

# SOUTHEASTERN OKLAHOMA STATE UNIVERSITY

June 30, 2011

SOUTHEASTERN OKLAHOMA STATE UNIVERSITY

June 30, 2011

AUDITED FINANCIAL STATEMENTS

Independent Auditors' Report .....	1
Management's Discussion and analysis .....	3
Statements of Net Assets.....	16
Statements of Revenues, Expenses and Changes in Net Assets.....	17
Statements of Cash Flows .....	18
Notes to Financial Statements .....	20

REQUIRED SUPPLEMENTARY INFORMATION

Schedule of Funding Progress for Supplemental Retirement Annuity Plan and Other Post Employment Insurance Benefits (Unaudited) .....	61
---	----

OTHER SUPPLEMENTARY INFORMATION

Schedule of State Contract Revenues and Expenditures-Budget versus Actual .....	62
---	----

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

Independent Auditors' Report on Internal Control Over Financial Reporting and on Compliance and Other Matters Based on an Audit of Financial Statements Performed in Accordance With <i>Government Auditing Standards</i> .....	63
---	----

Independent Auditors' Report on Compliance with Requirements that could have a Direct and Material Effect on Each Major Program and Internal Control Over Compliance in Accordance with OMB Circular A-133 and the Schedule of Expenditures of Federal Awards.....	65
--	----

Schedule of Expenditures of Federal Awards.....	68
Notes to Schedule of Expenditures of Federal Awards.....	70
Schedule of Findings and Questioned Costs.....	71
Summary Schedule of Prior Audit Findings.....	73

## Independent Auditors' Report

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

We have audited the statements of net assets of Southeastern Oklahoma State University (the "University"), a component unit of the State of Oklahoma, as of June 30, 2011 and 2010, and the related statements of revenues, expenses and changes in net assets and cash flows for the years then ended. These financial statements are the responsibility of the University's management. Our responsibility is to express an opinion on these financial statements based on our audits. We did not audit the financial statements of Southeastern Foundation, Inc. (the "Foundation"), a discretely presented component unit of the University. Those financial statements were audited by another auditor, whose reports thereon have been furnished to us, and in our opinion, insofar as they relate to the amounts included for the Foundation, are based on the reports of the other auditor.

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

In our opinion, based on our audits and the reports of the other auditor, the financial statements referred to above present fairly, in all material respects, the financial position of Southeastern Oklahoma State University and its discretely presented component unit, Southeastern Foundation, Inc., as of June 30, 2011 and 2010, and the respective changes in net assets and, where applicable, cash flows thereof, for the years then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued our report dated October 27, 2011 on our consideration of the University's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and is important in assessing the results of our audit.

Management's Discussion and Analysis and the Schedules of Funding Progress for the Supplemental Retirement Annuity Plan and Other Post-Employment Insurance Benefits Plan are not a required part of the basic financial statements but are supplementary information required by accounting principles generally accepted in the United States of America. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

Our 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. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, is fairly stated in all material respects, in relation to the basic financial statements taken as a whole.

Cole & Reed P.C.

Oklahoma City, Oklahoma  
October 27, 2011

**Southeastern Oklahoma State University  
Management's Discussion and Analysis  
Fiscal Year Ended June 30, 2011**

**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, 2011, with selected comparative information for the years ended June 30, 2010 and 2009. Management's discussion and analysis is designed to focus on current activities, resulting changes, and current known facts, so it should be read in conjunction with the University's financial statements and footnotes.

**USING THIS REPORT**

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

These statements are prepared applying the following principles and standards:

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

**FINANCIAL HIGHLIGHTS**

The University received an annual decrease in State Appropriations (including America Recovery and Reinvestment Funds) of \$0.2 million. The State of Oklahoma elected to participate in the Federal Program - America Recovery and Reinvestment Act (ARRA) for fiscal years 2011 and 2010 receiving \$1.3 million and \$1.5 million, respectively. Student tuition and fees, plus financial aid and grants, increased \$0.8 million and was due to increases in rates for resident tuition and non-resident tuition by 5.5%. Operating expenses increased by \$0.3 million with increases in scholarships by \$0.4 million, other operating expenses by \$0.3 million and decreases in materials & supplies by \$0.1 million, utilities by \$0.1 million, contractual services by \$0.2 million.

**Southeastern Oklahoma State University  
Management's Discussion and Analysis (Continued)  
Fiscal Year Ended June 30, 2011**

**FINANCIAL HIGHLIGHTS (Continued)**

Four capital projects totaling \$2.2 million were in the construction phase with one being completed and three still under construction at year end. The completed project was the Parking Lots project. The projects still under construction were the Research Labs/Science Building, Native American/Hallie McKinney, and Health & Counseling Center/Glen D. Johnson Student Union. A residential property was purchased with location adjacent to the university. These projects were funded by the State Regents Master Lease Program 2007B, National Institute of Health Grant, external fundraising and the university.

Residential housing occupancy decreased by 5.9%. Collection efforts increased revenue from accounts previously written off by \$0.1 million resulting in no significant changes in auxiliary revenue and remained at \$2.4 million.

Bonds payable and capital lease obligations were decreased by \$0.9 million leaving a balance of \$33.5 million. This decrease was from debt service payments included reducing debt by \$1.8 million and the increase of \$0.9 million from the refinance of the 2005F series bonds by OCIA with the 2010A/B series bonds. This is the third consecutive year that no additional debt was needed to fund capital projects or equipment.

**Statement of Net Assets**

Schedule A is prepared from the University's Statements of Net Assets (page 16) and summarizes the assets, liabilities, and net assets as of June 30, 2011. Schedule A-1 is comparative data for years ending June 30, 2010 and 2009.

**Schedule A  
Condensed Statements of Net Assets  
June 30, 2011 Compared to 2010  
(In Millions)**

	2011	2010	Increase (Decrease)	Percent Change
CURRENT ASSETS	\$ 7.1	\$ 4.9	\$ 2.2	44.9%
Noncurrent Assets				
Capital Assets, Net of Depreciation	53.3	54.2	(0.9)	-1.7%
Other	3.5	3.6	(0.1)	-2.8%
TOTAL ASSETS	<u>63.9</u>	<u>62.7</u>	<u>1.2</u>	<u>1.9%</u>
CURRENT LIABILITIES	6.2	6.1	0.1	1.6%
Noncurrent Liabilities	32.2	32.9	(0.7)	-2.1%
TOTAL LIABILITIES	<u>38.4</u>	<u>39.0</u>	<u>(0.6)</u>	<u>-1.5%</u>
NET ASSETS				
Investment in Capital Assets	20.7	19.6	1.1	5.6%
Restricted	2.4	1.7	0.7	41.2%
Unrestricted	2.5	2.4	0.1	4.2%
TOTAL NET ASSETS	<u>\$ 25.6</u>	<u>\$ 23.7</u>	<u>\$ 1.9</u>	<u>8.0%</u>

**Southeastern Oklahoma State University  
Management's Discussion and Analysis (Continued)  
Fiscal Year Ended June 30, 2011**

**FINANCIAL HIGHLIGHTS (Continued)**

**Statement of Net Assets (Continued)**

Total Assets increased \$1.2 million. Cash and cash equivalents increased \$1.5 million, Accounts receivable, net increased \$0.5 million, Capital Assets, net decreased \$0.9 million and Receivable from state agencies decreased \$1.0 million.

Total Liabilities decreased \$0.7 million. Deposits held in custody for others increased \$0.4 million, and outstanding debt decreased \$0.9 million.

**Schedule A-1  
Condensed Statements of Net Assets  
June 30, 2010 Compared to 2009  
(In Millions)**

	<u>2010</u>	<u>2009</u>	Increase (Decrease)	Percent Change
CURRENT ASSETS	\$ 4.9	\$ 3.9	\$ 1.0	25.6%
Noncurrent Assets				
Capital Assets, Net of Depreciation	54.2	53.1	1.1	2.1%
Other	<u>3.6</u>	<u>8.6</u>	<u>(5.0)</u>	<u>-58.1%</u>
TOTAL ASSETS	<u>62.7</u>	<u>65.6</u>	<u>(2.9)</u>	<u>-4.4%</u>
CURRENT LIABILITIES	6.1	7.3	(1.2)	-16.4%
Noncurrent Liabilities	<u>32.9</u>	<u>35.7</u>	<u>(2.8)</u>	<u>-7.8%</u>
TOTAL LIABILITIES	<u>39.0</u>	<u>43.0</u>	<u>(4.0)</u>	<u>-9.3%</u>
NET ASSETS				
Investment in Capital Assets	19.6	19.8	(0.2)	-1.0%
Restricted	1.7	1.5	0.2	13.3%
Unrestricted	<u>2.4</u>	<u>1.3</u>	<u>1.1</u>	<u>84.6%</u>
TOTAL NET ASSETS	<u>\$ 23.7</u>	<u>\$ 22.6</u>	<u>\$ 1.1</u>	<u>4.9%</u>

Total Assets decreased \$2.9 million. Cash and cash equivalents increased \$1.5 million, accounts receivable, net decreased \$0.3 million, capital assets, net increased \$1.0 million and receivable from state agencies decreased \$4.3 million, and Notes receivable, net decreased \$0.6 million.

Total Liabilities decreased \$4.0 million. Accounts payable decreased \$1.2 million, Deferred revenue increased \$0.1 million, deposits held in custody for others decreased \$0.2 million, Perkins loan program contributions refundable decreased \$0.7 million and outstanding debt decreased \$2.0 million.

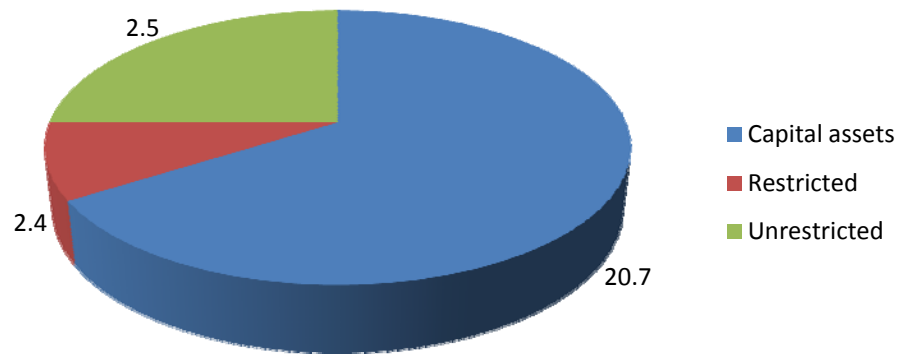
**Southeastern Oklahoma State University  
Management's Discussion and Analysis (Continued)  
Fiscal Year Ended June 30, 2011**

**FINANCIAL HIGHLIGHTS (Continued)**

**Statement of Net Assets (Continued)**

The following graph indicates that the bulk of the university's net assets at June 30, 2011 are capital assets invested in land, buildings, infrastructure, library and equipment.

