

**SOUTHEASTERN OKLAHOMA  
STATE UNIVERSITY**

**ANNUAL FINANCIAL  
STATEMENTS AND  
INDEPENDENT AUDITOR'S  
REPORTS AS OF AND FOR THE  
YEAR ENDED JUNE 30, 2014**

SOUTHEASTERN OKLAHOMA STATE UNIVERSITY

June 30, 2014

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## INDEPENDENT AUDITOR'S REPORT

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

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

We have audited the accompanying financial statements of Southeastern Oklahoma State University (the "University"), a department of the Regional University System of Oklahoma (RUSO), which is a component unit of the State of Oklahoma, that 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 as listed in the table of contents.

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

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

### ***Auditor's Responsibility***

Our responsibility is to express an opinion on these financial statements based on our audit. We did not audit the financial statements of the University's discretely presented component unit, Southeastern Foundation, Inc. (the "Foundation"). Those financial statements were audited by other auditors, whose report has been furnished to us, and our opinion, insofar as it relates to the amounts included for the Foundation, is based solely on the report of the other auditors. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement. The financial statements of the University Foundation were audited by other auditors and were not audited in accordance with *Governmental 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 audit and the report of the other auditor, the financial statements referred to above present fairly, in all material respects, the respective financial position of the University and its discretely presented component unit, the Foundation, as of June 30, 2014, and the respective changes in financial position, and, where applicable, cash flows thereof for the year then ended in accordance with accounting principles generally accepted in the United States of America.

### ***Emphasis of Matter***

As discussed in Note A, the financial statements of the University are intended to present the financial position, the changes in financial position and, where applicable, cash flows of only that portion of RUSO that is attributable to the transactions of the University. They do not purport to, and do not present fairly the financial position of RUSO as of June 30, 2014, the changes in its financial position, or, where applicable, its cash flows for the year then ended in conformity with accounting principles generally accepted in the United States of America. Our opinion is not modified with respect to this matter.

### ***Other Matters***

#### ***Required Supplementary Information***

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

#### ***Other Supplementary Information***

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

### **Other Reporting Required by *Government Auditing Standards***

In accordance with *Government Auditing Standards*, we have also issued our report dated October 31, 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.

*Arledge & Associates, P. C.*

October 31, 2014

## MANAGEMENT'S DISCUSSION AND ANALYSIS

### SOUTHEASTERN OKLAHOMA STATE UNIVERSITY

June 30, 2014

#### *Introduction*

The discussion and analysis of Southeastern Oklahoma State University's (the "University") financial statements provides an overview of the University's financial activities for the fiscal year ending June 30, 2014, with selected comparative information for the year ended June 30, 2013. Management's discussion and analysis is designed to focus on current activities, resulting changes, and current known facts, so it should be read in conjunction with the University's financial statements and footnotes.

These financial statements include those of the University and its discretely presented component unit, Southeastern Foundation, Inc. A component unit is a legally separate entity associated with the primary organization.

#### *Using this Report*

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

These statements are prepared applying the following principles and standards:

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

MANAGEMENT'S DISCUSSION AND ANALYSIS--Continued

SOUTHEASTERN OKLAHOMA STATE UNIVERSITY

June 30, 2014

*Financial Highlights*

The University's Total Net Position as of June 30, 2014 was \$27.9 million compared to \$28.6 million as of June 30, 2013. This is a decrease of \$0.7 million or 2.4%. Total Assets decreased \$2.5 million, Deferred Outflows of Resources decreased \$0.2 million and Total Liabilities decreased \$2.3 million.

Operating Revenue and Net Non-operating Revenue as of June 30, 2014 totaled \$52.1 million compared to \$53.1 million as of June 30, 2013. This is a decrease of \$1.0 million or 1.9%.

Operating Expenses as of June 30, 2014 totaled \$54.7 million compared to \$53.8 million as of June 30, 2013. This is an increase of \$0.9 million or 1.7%.

Seventeen capital projects totaling \$1.5 million were in the construction phase with eleven being completed and six still under construction at year end. The projects still under construction were Russell Plaza Hallie Court Yard, Water Line Infrastructure, Water Lines/Water Tower Infra, Offices/Classrooms Renovation, Lighting, and Strength & Conditioning Center. These projects were funded by the Department of Education Grant, external fund raising and the University.

Bonds payable and capital lease obligations were decreased by \$2.5 million, leaving a balance of \$27.3 million. This decrease was from debt service payments reducing debt by \$2.0 million and a decrease due to the refinancing of three bonds (Student Union Revenue Serial Bonds, ODFA Master Lease Revenue Bonds Series 2003B, and partial refunding of OCIA 2005F) totaling \$0.5 million. This is the sixth consecutive year that no additional debt was needed to fund capital projects or equipment.

MANAGEMENT'S DISCUSSION AND ANALYSIS--Continued

SOUTHEASTERN OKLAHOMA STATE UNIVERSITY

June 30, 2014

*Statement of Net Position*

The Statement of Net Position presents current and noncurrent assets and liabilities, deferred outflows of resources and inflows of resources, and net position (assets and deferred outflows of resources minus liabilities and deferred inflows of resources) as of June 30, 2014.

Net Position is divided into three (3) major categories: (1) Net Investment in Capital Assets, the University's investment in property, plant, and equipment, (2) Restricted Net Position Expendable, includes resources that are available for expenditure by the University to spend in accordance with restrictions imposed by external third parties, and (3) Unrestricted Net Position, represents resources to be 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.

CONDENSED STATEMENTS OF NET POSITION

	June 30, (In Millions)		Increase (Decrease)	Percent Change
	2014	2013		
CURRENT ASSETS	\$ 4.4	\$ 6.0	\$ (1.6)	-26.7%
NONCURRENT ASSETS				
Capital Assets, Net of Depreciation	52.6	54.0	(1.4)	-2.6%
Other	2.7	2.2	0.5	22.7%
TOTAL ASSETS	<u>\$ 59.7</u>	<u>\$ 62.2</u>	<u>\$ (2.5)</u>	-4.0%
DEFERRED OUTFLOWS OF RESOURCES	<u>\$ 0.4</u>	<u>\$ 0.6</u>	<u>\$ (0.2)</u>	-33.3%
CURRENT LIABILITIES	\$ 6.4	\$ 5.9	\$ 0.5	8.5%
NONCURRENT LIABILITIES	25.5	28.3	(2.8)	-9.9%
TOTAL LIABILITIES	<u>\$ 31.9</u>	<u>\$ 34.2</u>	<u>\$ (2.3)</u>	-6.7%
DEFERRED INFLOWS OF RESOURCES	<u>\$ 0.3</u>	<u>\$ -</u>	<u>\$ 0.3</u>	100.0%
NET POSITION				
Net Investment in Capital Assets	\$ 25.3	\$ 24.2	\$ 1.1	4.5%
Restricted	0.1	0.7	(0.6)	-85.7%
Unrestricted	2.5	3.7	(1.2)	-32.4%
TOTAL NET POSITION	<u>\$ 27.9</u>	<u>\$ 28.6</u>	<u>\$ (0.7)</u>	-2.4%

MANAGEMENT'S DISCUSSION AND ANALYSIS--Continued

SOUTHEASTERN OKLAHOMA STATE UNIVERSITY

June 30, 2014

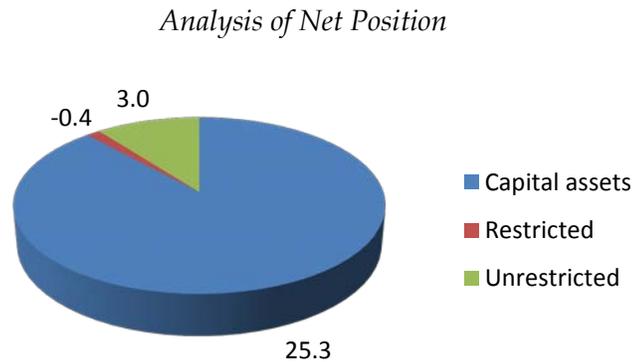
*Analysis of Net Position*

Total assets decreased \$2.5 million with increases in receivables from state agencies \$0.1 million, prepaid pension asset by \$0.5 million, and decreases in cash and cash equivalents by \$1.6 million, accounts receivable, net by \$0.1 million, and capital assets, net by \$1.4 million.

Deferred outflows of resources decreased \$0.2 million, and deferred inflows of resources of \$0.3 million were recognized.

Total liabilities decreased \$2.3 million with increases in deposits held in custody for others by \$0.2 million, current portion of noncurrent liabilities \$0.6 million, and decreases in accounts payable \$0.2 million, unearned revenue by \$0.1 million, outstanding debt by \$2.8 million.

The following graph indicates that the bulk of the University's net position at June 30, 2014, are capital assets invested in land, buildings, infrastructure, library, and equipment.



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

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

MANAGEMENT'S DISCUSSION AND ANALYSIS--Continued

SOUTHEASTERN OKLAHOMA STATE UNIVERSITY

June 30, 2014

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

Condensed Statements of Revenues, Expenses, and Changes in Net Position are a summary for the year ended June 30, 2014, compared to the year ended June 30, 2013.

	Years Ended June 30, (in millions)	
	2014	2013
OPERATING REVENUE		
Student tuition and Fees (net of scholarship allowance of \$10.5 and \$10.5, respectively)	\$ 14.1	\$ 14.9
Federal, State and Local Grants/Contracts	4.1	5.8
Auxiliary	3.8	2.7
Other	2.4	1.8
TOTAL OPERATING REVENUE	24.4	25.2
OPERATING EXPENSES		
Compensation and employee benefits	33.1	32.0
Contractual Services	3.7	3.9
Supplies and materials	4.0	4.2
Depreciation	3.6	3.6
Utilities	1.6	1.5
Communication expense	0.3	0.4
Scholarships and fellowships	5.6	6.1
Other operating expense	2.8	2.1
TOTAL OPERATING EXPENSES	54.7	53.8
OPERATING INCOME (LOSS)	(30.3)	(28.6)
NONOPERATING REVENUE		
State Appropriations and Other	20.5	20.4
Financial Aid Grants	8.3	8.3
Contributions	0.3	0.2
Investment Income	0.1	0.1
Interest Expense	(1.5)	(1.1)
NET NONOPERATING REVENUE	27.7	27.9
INCOME BEFORE OTHER REVENUE/EXPENSE	(2.6)	(0.7)
OTHER REVENUE/EXPENSES	1.9	1.6
CHANGE IN NET POSITION	(0.7)	0.9
NET POSITION AT BEGINNING OF YEAR	28.6	27.7
NET POSITION AT END OF YEAR	\$ 27.9	\$ 28.6

MANAGEMENT'S DISCUSSION AND ANALYSIS--Continued

SOUTHEASTERN OKLAHOMA STATE UNIVERSITY

June 30, 2014

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

*Revenues*

Operating revenue decreased by \$0.8 million and net non-operating revenue by \$0.2 million for a total decrease of \$1.0 million or 1.9%.

- Student tuition and fees, net of scholarships and allowances decreased \$0.8 million and federal grants and contracts decreased \$0.6 million. Rates for tuition and mandatory fees increased 5.0% for resident and non-resident students. Student credit hours decreased by 4.0% for resident tuition and by 9.2% for non-resident tuition. Auxiliary revenue remained the same as last year \$2.7 million. Rates for room and board remained the same while occupancy decreased by 2.6%. Other revenue increased by \$0.6 million.
- State appropriations were \$20.5 million, an increase of \$0.1 million. This includes \$1.7 million in Oklahoma Teachers Retirement System on-behalf contributions. Other net non-operating revenue increases were contributions by \$0.1 million and interest expense by \$0.4 million.

