



# LANGSTON UNIVERSITY

As of and for the Years Ended  
JUNE 30, 2013 AND JUNE 30, 2014

Financial Statements and Schedule of Expenditures of Federal Awards  
**WITH REPORTS OF INDEPENDENT AUDITORS**



LANGSTON UNIVERSITY

June 30, 2014

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## Independent Auditors' Report

Board of Regents for the Oklahoma Agricultural and Mechanical Colleges  
Langston University  
Oklahoma City, Oklahoma

### **Report on the Financial Statements**

We have audited the accompanying financial statements of Langston University (the "University"), a component unit of the State of Oklahoma, which comprise the statements of net position as of June 30, 2014 and 2013, and the related statements of revenues, expenses, and changes in net position, and cash flows for the years then ended, and the related notes to the financial statements.

### **Management's Responsibility for the Financial Statements**

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

### **Auditors' Responsibility**

Our responsibility is to express an opinion on these financial statements based on our audits. We did not audit the financial statements of the University's discretely presented component unit, Langston University Foundation (the "Foundation"). We also did not audit LDF Student Housing, L.L.C (the "LLC") the University's blended component unit, which represents 22% and 23% of the University's total assets at June 30, 2014 and 2013, respectively, and 10% and 11% of the University's total revenues for the years ended June 30, 2014 and 2013, respectively. Those financial statements were audited by other auditors, whose reports have been furnished to us, and our opinion, insofar as it relates to the amounts included for the Foundation and LLC, is based solely on the reports of the other auditors. 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 not audited in accordance with *Government Auditing Standards*.

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

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

## Opinion

In our opinion, based on our audits and the reports of the other auditors, the financial statements referred to above present fairly, in all material respects, the respective financial position of Langston University and its discretely presented component unit, Langston University Foundation, as of June 30, 2014 and 2013, and the respective changes in financial position and, where applicable, cash flows thereof for the years then ended in accordance with accounting principles generally accepted in the United States of America.

## Other Matters

### *Required Supplementary Information*

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

### *Other Information*

Our audits were conducted for the purpose of forming an opinion on the basic financial statements of Langston University. The accompanying Combining Statements, as listed in the table of contents, are presented for purposes of additional analysis and are not a required part of the basic financial statements. The accompanying Combining Statements are the responsibility of management and were derived from and relate directly to the underlying accounting and other records used to prepare the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic financial statements or to the basic financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, based on our audits and the procedures performed as described above, the accompanying Combining Statements are fairly stated, in all material respects, in relation to the basic financial statements as a whole.

## Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated October 28, 2014 on our consideration of the University's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the University's internal control over financial reporting and compliance.

Cole & Reed P.C.

Oklahoma City, Oklahoma  
October 28, 2014

## MANAGEMENT'S DISCUSSION AND ANALYSIS

### LANGSTON UNIVERSITY

For the Years Ended June 30, 2014, 2013 and 2012

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

The following discussion and analysis of the financial performance of Langston University (the "University") provides an overview of the University's financial activities for the fiscal years ended June 30, 2014 and 2013. This analysis is intended to provide a summary of significant financial activities and information and should be read in conjunction with the University's financial statements.

The University's financial statements reflect LDF Student Housing, LLC (the "LLC") as a blended component of the University as required by GASB Statement No. 61. The most significant impact of blending of the LLC in the University's financial statements is reflected in increased cash, investments and long-term debt, compared to the University's stand-alone position, and impacts the net position.

#### FINANCIAL HIGHLIGHTS

- Net position for the University amounted to \$98,118,098, \$95,938,872 and \$92,054,109 for the years ended June 30, 2014, 2013, and 2012, respectively. The increase in net position was substantially due to construction and completion of certain buildings and improvements, contribution to and market appreciation in the University's endowment, and reductions in long-term debt. These improvements in net position were partially offset by decreases in unrestricted net position due primarily in Education and General I ("E&G I"), reflecting higher operating expenses in fiscal year 2014, the use of certain cash reserves for funding certain capital projects and other initiatives, and a \$1,000,000 contribution from Langston Economic Development Authority ("LEDA") in Fiscal Year 2013, which was not made in 2014.
- Total revenues amounted to \$72,347,135, \$70,695,368 and \$73,278,860 for the years ended June 30, 2014, 2013, and 2012, respectively. The increase in revenues was substantially in nonoperating and other revenues, most significantly in the market appreciation to the University's endowment, as well as an increase in charter school revenues reflecting an additional sponsorship, pass-through grant revenues related to federal and state funded financial aid and OCIA on behalf state appropriations related to certain capital lease obligations funded by the State of Oklahoma.
- Total expenses amounted to \$70,167,909, \$66,810,605 and \$69,952,398 for the years ended June 30, 2014, 2013, and 2012, respectively. All categories of operating expenses increased. The most significant increases were reflected in charter school expenses commensurate with the increased revenues of the new sponsorship, interest expense related to the refunding, refinancing and restructuring of certain debt, compensation and benefit expenses reflecting additional personnel and a modest employee stipend, and an increase in scholarships due to the record-breaking freshmen class for Fall 2013.

MANAGEMENT'S DISCUSSION AND ANALYSIS--Continued

LANGSTON UNIVERSITY

For the Years Ended June 30, 2014, 2013 and 2012

CONDENSED STATEMENTS OF NET POSITION

A comparative schedule of the University's net position for the years ended June 30, 2014, 2013, and 2012 is shown below, including the percentage of annual change:

|   | 2014                  | 2013                  | 2012                  | 2014 vs. 2013<br>Increase<br>(Decrease) | 2013 vs. 2012<br>Increase<br>(Decrease) | 2014 vs. 2013<br>Percentage<br>Change | 2013 vs. 2012<br>Percentage<br>Change |
|---|-----------------------|-----------------------|-----------------------|---|---|---------------------------------------|---------------------------------------|
| <b>ASSETS</b>                                 |                       |                       |                       |   |   |                                       |                                       |
| Current assets                                | \$ 26,573,813         | \$ 32,074,862         | \$ 32,441,578         | \$ (5,501,049)                          | \$ (366,716)                            | -17.2%                                | -1.1%                                 |
| Noncurrent assets:                            |                       |                       |                       |   |   |                                       |                                       |
| Capital assets,<br>net of depreciation        | 94,033,971            | 94,892,543            | 96,424,965            | (858,572)                               | (1,532,422)                             | -0.9%                                 | -1.6%                                 |
| Other   | 50,502,729            | 45,402,280            | 42,133,154            | 5,100,449                               | 3,269,126                               | 11.2%                                 | 7.8%                                  |
| TOTAL ASSETS                                  | <u>\$ 171,110,513</u> | <u>\$ 172,369,685</u> | <u>\$ 170,999,697</u> | <u>\$ (1,259,172)</u>                   | <u>\$ 1,369,988</u>                     | <u>-0.7%</u>                          | <u>0.8%</u>                           |
| <b>DEFERRED OUTFLOWS<br/>OF RESOURCES</b>     |                       |                       |                       |   |   |                                       |                                       |
|   | <u>\$ 212,251</u>     | <u>\$ 318,376</u>     | <u>\$ 424,501</u>     | <u>\$ (106,125)</u>                     | <u>\$ (106,125)</u>                     | <u>-300.0%</u>                        | <u>-25.0%</u>                         |
| <b>LIABILITIES</b>                            |                       |                       |                       |   |   |                                       |                                       |
| Current liabilities                           | \$ 10,513,379         | \$ 10,140,898         | \$ 10,039,674         | \$ 372,481                              | \$ 101,224                              | 3.7%                                  | 1.0%                                  |
| Noncurrent liabilities                        | 62,346,622            | 66,608,291            | 69,330,415            | (4,261,669)                             | (2,722,124)                             | -6.4%                                 | -3.9%                                 |
| TOTAL LIABILITIES                             | <u>\$ 72,860,001</u>  | <u>\$ 76,749,189</u>  | <u>\$ 79,370,089</u>  | <u>\$ (3,889,188)</u>                   | <u>\$ (2,620,900)</u>                   | <u>-5.1%</u>                          | <u>-3.3%</u>                          |
| <b>DEFERRED INFLOWS<br/>OF RESOURCES</b>      |                       |                       |                       |   |   |                                       |                                       |
|   | <u>\$ 344,665</u>     | <u>\$ -</u>           | <u>\$ -</u>           | <u>\$ 344,665</u>                       | <u>\$ -</u>                             | <u>100.0%</u>                         | <u>0.0%</u>                           |
| <b>NET POSITION</b>                           |                       |                       |                       |   |   |                                       |                                       |
| Net investment<br>in capital assets           | \$ 30,116,006         | \$ 25,948,375         | \$ 26,392,917         | \$ 4,167,631                            | \$ (444,542)                            | 16.1%                                 | -1.7%                                 |
| Restricted - nonexpendable                    | 41,785,800            | 37,744,636            | 35,636,405            | 4,041,164                               | 2,108,231                               | 10.7%                                 | 5.9%                                  |
| Restricted - expendable:                      |                       |                       |                       |   |   |                                       |                                       |
| Scholarships, research,<br>instruction, other | 620,855               | 599,553               | 684,797               | 21,302                                  | (85,244)                                | 3.6%                                  | -12.4%                                |
| Loans   | 495,974               | 556,998               | 707,352               | (61,024)                                | (150,354)                               | -11.0%                                | -21.3%                                |
| Capital projects                              | 4,571,528             | 1,991,484             | 1,427,578             | 2,580,044                               | 563,906                                 | 129.6%                                | 39.5%                                 |
| Debt service                                  | 7,760,457             | 12,392,721            | 11,065,208            | (4,632,264)                             | 1,327,513                               | -37.4%                                | 12.0%                                 |
| Unrestricted                                  | 12,767,478            | 16,705,105            | 16,139,852            | (3,937,627)                             | 565,253                                 | -23.6%                                | 3.5%                                  |
| TOTAL NET POSITION                            | <u>\$ 98,118,098</u>  | <u>\$ 95,938,872</u>  | <u>\$ 92,054,109</u>  | <u>\$ 2,179,226</u>                     | <u>\$ 3,884,763</u>                     | <u>2.3%</u>                           | <u>4.2%</u>                           |

MANAGEMENT'S DISCUSSION AND ANALYSIS--Continued

LANGSTON UNIVERSITY

For the Years Ended June 30, 2014, 2013 and 2012

CONDENSED STATEMENTS OF NET POSITION--Continued

*FY 2014 vs. FY 2013*

Total assets decreased \$1,259,172 during fiscal year 2014 to a total of \$171,110,513. The most significant decreases were reflected in contract and grant receivables, other assets and capital assets, net of depreciation. Contract and grant receivables declined due to certain grants that expired and were not renewed. Other assets decreased due to a draw request of Section 13/New College Funds that was recorded as a receivable at year-end 2013, which was not made at year-end 2014. Capital assets declined substantially due to equipment retirements and disposals and depreciation, which were partially offset by equipment purchases and building additions. These decreases in total assets were partially offset by increases in investments, which reflected the State's contribution to the University's endowment fund, as well as market appreciation.

In FY 2010, an existing OCIA capital lease was restructured that resulted in certain deferred payments. In accordance with GASB Statement No. 65, these deferred costs are now included in the Statement of Net Position separately from total assets and reflected as Deferred Outflows of Resources. The decrease in deferred outflows in fiscal year 2014 compared to fiscal year 2013 reflects the amortization of these deferred costs.

Total liabilities declined \$3,889,188 substantially due to reductions in long-term debt, which decreased \$3,300,936 reflecting debt service payments and the refinancing of certain debt. Other liabilities reflected a decline in accounts payable from reduced project activity, student deposits and amortization of unearned revenues reflecting the completion of certain capital projects.

During fiscal year 2014, the 2005F OCIA capital lease was restructured, resulting in the recognition of a deferred credit of \$344,665. This deferred credit is recognized in the Statement of Net Position separately from total liabilities and reflected as Deferred Inflows of Resources.

Net position increased \$2,179,226 from one year ago. Net investment in capital assets, increased \$4,167,631, reflecting capital asset additions and increased depreciation. Restricted nonexpendable net position increased \$4,041,164 due to the contribution to the University's endowment as well as market appreciation. These increases were partially offset by decreases in expendable restricted and unrestricted net positions. The expendable restricted decrease reflected the reduction of debt service and partially offset by increases in capital assets. The decline in unrestricted net position reflects a decline in the net position associated with E&G I activities and decreases in unrestricted indirect costs. The E&G I net position decreased by \$4,048,370, largely reflecting the use of reserves during the course of the year as well for capital projects, scholarships and enrollment and branding initiatives. The E&G I net position at June 30, 2014 amounted to \$7,240,818. Unrestricted indirect costs decreased by \$518,868 to \$2,392,891 at year-end, reflecting the expiration and nonrenewal of certain grants. The unrestricted net position in Auxiliary Enterprises increased \$329,611 to \$3,133,769.

MANAGEMENT'S DISCUSSION AND ANALYSIS--Continued

LANGSTON UNIVERSITY

For the Years Ended June 30, 2014, 2013 and 2012

CONDENSED STATEMENTS OF NET POSITION--Continued

*FY 2013 vs. FY 2012*

Total assets increased \$1,369,988 during fiscal year 2013 to a total of \$172,369,685 at June 30, 2013. The most significant increases were reflected in cash and cash-equivalents, investments and other receivables. Cash and cash-equivalents increased \$590,436 primarily because of decreased operating expenses which were substantially offset by revenues related to student enrollment declines. The \$2,206,310 increase in investments primarily reflects a contribution to the University's endowment in the amount of \$1,663,652 and reinvestment of interest income. Other assets increased \$580,127 largely due to an \$879,000 draw request in transit at year-end of Section 13/New College Funds held by the trustee. These increases were partially offset by a decrease of \$1,532,422 in net investments in capital assets and net accounts receivable. Capital assets before accumulated depreciation increased by \$1,893,158 primarily reflecting construction in progress and equipment additions, net of asset disposals. However, accumulated depreciation increased by \$3,425,580 related to projects completed in late 2012 and in 2013 resulting in a decrease in net capital assets. Declines in net accounts receivable reflects the University's enforcement of payment policies, lower enrollment, and an increase in provision for accounts anticipated to be uncollectible.

Deferred outflows in fiscal year 2013 compared to fiscal year 2012 declined \$106,125, reflecting the amortization of these deferred costs.

Total liabilities declined \$2,620,900 primarily reflecting reductions in long-term debt, which declined \$2,091,862 reflecting debt service payments. Other liabilities reflected a decline in accrued compensated absences because of unfilled positions, reduced student deposits due to lower enrollment and amortization of unearned revenue. These were partially offset by increases in accounts payable reflecting outstanding capital projects at year-end 2013.

Net position increased \$3,884,763 most significantly in the nonexpendable net position which increased \$2,108,231 primarily related to contributions to the University's endowment and reinvestment of interest earned. The restricted expendable net position increased by \$1,655,821, reflecting reductions in long-term debt. The net position invested in capital assets declined by \$444,542, as increases to accumulated depreciation exceeded net capital asset additions. The unrestricted net position increased by \$565,253, reflecting decreases in E&G I and Auxiliary, which were offset by an increase in unrestricted indirect costs. E&G I decreases of \$158,405 reflect the use of reserves during fiscal year 2013 for capital and other projects. The \$424,574 decline in the Auxiliary net position reflects the reduction in student revenue due to lower enrollment. Unrestricted indirect costs increased \$1,148,232 primarily reflecting an increase in the negotiated rate of indirect costs paid by grants, funding of fewer capital projects than in the previous year resulting in increased cash, and decreased liabilities related to grants and contracts at year-end.

MANAGEMENT'S DISCUSSION AND ANALYSIS--Continued

LANGSTON UNIVERSITY

For the Years Ended June 30, 2014, 2013 and 2012

CONDENSED STATEMENTS OF REVENUES, EXPENSES AND CHANGES IN NET POSITION

The table below summarizes the University's Statements of Revenues, Expenses and Changes in Net Position for the years ended June 30, 2014, 2013, and 2012:

|   | 2014                 | 2013                 | 2012                 | 2014 vs. 2013<br>Increase<br>(Decrease) | 2013 vs. 2012<br>Increase<br>(Decrease) | 2014 vs. 2013<br>Percentage<br>Change | 2013 vs. 2012<br>Percentage<br>Change |
|---|----------------------|----------------------|----------------------|---|---|---------------------------------------|---------------------------------------|
| <b>OPERATING REVENUES</b>                               |                      |                      |                      |   |   |                                       |                                       |
| Student tuition and fees, net                           | \$ 7,327,307         | \$ 7,268,150         | \$ 8,804,403         | \$ 59,157                               | \$ (1,536,253)                          | 0.8%                                  | -17.4%                                |
| Federal, state and<br>local grants/contracts            | 11,717,799           | 15,415,103           | 14,839,587           | (3,697,304)                             | 575,516                                 | -24.0%                                | 3.9%                                  |
| Auxiliary   | 6,785,455            | 6,329,779            | 7,395,353            | 455,676                                 | (1,065,574)                             | 7.2%                                  | -14.4%                                |
| Other   | 722,590              | 653,730              | 684,315              | 68,860                                  | (30,585)                                | 10.5%                                 | -4.5%                                 |
| <b>TOTAL OPERATING REVENUES</b>                         | <b>26,553,151</b>    | <b>29,666,762</b>    | <b>31,723,658</b>    | <b>(3,113,611)</b>                      | <b>(2,056,896)</b>                      | <b>10.5%</b>                          | <b>-6.5%</b>                          |
| <b>OPERATING EXPENSES</b>                               |                      |                      |                      |   |   |                                       |                                       |
| Compensation and employee benefits                      | 31,356,057           | 30,820,556           | 33,225,012           | 535,501                                 | (2,404,456)                             | 1.7%                                  | -7.2%                                 |
| Contractual services                                    | 3,885,226            | 3,525,565            | 4,060,912            | 359,661                                 | (535,347)                               | 10.2%                                 | -13.2%                                |
| Supplies and materials                                  | 1,575,246            | 1,442,757            | 1,250,292            | 132,489                                 | 192,465                                 | 9.2%                                  | 15.4%                                 |
| Utilities   | 2,290,346            | 2,180,403            | 2,297,122            | 109,943                                 | (116,719)                               | 5.0%                                  | -5.1%                                 |
| Communications  | 175,867              | 144,790              | 203,540              | 31,077                                  | (58,750)                                | 21.5%                                 | -28.9%                                |
| Other operating expense                                 | 10,465,353           | 10,297,905           | 9,653,209            | 167,448                                 | 644,696                                 | 1.6%                                  | 6.7%                                  |
| Scholarships and fellowships                            | 5,365,463            | 5,084,967            | 5,626,049            | 280,496                                 | (541,082)                               | 5.5%                                  | -9.6%                                 |
| Depreciation  | 3,925,512            | 3,850,401            | 3,869,687            | 75,111                                  | (19,286)                                | 2.0%                                  | -0.5%                                 |
| <b>TOTAL OPERATING EXPENSES</b>                         | <b>59,039,070</b>    | <b>57,347,344</b>    | <b>60,185,823</b>    | <b>1,691,726</b>                        | <b>(2,838,479)</b>                      | <b>2.9%</b>                           | <b>-4.7%</b>                          |
| <b>OPERATING LOSS</b>                                   | <b>(32,485,919)</b>  | <b>(27,680,582)</b>  | <b>(28,462,165)</b>  | <b>(4,805,337)</b>                      | <b>781,583</b>                          | <b>17.4%</b>                          | <b>-2.7%</b>                          |
| <b>NONOPERATING REVENUES (EXPENSES)</b>                 |                      |                      |                      |   |   |                                       |                                       |
| State appropriations                                    | 18,786,156           | 18,593,524           | 18,409,735           | 192,632                                 | 183,789                                 | 1.0%                                  | 1.0%                                  |
| OTRS on-behalf contributions                            | 1,644,000            | 1,687,000            | 1,742,000            | (43,000)                                | (55,000)                                | -2.5%                                 | -3.2%                                 |
| Pass-through grant revenue                              | 8,174,732            | 7,369,509            | 9,414,791            | 805,223                                 | (2,045,282)                             | 10.9%                                 | -21.7%                                |
| Contribution from LEDA                                  | -                    | 1,000,000            | -                    | (1,000,000)                             | 1,000,000                               | -100.0%                               | 0.0%                                  |
| Charter schools program revenue                         | 7,853,830            | 6,631,625            | 6,589,778            | 1,222,205                               | 41,847                                  | 18.4%                                 | 0.6%                                  |
| Charter schools program expenses                        | (7,535,432)          | (6,366,759)          | (6,336,251)          | (1,168,673)                             | (30,508)                                | 18.4%                                 | 0.5%                                  |
| Investment income                                       | 708,708              | 908,682              | 962,641              | (199,974)                               | (53,959)                                | 22.0%                                 | -5.6%                                 |
| Gain on endowment investments                           | 3,346,633            | 218,528              | (138,357)            | 3,128,105                               | 356,885                                 | 1431.4%                               | -257.9%                               |
| Interest expense  | (3,593,407)          | (3,096,502)          | (3,291,967)          | (496,905)                               | 195,465                                 | 16.0%                                 | -5.9%                                 |
| <b>NET NONOPERATING<br/>REVENUES (EXPENSES)</b>         | <b>29,385,220</b>    | <b>26,945,607</b>    | <b>27,352,370</b>    | <b>2,439,613</b>                        | <b>(406,763)</b>                        | <b>9.1%</b>                           | <b>-1.5%</b>                          |
| <b>INCOME (LOSS) BEFORE<br/>OTHER REVENUE (EXPENSE)</b> | <b>(3,100,699)</b>   | <b>(734,975)</b>     | <b>(1,109,795)</b>   | <b>(2,365,724)</b>                      | <b>374,820</b>                          | <b>321.9%</b>                         | <b>-33.8%</b>                         |
| <b>OTHER INCOME (EXPENSE)</b>                           | <b>5,279,925</b>     | <b>4,619,738</b>     | <b>4,436,258</b>     | <b>660,187</b>                          | <b>183,480</b>                          | <b>14.3%</b>                          | <b>4.1%</b>                           |
| <b>CHANGE IN NET POSITION</b>                           | <b>2,179,226</b>     | <b>3,884,763</b>     | <b>3,326,463</b>     | <b>(1,705,537)</b>                      | <b>558,300</b>                          | <b>-43.9%</b>                         | <b>16.8%</b>                          |
| <b>NET POSITION, BEGINNING OF YEAR</b>                  | <b>95,938,872</b>    | <b>92,054,109</b>    | <b>88,727,646</b>    | <b>3,884,763</b>                        | <b>3,326,463</b>                        | <b>4.2%</b>                           | <b>3.7%</b>                           |
| <b>NET POSITION, END OF YEAR</b>                        | <b>\$ 98,118,098</b> | <b>\$ 95,938,872</b> | <b>\$ 92,054,109</b> | <b>\$ 2,179,226</b>                     | <b>\$ 3,884,763</b>                     | <b>2.3%</b>                           | <b>4.2%</b>                           |

MANAGEMENT'S DISCUSSION AND ANALYSIS--Continued

LANGSTON UNIVERSITY

For the Years Ended June 30, 2014, 2013 and 2012

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

*FY 2014 vs. FY 2013*

Total revenues include operating revenues, state appropriations and other non-operating revenues, such as investment gains, interest income, pass-through grants and on-behalf contributions. For the year ended June 30, 2014, total revenues increased \$1,651,767. The increase in total revenues was substantially in nonoperating and other revenues. Charter school revenues increased \$1,222,205 reflecting an additional charter sponsorship in Fiscal Year 2014. Increases in pass-through grants revenues reflected increases in financial aid funded by the federal and state government. The increase in OCIA on behalf appropriations reflects the increases in debt service payments related to capital lease obligations funded by the State of Oklahoma. These increases were partially offset by decreases in operating revenues, substantially reflecting decreases in federal and state grants due to expired and nonrenewed grants. Additionally, in fiscal year 2013, the LLC received a \$1,000,000 contribution to assist the LLC in meeting its debt rate covenant.

Total expenses increased \$3,357,304 from the previous year in all categories, with the most significant increases being reflected in charter school expenses, interest expense, compensation and employee benefits, and scholarships. Charter school expenses increased commensurate with charter school revenues and reflects the addition of a new charter school during fiscal year 2014. Interest expense increased related to the refunding, refinancing and restructuring of certain debt. Compensation and benefits increased reflecting additional personnel, mostly faculty, and a modest employee stipend program during the year. The scholarship increase reflected the enrollment of a record-breaking freshmen class.

*FY 2013 vs. FY 2012*

For the year ended June 30, 2013, total revenues decreased \$2,583,492. Decreases in student-related revenues, including net student tuition and fees, housing, meal plans and pass through grant revenue amounted to \$4,552,880. Net student tuition and fees declined \$1,536,253, generally reflecting the anticipated decline in enrollment to address student payment issues, as well as an increase in the provision for uncollectible accounts. The lower enrollment was also reflected in the decline of pass through grant revenues by \$2,045,282, as well as housing and meal plan revenues which declined by \$971,345. These decreases were partially offset by increases in state appropriations for both operations and capital purposes amounting to \$455,177, gains on endowment and other investments of \$218,528, as well as a \$1,000,000 contribution from Langston Economic Development Authority ("LEDA"), the bond issuer for the 2005 and 2006 housing bonds financing the apartments owned by LLC. This contribution was made to assist this entity with meeting its debt covenant due to decreased occupancy caused by the lower enrollment.