**Analysis of Net Assets**



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

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



**Southeastern Oklahoma State University  
Management's Discussion and Analysis (Continued)  
Fiscal Year Ended June 30, 2011**

**FINANCIAL HIGHLIGHTS (Continued)**

**Statement of Revenues, Expenses, and Changes in Net Assets (Continued)**

Schedule B is prepared from the University's Statements of Revenues, Expenses, and Changes in Net Assets (page 17) and is a summary for the year ended June 30, 2011 compared to the year ended June 30, 2010. Schedule B-1 is comparative data for years ending June 30, 2010 and 2009.

**Schedule B  
Condensed Statements of Revenues, Expenses and Changes in Net Assets  
Years Ended June 30, 2011 and 2010  
(In Millions)**

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

**Southeastern Oklahoma State University  
Management's Discussion and Analysis (Continued)  
Fiscal Year Ended June 30, 2011**

**FINANCIAL HIGHLIGHTS (Continued)**

**Statement of Revenues, Expenses, and Changes in Net Assets (Continued)**

*Revenues 2011*

Total Operating Revenues increased by \$0.2 million and Nonoperating Revenues increased by \$1.4 million for a total increase of \$1.6 million.

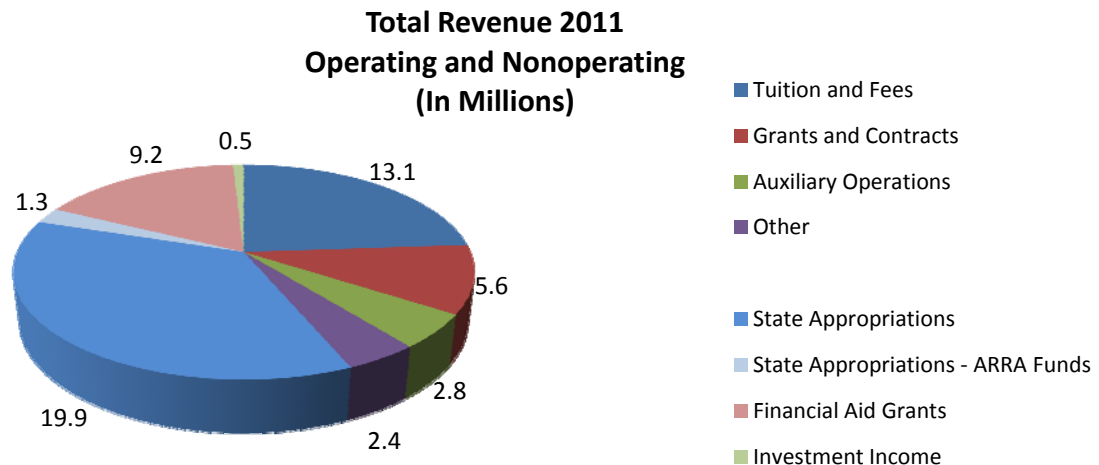
State Appropriations (including ARRA funds) decreased by \$0.2 million or 1.0%.

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

Federal, State, and Local Grants Contracts remained at \$5.6 million.

Other Net Nonoperating Revenue: Investment income increased \$0.1 million. OTRS on-behalf contributions increased by \$0.2 million, and Interest Expense decreased by \$0.5 million.

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



**Southeastern Oklahoma State University  
Management's Discussion and Analysis (Continued)  
Fiscal Year Ended June 30, 2011**

**FINANCIAL HIGHLIGHTS (Continued)**

**Statement of Revenues, Expenses, and Changes in Net Assets (Continued)**

Schedule B-1		
Condensed Statements of Revenues, Expenses and Changes in Net Assets		
Years Ended June 30, 2010 and 2009		
(In Millions)		
	2010	2009
<b>OPERATING REVENUE</b>		
Student tuition and Fees (net of scholarship allowance of \$9.4 and \$6.7, respectively)	\$ 13.1	\$ 14.9
Federal, State and Local Grants/Contracts	5.6	5.0
Auxiliary	2.9	3.0
Other	2.1	2.4
TOTAL OPERATING REVENUE	23.7	25.3
<b>OPERATING EXPENSES</b>		
Compensation and employee benefits	31.8	30.9
Contractual Services	3.9	4.6
Supplies and materials	3.9	3.7
Depreciation	3.4	3.3
Utilities	1.6	1.6
Communication expense	0.4	0.4
Scholarships and fellowships	6.3	5.9
Other operating expense	1.6	2.3
TOTAL OPERATING EXPENSES	52.9	52.7
<b>OPERATING INCOME (LOSS)</b>	<b>(29.2)</b>	<b>(27.4)</b>
<b>NONOPERATING REVENUE (LOSS)</b>		
State Appropriations and Other	19.7	21.8
State Appropriations - ARRA funds	1.5	-
Financial Aid Grants	8.4	6.0
Investment Income	0.4	0.6
Interest Expense	(1.6)	(1.6)
NET NONOPERATING REVENUE	28.4	26.8
Income (Loss) before Other Revenue/Expense	(0.8)	(0.6)
Other Revenue/Expenses	1.9	1.6
<b>CHANGE IN NET ASSETS</b>	1.1	1.0
<b>NET ASSETS, BEGINNING OF YEAR</b>	22.6	21.6
<b>NET ASSETS, END OF YEAR</b>	<b>\$ 23.7</b>	<b>\$ 22.6</b>

**Southeastern Oklahoma State University  
Management's Discussion and Analysis (Continued)  
Fiscal Year Ended June 30, 2011**

**FINANCIAL HIGHLIGHTS (Continued)**

**Statement of Revenues, Expenses, and Changes in Net Assets (Continued)**

*Revenues 2010*

Total Operating Revenues decreased by \$1.6 million and Nonoperating Revenues increased by \$1.6 million resulting in no change in revenue.

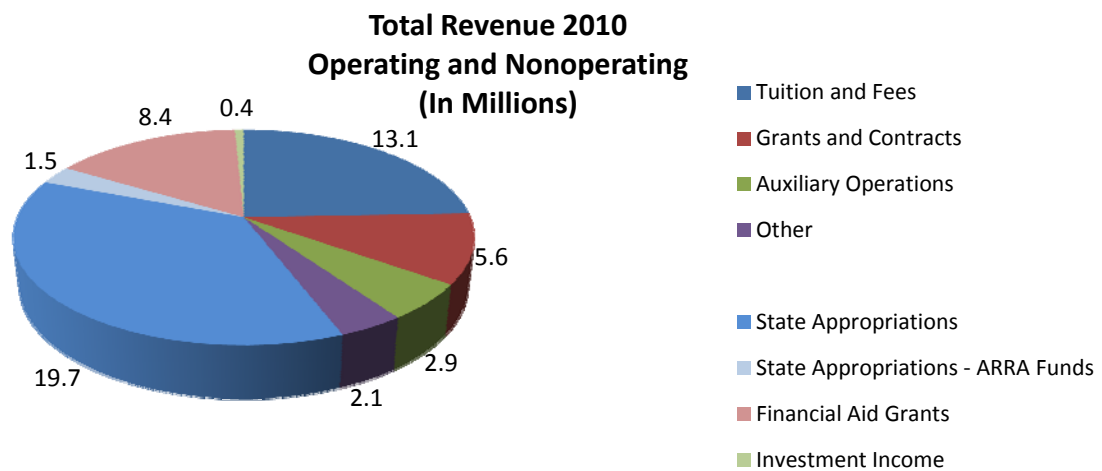
State Appropriations decreased by \$2.1 million or 9.6%. The University received State ARRA funds of \$1.5 million, resulting in a net decrease of \$0.6 million or 2.8%.

Student tuition and fees plus Financial Aid Grants increased by \$0.5 million or 2.8%. This was due to increases in student credit hours (sch) for resident tuition by 8,878 sch or 8.4% and for non-resident tuition by 2,994 sch or 12.5%. There were no increases in tuition & mandatory fee rates for the fiscal year.

Two federal grant programs increased in funding by \$0.6 million. They were Native American Excellence in Education by \$0.1 million and Small Business Development Center by \$0.5 million.

Other Operating Revenue decreased by \$0.4 million, Investment Income decreased \$0.2 million and OTRS on-behalf contributions decreased by \$0.2 million.

The following is a graphical representation of total operating and nonoperating revenue for the year ended June 30, 2010.



**Southeastern Oklahoma State University  
Management's Discussion and Analysis (Continued)  
Fiscal Year Ended June 30, 2011**

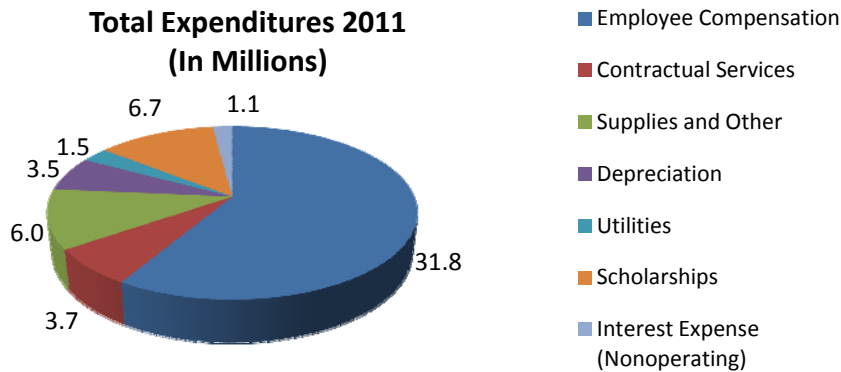
**FINANCIAL HIGHLIGHTS (Continued)**

**Statement of Revenues, Expenses, and Changes in Net Assets (Continued)**

*Expenses 2011*

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

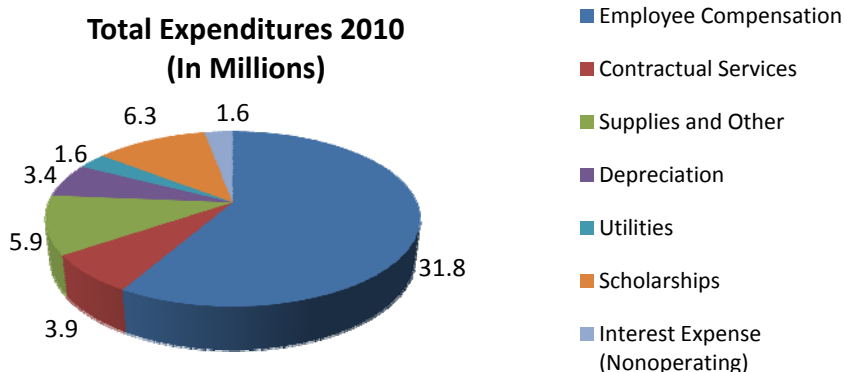
The following is a graphic illustration of expenses for the year ended June 30, 2011.