MANAGEMENT'S DISCUSSION AND ANALYSIS--Continued

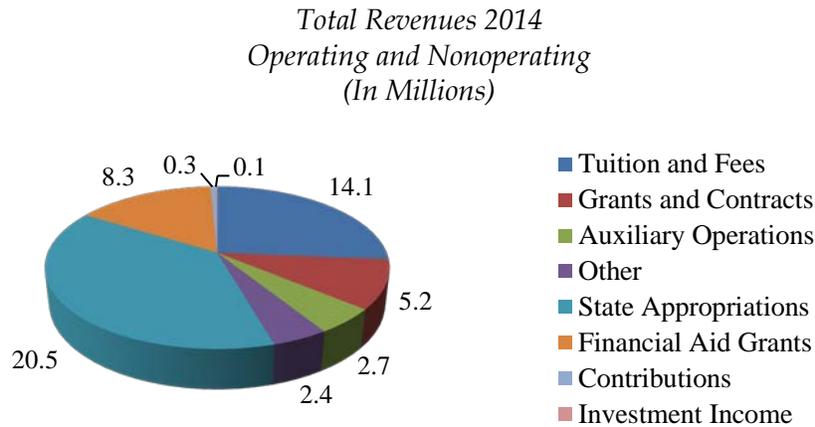
SOUTHEASTERN OKLAHOMA STATE UNIVERSITY

June 30, 2014

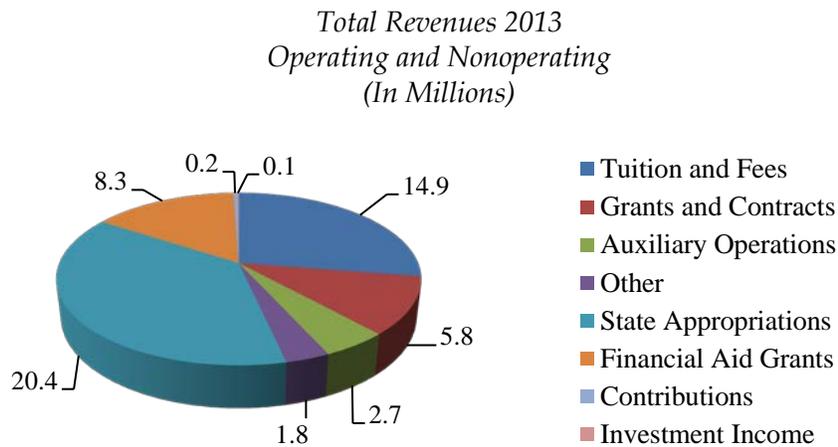
*Statement of Revenues, Expenses, and Changes in Net Position-Continued*

*Revenues-continued*

The following is a graphical representation of total operating and nonoperating revenue for the year ended June 30, 2014.



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



MANAGEMENT'S DISCUSSION AND ANALYSIS--Continued

SOUTHEASTERN OKLAHOMA STATE UNIVERSITY

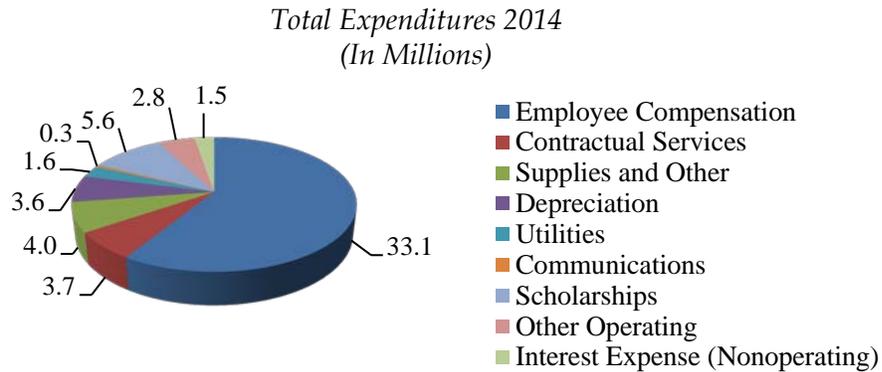
June 30, 2014

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

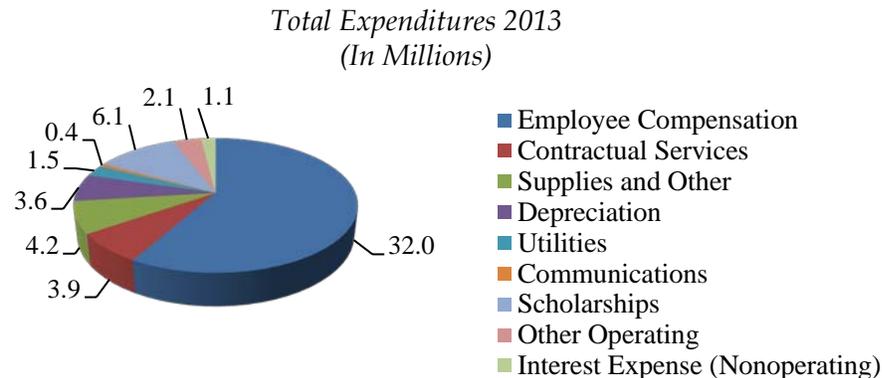
*Expenses*

Operating expenses for the year are \$54.7 million, an increase of \$0.9 million. Increases in compensation and employee benefits by \$1.1 million, utilities by \$0.1 million and other operating expenses by \$0.7 million, and decreases in contractual services by \$0.2 million, supplies and materials by \$0.2 million, communication expense by \$0.1 million, scholarships by \$0.5 million (related to waivers).

The following is a graphic illustration of expenses for the year ended June 30, 2014.



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



MANAGEMENT'S DISCUSSION AND ANALYSIS--Continued

SOUTHEASTERN OKLAHOMA STATE UNIVERSITY

June 30, 2014

*Statement of Cash Flows*

The Statement of Cash Flows presents information about the cash receipts and disbursements of the university during the year.

A condensed Statement of Cash Flows is a summary for the year ended June 30, 2014, compared to the year ended June 30, 2013.

	<i>(in Millions)</i>	
	<u>2014</u>	<u>2013</u>
CASH PROVIDED BY (USED IN):		
Operating activities	\$ (25.0)	\$ (23.8)
Noncapital financing activities	27.2	27.1
Investing activities	0.3	0.3
Capital and related financing activities	<u>(4.1)</u>	<u>(5.9)</u>
NET INCREASE (DECREASE) IN CASH	(1.6)	(2.3)
CASH, BEGINNING OF YEAR	<u>3.8</u>	<u>6.1</u>
CASH, END OF YEAR	<u>\$ 2.2</u>	<u>\$ 3.8</u>

*Capital Assets*

At June 30, 2014, the University had approximately \$52.6 million invested in capital assets, net of accumulated depreciation of \$58.3 million. Depreciation charges totaled approximately \$3.6 million for the current fiscal year. Projects in fiscal year 2014 were Parking Lots, Physical Plant Projects, Water Lines/Water Tower Projects, Hallie McKinney Phase III IV, Connect2Complete, Storm Shelters, Library Facility Renovation, Russell Plaza Hallie Court Yard, ADA Projects, Glen D Johnson Student Union, Athletic & Intramural Complex, and Strength & Conditioning Center.

MANAGEMENT'S DISCUSSION AND ANALYSIS--Continued

SOUTHEASTERN OKLAHOMA STATE UNIVERSITY

June 30, 2014

*Capital Assets-continued*

Capital Assets, net

	June 30, (in Millions)	
	2014	2013
Land	\$ 3.3	\$ 3.1
Capitalized collections	0.4	0.4
Construction in-progress	0.6	0.1
Infrastructure	3.3	4.1
Land improvements	0.8	0.4
Buildings	43.2	45.1
Furniture, fixtures, and equipment	0.9	0.7
Library materials	0.1	0.1
TOTALS	<u>\$ 52.6</u>	<u>\$ 54.0</u>

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

*Debt*

At June 30, 2014, the University had approximately \$27.3 million in debt outstanding compared to \$29.8 million at the end of the previous fiscal year. The table below summarizes these amounts by type.

*Outstanding Debt*

	June 30, (in Millions)	
	2014	2013
Revenue bonds	\$ -	\$ 5.9
OCIA Capital Lease Obligations	10.6	11.3
ODFA Capital Lease Obligations	15.1	10.8
Capital Lease Obligations	1.6	1.8
TOTALS	<u>\$ 27.3</u>	<u>\$ 29.8</u>

Oklahoma Capital Bond Authority (OCIA) lease obligations were originally for \$1.8 million in 1999 (Biology Building) and \$10.6 million in 2006 (new classroom building and renovations to nine existing buildings). In 2004, the OCIA issued bond series 2004A that refunded a significant portion of the 1999A bonds. The amortization of the 1999A bond issue ended in 2010. In November 2005, the OCIA issued its OCIA Bond Issues, 2005 Series F and G. In 2011, the OCIA issued the 2010A and 2010B series bonds to partially refund the Series 2005F revenue bonds.

## MANAGEMENT'S DISCUSSION AND ANALYSIS--Continued

### SOUTHEASTERN OKLAHOMA STATE UNIVERSITY

June 30, 2014

#### *Debt-continued*

This lease restructuring extended certain principal payments into the future, resulting in a deferred restructuring charge of \$927,419 to be amortized over a period of six years that began in fiscal year 2011. In 2014, the OCIA issued Bond Series 2014A to partially refund the Series 2005F Revenue Bonds. The restructuring resulted in a gain of \$316,344 between the remaining liability of 2005F and the new liability of 2014A. During the years ended June 30, 2014, and 2013, lease principal and interest payments were made on behalf of the University totaling \$877,000 and \$297,000, respectively. These on-behalf amounts have been recorded as restricted state appropriations in the University's statements of revenues, expenses and changes in net position.

In 2014, ODFA issued Master Lease Revenue Bonds Series 2014A in the amount of \$99,000, to refinance the Master Lease Revenue Bonds Series 2003B outstanding debt of 140,000.

In 2014, the ODFA issued Master Lease Property Lease Revenue Bonds Series 2013B (14-year) in the amount \$5,515,000 to refinance the Student Union Revenue Serial Bonds and Term Bonds Series 2003B outstanding debt of \$5,645,000.

Capital lease obligation was to fund the Phase II contract with Siemens Building Technologies. The University has recorded a lease obligation payable in the accompanying financial statements with an outstanding balance of \$1,597,685 at June 30, 2014. More detailed information about the University's outstanding debt is presented in notes to the financial statements.

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

#### *Component Unit*

The Southeastern Foundation, Inc. meets the criteria for inclusion as a discretely presented component unit of Southeastern Oklahoma State University. The most recent financial statements of the Southeastern Foundation, Inc. are included in this presentation under the heading Component Unit.

## MANAGEMENT'S DISCUSSION AND ANALYSIS--Continued

### SOUTHEASTERN OKLAHOMA STATE UNIVERSITY

June 30, 2014

#### *Economic Outlook*

The economic stability of the University is directly related to the state's economic stability. The twelve-month collections at the end of September 2014 totaled \$11.91 billion. This is \$577.74 million or 5.1% higher than collections from the previous 12-month period. As a measure of economic activity, September gross receipts indicate healthy expansion in Oklahoma with all major revenue categories in positive territory, expanding business conditions index and low unemployment.

Enrollment data for fall 2014 reflects an increase in student credit hours of 1.0% compared to a decrease in fall 2013 of 6.9%. The University is developing a stronger infrastructure to support the veterans and international student programs and is offering the Occupational Safety & Health academic program on the Grayson County Campus in Van Alstyne. The administration will continue its initiatives to increase student credit hours and meet the objectives of the Complete College America degree completion plans by delivering more courses to outreach sites; developing more online and hybrid courses, continue implementing the conversion plan to move the McCurtain Branch Campus from a higher education program to a four year degree program; and building an advancement program that will raise additional funds through grants, contracts and fund raising initiatives. These efforts will continue along with new initiatives to promote student enrichment experiences, expand the universities regional image, optimize the learning environment and enhance collaboration and partnerships.

