, 2012

Federal Grantor/Pass-Through Grantor/Program Title	CFDA Number	Expended
U.S. Department of Education		
Direct Programs		
Student Financial Aid Cluster		
Federal Pell Grant Program	84.063	\$ 7,745,832
Federal Work Study Program	84.033	233,057
Federal Supplemental Education Opportunity Grants	84.007	195,000
William D Ford Direct Loan Program	84.268	12,564,497
Academic Competitive Grant	84.375	1,213
National Smart Grant	84.376	511
Erma Byrd Scholarship Program	84.116P	52,500
Total Student Financial Aid Cluster		20,792,610
Trio Cluster		
Educational Opportunity Center	84.066A	452,035
Upward Bound	84.047A	464,067
Upward Bound-Math/Science	84.047M	275,078
Talent Search	94.044A	390,416
Student Support Services	84.042A	320,465
Texoma Upward Bound	84.047A	242,897
Student Support Services-Teacher Prep	84.116P	231,928
Total Trio Cluster		2,376,886
Other Direct Programs		
Native American Excellence in Education	84.299B	376,909
Connect2complete	84.382C	124,351
Total U.S. Department Of Education		23,670,756
U.S. Small Business Administration		
Small Business Development Center	59.037	1,226,805
Veterans Assistance and Services Program	59.037	82,055
Small Business Jobs Act Program	59.037	205,809
Total U.S. Small Business Administration		1,514,669
U.S. Department of Health and Human Services		
Passed through OU Health Science Center		
Equipment	93.389	31,998
Total U.S. Department of Health and Human Services		31,998
National Science Foundation		
Renovation of Biotech/Chem Labs ARRA Money	47.082 ARRA	196,506
Passed through Oklahoma State University		
Louis Stokes-Oklahoma Alliance for Minority Participation		26,915
Science Educators Training on Globe Objective	47.080	3,379
Evaluation of Filamentous Freshwater Algae	47.081	5,658
Total National Science Foundation		232,458

SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS--Continued

SOUTHEASTERN OKLAHOMA STATE UNIVERSITY

Year Ended June 30, 2012

Federal Grantor/Pass-Through Grantor/Program Title	CFDA Number	Expended
U.S. Department of Agriculture		
Passed Through Oklahoma Department Of Education Summer Food Service Program/Trio Programs	10.559	14,165
Passed Through North Carolina State University Watermelon Uses And Prevention Of Skin Damage	10.000	16,319
Passed Through U.S. Forest Service An Assessment Of Alligators/Red Slough Area	10.000	<u>2,350</u>
Total U.S. Department of Agriculture		32,834
U.S. Department of Justice		
Community Oriented Policing Plan	16.710	108,655
Passed through East Central University RUSO-Violence Prevention Project	16.525	<u>58,941</u>
Total U.S. Department of Justice		167,596
National Aeronautics and Space Administration		
Passed through University of Oklahoma NASA-Oklahoma Space Grant Consortium	43.008	41,282
National Endowment for the Arts		
Passed through Mid-American Arts Alliance Heartland Arts Fund Visiting Artists Musical Arts Series	45.025	2,500
Arts Education Invitational Grant Initiative	45.024	<u>12,500</u>
Total National Endowment for the Arts		15,000
U.S. Department of Interior		
Passed through U.S. Bureau of Reclamation Channel Catfish Diets in the San Juan River	15.529	29,265
U.S. Department of Energy		
Passed Through OK Department of Commerce Stimulus State Energy Program Arra Money	81.041 ARRA	500,000
National Institute of Health		
Passed through OU Health Science Center Oklahoma INBRE Summer Internship Supplies	93.389	2,200
Corporation for National and Community Service		
Passed through OK State Regents for Higher Education Students in Service	94.006	<u>837</u>
TOTAL EXPENDITURES OF FEDERAL AWARDS		<u>\$ 26,238,895</u>

See notes to schedule of expenditures of federal awards.

NOTES TO SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS

SOUTHEASTERN OKLAHOMA STATE UNIVERSITY

June 30, 2012

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	\$ 84,807
Small Business Development Center	59.037	Northeastern Oklahoma State University	195,097
Small Business Development Center	59.037	Northwestern Oklahoma State University	138,660
Small Business Development Center	59.037	Rose State College	37,601
Small Business Development Center	59.037	Southwestern Oklahoma State University	223,511
Small Business Development Center	59.037	Langston University	72,992
Small Business Development Center	59.037	University of Central Oklahoma	232,905
			<u>\$ 985,573</u>

SCHEDULE OF FINDINGS AND QUESTIONED COSTS

SOUTHEASTERN OKLAHOMA STATE UNIVERSITY

June 30, 2012

Section I--Summary of Auditors' Results

Financial statements

Type of auditors' report issued:

Unqualified

Internal control over financial reporting:

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

Noncompliance material to financial statements noted?

yes no

Federal Awards

Internal control over major programs:

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

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

Unqualified

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

yes no

Identification of major programs:

<u>Program</u>	<u>CFDA Number</u>
Student Financial Aid Cluster	*
TRIO Cluster	*
Stimulus State Energy Program	81.041 ARRA
Connect2 Complete	84.382C

*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, 2012

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

None to report for the June 30, 2012 period.

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

None to report for the June 30, 2012 period.

SUMMARY SCHEDULE OF PRIOR AUDIT FINDINGS

SOUTHEASTERN OKLAHOMA STATE UNIVERSITY

June 30, 2012

No matters were reportable.