MANAGEMENT'S DISCUSSION AND ANALYSIS--Continued

LANGSTON UNIVERSITY

For the Years Ended June 30, 2014, 2013 and 2012

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

*FY 2013 vs. FY 2012--Continued*

Total expenses decreased \$3,141,793 from the previous year, with the most significant decreases being reflected in compensation and employee benefits, contractual services, scholarships and fellowships, market losses on investments, and interest expense. Compensation and employee benefits expenses decreased \$2,404,456 due to a significant number of budgeted, but unfilled, positions during fiscal year 2013, as well as a reduction in health insurance costs during the last six months of the fiscal year. Contractual services declined \$535,347 with the completion of substantial capital projects in late fiscal year 2012 and early fiscal year 2013. Additionally, fewer large capital projects were started during the current fiscal year. Scholarships and fellowships declined \$541,082 reflecting financial aid decreases associated with the lower enrollment. A net loss of \$138,357 on the endowment and other investments was recognized in fiscal year 2012, compared to a modest gain reflected in 2013. Interest expense declined \$195,465 with lower debt levels. Partially offsetting these decreases was an increase in other operating expense of \$644,696, primarily reflecting non-capitalized equipment expenses related to grants and contracts.

CONDENSED STATEMENTS OF CASH FLOWS

The table below is a summary of the net cash flows of the University for the years ended June 30, 2014, 2013, and 2012 as reflected in its financial statements.

|   | 2014            | 2013            | 2012            | 2014 vs. 2013<br>Increase<br>(Decrease) | 2013 vs. 2012<br>Increase<br>(Decrease) | 2014 vs. 2013<br>Percentage<br>Change | 2013 vs. 2012<br>Percentage<br>Change |
|---|-----------------|-----------------|-----------------|---|---|---------------------------------------|---------------------------------------|
| CASH PROVIDED BY (USED IN):                 |                 |                 |                 |   |   |                                       |                                       |
| Operating activities                        | \$ (25,304,928) | \$ (22,268,494) | \$ (22,357,471) | \$ (3,036,434)                          | \$ 88,977                               | 13.6%                                 | -0.4%                                 |
| Noncapital financing activities             | 27,279,286      | 26,227,899      | 28,078,053      | 1,051,387                               | (1,850,154)                             | 4.0%                                  | -6.6%                                 |
| Capital and related<br>financing activities | (6,725,383)     | (3,953,521)     | (4,101,046)     | (2,771,862)                             | 147,525                                 | 70.1%                                 | -3.6%                                 |
| Investing activities                        | 4,811,592       | 584,552         | 1,139,476       | 4,227,040                               | (554,924)                               | 723.1%                                | -48.7%                                |
| NET INCREASE IN CASH                        | 60,567          | 590,436         | 2,759,012       | (529,869)                               | (2,168,576)                             | -89.7%                                | -78.6%                                |
| CASH, BEGINNING OF YEAR                     | 30,607,577      | 30,017,141      | 27,258,129      | 590,436                                 | 2,759,012                               | 2.0%                                  | 10.1%                                 |
| CASH, END OF YEAR                           | \$ 30,668,144   | \$ 30,607,577   | \$ 30,017,141   | \$ 60,567                               | \$ 590,436                              | 0.2%                                  | 2.0%                                  |

MANAGEMENT'S DISCUSSION AND ANALYSIS--Continued

LANGSTON UNIVERSITY

For the Years Ended June 30, 2014, 2013 and 2012

CONDENSED STATEMENTS OF CASH FLOWS--Continued

*FY 2014 vs. FY 2013*

Cash and cash-equivalents amounted to \$30,668,144 at June 30, 2014, a \$60,567 increase from the previous year. Net cash used in operating activities amounted to \$25,304,928 an increase of \$3,036,434 from the previous year. The increase in operating cash used reflects reduced revenues from grants and contracts and increased payments to suppliers. Net cash provided by noncapital financing activities increased \$1,051,387, primarily reflecting increases in pass-through grant revenue. Net cash used in capital and related financing activities increased by \$2,771,862 reflecting the completion of certain construction projects and reduced proceeds from debt. Cash provided by investing activities increased by \$4,227,040, primarily reflecting net sales of investments, which proceeds were substantially used for the payment of capital assets and capital debt service.

*FY 2013 vs. FY 2012*

Cash and cash-equivalents amounted to \$30,607,577 at June 30, 2013, a \$590,436 increase from the previous year. Net cash used in operating activities amounted to \$22,268,494, a decrease of \$88,977 from the previous year, primarily from decreases in tuition and fees, revenues from grants and contracts, and meal plan and housing revenues. These decreases were partially offset by decreased compensation expenses as well as decreased payments to suppliers largely due to construction projects completed in fiscal year 2012 and early 2013. Net cash provided by noncapital financing activities decreased \$1,850,154 primarily reflecting decreases in grants and contracts, partially offset by increases in state appropriations for operations and capital purposes. Net cash used by capital and related financing activities declined by \$147,525 reflecting the completion of certain construction projects and reduced proceeds from debt, but substantially offset by a \$1,000,000 contribution from LEDA to the LLC. Cash provided by investing activities decreased by \$554,924, primarily reflecting net sales of investments compared to net purchases the previous year.

CAPITAL ASSETS

The following table represents the University's capital assets at June 30, 2014, 2013, and 2012:

|                                | 2014                 | 2013                 | 2012                 | 2014 vs. 2013<br>Increase<br>(Decrease) | 2013 vs. 2012<br>Increase<br>(Decrease) | 2014 vs. 2013<br>Percentage<br>Change | 2013 vs. 2012<br>Percentage<br>Change |
|--------------------------------|----------------------|----------------------|----------------------|---|---|---------------------------------------|---------------------------------------|
| Land                           | \$ 2,546,375         | \$ 2,409,222         | \$ 2,401,482         | \$ 137,153                              | \$ 7,740                                | 5.7%                                  | 0.3%                                  |
| Construction in-progress       | 703,292              | 794,460              | 213,533              | (91,168)                                | 580,927                                 | -11.5%                                | 272.1%                                |
| Buildings and improvements     | 118,407,892          | 116,028,107          | 115,829,222          | 2,379,785                               | 198,885                                 | 2.1%                                  | 0.2%                                  |
| Infrastructure                 | 3,669,991            | 3,669,991            | 3,373,383            | -                                       | 296,608                                 | 0.0%                                  | 8.8%                                  |
| Equipment                      | 16,119,991           | 16,430,826           | 15,402,922           | (310,835)                               | 1,027,904                               | -1.9%                                 | 6.7%                                  |
| Library materials              | 4,317,739            | 4,317,739            | 4,536,645            | -                                       | (218,906)                               | 0%                                    | -4.8%                                 |
| <b>TOTAL</b>                   | <b>145,765,280</b>   | <b>143,650,345</b>   | <b>141,757,187</b>   | <b>2,114,935</b>                        | <b>1,893,158</b>                        | <b>1.5%</b>                           | <b>1.3%</b>                           |
| Less: accumulated depreciation | (51,731,309)         | (48,757,802)         | (45,332,222)         | (2,973,507)                             | (3,425,580)                             | 6.1%                                  | 7.6%                                  |
| <b>CAPITAL ASSETS, net</b>     | <b>\$ 94,033,971</b> | <b>\$ 94,892,543</b> | <b>\$ 96,424,965</b> | <b>\$ (858,572)</b>                     | <b>\$ (1,532,422)</b>                   | <b>-0.9%</b>                          | <b>-1.6%</b>                          |

MANAGEMENT'S DISCUSSION AND ANALYSIS--Continued

LANGSTON UNIVERSITY

For the Years Ended June 30, 2014, 2013 and 2012

CAPITAL ASSETS--Continued

*FY 2014 vs. FY 2013*

Capital assets amounted to \$94,033,971 at June 30, 2014 compared to \$94,892,543 at June 30, 2013. The decrease of \$858,572 in fiscal year 2014 reflects \$2,114,935 in asset additions, net of disposals, but offset by a \$2,973,507 increase in accumulated depreciation from projects completed in late fiscal year 2013 and 2014. Net capital additions and increases in accumulated depreciation were substantially reflected in buildings and improvements due to the completion of the Langston University Police Department building.

*FY 2013 vs. FY 2012*

Capital assets amounted to \$94,892,543 at June 30, 2013 compared to \$96,424,965 at June 30, 2012. The decrease of \$1,532,422 in fiscal year 2013 reflects \$1,893,158 in asset additions, net of disposals, but offset by a \$3,425,580 increase in accumulated depreciation from projects completed in late fiscal year 2012 and 2013. Net capital additions were substantially in equipment and infrastructure, while the most significant increases in accumulated depreciation was reflected in buildings and improvements and equipment. Increases in infrastructure costs of \$296,608 primarily relate to various projects such as lighting, flooring, sprinklers and security equipment.

Further detailed information regarding capital assets can be found in the notes to the financial statements (Notes A and E).

LONG-TERM LIABILITIES

The following table presents the University's long-term liabilities as of June 30, 2014, 2013, and 2012:

|                                | 2014          | 2013          | 2012          | 2014 vs. 2013<br>Increase<br>(Decrease) | 2013 vs. 2012<br>Increase<br>(Decrease) | 2014 vs. 2013<br>Percentage<br>Change | 2013 vs. 2012<br>Percentage<br>Change |
|--------------------------------|---------------|---------------|---------------|---|---|---------------------------------------|---------------------------------------|
| OCIA capital leases            | \$ 15,796,280 | \$ 16,779,527 | \$ 17,054,888 | \$ (983,247)                            | \$ (275,361)                            | -5.9%                                 | -1.6%                                 |
| ODFA lease obligation          | 7,073,416     | 1,116,000     | 1,324,000     | 5,957,416                               | (208,000)                               | 533.8%                                | -15.7%                                |
| Bonds payable                  | 41,075,000    | 49,940,000    | 51,560,000    | (8,865,000)                             | (1,620,000)                             | -7.8%                                 | -3.1%                                 |
| Premium on capital leases      | 729,966       | 191,228       | 202,474       | 538,738                                 | (11,246)                                | 281.7%                                | -5.6%                                 |
| Discount on bonds              | (230,486)     | (281,643)     | (304,388)     | 51,157                                  | 22,745                                  | -18.2%                                | -7.5%                                 |
| TOTAL<br>LONG-TERM DEBT        | 64,444,176    | 67,745,112    | 69,836,974    | (3,300,936)                             | (2,091,862)                             | -5.7%                                 | -3.0%                                 |
| Other liabilities              | 1,207,553     | 1,443,249     | 1,670,247     | (235,696)                               | (226,998)                               | -16.3%                                | -13.6%                                |
| TOTAL<br>LONG-TERM LIABILITIES | \$ 65,651,729 | \$ 69,188,361 | \$ 71,507,221 | \$ (3,536,632)                          | \$ (2,318,860)                          | -6.0%                                 | -3.2%                                 |

## MANAGEMENT'S DISCUSSION AND ANALYSIS--Continued

### LANGSTON UNIVERSITY

For the Years Ended June 30, 2014, 2013 and 2012

#### LONG-TERM LIABILITIES--Continued

##### *FY 2014 vs. FY 2013*

Long-term liabilities declined \$3,536,632 during fiscal year 2014 to \$65,651,729 at June 30, 2014, primarily reflecting a \$3,300,936 reduction in long-term debt obligations. Long-term debt reductions include the refunding of \$7,550,000 ODFA revenue bonds related to athletic facilities into an ODFA master lease, as well as restructuring of the 2005F OCIA capital lease into a 2014 capital lease, and scheduled debt payments. Other long-term liabilities reflect a \$225,000 decline in unearned revenue associated with the student meal plan vendor in accordance with scheduled amortization.

##### *FY 2013 vs. FY 2012*

Long-term liabilities declined \$2,318,860 in 2013 to \$69,188,361 at June 30, 2013, primarily reflecting a \$2,091,862 reduction in long-term debt obligations. Other long-term liabilities reflect a \$225,000 decline in unearned revenue associated with the student meal plan vendor in accordance with scheduled amortization.

Further detailed information regarding long-term liabilities can be found in Note H in the financial statements.

#### ECONOMIC FACTORS AND THE UNIVERSITY'S FUTURE

Modest student increases were implemented for fiscal year 2015. Tuition was increased by 3% for fiscal year 2015, substantially due to state appropriations remaining flat. Mandatory fees, however, were not increased. Apartment housing charges increased 3% effective fall semester 2014 to better assure compliance with debt covenants, while still considering student affordability. Meal plan options were reduced for fiscal year 2015, allowing the University to limit meal plan cost increases to 2%. The University makes efforts to keep student cost increases as low as possible to retain affordability.

The freshmen class for Fall 2014 set a new record as the largest freshmen class in the University's history. These gains, however, were largely offset by reduction in enrollments at the University's urban campuses. The University continues to focus on enrollment, retention and persistence as these record freshmen classes matriculate.

## MANAGEMENT'S DISCUSSION AND ANALYSIS--Continued

### LANGSTON UNIVERSITY

For the Years Ended June 30, 2014, 2013 and 2012

#### ECONOMIC FACTORS AND THE UNIVERSITY'S FUTURE--Continued

Title III Part B funding for 2015 will decrease by approximately \$158,000 for the federal fiscal year beginning October 1, 2014. The Title III budget of \$2,080,860 for fiscal year 2015 substantially covers personnel, and includes critical functions such as Public Health, Basic Skills, Teacher Education, Accountancy, Institutional Advancement, Faculty Development, Project Administration, and Technology. Further loss of these funds would require the University's state budget to absorb some of these costs or eliminate these programs. Additionally, the University receives Department of Education Funding under the Student Aid and Fiscal Responsibility Act. The amount to be received in fiscal year 2015 is approximately \$839,000, or down nearly \$62,000 from the previous year. The University was awarded \$897,843 from the Department of Education Historically Black Graduate Institution ("HBGI") for the federal fiscal year beginning October 1, 2014. The HBGI funds were not available for the federal fiscal year beginning October 1, 2013 due to federal sequestration reductions.

It is possible the University may use unrestricted reserves and Section 13/New College Funds during fiscal years 2015 and 2016 to finance the construction of and equipping of new classroom and laboratory facilities for its physical therapy program. It is possible that additional reserves may be used in fiscal year 2015 for additional capital projects and other needs.

The 2015 budget for the University does not currently reflect a merit or salary administration plan for fiscal year 2015. Employee benefit costs are anticipated to increase modestly for calendar year 2015. The University has implemented a cost sharing plan beginning January 1, 2015, with its higher paid employees paying a small portion of their health insurance. The University pays both employer and employee contributions to the Oklahoma Teachers Retirement System ("OTRS"). No changes in contribution rates are anticipated in fiscal year 2015. Health insurance and OTRS contributions are the most significant of amounts included in employer-paid benefit options. The State of Oklahoma will make a final contribution of \$879,788 to the University's endowment in fiscal year 2015, completing its \$30 million commitment to the University. The University's budget anticipates an endowment draw during fiscal year 2015 up to \$3.6 million to fund scholarships and enrollment and retention initiatives. This level of endowment support is not anticipated, nor sustainable, for the long-term, and the University's recent history indicates that a contribution significantly less than that will be requested. Market valuations of investments in the University's endowment reflected significant market gains during fiscal year 2014. However, financial markets have shown significant volatility in past years based upon national and world events. Any sustained market losses during fiscal year 2015 could have an impact on the amount of available endowment funds which can be distributed for use in fiscal year 2016 and future periods.

## MANAGEMENT'S DISCUSSION AND ANALYSIS--Continued

### LANGSTON UNIVERSITY

For the Years Ended June 30, 2014, 2013 and 2012

#### ECONOMIC FACTORS AND THE UNIVERSITY'S FUTURE--Continued

GASB Statement No. 68 becomes effective with the fiscal year ending June 30, 2015. This Statement details, among other things, the requirements to recognize an employer's liability to a defined benefit pension plan, such as that offered by the University through the Oklahoma Teachers Retirement System ("OTRS"). The University has not yet quantified the impact that GASB No. 68 will have on its financial statements. However, it is believed that the adoption of this Statement will result in a significant decrease in its net position. This is an issue facing all agencies within the OTRS system, not just the University, nor is the State of Oklahoma the only State whose pension obligations are underfunded.

State appropriations have been relatively flat for the last few years. Increases in state funding are a necessity in order to maintain and improve the quality of the students' educational experience, without adding substantial student debt. It is always the University's intent to keep student charges as affordable as possible, while balancing the needs of the University. The University continues to be the low cost provider of quality four-year education in the State of Oklahoma. It is the University's expectation, to continue to make the University an affordable option for its students.

STATEMENTS OF NET POSITION

LANGSTON UNIVERSITY

|   | University    |               | Component Unit |              |
|---|---------------|---------------|----------------|--------------|
|   | June 30       |               | June 30        |              |
|   | 2014          | 2013          | 2014           | 2013         |
| ASSETS                                    |               |               |                |              |
| CURRENT ASSETS                            |               |               |                |              |
| Cash and cash equivalents                 | \$ 16,452,239 | \$ 20,766,541 | \$ 993,043     | \$ 686,974   |
| Restricted cash and cash equivalents      | 4,605,286     | 4,422,559     | -              | -            |
| Investments                               | 2,612,005     | 2,612,907     | -              | -            |
| Accounts receivable, net                  | 739,426       | 661,063       | 892,666        | 99,213       |
| Contract and grant receivables            | 523,268       | 1,115,857     | -              | -            |
| Other assets                              | 1,579,854     | 2,429,523     | 26,704         | 19,240       |
| Interest receivable                       | 60,548        | 56,964        | -              | -            |
| Student loans receivable, net             | 1,187         | 9,448         | -              | -            |
| TOTAL CURRENT ASSETS                      | 26,573,813    | 32,074,862    | 1,912,413      | 805,427      |
| NONCURRENT ASSETS                         |               |               |                |              |
| Restricted cash and cash equivalents      | 9,610,619     | 5,418,477     | -              | -            |
| Investments                               | 40,892,110    | 39,983,803    | 1,573,190      | 1,358,046    |
| Accounts receivable, net                  | -             | -             | 454,595        | -            |
| Capital assets, net                       | 94,033,971    | 94,892,543    | -              | -            |
| TOTAL NONCURRENT ASSETS                   | 144,536,700   | 140,294,823   | 2,027,785      | 1,358,046    |
| TOTAL ASSETS                              | \$171,110,513 | \$172,369,685 | \$ 3,940,198   | \$ 2,163,473 |
| DEFERRED OUTFLOWS OF RESOURCES            |               |               |                |              |
| Deferred charge on OCIA lease restructure | \$ 212,251    | \$ 318,376    | \$ -           | \$ -         |

STATEMENTS OF NET POSITION--Continued

LANGSTON UNIVERSITY

|   | University                  |                             | Component Unit             |                            |
|---|-----------------------------|-----------------------------|----------------------------|----------------------------|
|   | June 30                     |                             | June 30                    |                            |
|   | 2014                        | 2013                        | 2014                       | 2013                       |
| <b>LIABILITIES AND NET POSITION</b>         |                             |                             |                            |                            |
| <b>CURRENT LIABILITIES</b>                  |                             |                             |                            |                            |
| Accounts payable                            | \$ 2,577,188                | \$ 2,989,928                | \$ -                       | \$ -                       |
| Accrued liabilities                         | 732,531                     | 713,667                     | -                          | -                          |
| Other current liabilities                   | 238,606                     | 280,501                     | -                          | -                          |
| Unearned revenues                           | 562,508                     | 594,854                     | -                          | -                          |
| Student and other deposits                  | 141,258                     | 287,031                     | -                          | -                          |
| Accrued interest payable                    | 332,581                     | 342,054                     | -                          | -                          |
| Notes payable                               | 311,672                     | 296,784                     | -                          | -                          |
| Accrued compensated absences                | 2,536,928                   | 2,281,009                   | -                          | -                          |
| Current portion of noncurrent liabilities   | <u>3,080,107</u>            | <u>2,355,070</u>            | -                          | -                          |
| <b>TOTAL CURRENT LIABILITIES</b>            | <b>10,513,379</b>           | <b>10,140,898</b>           | <b>-</b>                   | <b>-</b>                   |
| <b>NONCURRENT LIABILITIES,</b>              |                             |                             |                            |                            |
| <b>net of current portion</b>               |                             |                             |                            |                            |
| Unearned revenues                           | 587,500                     | 812,500                     | -                          | -                          |
| Accrued pension benefit and OPEB obligation | 395,053                     | 405,749                     | -                          | -                          |
| Revenue bonds payable                       | 39,479,514                  | 47,958,357                  | -                          | -                          |
| Capital lease obligations                   |                             |                             |                            |                            |
| payable to state agencies                   | <u>21,884,555</u>           | <u>17,431,685</u>           | -                          | -                          |
| <b>TOTAL NONCURRENT LIABILITIES</b>         | <b><u>62,346,622</u></b>    | <b><u>66,608,291</u></b>    | <b>-</b>                   | <b>-</b>                   |
| <b>TOTAL LIABILITIES</b>                    | <b><u>\$ 72,860,001</u></b> | <b><u>\$ 76,749,189</u></b> | <b><u>\$ -</u></b>         | <b><u>\$ -</u></b>         |
| <b>DEFERRED INFLOWS OF RESOURCES</b>        |                             |                             |                            |                            |
| Deferred credit on OCIA lease restructure   | <u>\$ 344,665</u>           | <u>\$ -</u>                 | <u>\$ -</u>                | <u>\$ -</u>                |
| <b>NET POSITION</b>                         |                             |                             |                            |                            |
| Net investment in capital assets            | \$ 30,116,006               | \$ 25,948,375               | \$ -                       | \$ -                       |
| Restricted:                                 |                             |                             |                            |                            |
| Nonexpendable                               | 41,785,800                  | 37,744,636                  | 1,454,595                  | 1,000,000                  |
| Expendable:                                 |                             |                             |                            |                            |
| Scholarships, research,                     |                             |                             |                            |                            |
| instruction and other                       | 620,855                     | 599,553                     | 2,050,019                  | 894,267                    |
| Loans                                       | 495,974                     | 556,998                     | -                          | -                          |
| Capital projects                            | 4,571,528                   | 1,991,484                   | -                          | -                          |
| Debt service                                | 7,760,457                   | 12,392,721                  | -                          | -                          |
| Unrestricted                                | <u>12,767,478</u>           | <u>16,705,105</u>           | <u>435,584</u>             | <u>269,206</u>             |
| <b>TOTAL NET POSITION</b>                   | <b><u>\$ 98,118,098</u></b> | <b><u>\$ 95,938,872</u></b> | <b><u>\$ 3,940,198</u></b> | <b><u>\$ 2,163,473</u></b> |

See notes to financial statements.