STATEMENTS OF NET POSITION

SOUTHEASTERN OKLAHOMA STATE UNIVERSITY

June 30, 2014

	<u>University</u>	<u>Component Unit</u>
<b>ASSETS</b>		
<b>CURRENT ASSETS</b>		
Cash and cash equivalents	\$ 2,067,656	\$ 3,580,374
Restricted cash and cash equivalents	170,042	548,777
Accounts receivable, net	1,363,326	32,649
Interest receivable	3,045	61,007
Receivable from state agencies	752,489	-
Other assets	-	61,910
Current portion of notes receivable, net	11,712	-
<b>TOTAL CURRENT ASSETS</b>	<u>4,368,270</u>	<u>4,284,717</u>
<b>NONCURRENT ASSETS</b>		
Investments	-	18,904,340
Investments held by others	1	-
Notes receivable, net	-	12,475
Prepaid pension asset	2,684,898	-
Other assets	-	337,895
Capital assets, net	52,589,887	6,860,481
<b>TOTAL NONCURRENT ASSETS</b>	<u>55,274,786</u>	<u>26,115,191</u>
<b>TOTAL ASSETS</b>	<u>\$ 59,643,056</u>	<u>\$ 30,399,908</u>
<b>DEFERRED OUTFLOWS OF RESOURCES</b>		
Deferred charge on OCIA lease restructure	<u>\$ 471,241</u>	<u>\$ -</u>

STATEMENTS OF NET POSITION--Continued

SOUTHEASTERN OKLAHOMA STATE UNIVERSITY

June 30, 2014

	<u>University</u>	<u>Component Unit</u>
<b>LIABILITIES AND NET POSITION</b>		
<b>CURRENT LIABILITIES</b>		
Accounts payable	\$ 943,907	\$ 435,754
Accrued payroll	132,762	-
Accrued interest payable	103,871	39,401
Unearned revenue	1,485,056	17,549
Deposits held in custody for others	426,717	-
Current portion of non current liabilities	3,309,802	-
<b>TOTAL CURRENT LIABILITIES</b>	<u>6,402,115</u>	<u>492,704</u>
<b>NONCURRENT LIABILITIES</b>		
Accrued compensated absences	362,987	-
Notes payable	-	8,520,799
Capital lease obligation	24,769,082	-
OPEB obligation	116,344	-
Premium on bonds payable	248,412	-
<b>TOTAL NONCURRENT LIABILITIES</b>	<u>25,496,825</u>	<u>8,520,799</u>
<b>TOTAL LIABILITIES</b>	<u>\$ 31,898,940</u>	<u>\$ 9,013,503</u>
<b>DEFERRED INFLOWS OF RESOURCES</b>		
Deferred gain on OCIA lease restructure	\$ 311,472	\$ -
<b>NET POSITION</b>		
Invested in capital assets, net of related debt	\$ 25,293,435	\$ -
Restricted:		
Nonexpendable	-	11,987,550
Expendable:		
Scholarships, instruction, and other	-	8,590,973
Loans	138,167	-
Capital projects and debt service	-	-
Unrestricted	2,472,283	807,882
<b>TOTAL NET POSITION</b>	<u>\$ 27,903,885</u>	<u>\$ 21,386,405</u>

See accompanying notes to these financial statements

STATEMENTS OF REVENUES, EXPENSES AND CHANGES IN NET POSITION

SOUTHEASTERN OKLAHOMA STATE UNIVERSITY

Year Ended June 30, 2014

	<u>University</u>	<u>Component Unit</u>
<b>OPERATING REVENUES</b>		
Student tuition and fees, net of scholarship discounts and allowances of \$10,517,023 (revenues of \$1,128,988 in 2014 are pledged as security on Student Union Series 2003 revenue bonds.)	\$ 14,066,459	\$ -
Federal grants and contracts	4,148,971	-
State and local grants and contracts	1,102,259	-
Housing and food service	2,150,329	-
Aerospace operations	502,828	-
Investment Income	-	2,248,024
Contributions	-	501,426
Other operating revenues	2,434,600	1,513,236
<b>TOTAL OPERATING REVENUES</b>	<b>24,405,446</b>	<b>4,262,686</b>
<b>OPERATING EXPENSES</b>		
Compensation and employee benefits	33,059,827	-
Contractual services	3,651,268	-
Supplies and materials	4,051,030	-
Depreciation	3,644,518	228,659
Utilities	1,595,930	-
Communications expense	316,133	-
Scholarships and fellowships	5,564,912	882,020
Other operating expenses	2,828,304	1,299,621
<b>TOTAL OPERATING EXPENSES</b>	<b>54,711,922</b>	<b>2,410,300</b>
<b>OPERATING INCOME (LOSS)</b>	<b>(30,306,476)</b>	<b>1,852,386</b>
<b>NONOPERATING REVENUES (EXPENSES)</b>		
State appropriations	18,844,628	-
Financial aid grants	8,257,448	-
OTRS on-behalf contributions	1,713,091	-
Contributions	315,760	-
Investment income	64,147	-
Interest expense	(1,453,914)	-
<b>NET NONOPERATING REVENUE (EXPENSES)</b>	<b>27,741,160</b>	<b>-</b>
Income (loss) before other revenues, expenses, gains and losses	(2,565,316)	1,852,386
State appropriations restricted for capital purposes	1,020,974	-
OCIA on-behalf payments	876,984	-
<b>CHANGE IN NET POSITION</b>	<b>(667,358)</b>	<b>1,852,386</b>
<b>NET POSITION, BEGINNING OF YEAR</b>	<b>28,571,243</b>	<b>19,534,019</b>
<b>NET POSITION, END OF YEAR</b>	<b>\$ 27,903,885</b>	<b>\$ 21,386,405</b>

See accompanying notes to these financial statements

STATEMENT OF CASH FLOWS

SOUTHEASTERN OKLAHOMA STATE UNIVERSITY

Year Ended June 30, 2014

CASH FLOWS FROM OPERATING ACTIVITIES

Tuition and fees	\$ 14,400,143
Grants and contracts	5,109,797
Other operating receipts	4,905,748
Payments to employees for salaries and benefits	(31,738,185)
Payments to suppliers	<u>(17,614,249)</u>

NET CASH USED IN OPERATING ACTIVITIES (24,936,746)

CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES

State appropriations	18,844,628
Financial aid grants	8,257,448
Contributions	68,777
Direct Loan receipts	11,331,733
Direct Loan payments	<u>(11,331,733)</u>

NET CASH PROVIDED BY NONCAPITAL FINANCING ACTIVITIES 27,170,853

CASH FLOWS FROM INVESTING ACTIVITIES

Net (increase) decrease in investments held with others	18,794
Interest income received	<u>244,431</u>

NET CASH PROVIDED BY INVESTING ACTIVITIES 263,225

CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES

Cash paid for capital assets	(2,650,781)
Capital appropriations received	1,269,386
Interest paid	(909,334)
Repayments of capital debt and leases	<u>(1,774,660)</u>

NET CASH USED IN CAPITAL AND RELATED FINANCING ACTIVITIES (4,065,389)

NET CHANGE IN CASH AND CASH EQUIVALENTS (1,568,057)

CASH AND CASH EQUIVALENTS, BEGINNING OF YEAR 3,805,755

CASH AND CASH EQUIVALENTS, END OF YEAR \$ 2,237,698

*See accompanying notes to these financial statements*

STATEMENT OF CASH FLOWS--Continued

SOUTHEASTERN OKLAHOMA STATE UNIVERSITY

Year Ended June 30, 2014

RECONCILIATION OF OPERATING LOSS TO  
NET CASH USED IN OPERATING ACTIVITIES

Operating loss	\$ (30,306,476)
Adjustments to reconcile operating loss to net cash used in operating activities	
Depreciation	3,644,518
(Gain) / loss on disposal of assets	1,010
On-behalf contributions to teachers' retirement system	1,713,091
Changes in assets and liabilities	
Accounts receivable	83,462
Loans receivable	(3,450)
Prepaid pension asset	(452,126)
Accounts payable and student deposits	392,319
Accrued payroll	43,290
Deferred revenues	(69,771)
Compensated absences	30,886
Other liabilities	(13,499)

NET CASH USED IN OPERATING ACTIVITIES \$ (24,936,746)

NONCASH INVESTING, NONCAPITAL FINANCING  
AND CAPITAL AND RELATED FINANCING ACTIVITIES

Interest on capital debt paid by state agency on behalf of the University	\$ 479,221
Principal on capital debt paid by state agency on behalf of the University	<u>397,763</u>
Total noncash investing, noncapital financing and related financing activities	<u>\$ 876,984</u>

RECONCILIATION OF CASH AND CASH EQUIVALENTS  
TO STATEMENTS OF NET POSITION

Current assets	
Cash and cash equivalents	\$ 2,067,656
Restricted cash and cash equivalents	<u>170,042</u>

TOTAL CASH AND CASH EQUIVALENTS \$ 2,237,698

*See accompanying notes to these financial statements*

## NOTES TO THE FINANCIAL STATEMENTS

### SOUTHEASTERN OKLAHOMA STATE UNIVERSITY

June 30, 2014

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

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

Reporting Entity: Southeastern Oklahoma State University is one of six institutions of higher education in Oklahoma that comprise part of the Regional University System of Oklahoma, which in turn is part of the Higher Education component unit of the State of Oklahoma.

The Board of Regents has constitutional authority to govern, control and manage the Regional University System of Oklahoma; which consist of six institutions and an administrative office. This authority includes but is not limited to the power to designate management, the ability to significantly influence operations, acquire and take title to real and personal property in its name, appoint or hire all necessary officers, supervisors, instructors, and employees for member institutions.

Accordingly, Southeastern Oklahoma State University is considered an organizational unit of the Regional University System of Oklahoma reporting entity for financial reporting purposes due to the significance of its legal, operational, and financial relationships with the Board of Regents as defined in Section 2100 of the Governmental Accounting Standards Board (GASB) Codification of Governmental Accounting and Financial Reporting Standards.

Discretely Presented Component Units: Southeastern Foundation, Inc. (the "Foundation") is a component unit of the University under GASB 39 that is required to be discretely presented with the financial statements of the University. The University is the beneficiary of the Foundation, a separate legal entity with its own Board of Trustees. The Foundation is organized for the benefit of the University, and its faculty, student body and programs. The Foundation provides scholarships and support and enhances the further development of the University. Additional and selected disclosures for the Foundation are located in this report beginning with Note L. A complete report of the Foundation's financial statements and footnotes can be requested from the Foundation's director.

Financial Statement Presentation: The University's financial statements are presented in accordance with the requirements of GASB Statement No. 34, *Basic Financial Statement and Management's Discussion and Analysis – for State and Local Governments*, and GASB Statement No. 35, *Basic Financial Statements and Management's Discussion and Analysis for Public Colleges and Universities*. Under GASB Statements No. 34 and 35, the University is required to present a statement of net position classified between current and noncurrent assets and liabilities, 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 THE FINANCIAL STATEMENTS--Continued

SOUTHEASTERN OKLAHOMA STATE 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.

Deposits and Investments: The University accounts for its investments at fair value in accordance with GASB Statement No. 31, *Accounting and Financial Reporting for Certain Investments and for External Investment Pools*. In accordance with GASB Statement No. 40, *Deposit and Investment Risk Disclosures*, the University has disclosed its deposit and investment policies related to the risks identified in GASB Statement No. 40. Changes in unrealized gain (loss) on the carrying value of investments are reported as a component of investment income in the statements of revenues, expenses, and changes in net position.

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

Accounts Receivable: Accounts receivable consists of tuition and fee charges to students and to auxiliary enterprise services provided to students, faculty and staff, the majority of each residing in the State of Oklahoma. Student accounts receivable are carried at the unpaid balance of the original amount billed to students, less an estimate made for doubtful accounts based on a review of all outstanding amounts. Management determines the allowance for doubtful accounts by identifying troubled accounts and by using historical experience applied to an aging of accounts. A student account receivable is considered to be past due if any portion of the receivable balance is outstanding after the end of the semester.

NOTES TO THE FINANCIAL STATEMENTS--Continued

SOUTHEASTERN OKLAHOMA STATE UNIVERSITY

June 30, 2014

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

Accounts Receivable--Continued: Accounts receivable also include amounts due from the federal government, state and local governments, or private sources, in connection with reimbursement of allowable expenditures made pursuant to the University's grant and contracts. Other accounts receivable also include the distribution from the Oklahoma State Regents' endowment trust fund and amounts due from the Oklahoma Capital Improvement Authority ("OCIA") for proceeds from the capital bond improvement program allocated to the University. No allowance for doubtful accounts has been provided for other receivables.

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

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

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

Compensated Absences: Employee vacation pay is accrued at year-end for financial statement purposes. The liability and expense incurred are recorded at year-end as accrued compensated absences in the 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.