*Expenses 2010*

Operating expenses increased \$0.2 million or 0.4%. Increases were compensation and employee benefits by \$0.9 million (\$0.6 million relating to benefits), supplies and other \$0.2 million, depreciation \$0.1 million and scholarships \$0.4 million (related to waivers). Decreases were contractual services \$0.7 million and other operating expenses \$0.7 million that were part of the budget reduction plan and reallocated to cover the increases.

The following is a graphic illustration of expenses for the year ended June 30, 2010.



**Southeastern Oklahoma State University  
Management's Discussion and Analysis (Continued)  
Fiscal Year Ended June 30, 2011**

**Southeastern Oklahoma State University  
Management's Discussion and Analysis (Continued)  
Fiscal Year Ended June 30, 2011**

**FINANCIAL HIGHLIGHTS (Continued)**

**Statement of Cash Flows**

The primary purpose of the Statement of Cash Flows is to provide information about the cash receipts and disbursements of an entity during a period. This statement also aids in the assessment of an entity's ability to generate future net cash flows, ability to meet obligations as they come due, and needs for external financing.

Schedule C is a summary of the cash flows for the year ended June 30, 2011 compared to the years ended June 30, 2010 and 2009 and is prepared from the Statements of Cash Flows (page 18).

**Schedule C  
Condensed Statements of Cash Flows  
Years Ended June 30, 2011, 2010 and 2009  
(in millions)**

	<u>2011</u>	<u>2010</u>	<u>2009</u>
Cash provided (used) by:			
Operating activities	\$ (24.6)	\$ (24.6)	\$ (22.4)
Noncapital financing activities	28.9	28.3	26.4
Investing Activities	0.4	0.3	0.5
Capital and related financing activities	<u>(3.2)</u>	<u>(2.7)</u>	<u>(3.2)</u>
Net decrease in cash	<u>1.5</u>	<u>1.3</u>	<u>1.3</u>
Cash, beginning of the year	<u>3.5</u>	<u>2.2</u>	<u>0.9</u>
Cash, end of the year	<u>\$ 5.0</u>	<u>\$ 3.5</u>	<u>\$ 2.2</u>

State appropriations are included in noncapital financing activities rather than operating activities. This accounting classification creates the negative \$24.6 million for 2011, negative \$24.6 million for 2010 and negative \$22.4 million for 2009 cash used for operating activities as shown in Schedule C.

The increase of \$1.5 million in 2011 for Cash, end of the year was due to increase of \$0.4 million in E&G reserves and \$1.1 million in plant funds for capital projects and deferred maintenance.

**Southeastern Oklahoma State University  
Management's Discussion and Analysis (Continued)  
Fiscal Year Ended June 30, 2011**

**FINANCIAL HIGHLIGHTS (Continued)**

**Capital Assets**

At June 30, 2011, the University had approximately \$53.3 million invested in capital assets, net of accumulated depreciation of \$48.9 million. Depreciation charges totaled approximately \$3.5 million for the current fiscal year compared to \$3.5 million for the previous fiscal year. Projects in fiscal year 2011 were: Parking Lots, Research Labs/Science Building, Native American/Hallie McKinney, Health & Counseling Center/Glen D. Johnson Student Union and the purchase of residential property adjacent to university.

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

	2011	June 30 2010	2009
Land	\$ 3.0	\$ 2.6	\$ 2.5
Capitalized Collections	0.3	0.3	0.3
Construction in Progress	0.5	0.4	2.7
Infrastructure	4.7	3.8	4.5
Land Improvements	0.6	0.8	0.9
Buildings	43.3	45.1	40.8
Furniture, fixtures, and equipment	0.7	0.9	1.0
Library materials	<u>0.2</u>	<u>0.3</u>	<u>0.4</u>
Totals	<u>\$ 53.3</u>	<u>\$ 54.2</u>	<u>\$ 53.1</u>

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

**Debt**

At year-end, the University had approximately \$33.5 million in debt outstanding compared to \$34.4 million at the end of the previous fiscal year. The table below summarizes these amounts by type.

**Outstanding Debt, at Year-End  
(In Millions)**

	2011	June 30 2010	2009
Revenue Bonds	\$ 6.4	\$ 6.7	\$ 6.9
OCIA Capital Lease Obligations	11.5	10.7	11.0
ODFA Capital Lease Obligations	13.2	14.4	15.5
Notes Payable	0.2	0.3	0.5
Capital Lease Obligations	<u>2.2</u>	<u>2.3</u>	<u>2.5</u>
Totals	<u>\$ 33.5</u>	<u>\$ 34.4</u>	<u>\$ 36.4</u>

**Southeastern Oklahoma State University  
Management's Discussion and Analysis (Continued)  
Fiscal Year Ended June 30, 2011**

**FINANCIAL HIGHLIGHTS (Continued)**

**Debt (Continued)**

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

The Oklahoma Capital Bond Authority (OCIA) lease obligations were originally for \$1.8 million in 1999 (Biology Building) and \$10.6 million in 2006 (new classroom building and renovations to nine existing buildings). During the years ended June 30, 2011 and 2010, lease principal and interest payments were made on behalf of the University totaling \$155,000 and \$860,000, respectively. These on-behalf amounts have been recorded as restricted state appropriations in the University's statements of revenues, expenses and changes in net assets.

The Oklahoma Development Finance Authority (ODFA) lease obligations originally for \$21.1 million have provided: \$615,000 for (4) planes; \$213,000 for (2) T-hangers; \$650,000 for departmental equipment, computers for student labs, and IETV equipment for classrooms; \$7,000,000 for the energy performance contract with Siemens Building Technologies; \$1,600,000 for installation/upgrading of elevators, fire alarm/suppression systems, and portable buildings; \$1,000,000 for expansion of network/communication system; \$2,500,000 to construct the new student union, \$250,000 for HVAC improvements at the McCurtain County Branch Campus, \$1,971,000 for Extension of Central Plant/Tennis Court Complex, \$1,200,008 for Aviation Equipment/Student Union Food Service Equipment, and \$2,500,000 for the new General Classroom/ Faculty Offices/ Parking Lots.

The Capital lease obligation was to fund the Phase II contract with Siemens Building Technologies.

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

**ECONOMIC OUTLOOK**

The economic stability of the University is directly related to the state's economic stability. The general revenue collections through the first three months of fiscal year 2012 exceeded the estimate for current year (\$87.9 million or 7.1%). First quarter collections reflect a growth in every major revenue source. The state's economy continues on a positive trajectory.



**Southeastern Oklahoma State University  
Management's Discussion and Analysis (Continued)  
Fiscal Year Ended June 30, 2011**

**ECONOMIC OUTLOOK (Continued)**

Enrollment data for fall 2011 reflects a small decrease in student credit hours of less than 1.0%. The administration will continue its initiatives to increase student credit hours by delivering more courses to outreach sites; developing more online and hybrid courses, implementing the conversion plan to move the McCurtain Branch Campus from a higher education program to a four year degree program; and building an advancement program that will raise additional funds through grants, contracts and fund raising initiatives. These efforts will continue along with new initiatives to promote student enrichment experiences, expand the universities regional image, optimize the learning environment and enhance collaboration and partnerships. The administration began a budget recovery program in fiscal year 2009 that was revised in 2011 and will continue to be revised as the economy changes.

## STATEMENTS OF NET ASSETS

## SOUTHEASTERN OKLAHOMA STATE UNIVERSITY

	University		Component Unit	
	June 30,		June 30,	
	2011	2010	2011	2010
<b>ASSETS</b>				
<b>CURRENT ASSETS</b>				
Cash and cash equivalents	\$ 5,025,876	\$ 3,351,299	\$ 3,990,344	\$ 3,838,384
Restricted cash and cash equivalents	13,146	158,691	463,609	-
Accounts receivable, net	1,499,326	968,091	25,175	28,178
Interest receivable	3,696	2,279	18,382	17,702
Receivable from state agencies	562,774	461,063	-	-
Other assets	-	-	114,847	1,738
Current portion of notes receivable, net	12,381	6,746	-	-
<b>TOTAL CURRENT ASSETS</b>	<b>7,117,199</b>	<b>4,948,169</b>	<b>4,612,357</b>	<b>3,886,002</b>
<b>NONCURRENT ASSETS</b>				
Restricted investments	-	-	11,991,973	9,716,955
Investments held by others	995,657	995,657	210,682	210,682
Receivable from State agency	3,748	1,089,561	-	-
Notes receivable, net	-	-	247,035	298,361
Prepaid pension asset	1,416,747	1,140,283	-	-
Bond issuance costs	358,759	386,749	145,679	151,835
Other assets	772,849	-	-	-
Capital assets, net	53,269,814	54,217,027	7,546,458	7,933,671
<b>TOTAL NONCURRENT ASSETS</b>	<b>56,817,574</b>	<b>57,829,277</b>	<b>20,141,827</b>	<b>18,311,504</b>
<b>TOTAL ASSETS</b>	<b>\$ 63,934,773</b>	<b>\$ 62,777,446</b>	<b>\$ 24,754,184</b>	<b>\$ 22,197,506</b>
<b>LIABILITIES</b>				
<b>CURRENT LIABILITIES</b>				
Accounts payable	\$ 818,721	\$ 825,802	\$ 216,423	\$ 134,060
Accrued payroll	136,681	145,044	-	-
Accrued interest payable	177,363	190,601	42,000	42,775
Deferred revenue	1,800,484	1,745,409	19,479	21,379
Deposits held in custody for others	713,024	346,125	-	-
Current portion of non current liabilities	2,477,105	2,735,347	-	-
<b>TOTAL CURRENT LIABILITIES</b>	<b>6,123,378</b>	<b>5,988,328</b>	<b>277,902</b>	<b>198,214</b>
<b>NONCURRENT LIABILITIES</b>				
Accrued compensated absences	371,443	342,069	-	-
Capital lease obligation	25,391,048	25,659,857	-	-
Notes payable	173,478	273,736	9,082,874	9,250,396
Revenue bonds payable	6,175,000	6,430,000	-	-
OPEB obligation	127,147	134,080	-	-
Premium on bonds payable	4,270	262,790	-	-
<b>TOTAL NONCURRENT LIABILITIES</b>	<b>32,242,386</b>	<b>33,102,532</b>	<b>9,082,874</b>	<b>9,250,396</b>
<b>TOTAL LIABILITIES</b>	<b>38,365,764</b>	<b>39,090,860</b>	<b>9,360,776</b>	<b>9,448,610</b>
<b>NET ASSETS</b>				
Invested in capital assets, net of related debt	20,684,656	19,647,692	-	-
Restricted				
Nonexpendable	-	-	9,086,863	8,605,935
Expendable				
Scholarships, instruction and other	-	-	6,611,753	4,687,084
Loans	117,488	159,274	-	-
Capital projects and debt service	2,273,074	1,492,293	-	-
Unrestricted	2,493,791	2,387,327	(305,208)	(544,123)
<b>TOTAL NET ASSETS</b>	<b>\$ 25,569,009</b>	<b>\$ 23,686,586</b>	<b>\$ 15,393,408</b>	<b>\$ 12,748,896</b>

See notes to financial statements.