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

## LANGSTON UNIVERSITY

|   | University                   |                      | Component Unit               |                     |
|---|------------------------------|----------------------|------------------------------|---------------------|
|   | Years Ended June 30,<br>2014 | 2013                 | Years Ended June 30,<br>2014 | 2013                |
| <b>OPERATING REVENUES</b>   |                              |                      |                              |                     |
| Student tuition and fees, net of scholarship discounts and allowances of \$3,839,000 and \$3,079,000 in 2014 and 2013, respectively | \$ 7,327,307                 | \$ 7,268,150         | \$ -                         | \$ -                |
| Federal grants and contracts  | 10,381,216                   | 14,478,975           | -                            | -                   |
| State and local grants and contracts  | 253,874                      | 338,565              | -                            | -                   |
| Non-governmental grants and contracts   | 1,082,709                    | 597,563              | -                            | -                   |
| Auxiliary enterprise charges:   |                              |                      |                              |                     |
| Housing, net of scholarship discounts and allowances of \$2,440,000 and \$1,889,000 in 2014 and 2013, respectively                  | 4,657,231                    | 4,326,268            | -                            | -                   |
| Food services, net of scholarship discounts and allowances of \$1,053,000 and \$756,000 in 2014 and 2013, respectively              | 2,011,132                    | 1,785,021            | -                            | -                   |
| Athletics   | 30,932                       | 47,806               | -                            | -                   |
| All other   | 86,160                       | 170,684              | -                            | -                   |
| Gifts and contributions   | -                            | -                    | 2,060,039                    | 650,291             |
| Other operating revenues  | 722,590                      | 653,730              | -                            | -                   |
| <b>TOTAL OPERATING REVENUES</b>   | <b>26,553,151</b>            | <b>29,666,762</b>    | <b>2,060,039</b>             | <b>650,291</b>      |
| <b>OPERATING EXPENSES</b>   |                              |                      |                              |                     |
| Compensation and employee benefits  | 31,356,057                   | 30,820,556           | -                            | -                   |
| Contractual services  | 3,885,226                    | 3,525,565            | -                            | -                   |
| Supplies and materials  | 1,575,246                    | 1,442,757            | -                            | -                   |
| Utilities   | 2,290,346                    | 2,180,403            | -                            | -                   |
| Communications  | 175,867                      | 144,790              | -                            | -                   |
| Other operating expenses  | 10,465,353                   | 10,297,905           | 469,677                      | 421,294             |
| Scholarships and fellowships  | 5,365,463                    | 5,084,967            | 54,338                       | 39,564              |
| Depreciation  | 3,925,512                    | 3,850,401            | -                            | -                   |
| <b>TOTAL OPERATING EXPENSES</b>   | <b>59,039,070</b>            | <b>57,347,344</b>    | <b>524,015</b>               | <b>460,858</b>      |
| <b>OPERATING INCOME (LOSS)</b>  | <b>(32,485,919)</b>          | <b>(27,680,582)</b>  | <b>1,536,024</b>             | <b>189,433</b>      |
| <b>NONOPERATING REVENUES (EXPENSES)</b>   |                              |                      |                              |                     |
| State appropriations  | 18,786,156                   | 18,593,524           | -                            | -                   |
| OTRS on-behalf contributions  | 1,644,000                    | 1,687,000            | -                            | -                   |
| Pass-through grant revenue  | 8,174,732                    | 7,369,509            | -                            | -                   |
| Contribution from LEDA  | -                            | 1,000,000            | -                            | -                   |
| Charter schools program revenue   | 7,853,830                    | 6,631,625            | -                            | -                   |
| Charter schools program expenses  | (7,535,432)                  | (6,366,759)          | -                            | -                   |
| Investment income   | 708,708                      | 908,682              | 240,701                      | 144,850             |
| Gain on endowment investments   | 3,346,633                    | 218,528              | -                            | -                   |
| Interest expense  | (3,593,407)                  | (3,096,502)          | -                            | -                   |
| <b>NET NONOPERATING REVENUES</b>  | <b>29,385,220</b>            | <b>26,945,607</b>    | <b>240,701</b>               | <b>144,850</b>      |
| <b>GAIN (LOSS) BEFORE OTHER REVENUES, EXPENSES, GAINS AND LOSSES</b>  | <b>(3,100,699)</b>           | <b>(734,975)</b>     | <b>1,776,725</b>             | <b>334,283</b>      |
| State appropriations restricted for capital purposes  | 2,194,347                    | 2,222,928            | -                            | -                   |
| OCIA on-behalf payments   | 1,421,926                    | 733,158              | -                            | -                   |
| Additions to permanent endowments   | 1,663,652                    | 1,663,652            | -                            | -                   |
| <b>CHANGE IN NET POSITION</b>   | <b>2,179,226</b>             | <b>3,884,763</b>     | <b>1,776,725</b>             | <b>334,283</b>      |
| <b>NET POSITION AT BEGINNING OF YEAR</b>  | <b>95,938,872</b>            | <b>92,054,109</b>    | <b>2,163,473</b>             | <b>1,829,190</b>    |
| <b>NET POSITION AT END OF YEAR</b>  | <b>\$ 98,118,098</b>         | <b>\$ 95,938,872</b> | <b>\$ 3,940,198</b>          | <b>\$ 2,163,473</b> |

See notes to financial statements.

STATEMENTS OF CASH FLOWS

LANGSTON UNIVERSITY

|   | Years Ended<br>June 30 |                      |
|---|------------------------|----------------------|
|   | 2014                   | 2013                 |
| <b>CASH FLOWS FROM OPERATING ACTIVITIES</b>                         |                        |                      |
| Student tuition and fees  | \$ 7,437,213           | \$ 7,309,877         |
| Grants and contracts  | 12,305,326             | 15,127,054           |
| Auxiliary enterprise charges  | 6,635,242              | 6,661,969            |
| Other operating receipts  | 1,392,720              | 77,185               |
| Payments to employees for salaries and benefits                     | (29,466,835)           | (29,476,350)         |
| Payments to suppliers   | <u>(23,608,594)</u>    | <u>(21,968,229)</u>  |
| NET CASH USED IN OPERATING ACTIVITIES                               | (25,304,928)           | (22,268,494)         |
| <b>CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES</b>              |                        |                      |
| Federal grants and contracts  | 8,174,732              | 7,369,509            |
| State and local grants and contracts                                | 318,398                | 264,866              |
| State appropriations  | 18,786,156             | 18,593,524           |
| Direct lending receipts   | 15,672,942             | 16,274,861           |
| Direct lending payments   | <u>(15,672,942)</u>    | <u>(16,274,861)</u>  |
| NET CASH PROVIDED BY NONCAPITAL<br>FINANCING ACTIVITIES             | 27,279,286             | 26,227,899           |
| <b>CASH FLOWS FROM CAPITAL AND<br/>RELATED FINANCING ACTIVITIES</b> |                        |                      |
| Cash paid for capital assets  | (3,066,941)            | (2,317,978)          |
| Capital appropriations received                                     | 3,960,938              | 2,956,086            |
| Proceeds of capital debt  | 566,812                | -                    |
| Contributions from LEDA   | -                      | 1,000,000            |
| Repayments of capital debt and leases                               | (4,545,734)            | (2,486,392)          |
| Interest paid on capital debt and leases                            | <u>(3,640,458)</u>     | <u>(3,105,237)</u>   |
| NET CASH USED IN CAPITAL AND<br>RELATED FINANCING ACITIVITIES       | (6,725,383)            | (3,953,521)          |
| <b>CASH FLOWS FROM INVESTING ACTIVITIES</b>                         |                        |                      |
| Net purchases/sales of investments                                  | 4,102,880              | (324,130)            |
| Interest received on investments                                    | <u>708,712</u>         | <u>908,682</u>       |
| NET CASH PROVIDED BY INVESTING ACTIVITIES                           | <u>4,811,592</u>       | <u>584,552</u>       |
| NET INCREASE IN CASH AND CASH EQUIVALENTS                           | 60,567                 | 590,436              |
| CASH AND CASH EQUIVALENTS AT BEGINNING OF YEAR                      | <u>30,607,577</u>      | <u>30,017,141</u>    |
| CASH AND CASH EQUIVALENTS AT END OF YEAR                            | <u>\$ 30,668,144</u>   | <u>\$ 30,607,577</u> |

STATEMENTS OF CASH FLOWS--Continued

LANGSTON UNIVERSITY

|  | Years Ended<br>June 30 |                        |
|--|------------------------|------------------------|
|  | <u>2014</u>            | <u>2013</u>            |
| RECONCILIATION OF OPERATING LOSS TO<br>NET CASH USED IN OPERATING ACTIVITIES               |                        |                        |
| Operating loss   | \$ (32,485,919)        | \$ (27,680,582)        |
| Adjustments to reconcile operating loss<br>to net cash used in operating activities:       |                        |                        |
| Depreciation   | 3,925,512              | 3,850,401              |
| On-behalf contributions to teachers' retirement system                                     | 1,644,000              | 1,687,000              |
| Changes in operating assets and liabilities:   |                        |                        |
| Accounts, loans and other receivables  | 1,474,695              | 460                    |
| Accounts payable and accrued expenses  | 304,164                | 930,070                |
| Unearned revenues  | (257,346)              | (491,137)              |
| Other current liabilities and student deposits   | (155,256)              | (221,912)              |
| Compensated absences and pension benefit obligation  | <u>245,222</u>         | <u>(342,794)</u>       |
| NET CASH USED IN OPERATING ACTIVITIES  | <u>\$ (25,304,928)</u> | <u>\$ (22,268,494)</u> |
| NONCASH INVESTING, NONCAPITAL FINANCING,<br>AND CAPITAL AND RELATED FINANCING ACTIVITIES   |                        |                        |
| Principal and interest on capital debt paid<br>by state agency on behalf of the University | <u>\$ 1,421,926</u>    | <u>\$ 733,158</u>      |
| Additions to permanent endowments  | <u>\$ 1,663,652</u>    | <u>\$ 1,663,652</u>    |
| RECONCILIATION OF CASH<br>AND CASH EQUIVALENTS TO<br>THE STATEMENTS OF NET POSITION        |                        |                        |
| Current assets:  |                        |                        |
| Cash and cash equivalents  | \$ 16,452,239          | \$ 20,766,541          |
| Restricted cash and cash equivalents   | 4,605,286              | 4,422,559              |
| Noncurrent assets:   |                        |                        |
| Restricted cash and cash equivalents   | <u>9,610,619</u>       | <u>5,418,477</u>       |
| TOTAL CASH AND CASH EQUIVALENTS  | <u>\$ 30,668,144</u>   | <u>\$ 30,607,577</u>   |

See notes to financial statements.

## NOTES TO FINANCIAL STATEMENTS

### LANGSTON UNIVERSITY

June 30, 2014

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

Nature of Operations: Langston University (the "University") is a baccalaureate degree granting institution established by an act of the Territorial Legislature in 1897. The University's mission is to provide higher education primarily for the people of Oklahoma through academic programs, cultural enrichment, lifelong learning experiences, and public service activities. The University is under the governance of the Board of Regents for the Oklahoma Agricultural and Mechanical Colleges (the "Board of Regents").

Reporting Entity: The financial reporting entity, as defined by Governmental Accounting Standards Board ("GASB") Statement No. 14, *The Financial Reporting Entity*, and as amended by GASB Statement No. 39, *Determining Whether Certain Organizations Are Component Units* and GASB Statement No. 61, *The Financial Reporting Entity: Omnibus*, consists of the primary government, organizations for which the primary government is financially accountable, and other organizations for which the nature and significance of their relationship with the primary government are such that exclusion could cause the financial statements to be misleading.

The accompanying financial statements include the accounts and funds of the University. The University is part of the State of Oklahoma Higher Education System, which is under the governance of the Oklahoma State Regents for Higher Education (the "OSRHE"). The University is a component unit of the State of Oklahoma and is included in the general-purpose financial statements of the State as part of the Higher Education component unit.

Component Units: LDF Student Housing, L.L.C. (the "LLC") and Langston University Foundation, Inc. (the "Foundation") are legally separate, tax-exempt component units of the University. The LLC is a non-profit organization created for the purpose of providing affordable housing for students of the University. The LLC is owned by Langston University Development Fund, and governed by its Board of Directors. Although the University does not control the timing or amount of receipts from the LLC or the Foundation, the majority of resources, or income thereon, which the LLC and the Foundation holds and invests is restricted to the activities governed by donors, bond documents, and/or trustees. Accordingly, resources received and held by the LLC can only be used by, and for the benefit of, University housing governed by certain bond documents. Resources received and held by the Foundation can only be used by, or for the benefit of, the University. The LLC is considered a blended component unit of the University under the definition of GASB Statement No. 61. The Foundation is considered a discretely presented component unit of the University under the definition of GASB Statement No. 39.

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

NOTES TO FINANCIAL STATEMENTS--Continued

LANGSTON UNIVERSITY

June 30, 2014

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

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

Cash Equivalents: For purposes of the 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. The cash equivalents are fully collateralized by U.S. Government obligations or insured by Federal Deposit Insurance.

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*. Changes in unrealized gain (loss) on the carrying value of investments are reported as a component of investment income in the statements of revenues, expenses, and changes in net position. In accordance with GASB Statement No. 40, *Deposit and Investment Risk Disclosures and Amendment of GASB Statement No. 3*, the University has disclosed its deposit and investment policies related to the risks identified in GASB Statement No. 40.

Accounts Receivable: Accounts receivable consist of tuition and fee charges to students and to auxiliary enterprise services provided to students, faculty and staff. Student accounts receivable are carried at the unpaid balance of the original amount billed to students and student loans receivable are carried at the amount of unpaid principal. Both receivables are 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.

Student accounts and loans receivable are written off for financial reporting purposes when deemed uncollectible. Recoveries of student accounts and loans receivable previously written off are recorded when received. A student account receivable and student loan receivable is considered to be past due if any portion of the receivable balance is outstanding after the end of the semester. Interest and late charges are not generally assessed and, if they are assessed, are not included in income or trade accounts receivable.

Accounts receivable also include amounts due from federal, state and local governments, or private sources, in connection with reimbursement of allowable expenditures made pursuant to the University's grants and contracts. Accounts receivable also include the distribution from the OSRHE endowment trust fund and amounts due from the Oklahoma Capital Improvement Authority ("OCIA") for proceeds from the capital bond improvement program allocated to the University.

NOTES TO FINANCIAL STATEMENTS--Continued

LANGSTON UNIVERSITY

June 30, 2014

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

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

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 which the expense was incurred.

Depreciation is computed using the straight-line method over the estimated useful lives of the assets, generally 20 to 40 years for buildings, infrastructure and land improvements, and 5 to 15 years for library materials and equipment.

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

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

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

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

NOTES TO FINANCIAL STATEMENTS--Continued

LANGSTON UNIVERSITY

June 30, 2014

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

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

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

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

Restricted Net Position - Nonexpendable: Restricted nonexpendable net position consist of endowment and similar type funds in which donors or other outside sources have stipulated, as a condition of the gift instrument, that the principal is to be maintained inviolate and in perpetuity, and invested for the purpose of producing present and future income, which may either be expended or added to principal.

Unrestricted Net Position: Unrestricted net position represent resources derived from student tuition and fees, state appropriations, and sales and services of educational departments, auxiliary enterprises and indirect costs from grants and contracts. 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 towards 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. However, the University may be subject to income taxes on unrelated business income under Internal Revenue Code Section 511(a)(2)(B).

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

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

NOTES TO FINANCIAL STATEMENTS--Continued

LANGSTON UNIVERSITY

June 30, 2014

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

Classification of Revenues--Continued:

Non-Operating Revenues: Non-operating revenues include activities that have the characteristics of non-exchange transactions, such as gifts and contributions, student aid revenue and other revenue sources that are defined as non-operating revenues by GASB Statement No. 9, *Reporting Cash Flows of Proprietary and Nonexpendable Trust Funds and Governmental Entities That Use Proprietary Fund Accounting*, and GASB Statement No. 34, such as state appropriations and investment income.

Scholarship Discounts and Allowances: Student tuition and fee revenues, and certain other revenues from students, are reported net of scholarship discounts and allowances in the statements of revenues, expenses and changes in net position. Scholarship discounts and allowances are the differences 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 or state government or nongovernmental programs, are recorded as either operating or non-operating 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.

Deferred Outflows of Resources: Deferred outflows are the consumption of net position by the University that are applicable to a future reporting period. At June 30, 2014 and 2013, the University's deferred outflows of resources were comprised of deferred charges on an OCIA lease restructure.

Deferred Inflows of Resources: Deferred inflows are the acquisition of net position by the University that are applicable to a future reporting period. At June 30, 2014, the University's deferred inflows of resources were comprised of deferred credits on OCIA lease restructure. At June 30, 2013, the University had no deferred inflows of resources.

New Accounting Pronouncements Adopted in Fiscal Year 2014: The University adopted the following new accounting pronouncement during the year ended June 30, 2014:

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

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

NOTES TO FINANCIAL STATEMENTS--Continued

LANGSTON UNIVERSITY

June 30, 2014

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

New Accounting Pronouncements Issued Not Yet Adopted: The GASB has also issued several new accounting pronouncements which will be effective to the University in the fiscal year ending June 30, 2015. A description of the new accounting pronouncements and the University's consideration of the impact of these pronouncements are described below:

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

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

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

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

NOTE B--DEPOSITS AND INVESTMENTS

Deposits: Custodial credit risk is the risk that in the event of a bank failure, the University's deposits may not be returned to it. The University's deposit policy for custodial credit risk is described as follows:

Oklahoma Statutes require the State Treasurer to ensure that all state funds either be insured by Federal Deposit Insurance, collateralized by securities held by the cognizant Federal Reserve Bank, or invested in U.S. government obligations. The University's deposits with the State Treasurer are pooled with the funds of other State Agencies and then, in accordance with statutory limitations, placed in financial institutions or invested as the State Treasurer may determine, in the State's name.

The University requires that balances on deposit with financial institutions be insured by Federal Deposit Insurance or collateralized by securities held by the cognizant Federal Reserve Bank, or invested in U.S. Government obligations, in the University's name.

NOTES TO FINANCIAL STATEMENTS--Continued

LANGSTON UNIVERSITY

June 30, 2014

NOTE B--DEPOSITS AND INVESTMENTS--Continued

Deposits--Continued: The University's carrying amount of deposits with the State Treasurer and other financial institutions was as follows as of June 30:

|                                   | 2014                 | 2013                 |
|-----------------------------------|----------------------|----------------------|
| Deposits with the State Treasurer | \$ 23,625,110        | \$ 23,396,246        |
| Other financial institutions      | 7,038,034            | 7,206,331            |
| Petty cash and change funds       | 5,000                | 5,000                |
| Total Deposits                    | <u>\$ 30,668,144</u> | <u>\$ 30,607,577</u> |

Some deposits with the State Treasurer are placed in the State Treasurer's internal investment pool *OK INVEST*. *OK INVEST* pools the resources of all state funds and agencies and invests them in (a) U.S. treasury securities which are explicitly backed by the full faith and credit of the U.S. government; (b) U.S. agency securities which carry an implicit guarantee of the full faith and credit of the U.S. government; (c) money market mutual funds which participates in investments, either directly or indirectly, in securities issued by the U.S. treasury and/or agency and repurchase agreements relating to such securities; (d) investments related to tri-party repurchase agreements which are collateralized at 102% and, whereby, the collateral is held by a third party in the name of the State Treasurer; (e) collateralized certificates of deposits; (f) commercial paper; (g) obligations of state and local governments; and (h) State of Israel bonds.

Of funds on deposit with the State Treasurer, amounts invested in *OK INVEST* total \$21,696,011 in 2014 and \$22,467,350 in 2013.

For financial reporting purposes, deposits with the State Treasurer that are invested in *OK INVEST* are classified as cash equivalents.

At June 30, 2014 and 2013, the distribution of deposits in *OK INVEST* are as follows:

| OK INVEST Portfolio               | 2014                 |                      | 2013                 |                      |
|-----------------------------------|----------------------|----------------------|----------------------|----------------------|
|                                   | Cost                 | Market Value         | Cost                 | Market Value         |
| U.S. Agency securities            | \$ 9,954,198         | \$ 9,934,845         | \$ 8,831,532         | \$ 8,794,195         |
| Certificates of deposit           | 563,195              | 563,195              | 573,941              | 573,941              |
| Money market mutual funds         | 1,047,523            | 1,047,523            | 2,108,263            | 2,108,263            |
| Tri-party repurchase agreements   |                      |                      |                      |                      |
| Mortgage backed agency securities | 8,912,925            | 9,096,836            | 9,654,303            | 9,701,698            |
| Municipal bonds                   | 332,854              | 368,633              | 378,501              | 418,974              |
| Foreign bonds                     | 170,442              | 170,442              | 177,464              | 177,358              |
| Commercial paper                  | 456,571              | 456,571              | 472,225              | 472,225              |
| U.S. Treasury Obligations         | 258,303              | 319,760              | 271,121              | 330,858              |
| TOTAL                             | <u>\$ 21,696,011</u> | <u>\$ 21,957,805</u> | <u>\$ 22,467,350</u> | <u>\$ 22,577,512</u> |

NOTES TO FINANCIAL STATEMENTS--Continued

LANGSTON UNIVERSITY

June 30, 2014

NOTE B--DEPOSITS AND INVESTMENTS--Continued

Deposits--Continued: Agencies and funds that are considered to be part of the State's reporting entity in the State's Comprehensive Annual Financial Report are allowed to participate in *OK INVEST*. Oklahoma statutes and the State Treasurer establish the primary objectives and guidelines governing the investment of funds in *OK INVEST*. Safety, liquidity, and return on investment are the objectives 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 State Treasurer's 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 State Treasurer information statement, the main risks are interest rate risk, credit/default risk, liquidity risk, and U.S. government securities risk. *Interest rate risk* is the risk that during periods of rising interest rates, the yield and market value of the securities will tend to be lower than prevailing market rates; in periods of falling interest rates, the yield will tend to be higher. *Credit/default risk* is the risk that an issuer or guarantor of a security, or a bank or other financial institution that has entered into a repurchase agreement, may default on its payment obligations. *Liquidity risk* is the risk that *OK INVEST* will be unable to pay redemption proceeds within the stated time period because of unusual market conditions, an unusually high volume of redemption requests, or other reasons. *U.S. Government securities risk* is the risk that the U.S. government will not provide financial support to U.S. government agencies, instrumentalities or sponsored enterprises if it is not obligated to do so by law. Various investment restrictions and limitations are enumerated in the State Treasurer's Investment Policy to mitigate those risks; however, any interest in *OK INVEST* is not insured or guaranteed by the State, the FDIC or any other government agency.

The LLC's cash equivalents consisted primarily of money market accounts with brokers. The money market accounts are FDIC-insured up to \$250,000 per depositor. At June 30, 2014 and 2013, the LLC's cash and cash equivalent accounts exceeded federally insured limits by approximately \$6,100,000 for both years. These funds are maintained with the trustee in accordance with bond indenture requirements.

NOTES TO FINANCIAL STATEMENTS--Continued

LANGSTON UNIVERSITY

June 30, 2014

NOTE B--DEPOSITS AND INVESTMENTS--Continued

Investments: Oklahoma Statutes authorize the University to invest in direct obligations of the U.S. government, certificates of deposit secured by acceptable collateral, savings accounts or savings certificates to the extent that the accounts or certificates are fully insured by FDIC, and other investments which are fully collateralized by any of the aforementioned obligations or securities.

The University had the following investments as of June 30:

|                            |                      |                      |
|----------------------------|----------------------|----------------------|
|                            | <u>2014</u>          | <u>2013</u>          |
| U.S. government securities | \$ 2,604,033         | \$ 5,853,835         |
| Mutual funds               | 2,270,505            | 1,929,870            |
| Other                      | <u>7,972</u>         | <u>6,776</u>         |
|                            | 4,882,510            | 7,790,481            |
| OSRHE endowment holdings   | <u>38,621,605</u>    | <u>34,806,229</u>    |
| Total Investments          | <u>\$ 43,504,115</u> | <u>\$ 42,596,710</u> |

Investment maturities were as follows at June 30, 2014:

|                            |                                  |                       |                      |                    |                   |                      |
|----------------------------|----------------------------------|-----------------------|----------------------|--------------------|-------------------|----------------------|
|                            | Investment Maturities (in Years) |                       |                      |                    |                   |                      |
| <u>Investment Type</u>     | <u>Fair Value</u>                | <u>Not Applicable</u> | <u>Less Than One</u> | <u>One to Five</u> | <u>Six to Ten</u> | <u>More Than Ten</u> |
| U.S. government securities | \$ 2,604,033                     | \$ -                  | \$ 2,604,033         | \$ -               | \$ -              | \$ -                 |
| Mutual funds               | 2,270,505                        | 2,270,505             | -                    | -                  | -                 | -                    |
| Other                      | <u>7,972</u>                     | -                     | <u>7,972</u>         | -                  | -                 | -                    |
|                            | <u>\$ 4,882,510</u>              | <u>\$ 2,270,505</u>   | <u>\$ 2,612,005</u>  | <u>\$ -</u>        | <u>\$ -</u>       | <u>\$ -</u>          |

Interest Rate Risk: The University does not have a formal policy that limits investment maturities as a means of managing its exposure to fair value losses arising from increasing interest rates.

Concentration of Credit Risk: The University places no limit on the amount the University may invest in any one issuer. However, the majority of the investments are in mutual funds and investments guaranteed by the U.S. government.