NOTES TO THE FINANCIAL STATEMENTS--Continued

SOUTHEASTERN OKLAHOMA STATE UNIVERSITY

June 30, 2014

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

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

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

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

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

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

Income Taxes: The University, as a political subdivision of the State of Oklahoma, is exempt from all federal income taxes under Section 115(1) of the Internal Revenue Code, as amended. However, the University may be subject to income taxes or unrelated business income under Internal Revenue Code Section 511(a)(2)(b).

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

NOTES TO THE FINANCIAL STATEMENTS--Continued

SOUTHEASTERN OKLAHOMA STATE UNIVERSITY

June 30, 2014

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

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

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

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

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

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, the University's deferred outflows of resources were comprised of deferred charges on OCIA lease restructurings. These deferred outflows of resources are recognized as a component of interest expense over the remaining life of the old debt or the life of the new debt, whichever is shorter.

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 inflow represents the unamortized gain on restructuring of the 2005F OCIA bonds.

NOTES TO THE FINANCIAL STATEMENTS--Continued

SOUTHEASTERN OKLAHOMA STATE UNIVERSITY

June 30, 2014

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

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

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

GASB No. 70 requires a government that extends a nonexchange financial guarantee to recognize a liability when qualitative factors and historical data, if any, indicate that it is more likely than not that the government will be required to make a payment on the guarantee.

The government is required to report the guaranteed obligation until it is legally released as an obligor, and when it is legally released, it should recognize revenue as a result of this release. The provisions of this Statement are effective for reporting periods beginning after June 15, 2013. Earlier application is encouraged. Except for certain disclosure requirements which may be applied prospectively, the provisions of this Statement are required to be applied retroactively. The University did not have any transactions affected by the implementation of this pronouncement.

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

*Fiscal Year Ended June 30, 2015*

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

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

NOTES TO THE FINANCIAL STATEMENTS--Continued

SOUTHEASTERN OKLAHOMA STATE UNIVERSITY

June 30, 2014

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

New Accounting Pronouncements Issued Not Yet Adopted--Continued:

- *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.

- *Statement No. 71, Pension Transition for Contributions Made Subsequent to the Measurement Date—an amendment of GASB Statement No. 68*

GASB No. 71 addresses an issue regarding application of the transition provisions of Statement No. 68, *Accounting and Financial Reporting for Pensions*. The issue relates to amounts associated with contributions, if any, made by a state or local government employer or nonemployer contributing entity to a defined benefit pension plan after the measurement date of the government's beginning net pension liability. The College has not yet determined the impact that implementation of GASB No. 71 will have on its net position.

NOTE B--DEPOSITS AND INVESTMENTS

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

NOTES TO THE FINANCIAL STATEMENTS--Continued

SOUTHEASTERN OKLAHOMA STATE UNIVERSITY

June 30, 2014

NOTE B--DEPOSITS AND INVESTMENTS – Continued

Deposits--Continued: Some deposits with the OST are placed in the OST’s internal investment pool *OK INVEST*. *OK INVEST* pools the resources of all state funds and agencies and invests them in obligations of the United States Government, its agencies and instrumentalities; including agency senior debt and mortgage-backed pass-through securities, tri-party repurchase agreements, money market mutual funds, collateralized certificates of deposit, commercial paper, obligations of state and local governments, State of Israel Bonds, and various other investments, as allowed by law.

At June 30, 2014, the carrying amount of all University deposits with the OST and other financial institutions was \$2,210,875. This amount consisted of deposits with the OST (\$2,201,008), unremitted collections by a third party (\$2,477), and change funds (\$7,390). Of funds on deposit with the OST, amounts invested in *OK INVEST* total \$1,720,547 in 2014. The differences between the bank balance of deposits and the related carrying amounts were generally not significant and are due to outstanding checks and deposits in transit.

For financial reporting purposes, deposits with the OST that are invested in *OK INVEST* are classified as cash equivalents. The distribution of deposits in *OK INVEST* is as follows at June 30, 2014:

<u>OK INVEST Portfolio</u>	<u>Cost</u>	<u>Market Value</u>
U.S. Agency	\$ 789,392	\$ 787,857
Money Market Mutual Fund	83,071	83,071
End of Day Commercial Paper Sweep	36,207	36,207
Certificates of Deposit	44,663	44,663
Mortgage Backed Agency Securities	706,817	721,401
Municipal Bonds	26,396	29,233
Foreign Bonds	13,517	13,517
U.S. Treasury	20,484	25,358
TOTAL	<u>\$ 1,720,547</u>	<u>\$ 1,741,307</u>

Agencies and funds that are considered to be part of the State’s reporting entity in the State’s Comprehensive Annual Financial Report are allowed to participate in *OK INVEST*. Oklahoma statutes and the OST establish the primary objectives and guidelines governing the investment of funds in *OK INVEST*. Safety, liquidity, and return on investment are the objectives which establish the framework for the day to day *OK INVEST* management with an emphasis on safety of the capital and the probable income to be derived and meeting the State and its funds and agencies’ daily cash flow requirements. Guidelines in the Investment Policy address credit

## NOTES TO THE FINANCIAL STATEMENTS--Continued

### SOUTHEASTERN OKLAHOMA STATE UNIVERSITY

June 30, 2014

#### NOTE B--DEPOSITS AND INVESTMENTS—Continued

Deposits--Continued: quality requirements, diversification percentages and specify the types and maturities of allowable investments, and the specifics regarding these policies can be found on the OST website at <http://www.treasurer.state.ok.us/>. The State Treasurer, at his discretion, may further limit or restrict such investments on a day to day basis. *OK INVEST* includes a substantial investment in securities with an overnight maturity as well as in U.S. government securities with a maturity of up to ten years. *OK INVEST* maintains an overall weighted average maturity of no more than four years.

Participants in *OK INVEST* maintain an interest in its underlying investments and, accordingly, may be exposed to certain risks. As stated in the OST information statement, the main risks are interest rate risk, credit/default risk, liquidity risk, and U.S. government securities risk. Interest rate risk is the risk that during periods of rising interest rates, the yield and market value of the securities will tend to be lower than prevailing market rates; in periods of falling interest rates, the yield will tend to be higher. Credit/default risk is the risk that an issuer or guarantor of a security, or a bank or other financial institution that has entered into a repurchase agreement, may default on its payment obligations. Liquidity risk is the risk that *OK INVEST* will be unable to pay redemption proceeds within the stated time period because of unusual market conditions, an unusually high volume of redemption requests, or other reasons. U.S. Government securities risk is the risk that the U.S. government will not provide financial support to U.S. government agencies, instrumentalities or sponsored enterprises if it is not obligated to do so by law. Various investment restrictions and limitations are enumerated in the State Treasurer's Investment Policy to mitigate those risks; however, any interest in *OK INVEST* is not insured or guaranteed by the State of Oklahoma, the Federal Deposit Insurance Corporation, or any other government agency.

Investments: Investment *credit risk* is the risk that an issuer or other counterparty to an investment will not fulfill its obligations. Generally, the University's investments are managed by the State Treasurer. In accordance with state statutes the State Treasurer may only purchase and invest in (a) obligations of the United States government, its agencies and instrumentalities; (b) prime banker's acceptances; (c) investment grade obligations of state and local governments; (d) money market funds; (e) collateralized or insured certificates of deposits; (f) negotiable certificates of deposits; (g) prime commercial paper; and (h) repurchase agreements. *Interest rate risk* is the risk that changes in interest rates will adversely affect the fair value of an investment. Investments that are held for longer periods of time are subject to increased risk of adverse interest changes. Neither the University nor state statutes limit investment maturities as a means of managing exposure to fair value losses arising from increasing interest rates; however,

NOTES TO THE FINANCIAL STATEMENTS--Continued

SOUTHEASTERN OKLAHOMA STATE UNIVERSITY

June 30, 2014

NOTE B--DEPOSITS AND INVESTMENTS--Continued

Investments--Continued: the OST Investment Policy limits the average maturity on its portfolio to four (4) years, with certain individual securities having more restrictive limits as defined in the policy. *Concentration of credit risk* is the risk of loss attributed to the magnitude of the University's investment in a single issuer. Neither the University's investment policy nor state statutes place limits on amounts that can be invested in any one issuer; however, the OST Investment Policy states that, with the exception of U.S. Treasury securities, no more than 50% of the State's total funds may be invested in a single security type or with a single financial institution, with diversification percentages being more restrictive on individual securities. *Custodial credit risk* for investments is the risk that, in the event of failure of the counterparty, the University will not be able to recover the value of its investments or collateral securities in the possession of an outside party. As of June 30, 2014, none of the University's investments were subject to custodial credit risk.

Bond Fund Cash and Investments: Certain non-pooled cash and investments are restricted in purpose by policies incorporated in applicable bond indentures. *Credit risk* policy generally restricts investing to cash, investments fully insured by the FDIC and U.S. government and agency securities or mutual funds investing in these types of securities. There may be some variance among the investments authorized by the specific bond indentures of University bond issues.

The OST and/or a trustee bank generally provide the management of restricted, non-pooled investments. *Custodial credit risk* is not addressed by bond indentures. *Interest rate risk* in bond indentures provide that investments mature in no more than six to sixty months depending on the purpose of the funds and the requirements of the account in which the funds are deposited (i.e. construction, reserve, operations, and maintenance, etc.) *Concentration of credit risk* is not addressed.

At June 30, 2014, the University had no cash and investments in restricted bond funds.

Investments Held by Others: As of June 30, 2014, the University depleted funds in the amount of \$18,795 towards the refinancing of the ODFA Master Lease Revenue Bonds, 2002C Series, as described in Note E.

NOTES TO THE FINANCIAL STATEMENTS--Continued

SOUTHEASTERN OKLAHOMA STATE UNIVERSITY

June 30, 2014

NOTE C--ACCOUNTS RECEIVABLE

Accounts receivable consisted of the following at June 30, 2014:

Student tuition and fees	\$ 1,538,693
Auxiliary enterprises and other operating activities	311,872
Federal, state, and private grants and contracts	<u>442,573</u>
	2,293,138
Less: allowance for doubtful accounts	<u>(929,812)</u>
Net accounts receivable	<u>\$ 1,363,326</u>

The receivable from state agencies consists of a receivable from the Oklahoma State Regents for Higher Education (OSRHE). The receivable is \$752,489 in 2014 that represents endowment revenue earned by the University that is invested at OSRHE.

NOTES TO THE FINANCIAL STATEMENTS--Continued

SOUTHEASTERN OKLAHOMA STATE UNIVERSITY

June 30, 2014

NOTE D--CAPITAL ASSETS

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

	Balance June 30, 2013	Additions	Transfers	Retirements/ Adjustments	Balance June 30, 2014
Capital assets not being depreciated					
Land	\$ 3,055,733	\$ 277,746	\$ -	\$ -	\$ 3,333,479
Capitalized collections	371,835	-	-	-	371,835
Construction in progress	57,267	1,291,576	(745,979)	-	602,864
Total capital assets not being depreciated	<u>\$ 3,484,835</u>	<u>\$ 1,569,322</u>	<u>\$ (745,979)</u>	<u>\$ -</u>	<u>\$ 4,308,178</u>
Other capital assets					
Non-major infrastructure networks	\$ 11,979,164	\$ -	\$ 91,663	\$ -	\$ 12,070,827
Improvements	2,675,931	-	615,395	-	3,291,326
Buildings	76,113,714	-	38,921	-	76,152,635
Furniture, fixtures and equipment	8,169,159	656,940	-	(521,036)	8,305,063
Library materials	6,829,863	53,702	-	(86,198)	6,797,367
Total other capital assets	105,767,831	710,642	745,979	(607,234)	106,617,218
Less: accumulated depreciation for					
Non-major infrastructure networks	(7,850,078)	(983,227)	-	-	(8,833,305)
Improvements	(2,285,100)	(192,791)	-	-	(2,477,891)
Buildings	(30,987,568)	(1,992,218)	-	-	(32,979,786)
Furniture, fixtures and equipment	(7,474,611)	(407,784)	-	521,036	(7,361,359)
Library materials	(6,699,857)	(68,499)	-	85,188	(6,683,168)
Total accumulated depreciation	(55,297,214)	(3,644,519)	-	606,224	(58,335,509)
Other capital assets, net	<u>\$ 50,470,617</u>	<u>\$ (2,933,877)</u>	<u>\$ 745,979</u>	<u>\$ (1,010)</u>	<u>\$ 48,281,709</u>
Capital asset summary:					
Capital assets not being depreciated	\$ 3,484,835	\$ 1,569,322	\$ (745,979)	\$ -	\$ 4,308,178
Other capital assets, at cost	105,767,831	710,642	745,979	(607,234)	106,617,218
Total cost of capital assets	109,252,666	2,279,964	-	(607,234)	110,925,396
Less: accumulated depreciation	(55,297,214)	(3,644,519)	-	606,224	(58,335,509)
Capital assets, net	<u>\$ 53,955,452</u>	<u>\$ (1,364,555)</u>	<u>\$ -</u>	<u>\$ (1,010)</u>	<u>\$ 52,589,887</u>