STATEMENTS OF REVENUES, EXPENSES AND CHANGES IN NET ASSETS

SOUTHEASTERN OKLAHOMA STATE UNIVERSITY

	University		Component Unit	
	Year Ended June 30, 2011	2010	Year Ended June 30, 2011	2010
<b>OPERATING REVENUES</b>				
Student tuition and fees, net of scholarship discounts and allowances of \$9,610,648 and \$9,377,075 (revenues of \$821,732 in 2011 and \$869,669 in 2010 are pledged as security on Student Union Series 2003 revenue bonds.)	\$ 13,115,082	\$ 13,106,004	\$ -	\$ -
Federal grants and contracts	4,767,521	4,370,057	-	-
State and local grants and contracts	751,331	1,263,152	-	-
Housing and food service	2,378,388	2,419,094	-	-
Aerospace operations	448,353	497,633	-	-
Interest earned on loans to students	3,865	31,565	-	-
Other operating revenues	2,399,402	2,026,460	4,907,834	3,398,071
TOTAL OPERATING REVENUES	23,863,942	23,713,965	4,907,834	3,398,071
<b>OPERATING EXPENSES</b>				
Compensation and employee benefits	31,848,146	31,814,603	-	-
Contractual services	3,690,864	3,861,866	-	-
Supplies and materials	3,725,243	3,857,792	-	-
Depreciation	3,521,798	3,452,218	261,692	307,948
Utilities	1,448,511	1,579,227	-	-
Communications expense	418,799	395,332	-	-
Scholarships and fellowships	6,701,370	6,350,713	833,502	568,158
Other operating expenses	1,867,414	1,565,317	1,168,128	1,400,867
TOTAL OPERATING EXPENSES	53,222,145	52,877,068	2,263,322	2,276,973
OPERATING INCOME (LOSS)	(29,358,203)	(29,163,103)	2,644,512	1,121,098
<b>NONOPERATING REVENUES (EXPENSES)</b>				
State appropriations	18,473,649	18,455,435	-	-
State appropriations - ARRA funds	1,336,685	1,537,819	-	-
OTRS on-behalf contributions	1,440,950	1,241,218	-	-
Financial aid grants	9,177,844	8,391,469	-	-
Investment income	471,918	381,887	-	-
Interest expense	(1,060,629)	(1,617,405)	-	-
NET NONOPERATING REVENUE (EXPENSES)	29,840,417	28,390,423	-	-
Income (loss) before other revenues, expenses, gains and losses	482,214	(772,680)	2,644,512	1,121,098
State appropriations restricted for capital purposes	988,453	981,193	-	-
OCIA on-behalf payments	411,756	860,355	-	-
CHANGE IN NET ASSETS	1,882,423	1,068,868	2,644,512	1,121,098
NET ASSETS, BEGINNING OF YEAR	23,686,586	22,617,718	12,748,896	11,627,798
NET ASSETS, END OF YEAR	\$ 25,569,009	\$ 23,686,586	\$ 15,393,408	\$ 12,748,896

See notes to financial statements.

STATEMENTS OF CASH FLOWS

SOUTHEASTERN OKLAHOMA STATE UNIVERSITY

	Year Ended June 30,	
	2011	2010
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>		
Tuition and fees	\$ 13,035,748	\$ 13,048,031
Grants and contracts	5,318,848	5,817,973
Other operating receipts	5,023,686	5,208,169
Loans made to students	-	(19,165)
Collection of loans to students	-	65,483
Interest received on student loans	3,865	31,565
Payments to employees for salaries and benefits	(30,667,827)	(30,539,528)
Payments to suppliers	(17,313,076)	(18,258,260)
NET CASH USED IN OPERATING ACTIVITIES	(24,598,756)	(24,645,732)
<b>CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES</b>		
State appropriations	19,810,334	19,993,254
Financial aid grants	9,177,844	8,391,469
Direct loan and FFEL receipts	11,309,161	10,327,851
Direct loan and FFEL payments	(11,309,161)	(10,327,851)
NET CASH PROVIDED BY NONCAPITAL FINANCING ACTIVITIES	28,988,178	28,384,723
<b>CASH FLOWS FROM INVESTING ACTIVITIES</b>		
Interest income received	368,790	324,873
NET CASH PROVIDED BY INVESTING ACTIVITIES	368,790	324,873
<b>CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES</b>		
Cash paid for capital assets	(2,671,257)	(5,405,720)
Capital appropriations received	988,453	981,193
Interest paid	(920,403)	(1,006,920)
Proceeds from capital debt and leases	1,085,812	4,365,605
Repayments of capital debt and leases	(1,711,785)	(1,662,737)
NET CASH USED IN CAPITAL AND RELATED FINANCING ACTIVITIES	(3,229,180)	(2,728,579)
NET CHANGE IN CASH AND CASH EQUIVALENTS	1,529,032	1,335,285
CASH AND CASH EQUIVALENTS, BEGINNING OF YEAR	3,509,990	2,174,705
CASH AND CASH EQUIVALENTS, END OF YEAR	\$ 5,039,022	\$ 3,509,990

See notes to financial statements.

## STATEMENT OF CASH FLOWS--Continued

## SOUTHEASTERN OKLAHOMA STATE UNIVERSITY

	Year Ended June 30,	
	<u>2011</u>	<u>2010</u>
RECONCILIATION OF OPERATING LOSS TO NET CASH USED IN OPERATING ACTIVITIES		
Operating loss	\$ (29,358,203)	\$ (29,304,312)
Adjustments to reconcile operating loss to net cash used in operating activities		
Depreciation	3,521,798	3,452,218
(Gain) / loss on disposal of assets	4,979	(36,604)
On-behalf contributions to teachers' retirement system	1,440,950	1,241,218
Changes in assets and liabilities		
Accounts receivable	(531,235)	221,534
Loans receivable	(5,635)	640,960
Prepaid pension asset	(276,464)	25,474
Accounts payable and student deposits	534,146	(394,747)
Accrued payroll	(8,363)	2,311
Deferred revenues	55,075	179,347
Compensated absences	31,129	(21,229)
Other liabilities	(6,933)	27,301
Federal loan program contributions refundable	-	(679,203)
NET CASH USED IN OPERATING ACTIVITIES	<u>\$ (24,598,756)</u>	<u>\$ (24,645,732)</u>
NONCASH INVESTING, NONCAPITAL FINANCING AND CAPITAL AND RELATED FINANCING ACTIVITIES		
Interest on capital debt paid by state agency on behalf of the University	\$ 55,517	\$ 538,111
Principal on capital debt paid by state agency on behalf of the University	99,698	322,244
Write-off OCIA bond premium	<u>256,541</u>	<u>-</u>
Total noncash investing, noncapital financing and related financing activities	<u>\$ 411,756</u>	<u>\$ 860,355</u>
RECONCILIATION OF CASH AND CASH EQUIVALENTS TO STATEMENTS OF NET ASSETS		
Current assets		
Cash and cash equivalents	\$ 5,025,876	\$ 3,351,299
Restricted cash and cash equivalents	<u>13,146</u>	<u>158,691</u>
TOTAL CASH AND CASH EQUIVALENTS	<u>\$ 5,039,022</u>	<u>\$ 3,509,990</u>

See notes to financial statements.

## NOTES TO FINANCIAL STATEMENTS

### SOUTHEASTERN OKLAHOMA STATE UNIVERSITY

June 30, 2011

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

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

Reporting Entity: The financial reporting entity, as defined by Governmental Accounting Standards Board (GASB) Statement No. 14, *The Financial Reporting Entity*, and Governmental Accounting Standards Board (GASB) Statement No. 39, *Determining whether Certain Organizations Are Component Units-an amendment of GASB Statement No. 14*, includes the accounts of the University and its discretely presented component unit, Southeastern Foundation, Inc. (the "Foundation"). The University is a component of the State of Oklahoma and is included in the general-purpose financial statements of the state as part of the Higher Education component unit.

Discretely Presented Component Units: Southeastern Foundation, Inc. (the "Foundation") is a component unit of the University under GASB 39 that is required to be discretely presented with the financial statements of the University. The University is the beneficiary of the Foundation, a separate legal entity with its own Board of Trustees. The Foundation is organized for the benefit of the University, and its faculty, student body and programs. The Foundation provides scholarships and support and enhances the further development of the University.

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

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

NOTES TO FINANCIAL STATEMENTS--Continue

SOUTHEASTERN OKLAHOMA STATE UNIVERSITY

June 30, 2011

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

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

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

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

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

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

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

NOTES TO FINANCIAL STATEMENTS--Continued

SOUTHEASTERN OKLAHOMA STATE UNIVERSITY

June 30, 2011

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

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

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

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

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

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

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

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

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



NOTES TO FINANCIAL STATEMENTS--Continued

SOUTHEASTERN OKLAHOMA STATE UNIVERSITY

June 30, 2011

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

Net Assets--Continued:

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

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

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

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

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

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

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

## NOTES TO FINANCIAL STATEMENTS--Continued

### SOUTHEASTERN OKLAHOMA STATE UNIVERSITY

June 30, 2011

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

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

Reclassifications: Certain reclassifications have been made to the 2010 financial statements to conform with the 2011 financial statement presentation.

#### 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. Some deposits with the OST are placed in the OST's internal investment pool *OK INVEST*. *OK INVEST* pools the resources of all state funds and agencies and invests them in (a) U.S. treasury securities which are explicitly backed by the full faith and credit of the U.S. government; (b) U.S. agency securities which carry an implicit guarantee of the full faith and credit of the U.S. government; (c) money market mutual funds which participates in investments, either directly or indirectly, in securities issued by the U.S. treasury and/or agency and repurchase agreements relating to such securities; (d) investments related to tri-party repurchase agreements which are collateralized at 102% and, whereby, the collateral is held by a third party in the name of the OST, and various other investments as allowed by law.

NOTES TO FINANCIAL STATEMENTS--Continued

SOUTHEASTERN OKLAHOMA STATE UNIVERSITY

June 30, 2011

NOTE B--DEPOSITS AND INVESTMENTS--Continued

Deposits--Continued: At June 30, 2011 and 2010, the carrying amount of all University deposits with the OST and other financial institutions were \$4,795,305 and \$3,465,411, respectively. These amounts consisted of deposits with the OST (\$4,785,238 and \$3,455,344), unremitted collections by a third party (\$2,477 and \$2,477) and change funds (\$7,590 and \$7,590). Of funds on deposit with the OST, amounts invested in *OK INVEST* total \$4,291,221 in 2011 and \$3,155,784 in 2010.