NOTE C--ACCOUNTS RECEIVABLE

Accounts receivable relate to tuition and fee charges to students and to auxiliary services provided to students, faculty and staff. Accounts receivable consisted of the following at June 30:

|  |                    |                    |
|--|--------------------|--------------------|
|  | <u>2014</u>        | <u>2013</u>        |
| Student tuition and fees                             | \$ 1,060,703       | \$ 1,209,154       |
| Auxiliary enterprises and other operating activities | <u>1,157,917</u>   | <u>908,931</u>     |
|  | 2,218,620          | 2,118,085          |
| Less: allowance for doubtful accounts                | <u>(1,479,194)</u> | <u>(1,457,022)</u> |
| Accounts receivable, net                             | <u>\$ 739,426</u>  | <u>\$ 661,063</u>  |

NOTES TO FINANCIAL STATEMENTS--Continued

LANGSTON UNIVERSITY

June 30, 2014

NOTE D--LOANS RECEIVABLE

Loans receivable consist of the following at June 30:

|   | <u>2014</u>     | <u>2013</u>     |
|---|-----------------|-----------------|
| Loans receivable                        | \$ 1,187        | \$ 9,448        |
| Less: allowance for uncollectible loans | <u>-</u>        | <u>-</u>        |
| Net loans receivable                    | <u>\$ 1,187</u> | <u>\$ 9,448</u> |

NOTE E--CAPITAL ASSETS

Following are the changes in capital assets for the year ended June 30, 2014:

|  | <u>Balance at<br/>June 30,<br/>2013</u> | <u>Additions</u>    | <u>Transfers</u>   | <u>Retirements</u>  | <u>Balance at<br/>June 30,<br/>2014</u> |
|--|---|---------------------|--------------------|---------------------|---|
| Capital assets not being depreciated:      |   |                     |                    |                     |   |
| Land                                       | \$ 2,409,222                            | \$ 137,153          | \$ -               | \$ -                | \$ 2,546,375                            |
| Construction in-progress                   | 794,460                                 | 2,190,834           | (2,282,002)        | -                   | 703,292                                 |
| Total capital assets not being depreciated | <u>3,203,682</u>                        | <u>2,327,987</u>    | <u>(2,282,002)</u> | <u>-</u>            | <u>3,249,667</u>                        |
| Other capital assets:                      |   |                     |                    |                     |   |
| Buildings and improvements                 | 116,028,107                             | 97,783              | 2,282,002          | -                   | 118,407,892                             |
| Infrastructure                             | 3,669,991                               | -                   | -                  | -                   | 3,669,991                               |
| Equipment                                  | 16,430,826                              | 833,799             | -                  | (1,144,634)         | 16,119,991                              |
| Library materials                          | 4,317,739                               | -                   | -                  | -                   | 4,317,739                               |
| Total other capital assets                 | <u>140,446,663</u>                      | <u>931,582</u>      | <u>2,282,002</u>   | <u>(1,144,634)</u>  | <u>142,515,613</u>                      |
| Accumulated depreciation:                  |   |                     |                    |                     |   |
| Buildings and improvements                 | (32,180,687)                            | (2,826,418)         | -                  | -                   | (35,007,105)                            |
| Infrastructure                             | (1,098,545)                             | (135,922)           | -                  | -                   | (1,234,467)                             |
| Equipment                                  | (11,224,579)                            | (899,424)           | -                  | 952,005             | (11,171,998)                            |
| Library materials                          | (4,253,991)                             | (63,748)            | -                  | -                   | (4,317,739)                             |
| Total accumulated depreciation             | <u>(48,757,802)</u>                     | <u>(3,925,512)</u>  | <u>-</u>           | <u>952,005</u>      | <u>(51,731,309)</u>                     |
| Capital assets, net                        | <u>\$ 94,892,543</u>                    | <u>\$ (665,943)</u> | <u>\$ -</u>        | <u>\$ (192,629)</u> | <u>\$ 94,033,971</u>                    |

NOTES TO FINANCIAL STATEMENTS--Continued

LANGSTON UNIVERSITY

June 30, 2014

NOTE E--CAPITAL ASSETS--Continued

The University has acquired certain capital assets, including buildings and equipment, under various lease-purchase contracts and other capital lease agreements. The cost of the University's assets held under capital leases totaled \$28,245,667 at both June 30, 2014 and 2013 with accumulated depreciation of \$11,020,833 and \$10,601,377, respectively.

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

|  | Balance at<br>June 30,<br>2012 | Additions             | Transfers   | Retirements        | Balance at<br>June 30,<br>2013 |
|--|--------------------------------|-----------------------|-------------|--------------------|--------------------------------|
| Capital assets not being depreciated:      |                                |                       |             |                    |                                |
| Land                                       | \$ 2,401,482                   | \$ 7,740              | \$ -        | \$ -               | \$ 2,409,222                   |
| Construction in-progress                   | 213,533                        | 580,927               | -           | -                  | 794,460                        |
| Total capital assets not being depreciated | 2,615,015                      | 588,667               | -           | -                  | 3,203,682                      |
| Other capital assets:                      |                                |                       |             |                    |                                |
| Buildings and improvements                 | 115,829,222                    | 198,885               | -           | -                  | 116,028,107                    |
| Infrastructure                             | 3,373,383                      | 296,608               | -           | -                  | 3,669,991                      |
| Equipment                                  | 15,402,922                     | 1,270,860             | -           | (242,956)          | 16,430,826                     |
| Library materials                          | 4,536,645                      | -                     | -           | (218,906)          | 4,317,739                      |
| Total other capital assets                 | 139,142,172                    | 1,766,353             | -           | (461,862)          | 140,446,663                    |
| Accumulated depreciation:                  |                                |                       |             |                    |                                |
| Buildings and improvements                 | (29,376,292)                   | (2,804,395)           | -           | -                  | (32,180,687)                   |
| Infrastructure                             | (957,182)                      | (141,363)             | -           | -                  | (1,098,545)                    |
| Equipment                                  | (10,608,869)                   | (821,625)             | -           | 205,915            | (11,224,579)                   |
| Library materials                          | (4,389,879)                    | (83,018)              | -           | 218,906            | (4,253,991)                    |
| Total accumulated depreciation             | (45,332,222)                   | (3,850,401)           | -           | 424,821            | (48,757,802)                   |
| Capital assets, net                        | <u>\$ 96,424,965</u>           | <u>\$ (1,495,381)</u> | <u>\$ -</u> | <u>\$ (37,041)</u> | <u>\$ 94,892,543</u>           |

NOTES TO FINANCIAL STATEMENTS--Continued

LANGSTON UNIVERSITY

June 30, 2014

NOTE F--UNEARNED REVENUES

Unearned revenues consisted of the following at June 30:

|                          | <u>2014</u>         | <u>2013</u>         |
|--------------------------|---------------------|---------------------|
| Student tuition and fees | \$ 337,508          | \$ 369,854          |
| Contractual agreements   | 812,500             | 1,037,500           |
| Total unearned revenues  | <u>\$ 1,150,008</u> | <u>\$ 1,407,354</u> |

In January 2011, the University entered into a contract amendment ("contract") with Sodexo Operations, LLC ("Sodexo") to provide food service management to the University. As part of this contract, Sodexo agreed to make a financial investment in the University in the form of equipment purchases and full repayment of the previous commitment with Aramark Educational Services, Inc. The overall investment made by Sodexo totaled \$1,600,000, of which \$650,000 of this investment is required to be amortized over a five-year period, with the remaining \$950,000 amortized over ten years. If the University terminates Sodexo's service prior to the complete amortization of the investment, the contract requires that Sodexo be reimbursed for the unamortized portion of the investment. The unamortized portion of this commitment is \$812,500 and \$1,037,500 at June 30, 2014 and 2013, respectively. There is no stipulation for accrued interest relative to the Sodexo contract.

NOTE G--NOTES PAYABLE

The LLC finances its annual property insurance premium over a 10-month period. A prepaid asset is recognized on the accompanying statements of net position, in other assets, and is amortized to expense on a straight-line basis. The detail of the notes payable resulting from the financing of insurance premiums as of June 30, 2014 and 2013 is as follows:

|               | <u>Balance at<br/>June 30, 2013</u> | <u>Additions</u> | <u>Deductions</u> | <u>Balance at<br/>June 30, 2014</u> |
|---------------|-------------------------------------|------------------|-------------------|-------------------------------------|
| Notes Payable | \$ 296,784                          | \$ 389,599       | \$ (374,711)      | \$ 311,672                          |

|               | <u>Balance at<br/>June 30, 2012</u> | <u>Additions</u> | <u>Deductions</u> | <u>Balance at<br/>June 30, 2013</u> |
|---------------|-------------------------------------|------------------|-------------------|-------------------------------------|
| Notes Payable | \$ 269,155                          | \$ 370,980       | \$ (343,351)      | \$ 296,784                          |

NOTES TO FINANCIAL STATEMENTS--Continued

LANGSTON UNIVERSITY

June 30, 2014

NOTE H--NONCURRENT LIABILITIES

Noncurrent liability activity for the year ended June 30, 2014, was as follows:

|   | Interest Rates | Maturity Through | Balance at June 30, 2013 | Additions     | Deductions      | Balance at June 30, 2014 | Current Portion |
|---|----------------|------------------|--------------------------|---------------|-----------------|--------------------------|-----------------|
| Revenue bonds payable and capital lease obligations:              |                |                  |                          |               |                 |                          |                 |
| Revenue bonds payable:  |                |                  |                          |               |                 |                          |                 |
| ODFA Public Facility, Series 1999A                                | 3.60%-5.25%    | 12/1/2023        | \$ 2,545,000             | \$ -          | \$ (2,545,000)  | \$ -                     | \$ -            |
| ODFA Public Facility, Series 2002A                                | 2.00%-5.00%    | 7/1/2027         | 5,005,000                | -             | (5,005,000)     | -                        | -               |
| LEDA Revenue Bonds, Series 2006A                                  | 4.00%-5.25%    | 5/1/2030         | 21,010,000               | -             | (760,000)       | 20,250,000               | 790,000         |
| LEDA Revenue Bonds, Series 2005A                                  | 3.50%-5.00%    | 5/1/2034         | 21,380,000               | -             | (555,000)       | 20,825,000               | 575,000         |
|   |                |                  | 49,940,000               | -             | (8,865,000)     | 41,075,000               | 1,365,000       |
| Less: Discounts on bonds  |                |                  | (281,643)                | -             | 51,157          | (230,486)                | -               |
| Total revenue bonds payable                                       |                |                  | 49,658,357               | -             | (8,813,843)     | 40,844,514               | 1,365,000       |
| Capital lease obligations:  |                |                  |                          |               |                 |                          |                 |
| OCIA 1999/2004A   |                | 8/1/2019         | 826,637                  | -             | (118,210)       | 708,427                  | 123,919         |
| OCIA 2005F  |                | 7/1/2015         | 7,640,098                | -             | (6,970,336)     | 669,762                  | 327,578         |
| OCIA 2014A  |                | 7/1/2030         | -                        | 6,307,699     | -               | 6,307,699                | -               |
| OCIA 2010A  |                | 7/1/2018         | 3,080,464                | -             | -               | 3,080,464                | -               |
| OCIA 2010B  |                | 7/1/2015         | 914,828                  | -             | -               | 914,828                  | 533,797         |
| OCIA 2006D  |                | 7/1/2035         | 4,317,500                | -             | (202,400)       | 4,115,100                | -               |
| ODFA Master Lease 2014A   |                | 5/15/2027        | -                        | 6,325,000     | (154,584)       | 6,170,416                | 452,083         |
| ODFA Master Lease 2011B   |                | 5/15/2018        | 1,116,000                | -             | (213,000)       | 903,000                  | 216,000         |
|   |                |                  | 17,895,527               | 12,632,699    | (7,658,530)     | 22,869,696               | 1,653,377       |
| Plus: Premium on lease obligations                                |                |                  | 191,228                  | 566,812       | (28,074)        | 729,966                  | 61,730          |
| Total capital lease obligations                                   |                |                  | 18,086,755               | 13,199,511    | (7,686,604)     | 23,599,662               | 1,715,107       |
| Total revenue bonds payable and capital lease obligations         |                |                  | 67,745,112               | 13,199,511    | (16,500,447)    | 64,444,176               | 3,080,107       |
| Other liabilities:  |                |                  |                          |               |                 |                          |                 |
| Accrued pension benefit and post-employment insurance obligations |                |                  | 405,749                  | -             | (10,696)        | 395,053                  | -               |
| Unearned revenues   |                |                  | 1,037,500                | -             | (225,000)       | 812,500                  | 225,000         |
| Total other liabilities   |                |                  | 1,443,249                | -             | (235,696)       | 1,207,553                | 225,000         |
| Total noncurrent liabilities                                      |                |                  | \$ 69,188,361            | \$ 13,199,511 | \$ (16,736,143) | \$ 65,651,729            | \$ 3,305,107    |

NOTES TO FINANCIAL STATEMENTS--Continued

LANGSTON UNIVERSITY

June 30, 2014

NOTE H--NONCURRENT LIABILITIES--Continued

Noncurrent liability activity for the year ended June 30, 2013, was as follows:

|   | Interest Rates | Maturity Through | Balance at June 30, 2012 | Additions | Deductions     | Balance at June 30, 2013 | Current Portion |
|---|----------------|------------------|--------------------------|-----------|----------------|--------------------------|-----------------|
| Revenue bonds payable and capital lease obligations:              |                |                  |                          |           |                |                          |                 |
| Revenue bonds payable:  |                |                  |                          |           |                |                          |                 |
| ODFA Public Facility, Series 1999A                                | 3.60%-5.25%    | 12/1/2023        | \$ 2,680,000             | \$ -      | \$ (135,000)   | \$ 2,545,000             | \$ 145,000      |
| ODFA Public Facility, Series 2002A                                | 2.00%-5.00%    | 7/1/2027         | 5,235,000                | -         | (230,000)      | 5,005,000                | 240,000         |
| LEDA Revenue Bonds, Series 2006A                                  | 4.00%-5.25%    | 5/1/2030         | 21,735,000               | -         | (725,000)      | 21,010,000               | 760,000         |
| LEDA Revenue Bonds, Series 2005A                                  | 3.50%-5.00%    | 5/1/2034         | 21,910,000               | -         | (530,000)      | 21,380,000               | 555,000         |
|   |                |                  | 51,560,000               | -         | (1,620,000)    | 49,940,000               | 1,700,000       |
| Less: Discount on bonds payable                                   |                |                  | (304,388)                | -         | 22,745         | (281,643)                | -               |
| Total revenue bonds payable                                       |                |                  | 51,255,612               | -         | (1,597,255)    | 49,658,357               | 1,700,000       |
| Capital lease obligations:  |                |                  |                          |           |                |                          |                 |
| OCIA 1999   |                | 8/1/2019         | 939,198                  | -         | (112,561)      | 826,637                  | 118,209         |
| OCIA 2005F  |                | 7/1/2030         | 7,640,098                | -         | -              | 7,640,098                | 312,615         |
| OCIA 2010A  |                | 7/1/2018         | 3,080,464                | -         | -              | 3,080,464                | -               |
| OCIA 2010B  |                | 7/1/2015         | 914,828                  | -         | -              | 914,828                  | -               |
| OCIA 2006D  |                | 7/1/2035         | 4,480,300                | -         | (162,800)      | 4,317,500                | -               |
| ODFA Master Lease 2011B   |                | 5/15/2018        | 1,324,000                | -         | (208,000)      | 1,116,000                | 213,000         |
|   |                |                  | 18,378,888               | -         | (483,361)      | 17,895,527               | 643,824         |
| Plus: Premium on bonds payable                                    |                |                  | 202,474                  | -         | (11,246)       | 191,228                  | 11,246          |
| Total capital lease obligations                                   |                |                  | 18,581,362               | -         | (494,607)      | 18,086,755               | 655,070         |
| Total revenue bonds payable and capital lease obligations         |                |                  | 69,836,974               | -         | (2,091,862)    | 67,745,112               | 2,355,070       |
| Other liabilities:  |                |                  |                          |           |                |                          |                 |
| Accrued pension benefit and post-employment insurance obligations |                |                  | 407,747                  | -         | (1,998)        | 405,749                  | -               |
| Unearned revenues   |                |                  | 1,262,500                | -         | (225,000)      | 1,037,500                | 225,000         |
| Total other liabilities   |                |                  | 1,670,247                | -         | (226,998)      | 1,443,249                | 225,000         |
| Total noncurrent liabilities                                      |                |                  | \$ 71,507,221            | \$ -      | \$ (2,318,860) | \$ 69,188,361            | \$ 2,580,070    |

**Revenue Bonds:** The Oklahoma Development Finance Authority (“ODFA”) Public Facilities Program Revenue Bonds, Langston University Project, Series 2002A (the “ODFA 2002 Bonds”) were issued in the original amount of \$7,000,000. Principal payments of \$175,000 to \$2,075,000 are due each July 1 through 2027. Principal and interest payments are secured by a pledge of facility fees and of certain “Section 13” and “New College Funds” annually apportioned to the University. The ODFA 2002 Bonds are a limited obligation of ODFA payable from the above pledged revenues of the University. Interest on the bonds is exempt from federal and state income taxes.

NOTES TO FINANCIAL STATEMENTS--Continued

LANGSTON UNIVERSITY

June 30, 2014

NOTE H--NONCURRENT LIABILITIES--Continued

Revenue Bonds--Continued: The ODFA Public Facilities Financing Program Revenue Bonds, Langston University Athletic Facilities Projects, Series 1999A (the "ODFA 1999A Bonds") were issued in the original amount of \$3,500,000. Principal payments of \$20,000 to \$330,000 are due each December 1 through 2023. The ODFA 1999A Bonds are secured by a pledge of certain student facility fees, with subordinated pledge of "Section 13" and "New College Fund" revenues. The ODFA 1999A Bonds are a limited obligation of ODFA payable from the above pledged revenues of the University. Interest on the bonds is exempt from federal and state income taxes.

During February 2014, the University entered into a capital lease obligation for the ODFA Master Lease Series 2014A in the amount of \$6,325,000, to refund the ODFA Series 2002A and 1999A Revenue Bonds. The net present value of the savings for the refinance is \$890,814.

On May 2, 2005, the Langston Economic Development Authority ("LEDA") issued the Langston Economic Development Authority Revenue Bonds (Langston University Student Housing/LDF Student Housing, LLC Project) Series 2005A and 2005B in the amount of \$24,720,000 for the purpose of loaning the proceeds thereof to the LLC for the purpose of financing the cost of acquiring, renovating, furnishing and equipping an existing student housing facility know as Centennial Court and to refinance the debt issued with respect to the Langston Common's student housing complex. The interest and repayment terms on these notes are the same as required by the bonds issued by LEDA. The 2005B series was paid in full at June 30, 2007. At June 30, 2014 and 2013, \$20,825,000 and \$21,380,000, respectively, were outstanding on the 2005A series.

On May 17, 2006, LEDA issued bonds pursuant to the terms of the Langston Economic Development Authority Revenue Bonds (Langston University Student Housing/LDF Student Housing, LLC Project) indenture dated May 2, 2005. The Series 2006A and 2006B bonds were issued in the amount of \$25,535,000 for the purpose of loaning the proceeds thereof to the LLC for the purpose of financing the cost of acquiring the Scholars' Inn housing facility. LEDA issued to the Authority promissory notes on May 17, 2006 in the amount of \$25,535,000. The interest and repayment terms on these notes are the same as required by the bonds issued by LEDA. The 2006B was paid in full at June 30, 2007. At June 30, 2014 and 2013, \$20,250,000 and \$21,010,000, respectively were outstanding on the 2006A series.

The LLC is required to make monthly deposits to the debt service fund of approximately \$132,000 on the 2005 bonds and \$148,000 on the 2006 bonds. The 2005 Bonds still outstanding may be redeemed at the LLC's option on or after May 1, 2015 at the par amount plus accrued interest. The 2006 Bonds still outstanding may be redeemed at the LLC's option on or after May 1, 2016 at the par amount plus accrued interest.

NOTES TO FINANCIAL STATEMENTS--Continued

LANGSTON UNIVERSITY

June 30, 2014

NOTE H--NONCURRENT LIABILITIES--Continued

Revenue Bonds--Continued: The University's obligation with respect to payment on the bonds is limited to excess housing system revenue that has been pledged by the University. The pledged revenue is not expected to be a significant source of funds.

Pursuant to the bond indentures creating each bond issue, the LLC was required to establish various accounts with the bond trustees including those as follows:

Revenue and Surplus Accounts - These accounts are used to accumulate monies to repay the principal and interest on the bonds. The LLC is required to transfer pledged revenues to the trustee for deposit in the revenue accounts.

Bond Funds of Principal and Interest - these accounts are used to make bond principal and interest payments when due. The trustee will transfer funds monthly from the revenue accounts to the principal and interest accounts. Principal and interest accounts are paid on a semi-annual basis.

Reserve Accounts - Reserve accounts have been established to cover deficiencies in the bond funds for debt service, operating needs, and repairs and replacements. The minimum required reserve account balances established by the bond indentures are as follows:

- Debt Reserve Fund: 1) With respect to the Series 2005 Bonds, the sum of \$1,588,122
- 2) With respect to 2006 Bonds, the lesser of:
- a) 10% of the amount of bonds issued, or
  - b) 125% of the average annual debt service
  - c) Maximum annual debt service

Actual funds on deposit with the trustees as of June 30 were as follows:

|                          | 2014         | 2013         |
|--------------------------|--------------|--------------|
| Revenue Accounts:        |              |              |
| ODFA 1999A Bonds         | \$ -         | \$ 135,012   |
| ODFA 2002A Bonds         | -            | 3,992,462    |
| LEDA 2006A & 2005A Bonds | 2,038,196    | 2,396,685    |
| Total funds on deposit   | \$ 2,038,196 | \$ 6,524,159 |

NOTES TO FINANCIAL STATEMENTS--Continued

LANGSTON UNIVERSITY

June 30, 2014

NOTE H--NONCURRENT LIABILITIES--Continued

Future aggregate maturities of principal and interest requirements on the University's various revenue bonds payable are as follows at June 30, 2014:

| Years Ending June 30: | <u>Principal</u>     | <u>Interest</u>      | <u>Total</u>         |
|-----------------------|----------------------|----------------------|----------------------|
| 2015                  | \$ 1,365,000         | \$ 1,995,024         | \$ 3,360,024         |
| 2016                  | 1,425,000            | 1,935,037            | 3,360,037            |
| 2017                  | 1,490,000            | 1,871,632            | 3,361,632            |
| 2018                  | 1,560,000            | 1,803,501            | 3,363,501            |
| 2019                  | 1,630,000            | 1,731,038            | 3,361,038            |
| 2020 - 2024           | 9,370,000            | 7,434,713            | 16,804,713           |
| 2025 - 2029           | 11,925,000           | 4,888,256            | 16,813,256           |
| 2030 - 2034           | 9,825,000            | 1,770,869            | 11,595,869           |
| 2035                  | 2,485,000            | 124,250              | 2,609,250            |
|                       | <u>\$ 41,075,000</u> | <u>\$ 23,554,320</u> | <u>\$ 64,629,320</u> |

Capital Lease Obligations:

*Oklahoma Capital Improvement Authority Lease Obligation*

In September 1999, the Oklahoma Capital Improvement Authority ("OCIA") issued its OCIA Bond Issues, 1999 Series A, B and C. Of the total bond indebtedness, the OSRHE allocated approximately \$2,000,000 to the University. Concurrently with the allocation, the University entered into a lease agreement with OCIA, for the project being funded by the OCIA bonds. The lease agreement provides for the University to make specified monthly payments to OCIA over the respective terms of the agreement, which is for approximately 20 years. The proceeds of the bonds and subsequent leases are to provide for capital improvements at the University.

Lease payments to OCIA totaling \$159,045 and \$159,025 during the years ended June 30, 2014 and 2013, respectively, were made by the State of Oklahoma on behalf of the University. These payments have been recorded as on-behalf payments for OCIA capital leases in the statements of revenues, expenses, and changes in net position.

In 2005, the OCIA issued its State Facilities Revenue Bonds ("Higher Education Project") Series 2005F. Of the total bond indebtedness, the OSRHE allocated approximately \$12,481,000 to the University. Total lease payments over the term of the agreement including principal and interest, beginning July 1, 2006 through July 1, 2030, will be \$21,603,441. Payments will be made annually ranging from \$352,845 to \$1,198,785, by the State of Oklahoma on behalf of the University. Concurrently with the allocation, the University entered into a lease agreement with OCIA for the projects being funded by the OCIA bonds. The proceeds of the bonds and subsequent leases are to provide for capital improvements at the University.

NOTES TO FINANCIAL STATEMENTS--Continued

LANGSTON UNIVERSITY

June 30, 2014

NOTE H--NONCURRENT LIABILITIES--Continued

Capital Lease Obligations--Continued:

*Oklahoma Capital Improvement Authority Lease Obligation--Continued*

During fiscal year 2011, the University's 2005 lease agreement with OCIA was restructured through a partial refunding of the Series 2005F bonds. OCIA issued two new bonds, Series 2010A and 2010B, to accomplish this refunding. The restructured lease agreement with OCIA secures the OCIA bond indebtedness and any future indebtedness that might be issued to refund earlier bond issues. OCIA issued the new Series 2010A and 2010B bonds to provide budgetary relief for fiscal years 2011 and 2012 by extending and restructuring the debt service requirements. Consequently, the University's aforementioned lease agreement with OCIA was automatically restructured to secure the new bond issues. The lease restructuring extended certain principal payments into the future, resulting in a cost on the restructuring. The University has recorded a charge totaling \$938,840 on restructuring as a deferred outflow of resources that will be amortized over a period of six years. As of June 30, 2014 and 2013, the unamortized cost totaled \$212,251 and \$318,376, respectively. This restructuring resulted in an aggregate difference in principal and interest between the original lease agreement and the restructured lease agreement of \$50,720, which approximates the economic cost of the transaction.

In 2006, the OCIA issued its State Facilities Revenue Bonds (Higher Education Project) Series 2006D. Of the total bond indebtedness, the State Regents allocated approximately \$5,424,000 to the University. Total lease payments over the term of the agreement including principal and interest, beginning July 1, 2006 through July 1, 2035, will be \$12,955,724. Payments will be made annually ranging from \$71,278 to \$1,550,689, by the State of Oklahoma on behalf of the University. Concurrently with the allocation, the University entered into a lease agreement with OCIA, for the projects being funded by the OCIA bonds. The proceeds of the bonds and subsequent leases are to provide for capital improvements at the University.