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

NOTES TO THE FINANCIAL STATEMENTS--Continued

SOUTHEASTERN OKLAHOMA STATE UNIVERSITY

June 30, 2014

NOTE E--LONG-TERM LIABILITIES

Long-term liability activity for the year ended June 30, 2014, was as follows:

	Balance			Balance	Amounts
	June 30, 2013	Additions	Reductions	June 30, 2014	due within
					one year
Bonds payable and capital lease obligations:					
Revenue bonds payable	\$ 5,915,000	\$ -	\$ (5,915,000)	\$ -	\$ -
OCIA Leases	11,320,836	-	(714,077)	10,606,759	899,243
ODFA Leases	10,759,258	5,515,000	(1,182,250)	15,092,008	1,427,500
Capital lease obligation	1,790,095	-	(192,410)	1,597,685	200,627
Total bonds and capital leases	29,785,189	5,515,000	(8,003,737)	27,296,452	2,527,370
Other liabilities:					
Accrued compensated absences	1,114,532	759,346	(728,459)	1,145,419	782,432
Total other liabilities	1,114,532	759,346	(728,459)	1,145,419	782,432
Total long-term liabilities	\$ 30,899,721	\$ 6,274,346	\$ (8,732,196)	\$ 28,441,871	\$ 3,309,802

Revenue Bonds Payable

During January 2014, the University refinanced the Student Union Revenue Serial Bonds Series 2003 and Student Union Revenue Term Bonds Series 2003 (collectively known as the "Bonds") through the ODFA Master Real Property Lease Revenue Refunding Bonds, Series 2013B.

Capital Lease Obligations:

*Oklahoma Capital Improvement Authority Leases*

In 2004, the OCIA issued bond series 2004A that refunded a significant portion of the 1999A bonds. The amortization of the 1999A bond issue ended in 2010. The lease agreement no longer secures the 1999A bond issue but now acts as security for the 2004A bond issue over the term of the lease through the year 2020. The University has drawn down all of its allotment for expenditures incurred in connection with specific projects which have been capitalized as capital assets (building and construction in-progress) in accordance with University policy. The University has recorded a lease obligation payable to OCIA for the total amount of the allotment, less payments made on the University's behalf, which is \$690,716 at June 30, 2014.

In November 2005, the Oklahoma Capital Improvement Authority (OCIA) issued its OCIA Bond Issues, 2005 Series F and G. In 2011, the OCIA issued Bond Series 2010A and 2010B to partially refund the Series 2005F Revenue Bonds.

NOTES TO THE FINANCIAL STATEMENTS--Continued

SOUTHEASTERN OKLAHOMA STATE UNIVERSITY

June 30, 2014

NOTE E--LONG-TERM LIABILITIES – Continued

Capital Lease Obligations--Continued:

*Oklahoma Capital Improvement Authority Leases--Continued*

In 2011, the OCIA issued Bond Series 2010A and 2010B to partially refund the Series 2005F Revenue Bonds. The advance partial refunding was to provide budgetary relief for fiscal years 2011 and 2012 by extending and restructuring the debt service. As a result, the total liability of the remaining 2005F bonds combined with the new 2010A and 2010B bond issues will be more than the original outstanding liability for the 2005F bonds. Consequently, the lease agreement with OCIA was automatically restructured to secure the new bond issues. This lease restructuring has extended certain principal payments into the future, resulting in a deferred restructuring charge of \$927,419 that will be amortized over a period of six years, beginning in fiscal year 2011. This restructuring resulted in an aggregate debt service difference for principal and interest between the original lease agreement and the restructured lease agreement of \$45,806, which also approximates the economic cost of the lease restructuring. The University has recorded a lease obligation payable to OCIA for the total amount of the allotment, less payments made on the University's behalf, which is \$3,610,533 at June 30, 2014.

In 2014, the OCIA issued Bond Series 2014A to partially refund the Series 2005F Revenue Bonds. This restructuring resulted in a gain of \$316,314 between the remaining liability of 2005F and the new liability of 2014A. This gain 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 cost totaled \$311,472. The University has recorded a lease obligation payable to OCIA for the total amount of the allotment, less payments made on the University's behalf, which is \$5,700,248 at June 30, 2014.

During the year ended June 30, 2014, OCIA made lease principal and interest payments totaling \$876,984 on behalf of the University. These on-behalf payments have been recorded as restricted state appropriations in the statement of revenues, expenses, and changes in net position.

*Oklahoma Development Finance Authority Master Lease Program*

There were no remaining funds to be drawn down by the University under the ODFA master lease programs at June 30, 2014.

NOTES TO THE FINANCIAL STATEMENTS--Continued

SOUTHEASTERN OKLAHOMA STATE UNIVERSITY

June 30, 2014

NOTE E--LONG-TERM LIABILITIES--Continued

Capital Lease Obligations--Continued:

*Oklahoma Development Finance Authority Master Lease Program-Continued*

	<u>2014</u>
ODFA Oklahoma State System of Higher Education Master Lease Revenue Bonds, Series 2003B refinanced to 2014A, allocated to the University in the original amount of \$140,000 and mature in varying annual amounts to June 1, 2023.	\$ 99,000
Student Union Revenue Serial Bonds and Term Bonds Series 2003, refinanced to ODFA Oklahoma State System of Higher Education Master Lease Revenue Bonds Series 2013B, allocated to the University in the original amount of \$5,515,000 and mature in varying annual amounts to June 1, 2028.	5,439,500
ODFA Oklahoma State System of Higher Education Master Lease Revenue Bonds, Series 2002C refinanced to 2011B, allocated to the University in the refinanced amount of \$4,964,000 and mature in varying annual amounts to December 1, 2022.	4,301,417
ODFA Oklahoma State System of Higher Education Master Lease Revenue Bonds, Series 2004C, allocated to the University in the original amount of \$3,563,000 and mature in varying annual amounts to December 1, 2024.	2,194,583
ODFA Oklahoma State System of Higher Education Master Lease Revenue Bonds, Series 2006A, allocated to the University in the original amount of \$1,971,000 and mature in varying annual amounts to December 1, 2021.	1,111,167
ODFA Oklahoma State System of Higher Education Master Lease Revenue Bonds, Series 2006B, allocated to the University in the original amount of \$1,200,000 and mature in varying annual amounts to June 1, 2016.	266,341
ODFA Oklahoma State System of Higher Education Master Lease Revenue Bonds, Series 2007B, allocated to the University in the original amount of \$2,518,000 and mature in varying annual amounts to December 1, 2022.	<u>1,680,000</u>
	<u>\$ 15,092,008</u>

NOTES TO THE FINANCIAL STATEMENTS--Continued

SOUTHEASTERN OKLAHOMA STATE UNIVERSITY

June 30, 2014

NOTE E--LONG-TERM LIABILITIES--Continued

Capital Lease Obligations--Continued:

*Suntrust Capital Lease*

In March 2006, the University entered into a capital lease agreement with Suntrust Leasing Corporation for \$3,000,000 with annual rental payments of principal and interest to be paid through September 2020 bearing an annual interest rate of 4.26%. This capital lease was obtained to make building improvements. The University has recorded a lease obligation payable in the accompanying financial statements with an outstanding balance of \$1,597,685 at June 30, 2014.

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

	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
Year Ending June 30:			
2015	\$ 2,527,370	\$ 878,664	\$ 3,406,034
2016	2,591,546	974,954	3,566,500
2017	2,689,269	926,748	3,616,017
2018	2,787,551	835,652	3,623,203
2019	2,886,486	720,078	3,606,564
2020-2024	7,532,323	2,340,983	9,873,306
2025-2029	4,912,503	965,497	5,878,000
2030-2031	1,369,404	102,373	1,471,777
	<u>\$ 27,296,452</u>	<u>\$ 7,744,949</u>	<u>\$ 35,041,401</u>

NOTE F--RETIREMENT PLANS

The University's academic and nonacademic personnel are covered by various retirement plans. The plans available to University personnel include the Oklahoma Teachers' Retirement System ("OTRS"), which is a State of Oklahoma public employees' retirement system, the Teachers' Insurance Annuity Association, which is a defined contribution plan, and the Supplemental Retirement Annuity (SRA), a single employer defined benefit pension plan available to employees hired prior to July 1, 1995. The University does not maintain the accounting records, hold the investments for, or administer these plans.

Plan Description: The University contributes to the Oklahoma Teachers' Retirement System, a cost-sharing multiple-employer defined benefit pension plan sponsored by the State of Oklahoma. OTRS provides defined retirement benefits based on members' final compensation,

NOTES TO THE FINANCIAL STATEMENTS--Continued

SOUTHEASTERN OKLAHOMA STATE UNIVERSITY

June 30, 2014

NOTE F--RETIREMENT PLANS--Continued

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

Funding Policy: The University is required to contribute a fixed percentage of annual compensation on behalf of active members. The employer contribution rate was 8.55% from January 1, 2010, through June 30, 2014, and 8.05% from July 1, 2009, through December 31, 2009, as applied to annual compensation, and are determined by state statute.

Employees' contributions are also determined by state statute. For all employees, the contribution rate was 7% of covered salaries and fringe benefits in 2014 and 2013. For compensation in excess of \$25,000, the employee's contributions are paid directly by the University to the OTRS.

The University's contributions to the OTRS for the years ended June 30, 2014, and 2013, were \$3,708,721 and \$3,596,198, respectively, equal to the required contributions for each year. These contributions included the University's statutory contribution and the share of the employee's contribution.

The State of Oklahoma is also required to contribute to the OTRS on behalf of the participating employers. For 2014, the State of Oklahoma contributed 5% of the personal and corporate income tax, 5% of the sales and use taxes, and 5% of lottery revenue and other smaller sources of revenue, to the OTRS on behalf of participating employers. The University has estimated the amounts contributed to the OTRS by the State of Oklahoma on its behalf by multiplying the ratio of its covered salaries to total covered salaries to total covered salaries for the OTRS for the year by the applicable percentage of taxes collected during the year. For the year ended June 30, 2014, the total amount contributed to the OTRS by the State of Oklahoma on behalf of the University was approximately \$1,713,091. These on-behalf payments have been recorded as both revenues and expenses in the statements of revenues, expenses, and changes in net position.

NOTES TO THE FINANCIAL STATEMENTS--Continued

SOUTHEASTERN OKLAHOMA STATE UNIVERSITY

June 30, 2014

NOTE F--RETIREMENT PLANS--Continued

*Defined Contribution Plans*

The University also has a defined contribution 403(b) plan (DCP) available to full-time employees. The DCP is administered by the RUSO system, and the plan provisions are established and may be amended by the Board of Regents. Plan members may make voluntary contributions in accordance with IRS regulations. The University has no contribution requirements but may make discretionary contributions. No contributions were made during the years ended June 30, 2014, and 2013.

*Supplemental Retirement Annuity (SRA)*

Plan Description: The University's SRA plan is a single employer, defined benefit pension plan administered by the University's Board of Regents. The SRA was established by the University's Board of Regents to provide supplemental retirement and death benefits to University employees who were hired prior to July 1, 1995, or to those eligible employees' beneficiaries. The authority to amend the SRA's benefit provisions rests with the University's Board of Regents. The SRA does not issue a stand-alone financial report nor is it included in the financial report of another entity.