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

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

At June 30, 2010		
OK INVEST Portfolio	Cost	Market Value
U.S. Agency Securities	\$ 1,209,168	\$ 1,229,470
Certificates of Deposit	179,496	179,496
Money Market Mutual Funds	276,228	276,228
Tri-Party Repurchase Agreements	202,385	202,385
Mortgage Backed Agency Securities	1,116,449	1,164,958
Municipal Bonds	67,995	72,906
Foreign Bonds	12,649	12,508
U.S. Treasury Obligations	91,414	96,760
TOTAL	\$ 3,155,784	\$ 3,234,711

NOTES TO FINANCIAL STATEMENTS--Continued

SOUTHEASTERN OKLAHOMA STATE UNIVERSITY

June 30, 2011

NOTE B--DEPOSITS AND INVESTMENTS--Continued

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

NOTES TO FINANCIAL STATEMENTS--Continued

SOUTHEASTERN OKLAHOMA STATE UNIVERSITY

June 30, 2011

NOTE B--DEPOSITS AND INVESTMENTS--Continued

Investments: Investment *credit risk* is the risk that an issuer or other counterparty to an investment will not fulfill its obligations. Generally, the University's investments are managed by the State Treasurer. In accordance with state statutes the State Treasurer may only purchase and invest in (a) obligations of the United States government, its agencies and instrumentalities; (b) prime banker's acceptances; (c) investment grade obligations of state and local governments; (d) money market funds; (e) collateralized or insured certificates of deposits; (f) negotiable certificates of deposits; (g) prime commercial paper; and (h) repurchase agreements. *Interest rate risk* is the risk that changes in interest rates will adversely affect the fair value of an investment. Investments that are held for longer periods of time are subject to increased risk of adverse interest changes. Neither the University nor state statutes limit investment maturities as a means of managing exposure to fair value losses arising from increasing interest rates; however, the OST Investment Policy limits the average maturity on its portfolio to four (4) years, with certain individual securities having more restrictive limits as defined in the policy. *Concentration of credit risk* is the risk of loss attributed to the magnitude of the University's investment in a single issuer. Neither the University's investment policy nor state statutes place limits on amounts that can be invested in any one issuer; however, the OST Investment Policy states that, with the exception of U.S. Treasury securities, no more than 50% of the State's total funds may be invested in a single security type or with a single financial institution, with diversification percentages being more restrictive on individual securities. *Custodial credit risk* for investments is the risk that, in the event of failure of the counterparty, the University will not be able to recover the value of its investments or collateral securities in the possession of an outside party. As of June 30, 2011 and 2010, 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, 2011 and 2010, the University had no cash and investments in restricted bond funds.

NOTES TO FINANCIAL STATEMENTS--Continued

SOUTHEASTERN OKLAHOMA STATE UNIVERSITY

June 30, 2011

NOTE B--DEPOSITS AND INVESTMENTS--Continued

Investments held by others: At June 30, 2011 and 2010, the University had investments in money market funds totaling \$995,657 and \$995,657, respectively, related to the OFDA Lease program. These funds had a fair market value of \$995,657 at June 30, 2011 and \$995,657 in 2010. The money market funds are not subject to maturity dates and are due on demand. The money market funds had an average credit rating of AAAM-G at June 30, 2011 according to Standard and Poor's.

NOTE C--ACCOUNTS RECEIVABLE

Accounts receivable consisted of the following at June 30, 2011 and 2010:

	<u>2011</u>	<u>2010</u>
Student tuition and fees	\$ 1,514,298	\$ 1,380,262
Auxiliary enterprises and other operating activities	330,105	219,776
Federal, state, and private grants and contracts	<u>590,287</u>	<u>396,754</u>
	2,434,690	1,996,792
Less allowance for doubtful accounts	<u>(935,364)</u>	<u>(1,028,701)</u>
Net accounts receivable	<u><u>\$ 1,499,326</u></u>	<u><u>\$ 968,091</u></u>

NOTES TO FINANCIAL STATEMENTS--Continued

SOUTHEASTERN OKLAHOMA STATE UNIVERSITY

June 30, 2011

NOTE D--CAPITAL ASSETS

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

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

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

NOTES TO FINANCIAL STATEMENTS--Continued

SOUTHEASTERN OKLAHOMA STATE UNIVERSITY

June 30, 2011

NOTE D--CAPITAL ASSETS--Continued

Following are the changes in capital assets for the year ended June 30, 2010:

	Balance June 30, 2009	Additions	Transfers	Retirements/ Adjustments	Balance June 30, 2010
Capital assets not being depreciated					
Land	\$ 2,485,967	\$ 133,574	\$ -	\$ -	\$ 2,619,541
Capitalized collections	259,300	-	-	-	259,300
Construction in progress	2,683,870	3,806,305	(6,441,269)	387,776	436,682
Total capital assets not being depreciated	<u>\$ 5,429,137</u>	<u>\$ 3,939,879</u>	<u>\$ (6,441,269)</u>	<u>\$ 387,776</u>	<u>\$ 3,315,523</u>
Other capital assets					
Non-major infrastructure networks	\$ 8,737,351	\$ -	\$ 9,435	\$ -	\$ 8,746,786
Improvements	2,622,681	-	-	-	2,622,681
Buildings	64,331,840	-	6,431,834	(387,776)	70,375,898
Furniture, fixtures and equipment	7,845,266	455,766	-	(267,820)	8,033,212
Library materials	6,664,090	115,936	-	(11,663)	6,768,363
Total other capital assets	<u>90,201,228</u>	<u>571,702</u>	<u>6,441,269</u>	<u>(667,259)</u>	<u>96,546,940</u>
Less accumulated depreciation for					
Non-major infrastructure networks	\$ (4,235,304)	\$ (761,523)	\$ -	\$ -	\$ (4,996,827)
Improvements	(1,663,283)	(174,199)	-	-	(1,837,482)
Buildings	(23,465,750)	(1,822,232)	-	38,778	(25,249,204)
Furniture, fixtures and equipment	(6,862,154)	(507,405)	-	266,620	(7,102,939)
Library materials	(6,282,814)	(186,859)	-	10,689	(6,458,984)
Total accumulated depreciation	<u>(42,509,305)</u>	<u>(3,452,218)</u>	<u>-</u>	<u>316,087</u>	<u>(45,645,436)</u>
Other capital assets, net	<u>\$ 47,691,923</u>	<u>\$ (2,880,516)</u>	<u>\$ 6,441,269</u>	<u>\$ (351,172)</u>	<u>\$ 50,901,504</u>
Capital asset summary:					
Capital assets not being depreciated	\$ 5,429,137	\$ 3,939,879	\$ (6,441,269)	\$ 387,776	\$ 3,315,523
Other capital assets, at cost	90,201,228	571,702	6,441,269	(667,259)	96,546,940
Total cost of capital assets	<u>95,630,365</u>	<u>4,511,581</u>	<u>-</u>	<u>(279,483)</u>	<u>99,862,463</u>
Less accumulated depreciation	<u>(42,509,305)</u>	<u>(3,452,218)</u>	<u>-</u>	<u>316,087</u>	<u>(45,645,436)</u>
Capital assets, net	<u>\$ 53,121,060</u>	<u>\$ 1,059,363</u>	<u>\$ -</u>	<u>\$ 36,604</u>	<u>\$ 54,217,027</u>

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



NOTES TO FINANCIAL STATEMENTS--Continued

SOUTHEASTERN OKLAHOMA STATE UNIVERSITY

June 30, 2011

NOTE E--LONG-TERM LIABILITIES

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

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

Long-term liability activity for the year ended June 30, 2010 was as follows:

	Balance June 30, 2009	Additions	Reductions	Balance June 30, 2010	Amounts due within one year
Bonds payable and capital lease obligations					
Revenue bonds payable	\$ 6,915,000	\$ -	\$ (240,000)	\$ 6,675,000	\$ 245,000
OCIA Leases	11,029,694	-	(322,244)	10,707,450	358,865
ODFA Leases	15,510,425	-	(1,152,000)	14,358,425	1,198,751
Notes payable	442,411	-	(107,965)	334,446	60,710
Capital lease obligation	2,484,092	-	(162,771)	2,321,321	169,723
Total bonds and capital leases	<u>36,381,622</u>	<u>-</u>	<u>(1,984,980)</u>	<u>34,396,642</u>	<u>2,033,049</u>
Other liabilities					
Federal loan program contributions	679,203	-	(679,203)	-	-
Accrued compensated absences	1,065,596	637,293	(658,522)	1,044,367	702,298
Total other liabilities	<u>1,744,799</u>	<u>637,293</u>	<u>(1,337,725)</u>	<u>1,044,367</u>	<u>702,298</u>
Total long-term liabilities	<u>\$ 38,126,421</u>	<u>\$ 637,293</u>	<u>\$ (3,322,705)</u>	<u>\$ 35,441,009</u>	<u>\$ 2,735,347</u>

NOTES TO FINANCIAL STATEMENTS--Continued

SOUTHEASTERN OKLAHOMA STATE UNIVERSITY

June 30, 2011

NOTE E--LONG-TERM LIABILITIES--Continued

Revenue Bonds Payable

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

At June 30, 2011, future maturities of principal and interest requirements on the Bonds payable are as follows:

	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
Year Ending June 30:			
2012	\$ 255,000	\$ 273,521	\$ 528,521
2013	260,000	265,361	525,361
2014	270,000	256,521	526,521
2015	280,000	247,071	527,071
2016	290,000	236,851	526,851
2017-2021	1,620,000	1,005,871	2,625,871
2022-2026	2,010,000	618,682	2,628,682
2027-2030	1,445,000	135,744	1,580,744
	<u>\$ 6,430,000</u>	<u>\$ 3,039,622</u>	<u>\$ 9,469,622</u>

NOTES TO FINANCIAL STATEMENTS--Continued

SOUTHEASTERN OKLAHOMA STATE UNIVERSITY

June 30, 2011

NOTE E--LONG-TERM LIABILITIES--Continued

Capital Lease Obligations

*Oklahoma Capital Improvement Authority Leases*

In September 1999, the Oklahoma Capital Improvement Authority (OCIA) issued its OCIA Bond Issues, 1999 Series A, B and C. Of the total bond indebtedness, the State Regents for Higher Education allocated \$1,750,000 and \$200,245 to the University. Concurrently with the allocation, the University entered into a lease agreement with OCIA, which includes the two projects being funded by the OCIA bonds. The lease agreement provides for the University to make specified monthly payments to OCIA over the respective terms of the agreement, which is for 20 years. The proceeds of the bonds and subsequent lease are to provide for capital improvements at the University.

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 \$1,020,307 and \$1,120,004 at June 30, 2011 and 2010, respectively.

During the years ended June 30, 2011 and 2010, OCIA made lease principal and interest payments totaling \$155,215 and \$155,226, respectively, on behalf of the University. These on-behalf payments have been recorded as restricted state appropriations in the statements of revenues, expenses and changes in net assets.