In 2014, the OCIA restructured the 2005F by issuing new bonds 2014 Series A. This restructuring was a partial refunding and resulted in a credit of \$350,021 between the remaining liability of 2005F and the new liability of 2014A. This credit on restructuring was recorded as a deferred inflow of resources that will be amortized over a period of 18 years. As of June 30, 2014, the unamortized portion totaled \$344,665. The restructured lease agreement with OCIA secures the OCIA bond indebtedness and any future indebtedness that might be issued to refund earlier bond issues. The University's aforementioned lease agreement with OCIA was automatically restructured to secure the new bond issues. This refinancing resulted in an aggregate difference in principal and interest between the original lease agreement and the refinanced lease agreement of \$817,087, which approximates the economic savings of the transaction. 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, of \$6,307,699 at June 30, 2014.

NOTES TO FINANCIAL STATEMENTS--Continued

LANGSTON UNIVERSITY

June 30, 2014

NOTE H--NONCURRENT LIABILITIES--Continued

Capital Lease Obligations--Continued:

*Oklahoma Capital Improvement Authority Lease Obligation--Continued*

Through the year ended June 30, 2014, the University has drawn down its total allotment plus interest earned thereon for expenses incurred in connection with these specific projects. These expenses have been capitalized as investments in capital assets or recorded as operating expenses, in accordance with the University's policy. Lease payments to OCIA totaling \$464,034 and \$416,668 during the years ended June 30, 2014 and 2013, respectively, were made by the State of Oklahoma on behalf of the University. These payments have been recorded as on-behalf payments for OCIA capital leases in the statements of revenues, expenses, and changes in net position.

*ODFA Master Lease Obligations*

On December 1, 2002, the University entered into a capital lease obligation for the ODFA Oklahoma State System of Higher Education Master Lease Revenue Bonds, Series 2002C in the amount of \$2,910,000. Total lease payments over the term of the agreement, beginning June 1, 2003 through December 1, 2018, will be \$4,031,199. Payments will be made monthly ranging from \$5,687 to \$255,688. Proceeds from the obligation will be used for the installation of equipment for energy conservation on campus buildings and facilities.

During fiscal year 2012, the University's 2002C lease agreement with ODFA was advance refunded through the liquidation of reserve funds being held relative to the lease program and issuance of the 2011B ODFA Master Equipment Lease Refunding Bonds. Total lease payments over the term of the agreement, beginning November 15, 2012 through May 15, 2018, will be \$1,544,566. Payments will be made monthly ranging from \$10,410 to \$20,650. Under the 2011B Series, lease payments made by the University are forwarded to the trustee's bank by the OSRHE for future principal and interest payments on the master lease bonds. ODFA deposits the lease payments into an interest bearing sinking fund and may use the interest earnings to reduce the University's future lease payments.

In 2014, the University entered into a capital lease obligation for the ODFA Master Lease Revenue Bonds, Series 2014A in the amount of \$6,325,000. Total lease payments over the term of the agreement, beginning March 15, 2014 through May 15, 2027, will be \$7,878,239. Payments will be made monthly ranging from approximately \$34,390 to \$60,683. Proceeds from the obligation are being used to refund the ODFA series 2002A and 1999A revenue bonds. A bond issuance premium of \$566,812 is being amortized over the term of the agreement.

NOTES TO FINANCIAL STATEMENTS--Continued

LANGSTON UNIVERSITY

June 30, 2014

NOTE H--NONCURRENT LIABILITIES--Continued

Capital Lease Obligations--Continued: Future minimum lease payments under all capital lease obligations are as follows at June 30, 2014:

| Years Ending June 30: | Principal            | Interest            | Total                |
|-----------------------|----------------------|---------------------|----------------------|
| 2015                  | \$ 1,653,377         | \$ 757,738          | \$ 2,411,115         |
| 2016                  | 1,704,624            | 908,859             | 2,613,483            |
| 2017                  | 1,920,040            | 896,536             | 2,816,576            |
| 2018                  | 1,992,418            | 834,022             | 2,826,440            |
| 2019                  | 1,826,283            | 742,973             | 2,569,256            |
| 2020 - 2024           | 3,791,477            | 3,016,952           | 6,808,429            |
| 2025 - 2029           | 8,311,040            | 2,037,481           | 10,348,521           |
| 2030 - 2034           | 1,670,437            | 782,683             | 2,453,120            |
|                       | <u>\$ 22,869,696</u> | <u>\$ 9,977,244</u> | <u>\$ 32,846,940</u> |

NOTE I--RETIREMENT PLANS

The University's academic and non-academic personnel are covered by various retirement plans. One plan available to University personnel is the Oklahoma Teachers' Retirement System ("OTRS"), which is a State of Oklahoma public employee retirement system. The University also sponsors a Supplemental Retirement Plan, which is a single-employer public-employee retirement system, which was approved in 1971. The University does not maintain the accounting records, hold the investments, or administer the plan.

*Oklahoma Teachers' Retirement System*

Plan Description: The University contributes to the OTRS, which is 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 plan 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. 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, by calling (405) 521-2387, or at the OTRS website at [www.trs.state.ok.us](http://www.trs.state.ok.us).

Funding Policy: The University is required to contribute a fixed percentage of annual compensation on behalf of active members. The employer contribution rate of 9.5% for the calendar years 2014, 2013, and 2012 is applied to annual compensation, and is determined by State Statute.

NOTES TO FINANCIAL STATEMENTS--Continued

LANGSTON UNIVERSITY

June 30, 2014

NOTE I--RETIREMENT PLANS--Continued

*Oklahoma Teachers' Retirement System--Continued*

Employees' contributions are also determined by State Statute. For all employees, the contribution rate was 7% of covered salaries and fringe benefits in 2014, 2013, and 2012. These contributions were made directly by the University for 2014, 2013, and 2012.

The University's contributions to OTRS for the years ended June 30, 2014, 2013, and 2012, were approximately \$1,960,000, \$1,914,000, and \$2,025,000, respectively, equal to the required contributions for each year. These contributions included the University's statutory contribution and the share of the employee's contributions paid directly by the University.

The State of Oklahoma is also required to contribute to OTRS on behalf of the participating employers. For 2014 and 2013, the State of Oklahoma contributed 5% of state revenues from sales and use taxes and individual income taxes to the OTRS on behalf of participating employers. The University has estimated the amounts contributed to OTRS by the State of Oklahoma on its behalf by multiplying the ratio of its covered salaries to total covered salaries for OTRS for the year by the applicable percentages of taxes collected during the year. For the years ended June 30, 2014 and 2013, the total amounts contributed to OTRS by the State of Oklahoma on behalf of the University were approximately \$1,644,000 and \$1,687,000, respectively. These on-behalf payments have been recorded as non-operating state appropriations revenues and operating compensation and employee benefits expenses in the statements of revenues, expenses and changes in net position.

*Supplemental Retirement Plan*

Plan Description: The Supplemental Retirement Plan (the "Plan") is a single-employer defined benefit pension plan administered by the University. It guarantees eligible employees a level of retirement benefits. If Social Security and OTRS payments do not equal one-half of the employees' average highest three years' earnings, the University pays the balance from the current year's operating budget. The authority to establish and amend benefit provisions rests with the Board of Regents. The Plan does not issue a separate financial report, nor is it included in the financial report of another entity.

Funding Policy: The Plan is not funded and benefits do not vest to the participants until their retirement. The University has been funding the benefits on a "pay as you go" basis. Only certain employees are eligible to participate in the Plan and the Plan has been discontinued. During the years ended June 30, 2014, 2013, and 2012, the University paid approximately \$41,000 to retirees under the Plan. There are no active employees who qualify for benefits under this plan.

NOTES TO FINANCIAL STATEMENTS--Continued

LANGSTON UNIVERSITY

June 30, 2014

NOTE I--RETIREMENT PLANS--Continued

*Supplemental Retirement Plan--Continued*

Annual Pension Cost and Net Pension Obligation: Annual required contributions for the years ended June 30, 2014 and 2013 were determined as part of an actuarial valuation as of June 30, 2014 and 2013, respectively, using the projected unit credit method. The actuarial assumptions included (a) a discount rate of 6.5% per year to determine the present value of future benefit payments; (b) retirement at age 65; (c) a 6.5% rate of return on investments; (d) projected salary increases of 3.5% per year; and (e) a 6.5% interest rate for post-retirement individual annuity settlement benefits. The Plan is an unfunded plan and, accordingly, no assets have been accumulated, and no investment income is earned. The unfunded actuarial accrued liability is being amortized using the level dollar amortization method on a closed basis over ten (10) years.

The annual pension cost and net pension obligation to the Plan were as follows at June 30:

|  | 2014              | 2013              |
|--|-------------------|-------------------|
| Annual required contribution               | \$ 43,910         | \$ 45,880         |
| Interest on net pension obligation         | 20,585            | 21,271            |
| Adjustment to annual required contribution | (35,906)          | (37,103)          |
| Annual pension cost                        | <u>28,589</u>     | <u>30,048</u>     |
| Contributions made                         | <u>40,611</u>     | <u>40,611</u>     |
| Decrease in net pension obligation         | (12,022)          | (10,563)          |
| Net pension obligation, beginning of year  | <u>316,687</u>    | <u>327,250</u>    |
| Net pension obligation, end of year        | <u>\$ 304,665</u> | <u>\$ 316,687</u> |

Funded Status and Funding Progress: The funded status of the plan as of June 30, 2014 was as follows:

|   |                   |
|---|-------------------|
| Actuarial accrued liability (AAL)                 | \$ 439,097        |
| Actuarial value of plan assets                    | <u>-</u>          |
| Unfunded actuarial accrued liability (UAAL)       | <u>\$ 439,097</u> |
| Funded ratio (actuarial value of plan assets/AAL) | 0.00%             |
| Annual covered payroll (active plan members)      | \$ -              |
| UAAL as a percentage of annual covered payroll    | 0.00%             |

NOTES TO FINANCIAL STATEMENTS--Continued

LANGSTON UNIVERSITY

June 30, 2014

NOTE I--RETIREMENT PLANS--Continued

*Supplemental Retirement Plan--Continued*

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

Trend Information

| <u>Years Ending June 30:</u> | <u>Annual<br/>Pension Cost</u> | <u>Percentage of<br/>APC Contributed</u> | <u>Net Pension<br/>Obligation</u> |
|------------------------------|--------------------------------|--|-----------------------------------|
| 2012                         | \$ 29,136                      | 232.2%                                   | \$ 327,250                        |
| 2013                         | 30,048                         | 135.2%                                   | 316,687                           |
| 2014                         | 28,589                         | 142.1%                                   | 304,665                           |

NOTE J--OTHER POST-EMPLOYMENT INSURANCE BENEFITS

Plan Description: The University pays the life insurance premiums for retired employees until death. Eligible retirees must meet the OTRS guidelines, and have been enrolled in the University's life insurance program prior to retirement. Each retiree is eligible to receive \$8,000 of life insurance coverage at a cost to the University of \$.275 per \$1,000 of coverage. As of June 30, 2014, there were 521 active employees and 186 retirees covered under the life insurance program. Authority to establish and amend benefit provisions rests with the Board of Regents. The Other Post-Employment Insurance Benefits ("OPEB") Plan does not issue a stand-alone financial report.

Funding Policy: Contribution requirements of the University are established and may be amended by the Board of Regents. All contributions are made by the University. Benefits are funded under a "pay as you go" funding method; however, expenses are recorded as benefits accumulate.

Annual Cost and Net Obligation: The annual required contribution for the current year was determined as part of the June 30, 2014 actuarial valuation using the projected unit credit method. The actuarial assumption included an 6.5% investment rate of return. The assumption also included postretirement benefit increases, which will be funded by the University when granted. The Plan is an unfunded plan and, accordingly, no assets have been accumulated and no investment income is earned.

NOTES TO FINANCIAL STATEMENTS--Continued

LANGSTON UNIVERSITY

June 30, 2014

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

Annual Cost and Net Obligation--Continued: The University's annual life insurance costs and net obligations of the Plan were as follows at June 30:

|  | 2014             | 2013             |
|--|------------------|------------------|
| Annual life insurance cost             | \$ 5,664         | \$ 6,920         |
| Recognition of past services cost      | 10,352           | 17,459           |
| Contributions made                     | <u>(14,690)</u>  | <u>(15,814)</u>  |
| Increase in net obligation             | 1,326            | 8,565            |
| Net OPEB obligation, beginning of year | <u>89,062</u>    | <u>80,497</u>    |
| Net OPEB obligation, end of year       | <u>\$ 90,388</u> | <u>\$ 89,062</u> |

The net OPEB obligation at June 30, 2014 and 2013 is included in accrued pension benefit and OPEB obligations in the statements of net position.

Funded Status and Funding Progress: The funded status of the plan as of June 30, 2014 was as follows:

|   |                  |
|---|------------------|
| Actuarial accrued liability (AAL)                 | \$ 90,388        |
| Actuarial value of plan assets                    | <u>-</u>         |
| Unfunded actuarial accrued liability (UAAL)       | <u>\$ 90,388</u> |
| Funded ratio (actuarial value of plan assets/AAL) | 0.00%            |
| Annual covered payroll (active plan members)      | \$ 19,415,239    |
| UAAL as a percentage of annual covered payroll    | 0.47%            |

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

Trend Information:

| Fiscal Year Ended | Annual<br>OPEB<br>Cost | Percentage<br>Annual OPEB<br>Cost Contributed | Net OPEB<br>Obligation |
|-------------------|------------------------|---|------------------------|
| June 30, 2012     | \$ 4,894               | 253.1%  | \$ 80,497              |
| June 30, 2013     | 6,920                  | 228.5%  | 89,062                 |
| June 30, 2014     | 5,664                  | 259.4%  | 90,388                 |

NOTES TO FINANCIAL STATEMENTS--Continued

LANGSTON UNIVERSITY

June 30, 2014

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

Actuarial Methods and Assumptions: The actuarial methods and assumptions used include techniques that are designed to reduce the effects of short-term volatility in reported amounts and reflect a long-term perspective of the calculations. The following actuarial assumptions and methods were used:

|                                  |  |
|----------------------------------|--|
| Date of Last Actuarial Valuation | For Plan Year June 30, 2014  |
| a. Actuarial Cost Method         | Projected Unit Credit (with proration based on service)                        |
| b. Interest Discount Rate:       | 6.5% per year, compounded annually   |
| c. Mortality:                    | RP-200 Annuity Mortality Table projected to 2020 for Males and females         |
| e. Retirement Date:              | Age 63 or Current age if older than 63   |
| f. Post-Retirement Termination   | Table T-3 of the Actuary's Pension Handbook (excluding mortality) Rates Shown: |

| <u>Age</u> | <u>Annual Termination Rate</u> |
|------------|--------------------------------|
| 25         | 5.3%                           |
| 30         | 4.8%                           |
| 35         | 4.5%                           |
| 40         | 3.8%                           |
| 45         | 3.2%                           |
| 50         | 1.5%                           |
| 55         | .3%                            |
| 60         | 0%                             |

NOTES TO FINANCIAL STATEMENTS--Continued

LANGSTON UNIVERSITY

June 30, 2014

NOTE K--FUNDS HELD IN TRUSTS BY OTHERS

*Beneficial Interest in State School Land Funds*

The University has beneficiary interest in the "Section Thirteen State Educational Institutions Fund" and the "New College Fund." The Commissioner of the Land Office of the State of Oklahoma administers these funds as trustee for the benefit of state colleges and universities. The University has the right to receive annually 3.0% of the distributions of income produced by "Section Thirteen State Educational Institutions Fund" and 100% of the distributions of income produced by the University's "New College Fund." The University received \$2,194,347 and \$2,222,928 during the years ended June 30, 2014 and 2013, respectively, which is restricted to the construction or acquisition of buildings, equipment, or other capital items. These amounts are recorded as restricted state appropriations in the statements of revenues, expenses and changes in net position.

State law prohibits the distribution of any corpus of these funds to the beneficiaries. The total trust reserve for the University, held in trust by the Commissioners of the Land Office, was \$36,486,451 and \$34,042,488 at June 30, 2014 and 2013, respectively.

*Oklahoma City Community Foundation*

The University is the income beneficiary of certain investments that are owned and managed by the Oklahoma City Community Foundation, Inc., for the University's benefit. These investments totaled approximately \$1,150,000 and \$1,034,000 for the years ended June 30, 2014 and 2013, respectively. The University has no remainder interest in the corpus of these investments.

*Oklahoma State Regents Endowment Trust Fund*

In 1999, the State of Oklahoma began appropriating funds for an endowment fund for the University. The funds are appropriated to the OSRHE for the exclusive benefit of the University. During 2014 and 2013, the State appropriated \$1,663,652 and \$1,663,652, respectively, to the University. The University has recognized its rights to these assets, held by the OSRHE as trustee or agent for the University, under the caption of non-current investments. The distribution of earnings on these funds may be used for any purpose approved by the Board of Regents acting on behalf of the University. The State of Oklahoma will continue contributions until \$30 million in endowment contributions have been made. As of June 30, 2014, \$29,120,212 of contributions have been made to this endowment.

Investments of \$38,621,605 and \$34,806,229 at June 30, 2014 and 2013, respectively, were maintained in The Common Fund for Nonprofit Organizations through the OSRHE as an endowment including the funds referred to above. The University can request and expend up to 4.5% of the balance outstanding for general scholarship use and faculty enrichment or other such uses as approved by the Board of Regents.

NOTES TO FINANCIAL STATEMENTS--Continued

LANGSTON UNIVERSITY

June 30, 2014

NOTE K--FUNDS HELD IN TRUSTS BY OTHERS--Continued

*Oklahoma State Regents Endowment Trust Fund--Continued*

In connection with the OSRHE Endowment Program (the "Endowment Program"), the State of Oklahoma has matched contributions received under the Endowment Program. The State match amounts, plus retained accumulated earnings, totaled approximately \$2,759,000 and \$2,538,000 for June 30, 2014 and 2013, respectively, and is invested by the OSRHE on behalf of the University. The University is entitled to receive an annual distribution of 4.5% of the market value at year end on these funds. Legal title of these endowment funds is retained by the OSRHE; only the funds available for distribution, or approximately \$854,000 and \$736,000 at June 30, 2014 and 2013, respectively, have been reflected as assets in the statements of net position.

NOTE L--COMMITMENTS AND CONTINGENCIES

The University participates in a number of other federally assisted grant and contract programs. These programs are subject to financial and compliance audits by the grantors or their representatives. Such audits could lead to requests for reimbursement to the grantor agency for expenditures disallowed under terms of the grant. The amount for expenditures that may be disallowed by the granting agencies cannot be determined at this time, although it is believed by the University that the amount, if any, would not be significant.

The operations of the apartments owned by the LLC are managed by the Habitat Company under an agreement originally dated May 1, 2005. The parties to the agreement signed a first amendment to the management agreement which extends the term of the agreement through June 30, 2016, and unless terminated by either party will automatically renew for three successive one-year terms through June 20, 2019. Management fees for the years ended June 30, 2014 and 2013 were approximately \$218,000 for both years. Management fees are increased by the consumer price index as defined in the agreement annually.

NOTE M--RISK MANAGEMENT

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

## NOTES TO FINANCIAL STATEMENTS--Continued

### LANGSTON UNIVERSITY

June 30, 2014

#### NOTE M--RISK MANAGEMENT--Continued

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 an annual premium to the pools for its torts, property, and workers' compensation insurance coverage. The Oklahoma Risk Management Pool's (the "Pool") 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 LLC is not covered by the State of Oklahoma Risk Management Program and the State Insurance Fund. The 2005 and 2006 bond indentures govern the required insurance coverage and deductible that are required for these properties. The insurance is paid from operating funds by the property manager of the apartment complexes covered by these bonds. In fiscal year 2013, the LLC requested a waiver of the \$10,000 property insurance deductible in favor of a \$100,000 deductible because of increased difficulty in obtaining affordable coverage with the required deductible.

The LLC placed a reimbursable escrow deposit with JPMorgan Chase Bank in New York in the amount of \$90,000 to self-insure the deductible amounts. This waiver was approved in both reporting periods by the bond insurer and bond trustee. Beginning May 1, 2014, the University elected to purchase a deductible buy down of the \$10,000 deductible in lieu of renewing a waiver at that time.

#### NOTE N--LEASING ARRANGEMENTS

The Board of Regents of the University ("Lessor") has entered into a ground lease agreement with the LLC. The LLC is an Oklahoma not-for-profit limited liability corporation that owns and operates three student housing facilities located on the University campus. The University is leasing to the LLC the property upon which these student housing facilities are located. The lease term commenced on May 2, 2005 and was amended and restated on May 1, 2006 and expires on April 30, 2040. Under the ground lease, a portion of the amount on deposit in the surplus fund, as defined in the bond indenture dated May 1, 2005, and amended and restated May 1, 2006 to include Scholars Inn, is available to the Lessor. The available funds must be requested by the Lessor subsequent to the year-end financial audit. For the years ended June 30, 2014 and 2013, no funds for the ground lease were requested by the Lessor at the time of this report.

NOTES TO FINANCIAL STATEMENTS--Continued

LANGSTON UNIVERSITY

June 30, 2014

NOTE O--CONDENSED COMBINING FINANCIAL INFORMATION

As noted in the reporting entity section above, the University's financials contain a blended component unit, LDF Student Housing, L.L.C (the "LLC"). The LLC also meets the definition of a segment under the provisions of GASB Statement No. 34. Condensed combining financial information for the University and the LLC is presented below (in thousands):

| Condensed Statements of Net Position (000's) |                   |                   |                     |                   |
|--|-------------------|-------------------|---------------------|-------------------|
| June 30, 2014                                |                   |                   |                     |                   |
|  | <u>University</u> | <u>LLC</u>        | <u>Eliminations</u> | <u>Total</u>      |
| <b>ASSETS</b>                                |                   |                   |                     |                   |
| Current assets                               | \$ 16,625         | \$ 10,489         | \$ (540)            | \$ 26,574         |
| Capital assets, net                          | 66,423            | 27,610            | -                   | 94,033            |
| Other assets                                 | <u>50,503</u>     | <u>-</u>          | <u>-</u>            | <u>50,503</u>     |
| TOTAL ASSETS                                 | <u>\$ 133,551</u> | <u>\$ 38,099</u>  | <u>\$ (540)</u>     | <u>\$ 171,110</u> |
| <b>DEFERRED OUTFLOWS<br/>OF RESOURCES</b>    |                   |                   |                     |                   |
|  | <u>\$ 212</u>     | <u>\$ -</u>       | <u>\$ -</u>         | <u>\$ 212</u>     |
| <b>LIABILITIES</b>                           |                   |                   |                     |                   |
| Current liabilities                          | \$ 8,610          | \$ 2,238          | \$ (335)            | \$ 10,513         |
| Non-current liabilities                      | <u>22,867</u>     | <u>39,480</u>     | <u>-</u>            | <u>62,347</u>     |
| TOTAL LIABILITIES                            | <u>\$ 31,477</u>  | <u>\$ 41,718</u>  | <u>\$ (335)</u>     | <u>\$ 72,860</u>  |
| <b>DEFERRED INFLOWS<br/>OF RESOURCES</b>     |                   |                   |                     |                   |
|  | <u>\$ 345</u>     | <u>\$ -</u>       | <u>\$ -</u>         | <u>\$ 345</u>     |
| <b>NET POSITION</b>                          |                   |                   |                     |                   |
| Net investment in capital assets             | \$ 41,985         | \$ (11,869)       | \$ -                | \$ 30,116         |
| Restricted-nonexpendable                     | 41,892            | -                 | -                   | 41,892            |
| Restricted-expendable                        | 5,582             | 8,250             | (490)               | 13,342            |
| Unrestricted                                 | <u>12,482</u>     | <u>-</u>          | <u>286</u>          | <u>12,768</u>     |
| TOTAL NET POSITION                           | <u>\$ 101,941</u> | <u>\$ (3,619)</u> | <u>\$ (204)</u>     | <u>\$ 98,118</u>  |

NOTES TO FINANCIAL STATEMENTS--Continued

LANGSTON UNIVERSITY

June 30, 2014

NOTE O--CONDENSED COMBINING FINANCIAL INFORMATION--Continued

Condensed Statements of Net Position (000's)

|   | June 30, 2013     |                   |                     |                   |
|---|-------------------|-------------------|---------------------|-------------------|
|   | <u>University</u> | <u>LLC</u>        | <u>Eliminations</u> | <u>Total</u>      |
| <b>ASSETS</b>                             |                   |                   |                     |                   |
| Current assets                            | \$ 22,099         | \$ 10,211         | \$ (235)            | \$ 32,075         |
| Capital assets, net                       | 65,822            | 29,071            | -                   | 94,893            |
| Other assets                              | <u>45,402</u>     | <u>-</u>          | <u>-</u>            | <u>45,402</u>     |
| TOTAL ASSETS                              | <u>\$ 133,323</u> | <u>\$ 39,282</u>  | <u>\$ (235)</u>     | <u>\$ 172,370</u> |
| <b>DEFERRED OUTFLOWS<br/>OF RESOURCES</b> |                   |                   |                     |                   |
|   | <u>\$ 318</u>     | <u>\$ -</u>       | <u>\$ -</u>         | <u>\$ 318</u>     |
| <b>LIABILITIES</b>                        |                   |                   |                     |                   |
| Current liabilities                       | \$ 7,883          | \$ 2,330          | \$ (72)             | \$ 10,141         |
| Non-current liabilities                   | <u>25,783</u>     | <u>40,825</u>     | <u>-</u>            | <u>66,608</u>     |
| TOTAL LIABILITIES                         | <u>\$ 33,666</u>  | <u>\$ 43,155</u>  | <u>\$ (72)</u>      | <u>\$ 76,749</u>  |
| <b>NET POSITION</b>                       |                   |                   |                     |                   |
| Net investment in capital assets          | \$ 37,703         | \$ (11,755)       | \$ -                | \$ 25,948         |
| Restricted-nonexpendable                  | 37,745            | -                 | -                   | 37,745            |
| Restricted-expendable                     | 7,822             | 7,882             | (163)               | 15,541            |
| Unrestricted                              | <u>16,705</u>     | <u>-</u>          | <u>-</u>            | <u>16,705</u>     |
| TOTAL NET POSITION                        | <u>\$ 99,975</u>  | <u>\$ (3,873)</u> | <u>\$ (163)</u>     | <u>\$ 95,939</u>  |