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

Annual Pension Cost and Net Pension Obligation (Asset): Annual pension cost and net pension obligation (asset) of the SRA for 2014 are as follows:

Annual required contribution	\$ 248,183
Interest on net pension obligation (asset)	(142,452)
Adjustment to annual required contribution	<u>181,363</u>
Annual pension cost	287,094
Contribution made	<u>(739,220)</u>
Increase in net pension obligation (asset)	(452,126)
Net pension obligation (asset) beginning of year	<u>(2,232,772)</u>
Net pension obligation (asset) end of year	<u>\$ (2,684,898)</u>

NOTES TO THE FINANCIAL STATEMENTS--Continued

SOUTHEASTERN OKLAHOMA STATE UNIVERSITY

June 30, 2014

NOTE F--RETIREMENT PLANS--Continued

*Supplemental Retirement Annuity (SRA)--Continued*

Annual Pension Cost and Net Pension Obligation (Asset)--Continued: The annual required contribution for 2014 was determined as part of an actuarial valuation on June 30, 2013, using the projected unit credit actuarial cost method. The actuarial assumptions included in 2013 are: (a) a discount rate of 6.5% per year to determine the present value of future benefit payments; (b) retirement at age 63; (c) an 8% rate of return on investments; (d) projected salary increases of 3.5% per year; and (e) a 7% interest rate for post-retirement individual annuity settlement benefits. The value of the SRA assets is based on the TIAA-CREF group annuity account asset value. The unfunded actuarial accrued liability is being amortized over fifteen years as a level dollar amount on a closed basis.

Trend Information:

Year Ended June 30	Annual Pension Cost (APC)	Percentage of APC Contributed	Net Pension Obligation (Asset)
2013	287,094	257%	(2,232,772)
2012	276,866	231%	(1,780,646)

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

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

NOTES TO THE FINANCIAL STATEMENTS--Continued

SOUTHEASTERN OKLAHOMA STATE UNIVERSITY

June 30, 2014

NOTE G--OTHER POST-EMPLOYMENT INSURANCE BENEFITS

*Postemployment Healthcare Plan*

Plan Description: The University's postemployment healthcare plan is an agent multiple-employer defined benefit plan administered by the Regional University System of Oklahoma Board of Regents (the University's Board). The plan provides medical and life insurance benefits to eligible retired employees until age 65. A retiring employee must have been employed full-time in the Regional University System of Oklahoma for not less than ten years immediately preceding the date of retirement; been a member of the Oklahoma Teachers' Retirement System during that time; and elected to receive a vested benefit under the provision of the Oklahoma Teachers' Retirement System. As of June 30, 2014, there were 323 active participants in the plan. The retirement insurance program was adopted by the Board of Regents in 1985. In March of 2008, the Retiree Medical Trust for Regional University System of Oklahoma was established to hold assets and pay benefits on behalf of the University's postemployment healthcare plan, and was administered by The Bank Oklahoma, N.A. Prior to the establishment of the trust, the insurance benefits were accounted for on a pay-as-you-go basis so that premiums were made from current operating funds. The plan does not issue a stand-alone financial report nor is it included in the financial report of another entity.

Funding Policy: The contribution requirements of the University are established and may be amended by the Regional University System of Oklahoma Board of Regents. The University is required to contribute the *annual required contribution of the employer*, in an amount actuarially determined in accordance with the parameters of GASB Statement 45. The ARC represents a level of funding that, if paid on an ongoing basis, is projected to cover normal cost each year and amortize any unfunded actuarial liabilities (or funding excess) over a period not to exceed thirty years. The current ARC is \$262,555 and represents 1.1% of covered payroll.

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

NOTES TO THE FINANCIAL STATEMENTS--Continued

SOUTHEASTERN OKLAHOMA STATE UNIVERSITY

June 30, 2014

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

*Postemployment Healthcare Plan--Continued*

Actuarial Methods and Assumptions--Continued: Projections of benefits for financial reporting purposes are based on the substantive plan and include the types of benefits provided at the time of each valuation. The actuarial methods and assumptions used include techniques that are designed to reduce short-term volatility in actuarial accrued liabilities and the actuarial value of assets, consistent with the long-term perspective of the calculations. For the June 30, 2014, actuarial valuation, the projected unit cost method was used. The actuarial assumptions included a 7.0% investment rate of return and an annual healthcare cost inflationary increase of 9.0%.

Annual OPEB Cost and Net OPEB Obligation (Asset): Annual OPEB cost and net OPEB obligation (asset) for 2014 is as follows:

Annual required contribution	\$ 262,555
Adjustment to annual required contribution	(53)
Annual OPEB cost	<u>262,502</u>
Contributions made	<u>(276,001)</u>
Increase (decrease) in net OPEB obligation	(13,499)
OPEB obligation (asset) at beginning of year	<u>129,843</u>
OPEB obligation (asset) at end of year	<u><u>\$ 116,344</u></u>

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

Actuarial accrued liability (AAL)	\$ 2,848,874
Actuarial value of plan assets	<u>990,461</u>
Unfunded actuarial accrued liability (UAAL)	<u><u>\$ 1,858,413</u></u>
Funded ratio (actuarial value of plan assets/AAL)	34.8%
Covered payroll (active plan members)	\$ 23,477,539
UAAL as a percentage of covered payroll	7.9%

Trend Information:

Fiscal Year Ended	Annual OPEB Cost	Annual OPEB Cost Contributed/Percentage	Net OPEB Obligation (Asset)
6/30/2014	\$ 262,555	105.1%	\$ 116,344
6/30/2013	268,909	97.4%	129,842
6/30/2012	265,527	101.6%	122,794

## NOTES TO THE FINANCIAL STATEMENTS--Continued

### SOUTHEASTERN OKLAHOMA STATE UNIVERSITY

June 30, 2014

#### NOTE H--FUNDS HELD IN TRUST BY OTHERS

Beneficial Interest in State School Land Funds: The University has a beneficial interest in the "Section Thirteen Fund State Educational Institutions" and the "New College Fund" administered by the Commissioners of the Land Office as trustees for the various educational institutions entitled thereto. The University has the right to receive annually 3.7% of the distributions of income produced by "Section Thirteen Fund State Educational Institutions" assets and 100% of the distributions of income produced by Southeastern Oklahoma State University's "New College Fund." The University received \$1,004,850 during the year ended June 30, 2014, which is restricted to the construction or acquisition of buildings, equipment, or other capital items. This amount is recorded as restricted appropriations for capital purposes in the 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 cost basis of the trust reserve for Southeastern Oklahoma State University, held in trust by the commissioners of Land Office, was \$17,275,693 at June 30, 2014.

Oklahoma State Regents Endowment Trust Fund: The University participates in the Oklahoma State Regents' Endowment Program (the "Endowment Program"). Under the Endowment Program, the State of Oklahoma matches contributions received. Such contributions generally come from private donations through the Foundation, for endowed chairs, lectureships, fellowships, and similar activities. The University is entitled to receive an annual distribution of 4.5% of the market value at year-end on these funds. As legal title of the State Regents matching endowment funds is retained by the Oklahoma State Regents, only the funds available for distribution, or \$752,489 at June 30, 2014, have been reflected as assets in the statements of net position. The total market value of endowment funds on deposit with the Oklahoma State Regents and held for the benefit of the University at June 30, 2014 was \$4,510,759.

#### NOTE I--RELATED PARTY TRANSACTIONS

The University contracts with the Foundation to provide limited services and office space without charge in exchange for the support the University receives. During the year ended June 30, 2014, total support provided by the Foundation to the University, including scholarships awarded to University students, was approximately \$882,000. Additionally, during the year ended June 30, 2014, the Foundation's consolidated Housing L.L.C., which was organized for the purpose of building and housing students of the University, incurred expenses of \$1,098,841.

## NOTES TO THE FINANCIAL STATEMENTS--Continued

### SOUTHEASTERN OKLAHOMA STATE UNIVERSITY

June 30, 2014

#### NOTE J--COMMITMENTS AND CONTINGENCIES

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

The University participates in the Federal Direct Student Loan Program (Direct Lending Program). The William D. Ford Direct Loan Program requires the University to draw down cash from the U.S. Department of Education, as well as perform certain administrative functions under the William D. Ford Direct Loan Program. For the year ended June 30, 2014, \$11,331,733 of Direct Loan Program loans were provided to College students.

During the ordinary course of business, the University may be subjected to various lawsuits and civil action claims. Management believes that resolution of any such matters pending at June 30, 2014, will not have material adverse impact to the University.

#### NOTE K--RISK MANAGEMENT

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

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

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

NOTES TO THE FINANCIAL STATEMENTS--Continued

SOUTHEASTERN OKLAHOMA STATE UNIVERSITY

June 30, 2014

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

*Nature of Activities and Summary of Significant Accounting Policies*

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

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

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

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

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

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

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

Basis of Presentation: The organization is required to report information regarding its financial position and activities according to three classes of net position: unrestricted net position, temporarily restricted net position, and permanently restricted net position.

NOTES TO THE FINANCIAL STATEMENTS--Continued

SOUTHEASTERN OKLAHOMA STATE UNIVERSITY

June 30, 2014

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

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

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

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

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

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

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

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

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

NOTES TO THE FINANCIAL STATEMENTS--Continued

SOUTHEASTERN OKLAHOMA STATE UNIVERSITY

June 30, 2014

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

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

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

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

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

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

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

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

NOTES TO THE FINANCIAL STATEMENTS--Continued

SOUTHEASTERN OKLAHOMA STATE UNIVERSITY

June 30, 2014

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

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

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

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

- Level 1: Quoted prices in active markets for identical assets or liabilities;
- Level 2: Inputs that are derived principally from or corroborated by observable market data; and
- Level 3: Inputs that are unobservable and significant to the overall fair value measurement.

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

Taxes: The Foundation is exempt from income taxes by the Internal Revenue Service in accordance with Internal Revenue Code Section 501(c)(3). Additionally, the Foundation has been determined not to be a private foundation within the meaning of Section 509(a) of the Code.

*Variable Interest Entity*

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

The Housing L.L.C. reflects liabilities of \$8,520,799 as of June 30, 2014, the majority of which is a guarantee of debt to the 2005 Revenue Bond.

NOTES TO THE FINANCIAL STATEMENTS--Continued

SOUTHEASTERN OKLAHOMA STATE UNIVERSITY

June 30, 2014

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

*Concentration of Credit Risk for Cash Deposits*

Financial instruments that potentially subject the Foundation to concentrations of credit risk consist principally of cash deposits. Accounts at each institution are insured by the Federal Deposit Insurance Corporation (FDIC) up to \$250,000. At June 30, 2014, the LLC was covered in full with deposits that were eligible for FDIC coverage.

The Foundation has invested in Charles Schwab money market fund. This fund is neither insured nor guaranteed by the FDIC or any other governmental agency. The total invested in this fund for the current year is \$2,361,086.

The Foundation has opened a corporate sweep account and entered into a Tri-Party Control and Custody Agreement which includes Bank One, N.A., Oklahoma City, Oklahoma, and First United Bank and Trust, Durant, Oklahoma. Bank One, N.A. is authorized to act as custodian pursuant to the terms and conditions of the corporate sweep account, whereby funds in the account are invested in retail purchase agreements which are fully collateralized and guaranteed by securities which are direct obligations of the government of the United States. The total invested in this fund for the current year is \$887,457.

*Restrictions on Cash*

The Housing L.L.C. is required to maintain a permanent debt service escrow account and a capital maintenance reserve fund with balances of \$353,910 and \$194,867 respectively at year-end. These funds must be held in separate interest bearing accounts. The capital maintenance is being funded at a rate of \$2,083 per month funds can only be disbursed for approved capital asset expenditures.

*Certificates of Deposits*

Certificates of deposits totaling \$58,743 are reported in the accompanying statement of financial position. The certificates bear interest ranging from .4%-5.2% and have maturities ranging from six to nine months, with penalties for early withdrawal. Any penalties for early withdrawal would not have a material effect on the financial statements.

*Accounts Receivable*

The accounts receivable are generated from student housing at Shearer Hall and Suites and rent collections to be remitted from the University. The amounts reported in the financial statements are reported net of the allowance for bad debts of \$68,995 for the year ended June 30, 2014.