In November 2005, the Oklahoma Capital Improvement Authority (OCIA) issued its OCIA Bond Issues, 2005 Series F and G. Of the total bond indebtedness, the State Regents Higher Education allocated the University \$10,662,758 to the University. Concurrently with the allocation, the University entered into a lease agreement with OCIA, which includes the two projects being funded by the OCIA bonds. The lease agreement provides for the University to make specified monthly payments to OCIA over the term of the agreement. Both projects have a thirty (30) year repayment term. The proceeds of the bonds and subsequent leases are to provide for capital improvements at the University.

NOTES TO FINANCIAL STATEMENTS--Continued

SOUTHEASTERN OKLAHOMA STATE UNIVERSITY

June 30, 2011

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.

Through June 30, 2011, the University has drawn down its total allotment for expenditures incurred in connection with specified projects which have been capitalized as capital assets in accordance with University policy. There are no remaining funds to be drawn down by the University at June 30, 2011 and 2010, respectively. The University has recorded a lease obligation payable to OCIA for the total amount of the allotment, less repayments made on the University's behalf.

During the years ended June 30, 2011 and 2010, OCIA made lease principal and interest payments totaling \$0 and \$707,527, respectively, on behalf of the University. Premiums previously reported as \$256,541 were removed during 2011 and recognized as OCIA on behalf payments. Total OCIA on behalf payments in fiscal year 2011 were \$411,756. These on-behalf payments have been recorded as restricted state appropriations in the statement of revenues, expenses and changes in net assets.

NOTES TO FINANCIAL STATEMENTS--Continued

SOUTHEASTERN OKLAHOMA STATE UNIVERSITY

June 30, 2011

NOTE E--LONG-TERM LIABILITIES--Continued

Capital Lease Obligations--Continued

*Oklahoma Development Finance Authority Master Lease Program*

Master Lease payable consisted of the following at June 30:

	<u>2011</u>	<u>2010</u>
ODFA Oklahoma State System of Higher Education Master Lease Revenue Bonds, Series 2001C, allocated to the University in the original amount of \$692,000 and mature in varying annual amounts to December 1, 2011	\$ 35,500	\$ 113,500
ODFA Oklahoma State System of Higher Education Master Lease Revenue Bonds, Series 2002A, allocated to the University in the original amount of \$213,000 and mature in varying annual amounts to December 1, 2011	10,417	35,417
ODFA Oklahoma State System of Higher Education Master Lease Revenue Bonds, Series 2002C, allocated to the University in the original amount of \$8,235,000 and mature in varying annual amounts to December 1, 2022	5,629,167	5,999,167
ODFA Oklahoma State System of Higher Education Master Lease Revenue Bonds, Series 2003A, allocated to the University in the original amount of \$1,732,000 and mature in varying annual amounts to June 1, 2013	381,583	566,583
ODFA Oklahoma State System of Higher Education Master Lease Revenue Bonds, Series 2003B, allocated to the University in the original amount of \$250,000 and mature in varying annual amounts to July 1, 2023	170,000	180,000

NOTES TO FINANCIAL STATEMENTS--Continued

SOUTHEASTERN OKLAHOMA STATE UNIVERSITY

June 30, 2011

NOTE E--LONG-TERM LIABILITIES--Continued

Capital Lease Obligations--Continued

*Oklahoma Development Finance Authority Master Lease Program--Continued*

	<u>2011</u>	<u>2010</u>
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	\$ 2,666,583	\$ 2,812,583
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	1,485,667	1,597,667
ODFA Oklahoma State System of Higher Education Master Lease Revenue Bonds, Series 2006B, allocated to the University in the original amount of \$1,200,000 and mature in varying annual amounts to June 1, 2016	668,508	788,508
ODFA Oklahoma State System of Higher Education Master Lease Revenue Bonds, Series 2007B, allocated to the University in the original amount of \$2,518,000 and mature in varying annual amounts to December 1, 2022	<u>2,123,500</u>	<u>2,265,000</u>
	<u>\$ 13,170,925</u>	<u>\$ 14,358,425</u>

Remaining funds to be drawn down by the University under the ODFA master lease programs of \$0 and \$1,085,502 at June 30, 2011 and 2010, respectively, have been recorded as receivable from state agency in the accompanying financial statements.

NOTES TO FINANCIAL STATEMENTS--Continued

SOUTHEASTERN OKLAHOMA STATE UNIVERSITY

June 30, 2011

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 \$2,151,597 and \$2,321,320 at June 30, 2011 and 2010, respectively.

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

Year Ending June 30:	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2012	\$ 1,466,645	\$ 815,369	\$ 2,282,014
2013	1,458,609	778,940	2,237,549
2014	1,603,673	1,017,581	2,621,254
2015	2,158,953	951,288	3,110,241
2016	2,217,546	869,584	3,087,130
2017-2021	10,082,823	3,128,533	13,211,356
2022-2026	4,441,325	1,425,370	5,866,695
2027-2031	3,428,119	524,666	3,952,785
	<u>\$ 26,857,693</u>	<u>\$ 9,511,331</u>	<u>\$ 36,369,024</u>

Notes Payable

*Southeastern Foundation, Inc.*

The University financed the purchase of real estate from the Southeastern Foundation, Inc. with a note payable with the Foundation. The purchase price and note amount is \$380,000 with an interest rate of 6% and a term of ten years. The outstanding balance on this note payable is \$244,885 and \$273,381 at June 30, 2011 and 2010, respectively.

NOTES TO FINANCIAL STATEMENTS--Continued

SOUTHEASTERN OKLAHOMA STATE UNIVERSITY

June 30, 2011

NOTE E--LONG-TERM LIABILITIES--Continued

Notes Payable--Continued

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

Year Ending June 30:	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2012	\$ 51,407	\$ 13,493	\$ 64,900
2013	54,491	10,409	64,900
2014	57,761	7,139	64,900
2015	<u>61,226</u>	<u>3,674</u>	<u>64,900</u>
	<u>\$ 224,885</u>	<u>\$ 34,715</u>	<u>\$ 259,600</u>

*Durant Community Facilities Authority*

The University financed the renovation and improvement to Paul Laird Field through a note with the Durant Community Facilities Authority. The financed amount is \$122,130 with an interest rate of 3% and a term of ten years. The outstanding balance on this note payable was \$61,065 at June 30, 2010. The note payable was paid off during the year ended June 30, 2011.

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, 1987. The University does not maintain the accounting records, hold the investments for, or administer these plans.



NOTES TO FINANCIAL STATEMENTS--Continued

SOUTHEASTERN OKLAHOMA STATE UNIVERSITY

June 30, 2011

NOTE F--RETIREMENT PLANS--Continued

*Oklahoma Teachers' Retirement System (OTRS)*

Plan Description

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

Funding Policy

The University is required to contribute a fixed percentage of annual compensation on behalf of active members. The employer contribution rate was 8.55% from January 1, 2010 through June 30, 2011, 8.05% from January 1, 2009 through December 31, 2009, and 7.55% from July 1, 2008 through December 31, 2008 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 2011, 2010 and 2009. 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, 2011, 2010 and 2009, were approximately \$3,502,000, \$3,408,000, and \$3,265,000, respectively, equal to the required contributions for each year. These contributions included the University's statutory contribution and the share of the employee's contribution.

NOTES TO FINANCIAL STATEMENTS--Continued

SOUTHEASTERN OKLAHOMA STATE UNIVERSITY

June 30, 2011

NOTE F--RETIREMENT PLANS--Continued

*Oklahoma Teachers' Retirement System (OTRS)--Continued*

The State of Oklahoma is also required to contribute to the OTRS on behalf of the participating employers. For 2011 and 2010, the State of Oklahoma contributed 5% of state revenues from sales and use taxes and individual income taxes, to the OTRS on behalf of participating employers. The University has estimated the amounts contributed to the OTRS by the State of Oklahoma on its behalf by multiplying the ratio of its covered salaries to total covered salaries to total covered salaries for the OTRS for the year by the applicable percentage of taxes collected during the year. For the years ended June 30, 2011 and 2010, the total amounts contributed to the OTRS by the State of Oklahoma on behalf of the University were approximately \$1,441,000 and \$1,241,000, respectively. These on-behalf payments have been recorded as both revenues and expenses in the statements of revenues, expenses and changes in net assets.

*Defined Contribution Plans*

The University also has a defined contribution 403(b) plan (DCP) available to full-time employees. The DCP is administered by the RUSO system, and the plan provisions are established and may be amended by the Board of Regents. Plan members may make voluntary contributions in accordance with IRS regulations. The University has no contribution requirements but may make discretionary contributions. No contributions were made during the years ended June 30, 2011, 2010, and 2009.

*Supplemental Retirement Annuity (SRA)*

Plan Description

The University's SRA plan is a single employer, defined benefit pension plan administered by the University's Board of Regents. The SRA was established by the University's Board of Regents to provide supplemental retirement and death benefits to University employees who were hired prior to July 1, 1987, or to those eligible employees' beneficiaries. The authority to amend the SRA's benefit provisions rests with the University's Board of Regents. The SRA does not issue a stand-alone financial report nor is it included in the financial report of another entity.

NOTES TO FINANCIAL STATEMENTS--Continued

SOUTHEASTERN OKLAHOMA STATE UNIVERSITY

June 30, 2011

NOTE F--RETIREMENT PLANS--Continued

*Supplemental Retirement Annuity (SRA)--Continued*

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 2011 and 2010 are as follows:

	<u>2011</u>	<u>2010</u>
Annual required contribution	\$ 298,672	\$ 293,289
Interest on net pension obligation (asset)	(91,223)	(93,261)
Adjustment to annual required contribution	<u>116,140</u>	<u>118,735</u>
Annual pension cost	323,589	318,763
Contribution made	<u>(600,053)</u>	<u>(293,289)</u>
Increase in net pension obligation (asset)	(276,464)	25,474
Net pension obligation (asset) beginning of year	<u>(1,140,283)</u>	<u>(1,165,757)</u>
Net pension obligation (asset) end of year	<u>\$ (1,416,747)</u>	<u>\$ (1,140,283)</u>

The annual required contributions for 2011 and 2010 were determined as part of an actuarial valuation on June 30, 2011 and 2010, using the projected unit credit actuarial cost method. The actuarial assumptions included (a) a discount rate of 8% per year to determine the present value of future benefit payments; (b) retirement at age 65; (c) an 8% rate of return on investments; (d) projected salary increases of 3.5% per year; and (e) a 6% interest rate for post-retirement individual annuity settlement benefits. The value of the SRA assets is based on the TIAA-CREF group annuity account asset value. The unfunded actuarial accrued liability is being amortized over fifteen years as a level dollar amount on a closed basis.