NOTES TO FINANCIAL STATEMENTS--Continued

LANGSTON UNIVERSITY

June 30, 2014

NOTE O--CONDENSED COMBINING FINANCIAL INFORMATION--Continued

Condensed Statements of Revenues,  
Expenses and Changes in Net Position (000's)

|   | Year Ended June 30, 2014 |                   |                 | Total            |
|---|--------------------------|-------------------|-----------------|------------------|
|   | University               | LLC               | Eliminations    |                  |
| <b>OPERATING REVENUES</b>                   |                          |                   |                 |                  |
| Student tuition and fees, net               | \$ 7,327                 | \$ -              | \$ -            | \$ 7,327         |
| Grants and contracts                        | 10,381                   | -                 | -               | 10,381           |
| Other                                       | 8,815                    | 6,944             | (6,914)         | 8,845            |
| <b>TOTAL OPERATING REVENUES</b>             | <b>26,523</b>            | <b>6,944</b>      | <b>(6,914)</b>  | <b>26,553</b>    |
| <b>OPERATING EXPENSES</b>                   |                          |                   |                 |                  |
| Compensation and benefits                   | 30,473                   | 883               | -               | 31,356           |
| Depreciation                                | 2,465                    | 1,460             | -               | 3,925            |
| Other                                       | 28,203                   | 2,714             | (7,159)         | 23,758           |
| <b>TOTAL OPERATING EXPENSES</b>             | <b>61,141</b>            | <b>5,057</b>      | <b>(7,159)</b>  | <b>59,039</b>    |
| <b>OPERATING INCOME (LOSS)</b>              | <b>(34,618)</b>          | <b>1,887</b>      | <b>245</b>      | <b>(32,486)</b>  |
| <b>NONOPERATING REVENUES (EXPENSES)</b>     |                          |                   |                 |                  |
| State appropriations                        | 18,786                   | -                 | -               | 18,786           |
| Grants and contributions                    | 8,175                    | 286               | (286)           | 8,175            |
| Interest expense                            | (1,531)                  | (2,062)           | -               | (3,593)          |
| Other                                       | 5,874                    | 143               | -               | 6,017            |
| <b>NET NONOPERATING REVENUES</b>            | <b>31,304</b>            | <b>(1,633)</b>    | <b>(286)</b>    | <b>29,385</b>    |
| Capital and other restricted appropriations | 3,617                    | -                 | -               | 3,617            |
| Additions to permanent endowments           | 1,663                    | -                 | -               | 1,663            |
| <b>CHANGE IN NET POSITION</b>               | <b>1,966</b>             | <b>254</b>        | <b>(41)</b>     | <b>2,179</b>     |
| <b>NET POSITION AT BEGINNING OF YEAR</b>    | <b>99,975</b>            | <b>(3,873)</b>    | <b>(163)</b>    | <b>95,939</b>    |
| <b>NET POSITION AT END OF YEAR</b>          | <b>\$ 101,941</b>        | <b>\$ (3,619)</b> | <b>\$ (204)</b> | <b>\$ 98,118</b> |

NOTES TO FINANCIAL STATEMENTS--Continued

LANGSTON UNIVERSITY

June 30, 2014

NOTE O--CONDENSED COMBINING FINANCIAL INFORMATION--Continued

Condensed Statements of Revenues,  
Expenses and Changes in Net Position (000's)

|   | Year Ended June 30, 2013 |                   |                 | Total            |
|---|--------------------------|-------------------|-----------------|------------------|
|   | University               | LLC               | Eliminations    |                  |
| <b>OPERATING REVENUES</b>                   |                          |                   |                 |                  |
| Student tuition and fees, net               | \$ 7,268                 | \$ -              | \$ -            | \$ 7,268         |
| Grants and contracts                        | 15,416                   | -                 | -               | 15,416           |
| Other                                       | 6,915                    | 6,210             | (6,142)         | 6,983            |
| <b>TOTAL OPERATING REVENUES</b>             | <b>29,599</b>            | <b>6,210</b>      | <b>(6,142)</b>  | <b>29,667</b>    |
| <b>OPERATING EXPENSES</b>                   |                          |                   |                 |                  |
| Compensation and benefits                   | 29,936                   | 884               | -               | 30,820           |
| Depreciation                                | 2,390                    | 1,460             | -               | 3,850            |
| Other                                       | 26,189                   | 2,741             | (6,253)         | 22,677           |
| <b>TOTAL OPERATING EXPENSES</b>             | <b>58,515</b>            | <b>5,085</b>      | <b>(6,253)</b>  | <b>57,347</b>    |
| <b>OPERATING INCOME (LOSS)</b>              | <b>(28,916)</b>          | <b>1,125</b>      | <b>111</b>      | <b>(27,680)</b>  |
| <b>NONOPERATING REVENUES (EXPENSES)</b>     |                          |                   |                 |                  |
| State appropriations                        | 20,281                   | -                 | -               | 20,281           |
| Grants and contributions                    | 7,370                    | 1,000             | -               | 8,370            |
| Interest expense                            | (980)                    | (2,117)           | -               | (3,097)          |
| Other                                       | 1,213                    | 178               | -               | 1,391            |
| <b>NET NONOPERATING REVENUES</b>            | <b>27,884</b>            | <b>(939)</b>      | <b>-</b>        | <b>26,945</b>    |
| Capital and other restricted appropriations | 2,956                    | -                 | -               | 2,956            |
| Additions to permanent endowments           | 1,664                    | -                 | -               | 1,664            |
| <b>CHANGE IN NET POSITION</b>               | <b>3,588</b>             | <b>186</b>        | <b>111</b>      | <b>3,885</b>     |
| <b>NET POSITION AT BEGINNING OF YEAR</b>    | <b>96,387</b>            | <b>(4,059)</b>    | <b>(274)</b>    | <b>92,054</b>    |
| <b>NET POSITION AT END OF YEAR</b>          | <b>\$ 99,975</b>         | <b>\$ (3,873)</b> | <b>\$ (163)</b> | <b>\$ 95,939</b> |

NOTES TO FINANCIAL STATEMENTS--Continued

LANGSTON UNIVERSITY

June 30, 2014

NOTE O--CONDENSED COMBINING FINANCIAL INFORMATION--Continued

Condensed Statements of Cash Flows (000's)

|  | Year Ended June 30, 2014 |                 |                     |                  |
|--|--------------------------|-----------------|---------------------|------------------|
|  | <u>University</u>        | <u>LLC</u>      | <u>Eliminations</u> | <u>Total</u>     |
| NET CASH PROVIDED BY (USED IN):          |                          |                 |                     |                  |
| Operating activities                     | \$ (28,344)              | \$ 3,039        | \$ -                | \$ (25,305)      |
| Noncapital financing activities          | 27,279                   | -               | -                   | 27,279           |
| Capital and related financing activities | (3,373)                  | (3,352)         | -                   | (6,725)          |
| Investing activities                     | <u>4,667</u>             | <u>144</u>      | <u>-</u>            | <u>4,811</u>     |
| NET INCREASE (DECREASE)                  | 229                      | (169)           | -                   | 60               |
| BEGINNING CASH AND CASH EQUIVALENTS      | <u>23,401</u>            | <u>7,207</u>    | <u>-</u>            | <u>30,608</u>    |
| ENDING CASH AND CASH EQUIVALENTS         | <u>\$ 23,630</u>         | <u>\$ 7,038</u> | <u>\$ -</u>         | <u>\$ 30,668</u> |
|  |                          |                 |                     |                  |
|  | Year Ended June 30, 2013 |                 |                     |                  |
|  | <u>University</u>        | <u>LLC</u>      | <u>Eliminations</u> | <u>Total</u>     |
| NET CASH PROVIDED BY (USED IN):          |                          |                 |                     |                  |
| Operating activities                     | \$ (24,715)              | \$ 2,447        | \$ -                | \$ (22,268)      |
| Noncapital financing activities          | 26,228                   | -               | -                   | 26,228           |
| Capital and related financing activities | (1,599)                  | (2,354)         | -                   | (3,953)          |
| Investing activities                     | <u>443</u>               | <u>141</u>      | <u>-</u>            | <u>584</u>       |
| NET INCREASE                             | 357                      | 234             | -                   | 591              |
| BEGINNING CASH AND CASH EQUIVALENTS      | <u>23,044</u>            | <u>6,973</u>    | <u>-</u>            | <u>30,017</u>    |
| ENDING CASH AND CASH EQUIVALENTS         | <u>\$ 23,401</u>         | <u>\$ 7,207</u> | <u>\$ -</u>         | <u>\$ 30,608</u> |

NOTES TO FINANCIAL STATEMENTS--Continued

LANGSTON UNIVERSITY

June 30, 2014

NOTE P--LANGSTON UNIVERSITY, FOUNDATION, INC.

The following are significant disclosures of the Foundation:

INVESTMENTS AND INVESTMENT RETURN

Investments in equity securities having a readily determinable fair value and in all debt securities are carried at fair value. Other investments are valued at the lower of cost (or fair value at time of donation, if acquired by contribution) or fair value. Investment return includes dividend, interest and other investment income; realized and unrealized gains and losses on investments carried at fair value; and realized gains and losses on other investments.

Investment return that is initially restricted by donor stipulation and for which the restriction will be satisfied in the same year is included in unrestricted net assets. Other investment return is reflected in the accompanying statements of activities and changes in net assets as unrestricted, temporarily restricted or permanently restricted based upon the existence and nature of any donor or legally imposed restrictions.

Investments are made in conformity with the objectives and guidelines of the Foundation's Board of Directors. The investments are stated at fair value. As of June 30, 2014 and 2013, the Foundation's investments were as follows:

|                           | <u>2014</u>         | <u>2013</u>         |
|---------------------------|---------------------|---------------------|
| Equity securities:        |                     |                     |
| Common stocks             | \$ 67,913           | \$ 56,982           |
| Pooled equity funds       | 937,535             | 757,316             |
| Fixed income investments: |                     |                     |
| Pooled fixed income funds | 452,312             | 438,314             |
| Open-end mutual funds     | 115,430             | 105,434             |
| Total investments         | <u>\$ 1,573,190</u> | <u>\$ 1,358,046</u> |

Investment income and losses on investments are comprised of the following for the years ended June 30, 2014 and 2013:

|   | <u>2014</u>       | <u>2013</u>       |
|---|-------------------|-------------------|
| Dividends and interest income   | \$ 26,548         | \$ 27,577         |
| Net realized and unrealized gains (losses)<br>on investments reported at fair value | 211,010           | 111,559           |
| Investment fees   | (10,695)          | (10,000)          |
| Total investment income   | <u>\$ 226,863</u> | <u>\$ 129,136</u> |

NOTES TO FINANCIAL STATEMENTS--Continued

LANGSTON UNIVERSITY

June 30, 2014

NOTE P--LANGSTON UNIVERSITY, FOUNDATION, INC.--Continued

TEMPORARILY RESTRICTED NET ASSETS

Temporarily restricted net assets are available for the following purposes or periods at June 30, 2014 and 2013:

|                                   | 2014                 |                   |                     |                     |
|-----------------------------------|----------------------|-------------------|---------------------|---------------------|
|                                   | Beginning<br>Balance | Contributions     | Distributions       | Ending<br>Balance   |
| Scholarships                      | \$ 471,134           | \$ 191,207        | \$ (63,838)         | \$ 598,503          |
| Schools, colleges and departments | 78,231               | 46,308            | (12,483)            | 112,056             |
| Athletics                         | 76,937               | 304,335           | (184,522)           | 196,750             |
| Endowment                         | 148,368              | 162,521           | -                   | 310,889             |
| Other programs and causes         | 98,930               | 3,858             | (48,633)            | 54,155              |
| For periods after June 30         | 20,667               | -                 | (10,667)            | 10,000              |
|                                   | <u>\$ 894,267</u>    | <u>\$ 708,229</u> | <u>\$ (320,143)</u> | <u>\$ 1,282,353</u> |

  

|                                   | 2013                 |                   |                     |                   |
|-----------------------------------|----------------------|-------------------|---------------------|-------------------|
|                                   | Beginning<br>Balance | Contributions     | Distributions       | Ending<br>Balance |
| Scholarships                      | \$ 277,006           | \$ 233,692        | \$ (39,564)         | \$ 471,134        |
| Schools, colleges and departments | 67,585               | 24,486            | (13,840)            | 78,231            |
| Athletics                         | -                    | 196,807           | (119,870)           | 76,937            |
| Endowment                         | 41,132               | 107,236           | -                   | 148,368           |
| Other programs and causes         | 121,399              | 16,360            | (38,829)            | 98,930            |
| For periods after June 30         | 47,250               | 3,167             | (29,750)            | 20,667            |
|                                   | <u>\$ 554,372</u>    | <u>\$ 581,748</u> | <u>\$ (241,853)</u> | <u>\$ 894,267</u> |

ENDOWMENT

The Foundation's endowment consists of a donor's gift to Langston University that was subsequently transferred to the Foundation and established as an endowment fund to participate in the Oklahoma State Regents for Higher Education's (Regents) endowment matching program. The program was initiated by the Regents to establish faculty chairs and professorships at institutions in the Oklahoma State System of Higher Education. For universities to be eligible to participate in the program, they are required to maintain a specified minimum amount of funds in perpetuity for a specific endowed professorship chair. As required by accounting principles generally accepted in the United States of America (GAAP), net assets associated with endowment funds, including board-designated endowment funds, are classified and reported based on the existence or absence of donor-imposed restrictions.

NOTES TO FINANCIAL STATEMENTS--Continued

LANGSTON UNIVERSITY

June 30, 2014

NOTE P--LANGSTON UNIVERSITY, FOUNDATION, INC.--Continued

ENDOWMENT--Continued

The Foundation's governing body has interpreted the State of Oklahoma Prudent Management of Institutional Funds Act (SPMIFA) as requiring 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 Foundation 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 donor-restricted endowment funds is classified as temporarily restricted net assets until those amounts are appropriated for expenditure by the Foundation in a manner consistent with the standard of prudence prescribed by SPMIFA. In accordance with SPMIFA, the Foundation considers the following factors in making a determination to appropriate or accumulate donor-restricted endowment funds:

1. Duration and preservation of the fund
2. Purposes of the Foundation and the fund
3. General economic conditions
4. Possible effect of inflation and deflation
5. Expected total return from investment income and appreciation or depreciation of investments
6. Other resources of the Foundation
7. Investment policies of the Foundation

The composition of net assets at June 30 was:

|                                  | 2014                      |                           |                     |
|----------------------------------|---------------------------|---------------------------|---------------------|
|                                  | Temporarily<br>Restricted | Permanently<br>Restricted | Total               |
| Donor-restricted endowment funds | \$ -                      | \$ 1,000,000              | \$ 1,000,000        |
| Available for appropriation      | 310,889                   | -                         | 310,889             |
| Total endowment funds            | <u>\$ 310,889</u>         | <u>\$ 1,000,000</u>       | <u>\$ 1,310,889</u> |
|                                  | 2013                      |                           |                     |
|                                  | Temporarily<br>Restricted | Permanently<br>Restricted | Total               |
| Donor-restricted endowment funds | \$ -                      | \$ 1,000,000              | \$ 1,000,000        |
| Available for appropriation      | 148,368                   | -                         | 148,368             |
| Total endowment funds            | <u>\$ 148,368</u>         | <u>\$ 1,000,000</u>       | <u>\$ 1,148,368</u> |

NOTES TO FINANCIAL STATEMENTS--Continued

LANGSTON UNIVERSITY

June 30, 2014

NOTE P--LANGSTON UNIVERSITY, FOUNDATION, INC.--Continued

ENDOWMENT--Continued

Changes in endowment net assets for the year ended June 30 were:

|   | <u>2014</u>                       |                                   |                     |
|---|-----------------------------------|-----------------------------------|---------------------|
|   | <u>Temporarily<br/>Restricted</u> | <u>Permanently<br/>Restricted</u> | <u>Total</u>        |
| Endowment net assets, beginning of year | \$ 148,368                        | \$ 1,000,000                      | \$ 1,148,368        |
| Investment return:                      |                                   |                                   |                     |
| Investment income                       | 10,852                            | -                                 | 10,852              |
| Net appreciation                        | <u>151,669</u>                    | <u>-</u>                          | <u>151,669</u>      |
| Total investment return                 | <u>162,521</u>                    | <u>-</u>                          | <u>162,521</u>      |
| Endowment net assets, end of year       | <u>\$ 310,889</u>                 | <u>\$ 1,000,000</u>               | <u>\$ 1,310,889</u> |
|   | <u>2013</u>                       |                                   |                     |
|   | <u>Temporarily<br/>Restricted</u> | <u>Permanently<br/>Restricted</u> | <u>Total</u>        |
| Endowment net assets, beginning of year | \$ 41,132                         | \$ 1,000,000                      | \$ 1,041,132        |
| Investment return:                      |                                   |                                   |                     |
| Investment income                       | 17,640                            | -                                 | 17,640              |
| Net appreciation                        | <u>89,596</u>                     | <u>-</u>                          | <u>89,596</u>       |
| Total investment return                 | <u>107,236</u>                    | <u>-</u>                          | <u>107,236</u>      |
| Endowment net assets, end of year       | <u>\$ 148,368</u>                 | <u>\$ 1,000,000</u>               | <u>\$ 1,148,368</u> |

Amounts of donor-restricted endowment funds classified as permanently and temporarily restricted net assets at June 30 consisted of:

|  | <u>2014</u>         | <u>2013</u>         |
|--|---------------------|---------------------|
| Permanently restricted net assets - portion of perpetual endowment funds required to be retained permanently | \$ 1,000,000        | \$ 1,000,000        |
| Temporarily restricted net assets available for appropriation  | <u>310,889</u>      | <u>148,368</u>      |
|  | <u>\$ 1,310,889</u> | <u>\$ 1,148,368</u> |

NOTES TO FINANCIAL STATEMENTS--Continued

LANGSTON UNIVERSITY

June 30, 2014

NOTE P--LANGSTON UNIVERSITY, FOUNDATION, INC.--Continued

ENDOWMENT--Continued

Endowment fund assets are included in the investment balance in the accompanying statements of net assets. From time to time, the fair value of assets associated with individual donor-restricted endowment funds may fall below the level the Foundation is required to retain as a fund of perpetual duration pursuant to donor stipulation or SPMIFA. In accordance with GAAP, deficiencies of this nature are reported in unrestricted net assets and as of June 30, 2014 and 2013, there are no deficiencies reported in unrestricted net assets.

The Board of Directors of the Foundation have not adopted investment, spending or appropriation policies for endowment assets and earning thereon as of June 30, 2014. Therefore, increases in endowment assets will continue to increase temporarily restricted net assets until such time as the Board adopts an appropriation policy and investment and spending policies.

RELATED PARTY TRANSACTIONS

The Foundation engages in various related-party transactions with other entities affiliated with Langston University.

The Foundation appropriates program receipts and designated contributions from donors to the University or directly to students of the University. For the years ended June 30, 2014 and 2013, the Foundation disbursed \$292,839 and \$227,396, respectively, to the University or directly to students of University for student scholarships and various university departments.

FAIR VALUE MEASUREMENTS

Fair value is 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. Fair value measurements must maximize the use of observable inputs and minimize the use of unobservable inputs. There is a hierarchy of three levels of inputs that may be used to measure fair value:

- Level 1: Quoted prices in active markets for identical assets or liabilities.
- Level 2: Observable inputs other than Level 1 prices, such as quoted prices for similar assets or liabilities; quoted prices in markets that are not active; or other inputs that are observable or can be corroborated by observable market data for substantially the full term of the assets or liabilities.
- Level 3: Unobservable inputs that are supported by little or no market activity and that are significant to the fair value of the assets or liabilities.

NOTES TO FINANCIAL STATEMENTS--Continued

LANGSTON UNIVERSITY

June 30, 2014

NOTE P--LANGSTON UNIVERSITY, FOUNDATION, INC.--Continued

FAIR VALUE MEASUREMENTS--Continued

*Recurring Measurements*

The following table presents the fair value measurements of assets and liabilities recognized in the accompanying statements of financial position measured at fair value on a recurring basis and the level within the fair value hierarchy in which the fair value measurements fall at June 30, 2014 and 2013:

| 2014                       | Fair Value Measurements Using |   |   |  |
|----------------------------|-------------------------------|---|---|--|
|                            | Fair Value                    | Quoted Prices<br>in Active<br>Markets for<br>Identical<br>Assets<br>(Level 1) | Significant<br>Other<br>Observable<br>Inputs<br>(Level 2) | Significant<br>Unobservable<br>Inputs<br>(Level 3) |
| Cash equivalents – money   |                               |   |   |  |
| market mutual funds        | \$ 116,100                    | \$ 116,100  | \$ -  | \$ -   |
| Equity securities:         |                               |   |   |  |
| Common stocks              | 67,913                        | 67,913  | -   | -  |
| Pooled equity funds:       |                               |   |   |  |
| Small Cap                  | 87,580                        | 87,580  | -   | -  |
| Mid Cap                    | 172,995                       | 172,995   | -   | -  |
| Large Cap                  | 505,043                       | 505,043   | -   | -  |
| International              | 171,917                       | 171,917   | -   | -  |
| Fixed income mutual funds: |                               |   |   |  |
| Short term                 | 84,874                        | 84,874  | -   | -  |
| Intermediate               | 222,771                       | 222,771   | -   | -  |
| International              | 97,890                        | 97,890  | -   | -  |
| High yield                 | 46,777                        | 46,777  | -   | -  |
| Open-end mutual funds:     |                               |   |   |  |
| Market Neutral             | 29,113                        | 29,113  | -   | -  |
| International              | 49,598                        | 49,598  | -   | -  |
| Equity                     | 36,720                        | 36,720  | -   | -  |
|                            | \$ 1,689,291                  | \$ 1,689,291  | \$ -  | \$ -   |

NOTES TO FINANCIAL STATEMENTS--Continued

LANGSTON UNIVERSITY

June 30, 2014

NOTE P--LANGSTON UNIVERSITY, FOUNDATION, INC.--Continued

FAIR VALUE MEASUREMENTS--Continued

| 2013  | Fair Value Measurements Using |   |   |  |
|---|-------------------------------|---|---|--|
|   | Fair Value                    | Quoted Prices<br>in Active<br>Markets for<br>Identical<br>Assets<br>(Level 1) | Significant<br>Other<br>Observable<br>Inputs<br>(Level 2) | Significant<br>Unobservable<br>Inputs<br>(Level 3) |
| Cash equivalents – money<br>market mutual funds | \$ 47,100                     | \$ 47,100   | \$ -  | \$ -   |
| Equity securities:                              |                               |   |   |  |
| Common stocks                                   | 56,982                        | 56,982  | -   | -  |
| Pooled equity funds:                            |                               |   |   |  |
| Small Cap                                       | 69,521                        | 69,521  | -   | -  |
| Mid Cap   | 143,520                       | 143,520   | -   | -  |
| Large Cap                                       | 402,086                       | 402,086   | -   | -  |
| International                                   | 142,189                       | 142,189   | -   | -  |
| Fixed income mutual funds:                      |                               |   |   |  |
| Short term                                      | 83,938                        | 83,938  | -   | -  |
| Intermediate                                    | 217,259                       | 217,259   | -   | -  |
| International                                   | 94,925                        | 94,925  | -   | -  |
| High yield                                      | 42,192                        | 42,192  | -   | -  |
| Open-end mutual funds:                          |                               |   |   |  |
| Market Neutral                                  | 27,724                        | 27,724  | -   | -  |
| International                                   | 44,564                        | 44,564  | -   | -  |
| Equity  | 33,146                        | 33,146  | -   | -  |
|   | <u>\$ 1,405,146</u>           | <u>\$ 1,405,146</u>   | <u>\$ -</u>   | <u>\$ -</u>  |

Following is a description of the valuation methodologies and inputs used for assets measured at fair value on a recurring basis and recognized in the accompanying statements of financial position, as well as the general classification of such assets and liabilities pursuant to the valuation hierarchy. There have been no significant changes in the valuation techniques during the year ended June 30, 2014.