NOTES TO THE FINANCIAL STATEMENTS--Continued

SOUTHEASTERN OKLAHOMA STATE UNIVERSITY

June 30, 2014

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

*Notes Receivable*

As of June 30, 2014, notes receivable consisted of the following:

	<u>Carrying Value</u>
Note receivable from a general partnership, 6.5% interest due in monthly installments of \$364. Secured by a mortgage on real estate.	12,475
	<u>\$ 12,475</u>

*Investments*

Investments are presented in the financial statements at fair market value. Market values were determined on the basis of closing prices on June 30, 2014, as quoted on major stock exchanges or over-the-counter markets.

The following tabulation summarizes the relationship between carrying values and market values of investment assets as of June 30, 2014:

	<u>Fair Value</u>	<u>Carrying Value</u>
US government securities	\$ 1,285,443	\$ 1,285,443
Mutual funds	1,331,699	1,331,699
Common stock	10,867,600	10,867,600
Corporate bonds	<u>5,419,598</u>	<u>5,419,598</u>
	<u>\$ 18,904,340</u>	<u>\$ 18,904,340</u>
Investment income is summarized as follows:		
Interest	\$ 285,458	
Dividends	<u>302,342</u>	
	<u>\$ 587,800</u>	
Realized and unrealized gain or (loss) on investments	<u>\$ 1,660,224</u>	

NOTES TO THE FINANCIAL STATEMENTS--Continued

SOUTHEASTERN OKLAHOMA STATE UNIVERSITY

June 30, 2014

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

*Building, Furniture and Fixtures*

Property and equipment at June 30, 2014, consisted of the following:

Building	\$ 9,040,266
Furniture and equipment	<u>397,395</u>
	9,437,661
Less: accumulated depreciation	<u>(2,577,180)</u>
	<u>\$ 6,860,481</u>

*Bond Issuance Costs*

The issuance cost of \$184,681 on long-term debt is amortized using the straight-line method over the term of the related issue. Amortization expense and accumulated amortization was \$6,156 and \$57,468 for the year ended June 30, 2014.

*Scholarship Awards*

Prior to year-end, the Foundation Scholarship Committee meets and awards scholarships for the upcoming year. Additional scholarships are awarded as recommended by the University faculty and administration. These scholarships are contingent upon the acceptance and enrollment of the recipients and many contain additional requirements. Those scholarships awarded and accepted in the amount of \$425,050 were accrued as current liabilities at June 30, 2014.

*Real Estate Lease*

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

The liability of the Lessee, with respect to its obligation under the ground lease, shall be non-recourse and the satisfaction of any of the Lessee's obligations shall be limited to the Lessee's interest in the property. There were no ground lease expenses for the year ended June 30, 2014.

NOTES TO THE FINANCIAL STATEMENTS--Continued

SOUTHEASTERN OKLAHOMA STATE UNIVERSITY

June 30, 2014

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

*Real Estate Lease--Continued*

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

*Restriction on Net Position*

Substantially all of the restrictions on net position at the end of June 30, 2014, are related to funds for scholarships, endowments, and special projects. Temporarily restricted funds are contributions to be used for scholarships and special projects that may arise during the fiscal year. Permanently restricted funds are contributions and investments designated by donors for endowments and scholarships. At this time, there is a minimum \$15,000 requirement before contributions may be endowed.

*Long-Term Debt*

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

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

Years ending June 30,	
2015	\$ 219,313
2016	231,962
2017	245,340
2018	295,202
2019	312,206
Thereafter	<u>7,216,776</u>
	<u>\$ 8,520,799</u>

NOTES TO THE FINANCIAL STATEMENTS--Continued

SOUTHEASTERN OKLAHOMA STATE UNIVERSITY

June 30, 2014

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

*Uncertain Tax Positions*

The organization is exempt from income taxes except on income derived from unrelated business activities. The organization believes that it has appropriate support for any tax positions taken and, as such, does not have any uncertain tax positions that are material to the financial statements.

The organization's federal Exempt Organization Business Income Tax Returns for 2013, 2012, and 2011 are subject to examination by the IRS, generally for three years after they were filed.

*Related Party Transactions*

The Foundation has entered into a lease agreement with the University whereby the University has exclusive use of a downtown, main street building known as the Massey Building. The University may use the building for its various functions or rent it out. In exchange for the use of the Massey Building, the University provides the Foundation with office space, office supplies, support materials, and fund-raising assistance from its employees. If the formula for exchange ever shows the University is giving more to the Foundation than the Foundation is providing to the University, the Foundation is required to compensate the University for this overage. There were no overages for the year ended June 30, 2014. The Foundation benefits from voluntary services, donated by members of the Foundation and its trustees, which have not been reflected in the financial statements. The impact of those services upon the financial statements is unknown.

*Unrestricted Net Assets*

The consolidated statement of net position reports unrestricted net assets of \$807,882. Unrestricted net assets of the Foundation total \$1,693,668, while the L.L.C. has a (deficiency) in assets totaling \$(885,786). Included in Foundation net assets are board-designated permanently restricted funds totaling \$510,967. The L.L.C.'s deficiency in assets arose from operating deficits related to housing rental activities in the early years that were ultimately funded by University subsidies. The University will continue to pay unfunded expenses, however, management believes that the L.L.C.'s housing revenues have been adjusted so that it will now be self-sustaining and will not require further subsidies from the University. In the current year, the L.L.C. funded all of its allocable operating expenses.

NOTES TO THE FINANCIAL STATEMENTS--Continued

SOUTHEASTERN OKLAHOMA STATE UNIVERSITY

June 30, 2014

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

*Classification of Income*

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

*Board Designated Endowments*

At its February, 2013, meeting the Board approved transferring \$275,000 from the Foundation's General Fund account along with \$235,967 of existing board-controlled endowment funds to a permanently restricted fund. At June 30, 2014, these funds totaled \$510,967. The Board voted that only current year earnings from these funds could be used for Foundation activities. Since this results from an internal designation and is not donor-restricted, it is classified and reported as unrestricted net assets in the Foundation financial statements.

*Donor Designated Endowments*

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

The Board of Trustees of the Organization has interpreted the Uniform Prudent Management of Institutional Funds Act (UPMIFA) as requiring the preservation of the fair value of the original gift as of the gift date of the donor-restricted endowment funds absent explicit donor stipulations to the contrary. As a result of this interpretation, the Organization classifies as permanently restricted net assets (a) the original value of gifts donated to the permanent endowment, (b) the original value of subsequent gifts to the permanent endowment, and (c) accumulations to the permanent endowment made in accordance with the direction of the applicable donor gift instrument at the time the accumulation is added to the fund. The remaining portion of the donor-restricted endowment fund that is not classified in permanently restricted net position is classified as temporarily restricted net position until those amounts are appropriated for expenditure by the Organization in a manner consistent with the standard of prudence

NOTES TO THE FINANCIAL STATEMENTS--Continued

SOUTHEASTERN OKLAHOMA STATE UNIVERSITY

June 30, 2014

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

*Donor Designated Endowments – Continued*

prescribed by UPMIFA. In accordance with UPMIFA, the Organization considers the following factors in making a determination to appropriate or accumulate donor-restricted endowment funds: (1) the duration and preservation of the various funds, (2) the purposes of the donor-restricted endowment funds, (3) general economic conditions, (4) the possible effect of inflation and deflation, (5) the expected total return from income and the appreciation of investments, (6) other resources of the Organization, and (7) the Organization's investment policies.

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

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

NOTES TO THE FINANCIAL STATEMENTS--Continued

SOUTHEASTERN OKLAHOMA STATE UNIVERSITY

June 30, 2014

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

*Donor Designated Endowments – Continued*

Funds with Deficiencies: From time to time, the fair value of assets associated with individual donor restricted endowment funds may fall below the level that the donor requires the Foundation to retain as a fund of perpetual duration. There were no deficiencies of this nature as of June 30, 2014.

Endowment Net Asset Composition by Type of Fund as of June 30, 2014, is as follows:

	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Permanently Restricted</u>	<u>Total</u>
Donor restricted endowment funds	\$ 906,149	\$ 8,590,973	\$ 11,987,550	\$ 21,484,672

Changes in endowment net assets as of June 30, 2014, are as follows:

	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Permanently Restricted</u>	<u>Total</u>
Endowment net assets beginning of year	\$ 1,245,093	\$ 6,561,861	\$ 11,963,246	\$ 19,770,200
Contributions	23,665	799,954	29,304	852,923
Investment income	21,763	563,154	-	584,917
Net appreciation (depreciation)	59,610	1,600,614	-	1,660,224
Transfers	428,643	(934,610)	(5,000)	(510,967)
Amounts appropriated for expenditures	(872,625)	-	-	(872,625)
	<u>\$ 906,149</u>	<u>\$ 8,590,973</u>	<u>\$ 11,987,550</u>	<u>\$ 21,484,672</u>

NOTES TO THE FINANCIAL STATEMENTS--Continued

SOUTHEASTERN OKLAHOMA STATE UNIVERSITY

June 30, 2014

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

*Fair Value Measurements*

The Foundation has no liabilities measured at fair value. Assets measured at fair value on recurring basis are classified within the fair value hierarchy as follows at June 30, 2014:

	<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>	<u>Total</u>
Investments in Securities				
Common stocks:				
Consumer Discretionary	\$ 746,533	\$ -	\$ -	\$ 746,533
Consumer Staples	688,586	-	-	688,586
Energy	3,084,370	-	-	3,084,370
Financials	1,059,318	-	-	1,059,318
Healthcare	1,159,399	-	-	1,159,399
Industrials	1,083,555	-	-	1,083,555
Information Technology	1,958,402	-	-	1,958,402
Materials	481,314	-	-	481,314
Telecommunications	453,949	-	-	453,949
Utilities	98,785	-	-	98,785
Corporate bonds	-	3,704,578	-	3,704,578
Government bonds	1,285,443	-	-	1,285,443
Municipal bonds	-	1,715,020	-	1,715,020
Mutual Funds:				-
Cash & Equivalents	19,975	-	-	19,975
Equity based:				-
Consumer Services	3,379	-	-	3,379
Energy	3,938	-	-	3,938
Financials	1,980	-	-	1,980
Healthcare	5,267	-	-	5,267
Industrials	24,096	-	-	24,096
Media	944	-	-	944
Real Estate	1,189	-	-	1,189
Technology	2,452	-	-	2,452
Telecommunications	2,273	-	-	2,273
Utilities	1,832	-	-	1,832
Debt based:				
Corporate Bonds	-	472,947	-	472,947
Government Bonds	-	844,816	-	844,816
Total Investments	<u>\$ 12,166,979</u>	<u>\$ 6,737,361</u>	<u>\$ -</u>	<u>\$ 18,904,340</u>

NOTES TO THE FINANCIAL STATEMENTS--Continued

SOUTHEASTERN OKLAHOMA STATE UNIVERSITY

June 30, 2014

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

*Fair Value Measurements--Continued*

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

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

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

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

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

*Subsequent Events*

Management has evaluated subsequent events through October 31, 2014, which is the date the financial statements were available to be issued.