NOTES TO FINANCIAL STATEMENTS--Continued

SOUTHEASTERN OKLAHOMA STATE UNIVERSITY

June 30, 2011

NOTE F--RETIREMENT PLANS--Continued

*Supplemental Retirement Annuity (SRA)--Continued*

Trend Information

Year Ended June 30	Annual Pension Cost (APC)	Percentage of APC Contributed	Net Pension Obligation (Asset)
2011	\$ 323,589	185%	\$ (1,416,747)
2010	318,763	92%	\$ (1,140,283)
2009	296,029	77%	\$ (1,165,757)

Funded Status and Funding Progress

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

	2011	2010
Actuarial accrued liability (AAL)	\$ 3,829,056	\$ 4,017,939
Actuarial value of plan assets	1,443,647	1,103,799
Unfunded actuarial accrued liability (UAAL)	\$ 2,385,409	\$ 2,914,140
Funded ratio (actuarial value of plan assets/AAL)	37.7%	27.5%
Covered payroll (active plan members)	\$ 3,167,095	\$ 3,394,321
UAAL as a percentage of covered payroll	75.3%	85.9%

NOTES TO FINANCIAL STATEMENTS--Continued

SOUTHEASTERN OKLAHOMA STATE UNIVERSITY

June 30, 2011

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, 2011, there were 450 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 \$282,055 and represents 1.3% (percent) of covered payroll.

NOTES TO FINANCIAL STATEMENTS--Continued

SOUTHEASTERN OKLAHOMA STATE UNIVERSITY

June 30, 2011

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

*Postemployment Healthcare Plan--Continued*

Actuarial Methods and Assumptions

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

Projections of benefits for financial reporting purposes are based on the substantive plan and include the types of benefits provided at the time of each valuation. The actuarial methods and assumptions used include techniques that are designed to reduce short-term volatility in actuarial accrued liabilities and the actuarial value of assets, consistent with the long-term perspective of the calculations. For the June 30, 2011 actuarial valuation, the projected unit cost method was used. The actuarial assumptions included a 7.0% investment rate of return and an annual healthcare cost inflationary increase of 8.5%.

Annual OPEB Cost and Net OPEB Obligation (Asset)

Annual OPEB cost and net OPEB obligation (asset) for 2011 and 2010 is as follows:

	<u>2011</u>	<u>2010</u>
Annual required contribution	\$ 282,055	\$ 299,247
Adjustment to annual required contribution	-	-
Annual OPEB cost	282,055	299,247
Contributions made	<u>(288,988)</u>	<u>(271,946)</u>
Increase (decrease) in net OPEB obligation	(6,933)	27,301
OPEB obligation (asset) at beginning of year	<u>134,080</u>	<u>106,779</u>
OPEB obligation (asset) at end of year	<u>\$ 127,147</u>	<u>\$ 134,080</u>

NOTES TO FINANCIAL STATEMENTS--Continued

SOUTHEASTERN OKLAHOMA STATE UNIVERSITY

June 30, 2011

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

*Postemployment Healthcare Plan--Continued*

Funded and Funding Progress

The funded status of the plan as of June 30, 2011 and 2010, was as follows:

	<u>2011</u>	<u>2010</u>
Actuarial accrued liability (AAL)	\$ 2,409,147	\$ 2,325,236
Actuarial value of plan assets	<u>422,193</u>	<u>245,102</u>
Unfunded actuarial accrued liability (UAAL)	<u>\$ 1,986,954</u>	<u>\$ 2,080,134</u>
Funded ratio (actuarial value of plan assets/AAL)	17.5%	10.5%
Covered payroll (active plan members)	\$ 22,129,689	\$ 21,761,563
UAAL as a percentage of covered payroll	9.0%	9.6%

Trend Information

<u>Fiscal Year Ended</u>	<u>Annual OPEB Cost</u>	<u>Annual OPEB Cost Contributed/Percentage</u>	<u>Net OPEB Obligation (Asset)</u>
6/30/2011	\$ 282,055	102.5%	\$ 127,147
6/30/2010	299,247	90.9%	134,080
6/30/2009	266,160	111.4%	106,799

NOTES TO FINANCIAL STATEMENTS--Continued

SOUTHEASTERN OKLAHOMA STATE UNIVERSITY

June 30, 2011

NOTE H--FUNDS HELD IN TRUST BY OTHERS

Beneficial Interest in State School Land Funds

The University has a beneficial interest in the "Section Thirteen Fund State Educational Institutions" and the "New College Fund" administered by the Commissioners of the Land Office as trustees for the various educational institutions entitled thereto. The University has the right to receive annually 3.7% of the distributions of income produced by "Section Thirteen Fund State Educational Institutions" assets and 100% of the distributions of income produced by Southeastern Oklahoma State University's "New College Fund". The University received approximately \$972,000 and \$964,000 during the years ended June 30, 2011 and 2010, respectively, which is restricted to the construction or acquisition of buildings, equipment, or other capital items. These amounts are recorded as restricted appropriations for capital purposes in the statements of revenues, expenses and changes in net assets. State law prohibits the distribution of any corpus of these funds to the beneficiaries. The total cost basis of the trust reserve for Southeastern Oklahoma State University, held in trust by the commissioners of Land Office, was approximately \$14,497,000 and \$13,493,000 at June 30, 2011 and 2010, respectively.

Oklahoma State Regents Endowment Trust Fund

The University participates in the Oklahoma State Regents' Endowment Program (the "Endowment Program"). Under the Endowment Program, the State of Oklahoma matches contributions received. Such contributions generally come from private donations through the Foundation, for endowed chairs, lectureships, fellowships, and similar activities. The University is entitled to receive an annual distribution of 4.5% of the market value at year-end on these funds. As legal title of the State Regents matching endowment funds is retained by the Oklahoma State Regents, only the funds available for distribution, or approximately \$563,000 and \$461,000 at June 30, 2011 and 2010, respectively, have been reflected as assets in the statements of net assets. The total market value of endowment funds on deposit with the Oklahoma State Regents and held for the benefit of the University at June 30, 2011 and 2010 was approximately \$4,404,000 and \$3,941,000, respectively.

NOTE I--RELATED PARTY TRANSACTIONS

The University contracts with the Foundation to provide limited services and office space without charge in exchange for the support the University receives. During the years ended June 30, 2011 and 2010, total support provided by the Foundation to the University, including scholarships awarded to University students, was approximately \$834,000 and \$568,000, respectively.



## NOTES TO FINANCIAL STATEMENTS--Continued

### SOUTHEASTERN OKLAHOMA STATE UNIVERSITY

June 30, 2011

#### 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.

In July 2010, the University began participating in the Federal Direct Student Loan Program (Direct Lending Program) that replaced the Federal Family Education Loan Program Program. The Direct Lending Program requires the College to draw down cash from the U.S. Department of Education, as well as perform certain administrative functions under the Direct Lending Program. For the year ended June 30, 2011, approximately \$11,309,000 of Direct Lending 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, 2011 and June 30, 2010, will not have material adverse impact to the University.

#### NOTE K--RISK MANAGEMENT

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

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

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

NOTES TO FINANCIAL STATEMENTS--Continued

SOUTHEASTERN OKLAHOMA STATE UNIVERSITY

June 30, 2011

NOTE L--ACCOUNTING STANDARDS ISSUED NOT YET ADOPTED

In November 2010, GASB issued Statement No. 60, *Accounting and Financial Reporting for Service Concession Arrangements*. GASB No. 60 addresses issues related to service concession arrangements (SCAs), which are a type of public-private or public-public partnership. This Statement applies only to those arrangements in which specific criteria determining whether a transferor has control over the facility are met. The requirements of this Statement are effective for financial statements for periods beginning after December 15, 2011.

In November 2010, GASB issued Statement No. 61, *The Financial Reporting Entity: Omnibus – An Amendment of GASB Statements No. 14 and No. 34*. GASB No. 61 modifies certain requirements for inclusion of component units in the financial reporting entity. This Statement also amends the criteria for reporting component units as if they were part of the primary government (that is, blending) in certain circumstances. The requirements of this Statement are effective for financial statements for periods beginning after June 15, 2012. Earlier application is encouraged.

In December 2010, the GASB issued Statement No. 62, *Codification of Accounting and Financial Reporting Guidance Contained in Pre-November 30, 1989 FASB and AICPA Pronouncements*. GASB No. 62 is intended to enhance the usefulness of its Codification by incorporating guidance that previously could only be found in certain FASB and AICPA pronouncements. The requirements of this Statement are effective for financial statements for periods beginning after December 15, 2011. Earlier application is encouraged.

In June 2011, the GASB issued Statement No. 63, *Financial Reporting of Deferred Outflows of Resources, Deferred Inflows of Resources, and Net Position*. GASB No. 63 provides financial reporting guidance for deferred outflows of resources and deferred inflows of resources. Previous financial reporting standards do not include guidance for reporting those financial statement elements, which are distinct from assets and liabilities. The requirements of this Statement are effective for financial statements for periods beginning after December 15, 2011. Earlier application is encouraged.

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

NOTES TO FINANCIAL STATEMENTS--Continued

SOUTHEASTERN OKLAHOMA STATE UNIVERSITY

June 30, 2011

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

*Nature of Activities and Summary of Significant Accounting Policies*

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

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

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

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

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

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

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

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

NOTES TO FINANCIAL STATEMENTS--Continued

SOUTHEASTERN OKLAHOMA STATE UNIVERSITY

June 30, 2011

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

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

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

Donated Assets: Donated marketable securities and other 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 Organization.

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

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

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

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

NOTES TO FINANCIAL STATEMENTS--Continued

SOUTHEASTERN OKLAHOMA STATE UNIVERSITY

June 30, 2011

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

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.

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

Restricted and Unrestricted Revenues: Contributions received are recorded as increases in unrestricted, temporarily restricted, or permanently restricted net assets, depending on the existence and/or nature of any donor restrictions.

*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 Trust reflects liabilities of \$9,144,353 as of June 30, 2011, the majority of which is a guarantee of debt to the 2005 Revenue Bond.

NOTES TO FINANCIAL STATEMENTS--Continued

SOUTHEASTERN OKLAHOMA STATE UNIVERSITY

June 30, 2011

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

*Concentration of Credit Risk for Cash Deposits*

Financial instruments that potentially subject the Foundation to concentrations of credit risk consist principally of cash deposits. Accounts at each institution are insured by the Federal Deposit Insurance Corporation (FDIC) up to \$250,000. At June 30, 2011 the LLC had approximately \$213,608 in excess of FDIC insured limits.

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

*Concentration of Contributions*

During the current year, the organization received 76% of its contribution revenues from 2 donors.

*Restrictions on Cash*

The Housing L.L.C. is required to maintain a permanent debt service escrow account and a capital maintenance reserve fund with balances of \$346,821 and \$116,788 respectively at year end. These funds must be held in separate interest bearing accounts. The capital maintenance is being funded at a rate of \$2,083 per month funds can only be disbursed for approved capital asset expenditures.