Investments: Where quoted market prices are available in an active market, investments are classified within Level 1 of the valuation hierarchy. Level 1 investments include money market mutual funds, equity securities, fixed income mutual funds and open-end mutual funds. If quoted market prices are not available, then fair values are estimated by using quoted prices of securities with similar characteristics or independent asset pricing services and pricing models, the inputs of which are market-based or independently sourced market parameters, including, but not limited to, yield curves, interest rates, volatilities, prepayments, defaults, cumulative loss projections and cash flows. Such securities are classified in Level 2 of the valuation hierarchy. In certain cases where Level 1 or Level 2 inputs are not available, securities are classified within Level 3 of the hierarchy. The Foundation did not invest in any Level 2 or Level 3 investments at June 30, 2014 and 2013.

## REQUIRED SUPPLEMENTARY INFORMATION

REQUIRED SUPPLEMENTARY INFORMATION--UNAUDITED

LANGSTON UNIVERSITY

June 30, 2014

**SCHEDULE OF FUNDING PROGRESS FOR SUPPLEMENTAL RETIREMENT 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) |
|--------------------------|-------------------------------|---------------------------------------|---------------------------|--------------------|---------------------|---|
| 6/30/2009                | \$ -                          | \$ 728,791                            | \$ 728,791                | 0.00%              | \$ 115,500          | 641%  |
| 6/30/2010                | -                             | 777,997                               | 777,997                   | 0.00%              | 118,965             | 631%  |
| 6/30/2011                | -                             | 779,472                               | 779,472                   | 0.00%              | 118,965             | 654%  |
| 6/30/2012                | -                             | 424,043                               | 424,043                   | 0.00%              | 125,000             | 655%  |
| 6/30/2013                | -                             | 458,801                               | 458,801                   | 0.00%              | -                   | 0%  |
| 6/30/2014                | -                             | 439,097                               | 439,097                   | 0.00%              | -                   | 0%  |

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

**SCHEDULE OF FUNDING PROGRESS FOR OTHER POST EMPLOYMENT LIFE 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) |
|--------------------------|-------------------------------|---------------------------------------|---------------------------|--------------------|---------------------|---|
| 6/30/2012                | \$ -                          | \$ 80,497                             | \$ 80,497                 | 0.00%              | \$20,633,039        | 0.39%   |
| 6/30/2013                | -                             | 89,062                                | 89,062                    | 0.00%              | 19,310,530          | 0.46%   |
| 6/30/2014                | -                             | 90,388                                | 90,388                    | 0.00%              | 19,415,239          | 0.47%   |

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

## OTHER INFORMATION

COMBINING STATEMENTS OF NET POSITION

LANGSTON UNIVERSITY

|                                      | June 30, 2014  |               |              |                | June 30, 2013  |               |              |                |
|--------------------------------------|----------------|---------------|--------------|----------------|----------------|---------------|--------------|----------------|
|                                      | University     | LLC           | Eliminations | Total          | University     | LLC           | Eliminations | Total          |
| ASSETS                               |                |               |              |                |                |               |              |                |
| CURRENT ASSETS                       |                |               |              |                |                |               |              |                |
| Cash and cash equivalents            | \$ 13,937,103  | \$ 2,515,136  | \$ -         | \$ 16,452,239  | \$ 17,829,614  | \$ 2,936,927  | -            | \$ 20,766,541  |
| Restricted cash and cash equivalents | 82,388         | 4,522,898     | -            | 4,605,286      | 153,155        | 4,269,404     | -            | 4,422,559      |
| Investments                          | 7,972          | 2,604,033     | -            | 2,612,005      | 6,776          | 2,606,131     | -            | 2,612,907      |
| Accounts receivable, net             | 845,425        | 433,747       | (539,746)    | 739,426        | 860,947        | 35,225        | (235,109)    | 661,063        |
| Contract and grant receivables       | 523,268        | -             | -            | 523,268        | 1,115,857      | -             | -            | 1,115,857      |
| Other assets                         | 1,187,760      | 392,094       | -            | 1,579,854      | 2,086,367      | 343,156       | -            | 2,429,523      |
| Interest receivable                  | 39,750         | 20,798        | -            | 60,548         | 36,550         | 20,414        | -            | 56,964         |
| Student loans receivable, net        | 1,187          | -             | -            | 1,187          | 9,448          | -             | -            | 9,448          |
| TOTAL CURRENT ASSETS                 | 16,624,853     | 10,488,706    | (539,746)    | 26,573,813     | 22,098,714     | 10,211,257    | (235,109)    | 32,074,862     |
| NONCURRENT ASSETS                    |                |               |              |                |                |               |              |                |
| Restricted cash and cash equivalents | 9,610,619      | -             | -            | 9,610,619      | 5,418,477      | -             | -            | 5,418,477      |
| Investments                          | 40,892,110     | -             | -            | 40,892,110     | 39,983,803     | -             | -            | 39,983,803     |
| Capital assets, net                  | 66,423,822     | 27,610,149    | -            | 94,033,971     | 65,822,248     | 29,070,295    | -            | 94,892,543     |
| TOTAL NONCURRENT ASSETS              | 116,926,551    | 27,610,149    | -            | 144,536,700    | 111,224,528    | 29,070,295    | -            | 140,294,823    |
| TOTAL ASSETS                         | \$ 133,551,404 | \$ 38,098,855 | \$ (539,746) | \$ 171,110,513 | \$ 133,323,242 | \$ 39,281,552 | \$ (235,109) | \$ 172,369,685 |
| DEFERRED OUTFLOWS OF RESOURCES       |                |               |              |                |                |               |              |                |
| Deferred charge on                   |                |               |              |                |                |               |              |                |
| OCIA lease restructure               | \$ 212,251     | \$ -          | \$ -         | \$ 212,251     | \$ 318,376     | \$ -          | \$ -         | \$ 318,376     |

COMBINING STATEMENTS OF NET POSITION--Continued

LANGSTON UNIVERSITY

|   | June 30, 2014         |                       |                     |                      | June 30, 2013        |                       |                     |                      |
|---|-----------------------|-----------------------|---------------------|----------------------|----------------------|-----------------------|---------------------|----------------------|
|   | University            | LLC                   | Eliminations        | Total                | University           | LLC                   | Eliminations        | Total                |
| <b>LIABILITIES AND NET POSITION</b>                   |                       |                       |                     |                      |                      |                       |                     |                      |
| <b>CURRENT LIABILITIES</b>                            |                       |                       |                     |                      |                      |                       |                     |                      |
| Accounts payable                                      | \$ 2,862,792          | \$ -                  | \$ (285,604)        | \$ 2,577,188         | \$ 2,989,928         | \$ -                  | \$ -                | \$ 2,989,928         |
| Accrued liabilities                                   | 694,539               | 37,992                | -                   | 732,531              | 696,777              | 16,890                | -                   | 713,667              |
| Other current liabilities                             | 238,606               | -                     | -                   | 238,606              | 280,501              | -                     | -                   | 280,501              |
| Unearned revenues                                     | 562,508               | 49,817                | (49,817)            | 562,508              | 594,856              | 71,792                | (71,794)            | 594,854              |
| Student and other deposits                            | -                     | 141,258               | -                   | 141,258              | -                    | 287,031               | -                   | 287,031              |
| Accrued interest payable                              | -                     | 332,581               | -                   | 332,581              | -                    | 342,054               | -                   | 342,054              |
| Notes payable   | -                     | 311,672               | -                   | 311,672              | -                    | 296,784               | -                   | 296,784              |
| Accrued compensated absences                          | 2,536,928             | -                     | -                   | 2,536,928            | 2,281,009            | -                     | -                   | 2,281,009            |
| Current portion of noncurrent liabilities             | 1,715,107             | 1,365,000             | -                   | 3,080,107            | 1,040,070            | 1,315,000             | -                   | 2,355,070            |
| <b>TOTAL CURRENT LIABILITIES</b>                      | <b>8,610,480</b>      | <b>2,238,320</b>      | <b>(335,421)</b>    | <b>10,513,379</b>    | <b>7,883,141</b>     | <b>2,329,551</b>      | <b>(71,794)</b>     | <b>10,140,898</b>    |
| <b>NONCURRENT LIABILITIES, net of current portion</b> |                       |                       |                     |                      |                      |                       |                     |                      |
| Unearned revenues                                     | 587,500               | -                     | -                   | 587,500              | 812,500              | -                     | -                   | 812,500              |
| Accrued pension benefit obligation                    | 395,053               | -                     | -                   | 395,053              | 405,749              | -                     | -                   | 405,749              |
| Revenue bonds payable                                 | -                     | 39,479,514            | -                   | 39,479,514           | 7,133,494            | 40,824,863            | -                   | 47,958,357           |
| Capital lease obligations payable to state agencies   | 21,884,555            | -                     | -                   | 21,884,555           | 17,431,685           | -                     | -                   | 17,431,685           |
| <b>TOTAL NONCURRENT LIABILITIES</b>                   | <b>22,867,108</b>     | <b>39,479,514</b>     | <b>-</b>            | <b>62,346,622</b>    | <b>25,783,428</b>    | <b>40,824,863</b>     | <b>-</b>            | <b>66,608,291</b>    |
| <b>TOTAL LIABILITIES</b>                              | <b>\$ 31,477,588</b>  | <b>\$ 41,717,834</b>  | <b>\$ (335,421)</b> | <b>\$ 72,860,001</b> | <b>\$ 33,666,569</b> | <b>\$ 43,154,414</b>  | <b>\$ (71,794)</b>  | <b>\$ 76,749,189</b> |
| <b>DEFERRED INFLOWS OF RESOURCES</b>                  |                       |                       |                     |                      |                      |                       |                     |                      |
| Deferred credit on OCIA lease restructure             | \$ 344,665            | \$ -                  | \$ -                | \$ 344,665           | \$ -                 | \$ -                  | \$ -                | \$ -                 |
| <b>NET POSITION</b>                                   |                       |                       |                     |                      |                      |                       |                     |                      |
| Net investment in capital assets                      | \$ 41,985,371         | \$(11,869,365)        | \$ -                | \$ 30,116,006        | \$ 37,702,943        | \$(11,754,568)        | \$ -                | 25,948,375           |
| Restricted:   |                       |                       |                     |                      |                      |                       |                     |                      |
| Nonexpendable   | 41,785,800            | -                     | -                   | 41,785,800           | 37,744,636           | -                     | -                   | 37,744,636           |
| Expendable:   |                       |                       |                     |                      |                      |                       |                     |                      |
| Scholarships, research, instruction and other         | 620,855               | -                     | -                   | 620,855              | 599,553              | -                     | -                   | 599,553              |
| Loans   | 495,974               | -                     | -                   | 495,974              | 556,998              | -                     | -                   | 556,998              |
| Capital projects                                      | 4,571,528             | -                     | -                   | 4,571,528            | 1,991,484            | -                     | -                   | 1,991,484            |
| Debt service  | -                     | 8,250,386             | (489,929)           | 7,760,457            | 4,674,330            | 7,881,706             | (163,315)           | 12,392,721           |
| Unrestricted  | 12,481,874            | -                     | 285,604             | 12,767,478           | 16,705,105           | -                     | -                   | 16,705,105           |
| <b>TOTAL NET POSITION</b>                             | <b>\$ 101,941,402</b> | <b>\$ (3,618,979)</b> | <b>\$ (204,325)</b> | <b>\$ 98,118,098</b> | <b>\$ 99,975,049</b> | <b>\$ (3,872,862)</b> | <b>\$ (163,315)</b> | <b>\$ 95,938,872</b> |

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

LANGSTON UNIVERSITY

|  | Year Ended June 30, 2014 |                       |                     |                      | Year Ended June 30, 2013 |                       |                     |                      |
|--|--------------------------|-----------------------|---------------------|----------------------|--------------------------|-----------------------|---------------------|----------------------|
|  | University               | LLC                   | Eliminations        | Total                | University               | LLC                   | Eliminations        | Total                |
| <b>OPERATING REVENUES</b>  |                          |                       |                     |                      |                          |                       |                     |                      |
| Student tuition and fees, net of scholarship discounts and allowances of \$3,839,000 in 2014 and \$3,079,000 in 2013 | \$ 7,327,307             | \$ -                  | \$ -                | \$ 7,327,307         | \$ 7,268,150             | \$ -                  | \$ -                | \$ 7,268,150         |
| Federal grants and contracts   | 10,381,216               | -                     | -                   | 10,381,216           | 14,478,975               | -                     | -                   | 14,478,975           |
| State and local grants and contracts   | 253,874                  | -                     | -                   | 253,874              | 338,565                  | -                     | -                   | 338,565              |
| Non-governmental grants and contracts  | 1,082,709                | -                     | -                   | 1,082,709            | 597,563                  | -                     | -                   | 597,563              |
| Auxiliary enterprise charges:  |                          |                       |                     |                      |                          |                       |                     |                      |
| Housing, net of scholarship discounts and allowances of \$2,440,000 in 2014 and \$1,889,000 in 2013                  | 4,657,231                | 6,588,866             | (6,588,866)         | 4,657,231            | 4,326,268                | 5,890,656             | (5,890,656)         | 4,326,268            |
| Food services, net of scholarship discounts and allowances of \$1,053,000 in 2014 and \$756,000 in 2013              | 2,011,132                | -                     | -                   | 2,011,132            | 1,785,021                | -                     | -                   | 1,785,021            |
| Athletics  | 30,932                   | -                     | -                   | 30,932               | 47,806                   | -                     | -                   | 47,806               |
| All other  | 86,160                   | 82,052                | (82,052)            | 86,160               | 170,690                  | 59,465                | (59,471)            | 170,684              |
| Other operating revenues   | 692,462                  | 273,313               | (243,185)           | 722,590              | 585,711                  | 260,060               | (192,041)           | 653,730              |
| <b>TOTAL OPERATING REVENUES</b>  | <b>26,523,023</b>        | <b>6,944,231</b>      | <b>(6,914,103)</b>  | <b>26,553,151</b>    | <b>29,598,749</b>        | <b>6,210,181</b>      | <b>(6,142,168)</b>  | <b>29,666,762</b>    |
| <b>OPERATING EXPENSES</b>  |                          |                       |                     |                      |                          |                       |                     |                      |
| Compensation and employee benefits   | 30,472,627               | 883,430               | -                   | 31,356,057           | 29,936,257               | 884,299               | -                   | 30,820,556           |
| Contractual services   | 4,170,830                | -                     | (285,604)           | 3,885,226            | 3,525,565                | -                     | -                   | 3,525,565            |
| Supplies and materials   | 1,288,896                | 286,350               | -                   | 1,575,246            | 1,223,684                | 219,073               | -                   | 1,442,757            |
| Utilities  | 1,245,551                | 1,044,795             | -                   | 2,290,346            | 1,121,529                | 1,058,874             | -                   | 2,180,403            |
| Communications   | 175,867                  | -                     | -                   | 175,867              | 144,790                  | -                     | -                   | 144,790              |
| Other operating expenses   | 15,956,290               | 1,382,156             | (6,873,093)         | 10,465,353           | 15,088,094               | 1,462,973             | (6,253,162)         | 10,297,905           |
| Scholarships and fellowships   | 5,365,463                | -                     | -                   | 5,365,463            | 5,084,967                | -                     | -                   | 5,084,967            |
| Depreciation   | 2,465,367                | 1,460,145             | -                   | 3,925,512            | 2,390,256                | 1,460,145             | -                   | 3,850,401            |
| <b>TOTAL OPERATING EXPENSES</b>  | <b>61,140,891</b>        | <b>5,056,876</b>      | <b>(7,158,697)</b>  | <b>59,039,070</b>    | <b>58,515,142</b>        | <b>5,085,364</b>      | <b>(6,253,162)</b>  | <b>57,347,344</b>    |
| <b>OPERATING INCOME (LOSS)</b>   | <b>(34,617,868)</b>      | <b>1,887,355</b>      | <b>244,594</b>      | <b>(32,485,919)</b>  | <b>(28,916,393)</b>      | <b>1,124,817</b>      | <b>110,994</b>      | <b>(27,680,582)</b>  |
| <b>NONOPERATING REVENUES (EXPENSES)</b>  |                          |                       |                     |                      |                          |                       |                     |                      |
| State appropriations   | 18,786,156               | -                     | -                   | 18,786,156           | 18,593,524               | -                     | -                   | 18,593,524           |
| OTRS on-behalf contributions   | 1,644,000                | -                     | -                   | 1,644,000            | 1,687,000                | -                     | -                   | 1,687,000            |
| Pass-through grant revenue   | 8,174,732                | -                     | -                   | 8,174,732            | 7,369,509                | -                     | -                   | 7,369,509            |
| Contribution from LEDA   | -                        | 285,604               | (285,604)           | -                    | -                        | 1,000,000             | -                   | 1,000,000            |
| Charter schools program revenue  | 7,853,830                | -                     | -                   | 7,853,830            | 6,631,625                | -                     | -                   | 6,631,625            |
| Charter schools program expenses   | (7,535,432)              | -                     | -                   | (7,535,432)          | (6,366,759)              | -                     | -                   | (6,366,759)          |
| Investment income  | 565,776                  | 142,932               | -                   | 708,708              | 730,985                  | 177,697               | -                   | 908,682              |
| Gain on endowment investments  | 3,346,633                | -                     | -                   | 3,346,633            | 218,528                  | -                     | -                   | 218,528              |
| Interest expense   | (1,531,399)              | (2,062,008)           | -                   | (3,593,407)          | (979,975)                | (2,116,527)           | -                   | (3,096,502)          |
| <b>NET NONOPERATING REVENUES</b>   | <b>31,304,296</b>        | <b>(1,633,472)</b>    | <b>(285,604)</b>    | <b>29,385,220</b>    | <b>27,884,437</b>        | <b>(938,830)</b>      | <b>-</b>            | <b>26,945,607</b>    |
| <b>GAIN (LOSS) BEFORE OTHER REVENUES, EXPENSES, GAINS AND LOSSES</b>   | <b>(3,313,572)</b>       | <b>253,883</b>        | <b>(41,010)</b>     | <b>(3,100,699)</b>   | <b>(1,031,956)</b>       | <b>185,987</b>        | <b>110,994</b>      | <b>(734,975)</b>     |
| State appropriations restricted for capital purposes   | 2,194,347                | -                     | -                   | 2,194,347            | 2,222,928                | -                     | -                   | 2,222,928            |
| OCIA on-behalf payments  | 1,421,926                | -                     | -                   | 1,421,926            | 733,158                  | -                     | -                   | 733,158              |
| Additions to permanent endowments  | 1,663,652                | -                     | -                   | 1,663,652            | 1,663,652                | -                     | -                   | 1,663,652            |
| <b>CHANGE IN NET POSITION</b>  | <b>1,966,353</b>         | <b>253,883</b>        | <b>(41,010)</b>     | <b>2,179,226</b>     | <b>3,587,782</b>         | <b>185,987</b>        | <b>110,994</b>      | <b>3,884,763</b>     |
| <b>NET POSITION AT BEGINNING OF YEAR</b>   | <b>99,975,049</b>        | <b>(3,872,862)</b>    | <b>(163,315)</b>    | <b>95,938,872</b>    | <b>96,387,267</b>        | <b>(4,058,849)</b>    | <b>(274,309)</b>    | <b>92,054,109</b>    |
| <b>NET POSITION AT END OF YEAR</b>   | <b>\$ 101,941,402</b>    | <b>\$ (3,618,979)</b> | <b>\$ (204,325)</b> | <b>\$ 98,118,098</b> | <b>\$ 99,975,049</b>     | <b>\$ (3,872,862)</b> | <b>\$ (163,315)</b> | <b>\$ 95,938,872</b> |

COMBINING STATEMENTS OF CASH FLOWS

LANGSTON UNIVERSITY

|   | Year Ended June 30, 2014 |              |               | Year Ended June 30, 2013 |              |               |
|---|--------------------------|--------------|---------------|--------------------------|--------------|---------------|
|   | University               | LLC          | Total         | University               | LLC          | Total         |
| <b>CASH FLOWS FROM OPERATING ACTIVITIES</b>                     |                          |              |               |                          |              |               |
| Student tuition and fees  | \$ 7,437,213             | \$ -         | \$ 7,437,213  | \$ 7,309,877             | \$ -         | \$ 7,309,877  |
| Grants and contracts  | 12,305,326               | -            | 12,305,326    | 15,127,054               | -            | 15,127,054    |
| Auxiliary enterprise charges                                    | (125,158)                | 6,760,400    | 6,635,242     | 365,117                  | 6,296,852    | 6,661,969     |
| Other operating receipts  | 1,392,720                | -            | 1,392,720     | 77,185                   | -            | 77,185        |
| Payments to employees for salaries and benefits                 | (28,604,507)             | (862,328)    | (29,466,835)  | (28,593,628)             | (882,722)    | (29,476,350)  |
| Payments to suppliers   | (20,749,520)             | (2,859,074)  | (23,608,594)  | (19,000,474)             | (2,967,755)  | (21,968,229)  |
| NET CASH PROVIDED BY (USED IN) OPERATING ACTIVITIES             | (28,343,926)             | 3,038,998    | (25,304,928)  | (24,714,869)             | 2,446,375    | (22,268,494)  |
| <b>CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES</b>          |                          |              |               |                          |              |               |
| Federal grants and contracts                                    | 8,174,732                | -            | 8,174,732     | 7,369,509                | -            | 7,369,509     |
| State and local grants and contracts                            | 318,398                  | -            | 318,398       | 264,866                  | -            | 264,866       |
| State appropriations  | 18,786,156               | -            | 18,786,156    | 18,593,524               | -            | 18,593,524    |
| Direct lending receipts   | 15,672,942               | -            | 15,672,942    | 16,274,861               | -            | 16,274,861    |
| Direct lending payments   | (15,672,942)             | -            | (15,672,942)  | (16,274,861)             | -            | (16,274,861)  |
| NET CASH PROVIDED BY NONCAPITAL FINANCING ACTIVITIES            | 27,279,286               | -            | 27,279,286    | 26,227,899               | -            | 26,227,899    |
| <b>CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES</b> |                          |              |               |                          |              |               |
| Cash paid for capital assets                                    | (3,066,941)              | -            | (3,066,941)   | (2,296,275)              | (21,703)     | (2,317,978)   |
| Capital appropriations received                                 | 3,960,938                | -            | 3,960,938     | 2,956,086                | -            | 2,956,086     |
| Proceeds of capital debt  | 566,812                  | -            | 566,812       | -                        | -            | -             |
| Contributions from LEDA   | -                        | -            | -             | -                        | 1,000,000    | 1,000,000     |
| Repayments of capital debt and leases                           | (3,230,734)              | (1,315,000)  | (4,545,734)   | (1,231,392)              | (1,255,000)  | (2,486,392)   |
| Interest paid on capital debt and leases                        | (1,603,515)              | (2,036,943)  | (3,640,458)   | (1,027,713)              | (2,077,524)  | (3,105,237)   |
| NET CASH USED IN CAPITAL AND RELATED FINANCING ACTIVITIES       | (3,373,440)              | (3,351,943)  | (6,725,383)   | (1,599,294)              | (2,354,227)  | (3,953,521)   |
| <b>CASH FLOWS FROM INVESTING ACTIVITIES</b>                     |                          |              |               |                          |              |               |
| Net purchases/sales of investments                              | 4,100,782                | 2,098        | 4,102,880     | (289,751)                | (34,379)     | (324,130)     |
| Interest received on investments                                | 566,162                  | 142,550      | 708,712       | 732,842                  | 175,840      | 908,682       |
| NET CASH PROVIDED BY INVESTING ACTIVITIES                       | 4,666,944                | 144,648      | 4,811,592     | 443,091                  | 141,461      | 584,552       |
| NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS            | 228,864                  | (168,297)    | 60,567        | 356,827                  | 233,609      | 590,436       |
| CASH AND CASH EQUIVALENTS AT BEGINNING OF YEAR                  | 23,401,246               | 7,206,331    | 30,607,577    | 23,044,419               | 6,972,722    | 30,017,141    |
| CASH AND CASH EQUIVALENTS AT END OF YEAR                        | \$ 23,630,110            | \$ 7,038,034 | \$ 30,668,144 | \$ 23,401,246            | \$ 7,206,331 | \$ 30,607,577 |