REQUIRED SUPPLEMENTARY  
INFORMATION

REQUIRED SUPPLEMENTARY INFORMATION--UNAUDITED

SOUTHEASTERN OKLAHOMA STATE UNIVERSITY

June 30, 2014

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

Actuarial Valuation Date	Actuarial Value of Assets (a)	Actuarial Accrued Liability (AAL) (b)	Unfunded AAL (UAAL) (b-a)	Funded Ratio (a/b)	Covered Payroll (c)	UAAL as a percentage of Covered Payroll (b-a)/(c)
6/30/2006	\$ 1,786,664	\$ 3,708,371	\$ 1,921,707	48.2%	\$ 4,026,282	47.7%
6/30/2007	1,559,225	3,743,522	2,184,297	41.7%	3,862,565	56.6%
6/30/2008	1,390,645	3,969,647	2,579,002	35.0%	3,910,180	66.0%
6/30/2009	1,147,055	3,970,285	2,823,230	28.9%	3,693,035	76.4%
6/30/2010	1,103,799	4,017,939	2,914,140	27.5%	3,394,321	85.9%
6/30/2011	1,443,647	3,829,056	2,385,409	37.7%	3,167,095	75.3%
6/30/2012	1,735,620	4,116,733	2,381,113	42.2%	2,988,555	79.7%
*6/30/2013	2,188,964	4,862,791	2,673,827	45.0%	2,929,129	91.3%

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

Actuarial Valuation Date	Actuarial Value of Assets (a)	Actuarial Accrued Liability (AAL) (b)	Unfunded AAL (UAAL) (b-a)	Funded Ratio (a/b)	Covered Payroll (c)	UAAL as a percentage of Covered Payroll (b-a)/(c)
6/30/2008	\$ -	\$ 2,268,000	\$ 2,268,000	0.0%	\$ 16,658,396	13.6%
6/30/2009	137,092	2,111,419	1,974,327	6.5%	21,420,468	9.2%
6/30/2010	245,102	2,325,236	2,080,134	10.5%	21,761,563	9.6%
6/30/2011	422,193	2,409,147	1,986,955	17.5%	22,129,689	9.0%
6/30/2012	572,063	2,544,962	1,972,899	22.5%	22,341,007	8.8%
6/30/2013	746,248	2,750,491	2,004,243	27.1%	22,724,800	8.8%
6/30/2014	990,461	2,848,874	1,858,413	34.8%	23,477,539	7.9%

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

\*Actuarial Valuation for Supplemental Retirement Plan as of June 30, 2014 was not performed due to GASB changes.

OTHER SUPPLEMENTARY  
INFORMATION

OTHER SUPPLEMENTARY INFORMATION

SOUTHEASTERN OKLAHOMA STATE UNIVERSITY

June 30, 2014

Summary of contract revenues and expenditures

Contract Title: Oklahoma Small Business Development

Contract Agency: Oklahoma Department of Commerce

Purchase Order Number: SBDC 1609012265

Contract Dates: July 1, 2013, to June 30, 2014

	<u>Program Budget</u>	<u>Actual Year Ended June 30, 2014</u>
Revenues:		
Contract proceeds	\$ 260,000	\$ 260,000
Expenditures:		
Salaries, fringe benefits, and travel	<u>260,000</u>	<u>260,000</u>
Total expenditures	<u>260,000</u>	<u>260,000</u>
(Expenditures) in excess of revenues	<u><u>\$ -</u></u>	<u><u>\$ -</u></u>

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



INDEPENDENT AUDITOR'S REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND  
ON COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT OF FINANCIAL STATEMENTS  
PERFORMED IN ACCORDANCE WITH *GOVERNMENT AUDITING STANDARDS*

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

We have audited the financial statements of Southeastern Oklahoma State University (the "University"), a department of the Regional University System of Oklahoma (RUSO), which is a component unit of the State of Oklahoma, that 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, which collectively comprise the University's basic financial statements, and have issued our report thereon dated October 31, 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 Southeastern Foundation, Inc. (the "Foundation"), the University's discretely presented component unit, as described in our report on the University's financial statements. The financial statements of the Foundation were not audited in accordance with *Government Auditing Standards* 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 a combination of deficiencies, in internal control, such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected on a timely basis. A *significant deficiency* is a deficiency, or a 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 from 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.

*Arledge & Associates, P. C.*

October 31, 2014



INDEPENDENT AUDITOR'S REPORT ON COMPLIANCE FOR EACH MAJOR PROGRAM  
AND ON INTERNAL CONTROL OVER COMPLIANCE REQUIRED BY OMB CIRCULAR A-133;  
AND REPORT ON THE SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS  
REQUIRED BY OMB CIRCULAR A-133

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

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

We have audited Southeastern Oklahoma State University's (the "University"), a department of the Regional University System of Oklahoma (RUSO), which is a component unit of the State of Oklahoma, 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 auditor's 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.

***Auditor's 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 Governments, and Non-Profit Organizations*. Those standards and OMB Circular A-133 require that we plan and perform the audit to obtain reasonable assurance about whether 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.

## **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 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 a 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 the related notes to the financial statements, which collectively comprise the University's basic financial statements. We issued our report thereon dated October 31, 2014, which contained an unmodified opinion on the financial statements. Our audit was conducted for the purpose of forming our opinion on the financial statements that collectively comprise the basic financial statements. The accompanying schedule of expenditures of federal awards is presented for purposes of additional analysis as required by OMB Circular A-133 and is not a required part of the basic financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the basic financial statements. 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 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, the schedule of expenditures of federal awards is fairly stated in all material respects in relation to the basic financial statements as a whole.

*Arledge & Associates, P.C.*

October 31, 2014

SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS

SOUTHEASTERN OKLAHOMA STATE UNIVERSITY

Year Ended June 30, 2014

Federal Grantor / Pass-Through Grantor / Program Title	CFDA NUMBER	AMOUNT EXPENDED
<b>U.S. DEPARTMENT OF EDUCATION</b>		
Student Financial Aid**		
Federal Pell Grant Program	84.063	\$ 7,298,960
Federal Work Study Program	84.033	253,674
Federal Supplemental Education Opportunity Grants	84.007	226,485
Federal Direct Student Loans	84.268	11,331,733
College Access Challenge Grant Program	84.375	<u>14,458</u>
Total Student Financial Aid		19,125,310
Trio Cluster:		
Educational Opportunity Center	84.066A	528,077
Student Support Services	84.042A	337,802
Student Support Services - Teacher Prep	84.042A	185,740
Talent Search	84.044A	343,569
Texoma Upward Bound	84.047A	225,700
Upward Bound	84.047A	421,770
Upward Bound - Math/Science	84.047M	<u>291,536</u>
Total Trio Cluster		2,334,194
Other Direct Programs :		
Indian Education - Special Programs for Indian Children	84.299B	7,742
Strengthening Minority - Serving Institutions	84.382C	<u>261,075</u>
Total Other Direct Programs		268,817
Passed through OK State Department of Education		
Mathematics and Science Partnerships	84.366B	<u>11,000</u>
Total OK Department of Education		11,000
Total U.S. Department of Education		21,739,321
<b>U.S. Small Business Administration</b>		
Small Business Development Center	59.037	1,252,330
Veterans Assistance and Services Program	59.037	84,770
Small Business Jobs Act Program	59.037	<u>55,083</u>
Total U.S. Small Business Administration		1,392,183
<b>U.S Department of Health and Human Services</b>		
Passed through OK State Department of Human Services		
Child Care Mandatory and Matching Funds	93.596	2,500
Maternal and Child Health Federal Consolidated Programs	93.110	<u>1,568</u>
Total U.S Department of Health and Human Services		4,068

SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS - Continued

SOUTHEASTERN OKLAHOMA STATE UNIVERSITY

Year Ended June 30, 2014

Federal Grantor / Pass-Through Grantor / Program Title	CFDA NUMBER	AMOUNT EXPENDED
<b>National Science Foundation</b>		
Passed through Oklahoma State University		
Education and Human Resources	47.076	30,359
Office of Cyberinfrastructure	47.080	33,414
Total National Science Foundation		<u>63,773</u>
<b>U.S. Department of Agriculture</b>		
Community Facilities Loans and Grants	10.766	49,996
Passed through OK Department of Education		
Summer Food Service Program for Children	10.559	12,959
Total U.S. Department of Agriculture		<u>62,955</u>
<b>U.S. Department of Justice</b>		
Passed through East Central University		
Grants to Reduce Domestic Violence, Dating Violence, and Sexual Assault	16.525	60
Total U.S. Department of Justice		<u>60</u>
<b>Institute of Museum and Library Services</b>		
Passed through East Central University		
Laura Bush 21st Century Librarian Program	45.313	1,547
Total Institute of Museum and Library Services		<u>1,547</u>
<b>National Aeronautics and Space Administration</b>		
Passed through University of Oklahoma		
National Aeronautics and Space Administration	43.008	12,843
Total National Aeronautics and Space Administration		<u>12,843</u>
<b>U.S. Department of Interior</b>		
Passed through U.S. Bureau of Reclamation		
Upper Colorado and San Juan River Basins Endangered Fish Recovery Programs	15.529	15,609
Passed through U.S. Park Service		
National Park Service Conservation, Protection, Outreach, and Education	15.954	9,821
Total U.S. Department of Interior		<u>25,430</u>
<b>National Institute of Health</b>		
Passed through OU Health Science Center		
Biomedical Research and Research Training	93.859	40,000
Total National Institute of Health		<u>40,000</u>
Total Expenditures of Federal Awards		<u>\$ 23,342,180</u>

See Notes to Schedule of Expenditures of Federal Awards

NOTES TO SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS

SOUTHEASTERN OKLAHOMA STATE UNIVERSITY

June 30, 2014

NOTE A--SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

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

NOTE B--FEDERAL DIRECT STUDENT LOAN PROGRAM

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

NOTE C--SUB-RECIPIENTS

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

Program	CFDA Number	Sub-recipient	Amount Provided
Small Business Development Center	59.037	East Central University	\$ 25,116
Small Business Development Center	59.037	Northeastern Oklahoma State University	80,437
Small Business Development Center	59.037	Northwestern Oklahoma State University	131,157
Small Business Development Center	59.037	Rose State College	26,629
Small Business Development Center	59.037	Southwestern Oklahoma State University	137,155
Small Business Development Center	59.037	Langston University	36,279
Small Business Development Center	59.037	University of Central Oklahoma	203,231
Small Business Development Center	59.037	Oklahoma State University	84,885
Small Business Development Center	59.037	Rogers State University	4,143
			<u>\$ 729,032</u>

SCHEDULE OF FINDINGS AND QUESTIONED COSTS

SOUTHEASTERN OKLAHOMA STATE UNIVERSITY

June 30, 2014

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

*Financial statements*

Type of auditor's 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 auditor's 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</u>	<u>CFDA Number</u>
Student Financial Aid Cluster	*
Small Business Development Centers	59.037

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

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

Auditee qualified as low-risk auditee?  yes  no

SCHEDULE OF FINDINGS AND QUESTIONED COSTS--Continued

SOUTHEASTERN OKLAHOMA STATE UNIVERSITY

June 30, 2014

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

None to report for the June 30, 2014, period.

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

None to report for the June 30, 2014, period.

## SUMMARY SCHEDULE OF PRIOR AUDIT FINDINGS

### SOUTHEASTERN OKLAHOMA STATE UNIVERSITY

June 30, 2014

#### **Finding 2013-01**

Program CFDA No:

84.268

CFDA Program Title:

Federal Direct Student Loans

Federal Award Year:

June 30, 2013

Finding:

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

Criteria:

As specified in the Federal Regulations CFR 682.610 and 685.309, enrollment status compliance reporting is met by reporting the student who ceases to be enrolled on at least a half-time basis within a 30 or 60 day window.

Context:

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

Current Year Status:

This finding was resolved in the current year.

SUMMARY SCHEDULE OF PRIOR AUDIT FINDINGS--Continued

SOUTHEASTERN OKLAHOMA STATE UNIVERSITY

June 30, 2014

**Finding 2013-02**

Program CFDA No:

84.268

CFDA Program Title:

Federal Direct Student Loans

Federal Award Year:

June 30, 2013

Finding:

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

Criteria:

In accordance with 34 CFR 685.203, Stafford Loans have annual loan limits.

Recommendation:

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

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

Institution Response:

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

Current Year Status:

This finding was resolved in the current year.

SUMMARY SCHEDULE OF PRIOR AUDIT FINDINGS--Continued

SOUTHEASTERN OKLAHOMA STATE UNIVERSITY

June 30, 2014

**Finding 2013-03**

Program CFDA No and Program Title:

84.063 Federal Pell Grant  
84.007 Federal Supplemental Education Opportunity Grant  
84.033 Federal Work Study  
84.268 Federal Direct Student Loans

Federal Award Year:

June 30, 2013

Finding:

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

Criteria:

In accordance with 34 CFR 668.165(b), the institution must obtain authorization from a student (or parent borrower) before applying FSA funds to prior-charges other than for tuition, fees, room, and board. In accordance with 34 CFT 668.164(d)(2), the institution may use current-year funds to satisfy prior award year charges for tuition and fees, room, or board (and with permission, educationally related charges) for a total of not more than \$200.

Recommendation:

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

Institution Response:

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

Current Year Status:

This finding was resolved in the current year.