COMBINING STATEMENTS OF CASH FLOWS--Continued

LANGSTON UNIVERSITY

|  | Year Ended June 30, 2014     |                            |                              | Year Ended June 30, 2013     |                            |                              |
|--|------------------------------|----------------------------|------------------------------|------------------------------|----------------------------|------------------------------|
|  | University                   | LLC                        | Total                        | University                   | LLC                        | Total                        |
| <b>RECONCILIATION OF OPERATING INCOME (LOSS) TO NET CASH PROVIDED BY (USED IN) OPERATING ACTIVITIES</b>  |                              |                            |                              |                              |                            |                              |
| Operating income (loss)  | \$(34,373,274)               | \$ 1,887,355               | \$(32,485,919)               | \$(28,805,398)               | \$ 1,124,816               | \$(27,680,582)               |
| Adjustments to reconcile operating income (loss) to net cash provided by (used in) operating activities: |                              |                            |                              |                              |                            |                              |
| Depreciation   | 2,465,367                    | 1,460,145                  | 3,925,512                    | 2,390,256                    | 1,460,145                  | 3,850,401                    |
| On-behalf contributions to teachers' retirement system   | 1,644,000                    | -                          | 1,644,000                    | 1,687,000                    | -                          | 1,687,000                    |
| Changes in operating assets and liabilities:   |                              |                            |                              |                              |                            |                              |
| Accounts, loans and other receivables  | 1,636,551                    | (161,856)                  | 1,474,695                    | (149,220)                    | 149,680                    | 460                          |
| Accounts payable and accrued expenses  | 283,062                      | 21,102                     | 304,164                      | 991,928                      | (61,858)                   | 930,070                      |
| Unearned revenues  | (235,371)                    | (21,975)                   | (257,346)                    | (428,128)                    | (63,009)                   | (491,137)                    |
| Other current liabilities and student deposits   | (9,483)                      | (145,773)                  | (155,256)                    | (58,513)                     | (163,399)                  | (221,912)                    |
| Compensated absences and pension benefit obligation  | 245,222                      | -                          | 245,222                      | (342,794)                    | -                          | (342,794)                    |
| <b>NET CASH PROVIDED BY (USED IN) OPERATING ACTIVITIES</b>   | <b><u>\$(28,343,926)</u></b> | <b><u>\$ 3,038,998</u></b> | <b><u>\$(25,304,928)</u></b> | <b><u>\$(24,714,869)</u></b> | <b><u>\$ 2,446,375</u></b> | <b><u>\$(22,268,494)</u></b> |
| <b>NONCASH INVESTING, NONCAPITAL FINANCING, AND CAPITAL AND RELATED FINANCING ACTIVITIES</b>             |                              |                            |                              |                              |                            |                              |
| Principal and interest on capital debt paid by state agency on behalf of the University                  | <u>\$ 1,421,926</u>          | <u>\$ -</u>                | <u>\$ 1,421,926</u>          | <u>\$ 733,158</u>            | <u>\$ -</u>                | <u>\$ 733,158</u>            |
| Additions to permanent endowments  | <u>\$ 1,663,652</u>          | <u>\$ -</u>                | <u>\$ 1,663,652</u>          | <u>\$ 1,663,652</u>          | <u>\$ -</u>                | <u>\$ 1,663,652</u>          |
| <b>RECONCILIATION OF CASH AND CASH EQUIVALENTS TO THE STATEMENTS OF NET POSITION</b>                     |                              |                            |                              |                              |                            |                              |
| Current assets:  |                              |                            |                              |                              |                            |                              |
| Cash and cash equivalents  | \$ 13,937,103                | \$ 2,515,136               | \$ 16,452,239                | \$ 17,829,614                | \$ 2,936,927               | \$ 20,766,541                |
| Restricted cash and cash equivalents   | 82,388                       | 4,522,898                  | 4,605,286                    | 153,155                      | 4,269,404                  | 4,422,559                    |
| Noncurrent assets:   |                              |                            |                              |                              |                            |                              |
| Restricted cash and cash equivalents   | <u>9,610,619</u>             | <u>-</u>                   | <u>9,610,619</u>             | <u>5,418,477</u>             | <u>-</u>                   | <u>5,418,477</u>             |
| <b>TOTAL CASH AND CASH EQUIVALENTS</b>   | <b><u>\$ 23,630,110</u></b>  | <b><u>\$ 7,038,034</u></b> | <b><u>\$ 30,668,144</u></b>  | <b><u>\$ 23,401,246</u></b>  | <b><u>\$ 7,206,331</u></b> | <b><u>\$ 30,607,577</u></b>  |

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 for the Oklahoma Agricultural and Mechanical Colleges  
Langston University  
Oklahoma City, Oklahoma

We have audited the financial statements of Langston University (the "University"), a component unit of the State of Oklahoma, which comprise the statement of net position as of June 30, 2014, and the related statements of revenues, expenses, and changes in net position and cash flows for the year then ended, and the related notes to the financial statements, and have issued our report thereon dated October 28, 2014. We conducted our audit in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Our report includes a reference to other auditors who audited the financial statements of Langston University Foundation (the "Foundation"), the University's discretely presented component unit, and LDF Student Housing, L.L.C. (the "LLC") the University's blended component unit, as described in our report on the University's financial statements. This report does not include the results of the LLC's auditors' testing of internal control over financial reporting or compliance and other matters that are reported on separately by those auditors. The financial statements of the Foundation were not audited in accordance with *Government Auditing Standards* and accordingly this report does not include reporting on internal control over financial reporting or instances of reportable noncompliance associated with the Foundation.

**Internal Control Over Financial Reporting**

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

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

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

### **Compliance and Other Matters**

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

### **Purpose of this Report**

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

Cole & Reed P.C.

Oklahoma City, Oklahoma  
October 28, 2014

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

Board of Regents for the Oklahoma Agricultural and Mechanical Colleges  
Langston University  
Oklahoma City, Oklahoma

**Report on Compliance for Each Major Federal Program**

We have audited Langston University's (the "University") compliance with the types of compliance requirements described in the *OMB Circular A-133 Compliance Supplement* that could have a direct and material effect on each of the University's major federal programs for the year ended June 30, 2014. The University's major federal programs are identified in the summary of auditors' results section of the accompanying schedule of findings and questioned costs.

**Management's Responsibility**

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

**Auditors' Responsibility**

Our responsibility is to express an opinion on compliance for each of the University's major federal programs based on our audit of the types of compliance requirements referred to above. We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and OMB Circular A-133, *Audits of States, Local Government, and Non-Profit Organizations*. Those standards and OMB Circular A-133 require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about the University's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances.

We believe that our audit provides a reasonable basis for our opinion on compliance for each major federal program. However, our audit does not provide a legal determination of the University's compliance.

**Opinion on Each Major Federal Program**

In our opinion, the University complied, in all material respects, with the types of compliance requirements referred to above that could have a direct and material effect on each of its major federal programs for the year ended June 30, 2014.

**Other Matters**

The results of our auditing procedures disclosed instances of noncompliance, which are required to be reported in accordance with OMB Circular A-133 and which are described in the accompanying schedule of findings and questioned costs as Findings 2013-04, 2014-01, 2014-02, and 2014-03. Our opinion on each major federal program is not modified with respect to these matters.



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

### **Report on Internal Control Over Compliance**

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

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

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

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

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

We have audited the financial statements of the University as of and for the year ended June 30, 2014, and have issued our report thereon dated October 28, 2014, which contained an unmodified opinion on the financial statements. Our audit was conducted for the purpose of forming an opinion on the financial statements as a whole. The accompanying schedule of expenditures of federal awards is presented for the purposes of additional analysis as required by OMB Circular A-133 and is not a required part of the financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the financial statements. The information has been subjected to the auditing procedures applied in the audit of the financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements or to the financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the schedule of expenditures of federal awards is fairly stated in all material respects in relation to the financial statements as a whole.



Oklahoma City, Oklahoma  
October 28, 2014

SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS

LANGSTON UNIVERSITY

June 30, 2014

|   | <u>CFDA<br/>Number</u> | <u>Amount<br/>Expended</u> |
|---|------------------------|----------------------------|
| U.S. DEPARTMENT OF EDUCATION                                    |                        |                            |
| Student Financial Aid Cluster:                                  |                        |                            |
| Office of Student Financial Assistance:                         |                        |                            |
| Federal Pell Grant Program                                      | 84.063                 | \$ 7,037,426               |
| Federal Supplemental Education Opportunity Grants               | 84.007                 | 175,595                    |
| Federal Work Study Program                                      | 84.033                 | 304,512                    |
| Federal Direct Student Loans                                    | 84.268                 | 15,672,942                 |
| Rehabilitation Research and Training Center Program             | 84.133                 | <u>480,068</u>             |
| <i>Total Student Financial Aid Cluster</i>                      |                        | 23,670,543                 |
| Other Programs:   |                        |                            |
| Office of Post-secondary Education:                             |                        |                            |
| Upward Bound  | 84.047                 | 371,005                    |
| Higher Education Institutional Aid                              | 84.031                 | 3,154,537                  |
| Rehabilitation Services - Service Projects                      | 84.128                 | 41,542                     |
| Office of Special Education and Rehabilitation Services:        |                        |                            |
| Rehabilitation Long-Term Training                               | 84.129                 | <u>228,917</u>             |
| <i>Total Other Programs</i>                                     |                        | <u>3,796,001</u>           |
| TOTAL U.S. DEPARTMENT OF EDUCATION                              |                        | 27,466,544                 |
| RESEARCH AND DEVELOPMENT CLUSTER                                |                        |                            |
| U.S. Department of Agriculture:                                 |                        |                            |
| Cooperative State Research, Education, and Extension Services:  |                        |                            |
| Plant and Animal Disease, Pest Control and Animal Care          | 10.025                 | 12,393                     |
| Payments to 1890 Land-Grant Colleges<br>and Tuskegee University | 10.205                 | 1,939,481                  |
| DDE HBCU Fellowship   | 10.210                 | 22,500                     |
| Institution Capacity Building Grants                            | 10.216                 | 818,409                    |
| Risk Management Education Partnerships                          | 10.460                 | 2,483                      |
| Cooperative Extension Service                                   | 10.500                 | 1,828,195                  |
| Technical Agricultural Assistance                               | 10.960                 | 98,042                     |
| Science Cooperation and Research                                | 10.961                 | <u>25,077</u>              |
| TOTAL RESEARCH AND DEVELOPMENT CLUSTER                          |                        | 4,746,580                  |

SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS--Continued

LANGSTON UNIVERSITY

June 30, 2014

|  | <u>CFDA<br/>Number</u> | <u>Amount<br/>Expended</u> |
|--|------------------------|----------------------------|
| PROGRAMS OF OTHER FEDERAL AGENCIES                               |                        |                            |
| National Science Foundation:                                     |                        |                            |
| Education and Human Resources                                    | 47.076                 | 265,853                    |
| Office of Cyber Infrastructure                                   | 47.080                 | 62,998                     |
| Office of Experimental Program to Stimulate Competitive Research | 47.081                 | <u>5,005</u>               |
| <i>Total National Science Foundation</i>                         |                        | 333,856                    |
| U.S. Department of Housing and Urban Development:                |                        |                            |
| Community Planning and Development:                              |                        |                            |
| Community Development Block Grants/Small Cities Program          | 14.219                 | 155,887                    |
| U.S. Department of Health and Human Services:                    |                        |                            |
| Direct Programs:   |                        |                            |
| Geriatric Education Centers                                      | 93.969                 | 10,326                     |
| National Center for Research Resources                           | 93.389                 | <u>86,126</u>              |
| <i>Total U.S. Department of Health and Human Services</i>        |                        | 96,452                     |
| Small Business Administration:                                   |                        |                            |
| Technical Assistance   | 59.007                 | 39,675                     |
| U.S. Department of Energy:                                       |                        |                            |
| Office of Science Financial Assistance Program                   | 81.049                 | 17,992                     |
| U.S. Department of Transportation:                               |                        |                            |
| Highway Planning and Construction:                               |                        |                            |
| University Transportation Centers Program                        | 20.701                 | 88,005                     |
| Highway Planning and Construction FHWA                           | 20.215                 | <u>36,379</u>              |
| <i>Total U.S. Department of Transportation</i>                   |                        | 124,384                    |
| National Aeronautics and Space Administration:                   |                        |                            |
| Aerospace Education Services Program                             | 43.001                 | 16,576                     |
| U.S. Agency for International Development:                       |                        |                            |
| U.S. Aid Foreign Assistance for Programs Overseas                | 98.001                 | <u>3,219</u>               |
| TOTAL PROGRAMS OF OTHER FEDERAL AGENCIES                         |                        | <u>788,041</u>             |
| TOTAL EXPENDITURES OF FEDERAL AWARDS                             |                        | <u>\$33,001,165</u>        |

See notes to schedule of expenditures of federal awards.

## NOTES TO SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS

### LANGSTON UNIVERSITY

Year Ended June 30, 2014

#### NOTE A--BASIS OF ACCOUNTING

The Schedule of Expenditures of Federal Awards (the "Schedule") includes the federal awards activity of Langston University (the "University") and is presented on the cash 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 this 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 began participation in the Direct Loan Program on July 1, 2010. 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--SUBRECIPIENTS

Of the Federal expenditures presented in the Schedule, the University provided \$189,818 in federal awards to subrecipients.

SCHEDULE OF FINDINGS AND QUESTIONED COSTS

LANGSTON UNIVERSITY

Year Ended June 30, 2014

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

*Financial statements*

Type of auditors' report issued: *Unmodified*

Internal control over financial reporting:

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

Noncompliance material to financial statements noted?  yes  no

*Federal Awards*

Internal control over major programs:

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

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

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

Identification of major programs:

| <u>Program/Cluster</u>        | <u>CFDA Number</u> |
|-------------------------------|--------------------|
| Student Financial Aid Cluster | *                  |
| Upward Bound                  | 84.047             |

\* See the Schedule of Expenditures of Federal Awards for identification of CFDA numbers applicable to the major programs.

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

Auditee qualified as low-risk auditee?  yes  no

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

None to report for the June 30, 2014 period.

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

See Findings 2013-04, 2014-01, 2014-02, and 2014-03.

## SCHEDULE OF FINDINGS AND QUESTIONED COSTS--Continued

LANGSTON UNIVERSITY

Year Ended June 30, 2014

### **FINDING 2014-01**

Program CFDA No:

84.033 Federal Work-Study

Federal Award Year:

June 30, 2014

Questioned Costs: \$747

Criteria: In accordance with 34 CFR 675.19(2)(i), "an institution must establish and maintain program and fiscal records that include a certification by the student's supervisor, an official of the institution or off-campus agency, that each student has worked and earned the amount being paid. The certification must include or be supported by, for students paid on an hourly basis, a time record showing the hours each student worked in clock time sequence, or the total hours worked per day."

Per the Department of Education's Federal Student Aid Handbook, "students are not permitted to work in Federal Work Study ("FWS") positions during scheduled class times. Exceptions are permitted if an individual class is cancelled or if the instructor has excused the student from attending for a particular day. Any such exemptions must be documented."

Condition: During student file testing procedures over FWS, we noted that four of the four FWS students tested had approved timesheets that showed earned hours that conflicted with class schedules. This is indicative of FWS funds being used to pay students for unauthorized hours worked. As such, we tested an additional sample of seven FWS students for additional procedures over compliance testing. Within that additional population, seven of the seven FWS students tested had approved timesheets that showed earned hours that conflicted with class schedules. Total questioned costs identified for the eleven students with \$13,629 in FWS funding were \$747.

Cause: Upon being awarded eligibility for FWS, students submit their class schedule to their supervisor and sign a contract that dictates the term of their employment, including guidelines that state FWS hours worked should not conflict with academic periods. Students prepare their own timesheets and submit them to their department supervisor for approval. The department supervisor submits the verified timesheets to payroll. Payroll processes the FWS payroll and maintains the timesheets within their records. Conflicts are a result of lack of review procedures over student timesheets or improper documentation of student hours worked vs. class time.

Effect: The University could have potentially utilized federal funds for unallowed activities. Additionally, the University was not in compliance with fiscal procedures and records guidelines as determined by the Department of Education regarding FWS funds.

Recommendation: We recommend that the University implement procedures and internal controls over proper review of student's FWS timesheets to ensure FWS funds are being used for authorized work hours and conflicts between hours worked and class hours are properly documented within payroll documents. This will assist the University in ensuring compliance with the Student Aid Handbook as this is regulated by the Department of Education.

SCHEDULE OF FINDINGS AND QUESTIONED COSTS--Continued

LANGSTON UNIVERSITY

Year Ended June 30, 2014

**FINDING 2014-01--Continued**

Views of a Responsible Official: The University is making changes to strengthen and ensure adequate procedures and controls are in place for the FWS program. We are currently working with both the supervisor and student worker to ensure all exceptions are adequately documented in the file.

In addition, our policy and practice is to select a random number of students for auditing after each payroll. After the respective student time sheet is audited the supervisor and student are notified of any infractions. The student and supervisor are notified via written notification and verbal communication. This process will help ensure further compliance with the FWS program guidelines.

SCHEDULE OF FINDINGS AND QUESTIONED COSTS--Continued

LANGSTON UNIVERSITY

Year Ended June 30, 2014

**FINDING 2014-02**

Program CFDA No:

84.063 Pell Grant

84.268 Federal Direct Student Loans

84.007 Federal Supplemental Educational Opportunity Grants

84.033 Federal Work-Study

Federal Award Year:

June 30, 2014

Questioned Costs: \$26,632

Criteria: In accordance with 34 CFR 668.164(e), "Whenever an institution disburses title IV, HEA program funds by crediting a student's account and the total amount of all title IV, HEA program funds credited exceeds the amount of tuition and fees, room and board, and other authorized charges the institution assessed the student, the institution must pay the resulting credit balance directly to the student or parent as soon as possible but no later than 14 days after the balance occurred if the credit balance occurred after the first day of class of a payment period; or no later than 14 days after the first day of class of a payment period if the credit balance occurred on or before the first day of class of that payment period."

Condition: In our student file testing, we noted that all spring 2014 credit balances for disbursements made on or before January 23, 2014 did not meet the 14 day requirement for disbursement. These students were refunded or paid their credit balance in excess of 14 days from the first day of class.

Cause: University management decided to schedule the initial financial aid disbursement three days prior to the first day of class to provide students with more time to plan for their educational expenses. Consideration was not given regarding fulfillment of compliance requirements regarding disbursement of funds and timing of refunding credit balances. The timing of the credit balance refunds do not satisfy the compliance requirements.

Effect: The University could have potentially earned excess interest on Federal Funds and have additional working capital above what the school has actually earned. Additionally, the University was not in compliance with disbursing credit balances to students within 14 days of the first day of class (as the credit balance occurred before the first day of class).

Recommendation: We recommend that the University implement procedures and internal controls to ensure disbursement of credit balances are in compliance with the timing requirements of 14 days after the credit balance occurs or the first day of class, whichever is later.

Views of a Responsible Official: The University has and will continue to adhere to the federal guidelines related to the disbursing credit balances. We believe this to be an isolated occurrence which we have addressed by strengthening internal controls to help ensure the release of credit balances occur within the required time frame. As part of this process, the Office of Financial Aid has worked with the Business Office to develop a calendar identifying key financial aid dates that should further aid at ensuring compliance

SCHEDULE OF FINDINGS AND QUESTIONED COSTS--Continued

LANGSTON UNIVERSITY

Year Ended June 30, 2014

**FINDING 2014-03**

Program CFDA No:

84.063 Pell Grant

84.268 Federal Direct Student Loans

84.007 Federal Supplemental Educational Opportunity Grants

84.033 Federal Work-Study

Federal Award Year:

June 30, 2014

Criteria: In accordance with 34 CFR 682.610(c)(2)(i), "... an institution shall, upon receipt of a student status confirmation report from the Secretary or a similar student status confirmation report form from any guaranty agency, complete and return that report within 30 days of receipt to the Secretary or the guaranty agency, as appropriate; and unless it expects to submit its next student status confirmation report to the Secretary or the guaranty agency within the next 60 days, notify the guaranty agency or lender within 30 days if it discovers that a Stafford, SLS, or Plus loan has been made to or on behalf of a student who has ceased to be enrolled on at least a half-time basis."

Condition: In our graduate testing, we noted that one fall 2013 graduate did not have their enrollment status change reported to the National Student Loan Data System (NSLDS) within sixty days from the date of graduation as required by federal regulations. The student graduated on December 13, 2013; however, their status change was not reported until March 26, 2014, which is 103 days after graduation.

The Institutional Services office did not report fall 2013 graduates within the 60 day time frame required by federal regulations. There is no known or projected monetary error as this is a compliance reporting issue.

Cause: The Institutional Services office is responsible for reporting graduates to National Student Clearinghouse. University procedures dictate that Institutional Services transmits graduate data for the spring semester only. This results in non-compliance with reporting requirements for fall graduates.

Effect: Untimely reporting of student enrollment status does not allow the Department of Education to properly track and monitor students, including initiation of the loan repayment process.

Recommendation: We recommend that the University implement procedures and internal controls to ensure enrollment changes, including graduated status for both semesters, are properly reported to NSLDS within the appropriate time-frame of sixty days from the date the institution determined the status change.

Views of a Responsible Official: In the fall of 2013 a transition occurred related to the oversight of Clearinghouse Data. This transition created some delays in reporting. As part of our new procedures, the Office of Institutional Research is now responsible for reporting Clearinghouse data. Designated research analysts will review the data prior to submission to Clearinghouse. These research analyst will then work with the Instructional Technology Department to make necessary corrections prior to the uploading of data. The added controls will help ensure compliance.

SUMMARY SCHEDULE OF PRIOR AUDIT FINDINGS

LANGSTON UNIVERSITY

Year Ended June 30, 2014

Finding 2013-01: This finding was fully corrected in the current year.

Finding 2013-02: This finding was fully corrected in the current year.

Finding 2013-03: This finding was fully corrected in the current year.

Finding 2013-05: This finding was fully corrected in the current year.

SUMMARY SCHEDULE OF PRIOR AUDIT FINDINGS--Continued

LANGSTON UNIVERSITY

Year Ended June 30, 2014

**FINDING 2013-04**

Program CFDA No:

84.268 Federal Direct Student Loans  
84.063 Pell Grant

Federal Award Year:

June 30, 2013

Questioned Costs: \$925

Finding: While testing the R2T4 withdrawal forms, we noted that per review of the student's A/R accounts the amounts returned for subsidized loans did not match the amount calculated on the R2T4. This was not in compliance with the SFA Handbook. In accordance with 34 CFR 668.22(c)(2), refunds shall be calculated on a pro-rata basis and then applied to the students awards in the order indicated by 34 CFR 668.22(h)(1).

Cause: After R2T4 returns are calculated the University uses a manual process to post the returns to the students' accounts. During this process for subsidized loans the support staff inadvertently switched the amount to be returned and the amount that the student would be allowed to keep. This resulted in errors for the three students who were required to return subsidized loan proceeds.

Criteria: In accordance with 34 CFR 668.22(j), the institution must return the amount of title IV funds for which it is responsible as soon as possible but no longer than 45 days after the date of the institution's determination that the student withdrew.

Effect: The University could have potentially earned excess interest on Federal funds and have additional working capital above what the University has actually earned.

Context: The Financial Aid Department incorrectly entered the amounts of subsidized loans to be returned by each student as supported by the return of title IV calculation and the Department of Education guidance.

Recommendation: We recommend that when loan proceeds are required to be returned by the students the amounts returned to the student's account should be reviewed by the Financial Aid Director/Assistant Director to ensure they have been properly calculated. We further recommend that the University ensure compliance with the Student Aid Handbook as this is regulated by the Department of Education.

Views of a Responsible Official: The Office of Financial Aid has and will continue to adhere to the federal guidelines related to the Return of Title IV funds. During the spring semester 2013, the Office of Financial Aid experienced turnover in key personnel areas, which affected its ability to accurately apply and/or report its application of the fund return formula. Going forward, personnel in the Office of Financial Aid have been cross-trained so that additional personnel in the area are familiar with the subject matter. Additionally, the Director of Financial Aid will continue to review initiated returns for accuracy and compliance before the returns are made.

SUMMARY SCHEDULE OF PRIOR AUDIT FINDINGS--Continued

LANGSTON UNIVERSITY

Year Ended June 30, 2014

**FINDING 2013-04--Continued**

Current Status: There were two instances of non-compliance noted while performing withdrawal testing during fiscal year 2014 as follows:

First, per review of the student's R2T4 form and A/R ledger, we noted that the R2T4 was calculated incorrectly as a result of an overstated award received amount. It was noted the student was reported as receiving \$2,000 in additional unsubsidized direct loan funds though the student never accepted or received mentioned funds. As such, the University's calculated amount to the return to the Department of Education was understated by \$1,113.

Next, per review of the student's R2T4 form and A/R ledger, we noted an R2T4 was not prepared and funds were not returned within required timeline for a student who withdrew in the spring semester. It was noted the original determination date of withdrawal was mistakenly identified as 4/14/14 instead of 3/26/14, allowing the student to meet the 60% completion threshold, and thus not requiring an R2T4. The error was brought to the institution's attention during audit fieldwork. This resulted in a late return of funds to the Department of Education in the amount of \$2,809.

June 30, 2014 Questioned Costs: \$3,922

Current Views of a Responsible Official: The Office of Financial has cancelled the un-posted aid and recalculated the R2T4. The correction was made prior to the close of fieldwork and a total of \$3,922 was returned to the Department of Education.

To ensure future compliance, the Office of Financial Aid will continue to adhere to the federal guidelines related to the Return of Title IV funds. For additional assurance, we will make sure we are using the final withdrawal report, double check calculations and appropriate dates during our review process. Calculations will only represent aid actually disbursed. Additionally, we will continue to work closely with the Registrar and Business Office to validate the official withdrawal date. The Director of Financial Aid will continue to review initiated returns for accuracy and compliance before the returns are made.