*Notes Receivable*

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

	<u>Carrying Value</u>
Note receivable from related party, 6% interest due in annual installments. Secured by real estate.	\$ 224,884
Note receivable from a general partnership, 6.5% interest due in monthly installments of \$364. Secured by a mortgage on real estate.	<u>22,151</u>
	<u>\$ 247,035</u>

NOTES TO FINANCIAL STATEMENTS--Continued

SOUTHEASTERN OKLAHOMA STATE UNIVERSITY

June 30, 2011

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

*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, 2011, as quoted on major stock exchanges or over-the-counter markets.

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

	<u>Cost</u>	<u>Fair Value</u>	<u>Carrying Value</u>
Investments as of June 30, 2011 summarized as follows:			
Cash and money market funds	\$ 128,834	\$ 128,834	\$ 128,834
US government securities	2,088,371	2,122,402	2,122,402
Mutual funds	2,244,516	2,798,822	2,798,822
Common stock	2,979,351	3,350,682	3,350,682
Corporate bonds	3,546,251	3,591,233	3,591,233
	<u>\$ 10,987,323</u>	<u>\$ 11,991,973</u>	<u>\$ 11,991,973</u>
Investment income is summarized as follows:			
Interest	\$ 275,965		
Dividends	153,711		
	<u>\$ 429,676</u>		
Realized and unrealized gain or (loss) on investments	<u>\$ 1,369,390</u>		

NOTES TO FINANCIAL STATEMENTS--Continued

SOUTHEASTERN OKLAHOMA STATE UNIVERSITY

June 30, 2011

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

*Building, Furniture and Fixtures*

Property and equipment at June 30, 2011 consisted of the following:

Building	\$ 9,040,266
Furniture and equipment	<u>397,396</u>
	9,437,662
Less: accumulated depreciation	<u>(1,891,204)</u>
	<u>\$ 7,546,458</u>

*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 \$216,423 were accrued as current liabilities at June 30, 2011.

*Real Estate Lease*

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

The liability of the Lessee, with respect to its obligation under the ground lease, shall be non-recourse and the satisfaction of any of the Lessee's obligations shall be limited to the Lessee's interest in the property. There were no ground lease expenses for the years ended June 30, 2011.

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.



NOTES TO FINANCIAL STATEMENTS--Continued

SOUTHEASTERN OKLAHOMA STATE UNIVERSITY

June 30, 2011

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

*Restriction on Net Assets*

Substantially all of the restrictions on net assets at the end of June 30, 2011 are related to funds for scholarships, endowments, and special projects. Temporarily restricted funds are contributions to be used for scholarships and special projects that may arise during the fiscal year. Restricted funds are contributions and investments designated by donors for endowments and scholarships. At this time there is a minimum \$15,000 requirement before contributions may be endowed.

*Long-Term Debt*

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

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

Years ending June 30,	
2012	\$ 186,937
2013	196,806
2014	207,356
2015	219,313
2016	231,962
Thereafter	<u>8,040,500</u>
	<u>\$ 9,082,874</u>

NOTES TO FINANCIAL STATEMENTS--Continued

SOUTHEASTERN OKLAHOMA STATE UNIVERSITY

June 30, 2011

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

*Uncertain Tax Positions*

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

The organization's federal Exempt Organization Business Income Tax Returns for 2009, 2008 and 2007 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, 2011.

The Foundation benefits from voluntary services, donated by members of the Foundation and its trustees, which have not been reflected in the financial statements. The impact of those services upon the financial statements is unknown.

The Foundation purchased real estate and subsequently leased it back to the University under a lease purchase agreement for a period of ten years beginning September 19, 2005 and ending September 19, 2015. The lease calls for annual lease payments of \$1 for the first two years and \$66,494 for the remaining eight years. This agreement provides that at the end of the term the University may purchase the land for \$1. The transaction has been recorded as a sale of real estate by the Foundation. The total principal to be paid under the agreement is \$380,000. The note is considered to bear interest at 6% for 10 years with 8 years of payments.

NOTES TO FINANCIAL STATEMENTS--Continued

SOUTHEASTERN OKLAHOMA STATE UNIVERSITY

June 30, 2011

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

*Negative Unrestricted Net Assets*

The consolidated statement of net assets reports negative unrestricted net assets of \$305,208. This is a direct result of the SOSU Housing LLC's negative net assets of \$1,061,622. This results from the deficit created by the operations of the new student housing project. The housing project rent structure has been adjusted upward to offset these operating deficits. It is the belief of management that the housing project will be self-sustaining in the future and will not require further subsidies from the University.

*University Subsidy to the SOSU Housing LLC*

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

*Classification of Income*

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

*Donor Designated Endowments*

The Organization's endowment consists of approximately 193 individual funds established for a variety of purposes. Its endowment includes both donor-restricted funds and funds designated by the Board of Trustees to function as endowments. As required by generally accepted accounting principles, net assets associated with endowment funds, including funds designated by the Board of Trustees to function as endowments, are classified and reported based on the existence or absence of donor-imposed restrictions.

NOTES TO FINANCIAL STATEMENTS--Continued

SOUTHEASTERN OKLAHOMA STATE UNIVERSITY

June 30, 2011

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

*Donor Designated Endowments--Continued*

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

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

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

NOTES TO FINANCIAL STATEMENTS--Continued

SOUTHEASTERN OKLAHOMA STATE UNIVERSITY

June 30, 2011

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

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

Funds with Deficiencies: From time to time, the fair value of assets associated with individual donor restricted endowment funds may fall below the level that the donor requires the Foundation to retain as a fund of perpetual duration. In accordance with GAAP, deficiencies of this nature that are reported in unrestricted net assets were \$3,248 in 7 individual endowments as of June 30, 2011. These deficiencies resulted from unfavorable market fluctuations that occurred shortly after the investment of new permanently restricted contributions and continued appropriation for certain programs that was deemed prudent by the Board.

	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Permanently Restricted</u>	<u>Total</u>
Donor restricted endowment funds	\$ 425,980	\$ 6,611,753	\$ 9,086,862	\$ 16,124,595

Changes in endowment net assets as of June 30, 2011 are as follows:

	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Permanently Restricted</u>	<u>Total</u>
Endowment net assets beginning of the year	\$ 107,583	\$ 4,687,084	\$ 8,605,935	\$ 13,400,602
Contributions	-	1,338,919	225,000	1,563,919
Investment income	-	428,929	-	428,929
Net appreciation (depreciation)	-	1,369,196	-	1,369,196
Transfers	956,448	(1,212,375)	255,927	-
Amounts appropriated for expenditures	(638,051)	-	-	(638,051)
	<u>\$ 425,980</u>	<u>\$ 6,611,753</u>	<u>\$ 9,086,862</u>	<u>\$ 16,124,595</u>

NOTES TO FINANCIAL STATEMENTS--Continued

SOUTHEASTERN OKLAHOMA STATE UNIVERSITY

June 30, 2011

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

*Fair Value Measured on Recurring Basis*

**Fair Value Measurements**

Fair values of assets measured on a recurring basis at June 30, 2011 as follows:

	Assets at Fair Value as of June 30, 2011			Total
	Level 1	Level 2	Level 3	
U.S. Government securities	2,122,402	-	-	2,122,402
Common Stocks	3,350,682	-	-	3,350,682
Corporate bonds	3,591,233	-	-	3,591,233
Mutual funds	2,798,822	-	-	2,798,822
Total at fair value	<u>\$ 11,863,139</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 11,863,139</u>

*U.S. government securities, corporate bonds common stocks and mutual funds:* Valued at the closing price reported in the active market in which the individual securities are traded.

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*

Subsequent events were evaluated through August 23, 2011 which is the date the financial statements were available to be issued.

Subsequent to year end, the credit and liquidity crisis in the United States and throughout the global system has resulted in volatility in financial markets and the banking systems. These and other economic events have had a significant adverse impact on investment portfolios. As a result, the plan's investments have likely incurred a significant decline in fair value since June 30, 2011.

REQUIRED SUPPLEMENTARY  
INFORMATION

REQUIRED SUPPLEMENTARY INFORMATION--UNAUDITED

SOUTHEASTERN OKLAHOMA STATE UNIVERSITY

June 30, 2011

**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%

**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	1,986,954	17.5%	22,129,689	9.0%

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



OTHER SUPPLEMENTARY  
INFORMATION

OTHER SUPPLEMENTARY INFORMATION

SOUTHEASTERN STATE UNIVERSITY

June 30, 2011

Summary of contract revenues and expenditures

Contract Title: Oklahoma Small Business Development

Contract Agency: Oklahoma Department of Commerce

Purchase Order Number SBDC 1609009501

Contract Dates: July 1, 2010 to June 30, 2011

	Program Budget	Actual Year Ended June 30, 2011
Revenues		
Contract proceeds	\$ 260,000	\$ 260,000
Expenditures		
Salaries and fringe benefits	<u>260,000</u>	<u>260,000</u>
Total expenditures	<u>-</u>	<u>-</u>
(Expenditures) in excess of revenues	<u>\$ -</u>	<u>\$ -</u>

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

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

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

We have audited the financial statements of Southeastern Oklahoma State University (the "University"), a component unit of the State of Oklahoma, as of and for the year ended June 30, 2011, and have issued our report thereon dated October 27, 2011. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States. Other auditors audited the financial statements of Southeastern Foundation, Inc. (the "Foundation"), a discretely presented component unit of the University, as described in our report on the University's financial statements. The financial statements of the Foundation were not audited in accordance with *Government Auditing Standards*.

Internal Control Over Financial Reporting

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

*A deficiency in internal control* exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect misstatements on a timely basis. *A material weakness* is a deficiency, or a combination of deficiencies, in internal control such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected on a timely basis.

Our consideration of internal control over financial reporting was for the limited purpose described in the first paragraph of this section and would not necessarily identify all deficiencies in internal control that might be deficiencies, significant deficiencies or material weaknesses. We did not identify any deficiencies in internal control over financial reporting that we consider to be material weaknesses, as defined above.

#### Compliance and Other Matters

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

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

Cole & Reed P.C.

Oklahoma City, Oklahoma  
October 27, 2011

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

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

Compliance

We have audited the compliance of Southeastern Oklahoma State University (the "University"), a component unit of the State of Oklahoma, with the types of compliance requirements described in the U.S. Office of Management and Budget (OMB) Circular A-133 *Compliance Supplement* that could have a direct and material effect on each of its major federal programs for the year ended June 30, 2011. The University's major federal programs are identified in the Summary of Auditors' Results Section of the accompanying Schedule of Findings and Questioned Costs. Compliance with the requirements of laws, regulations, contracts, and grants applicable to each of its major federal programs is the responsibility of the University's management. Our responsibility is to express an opinion on the University's compliance based on our audit.

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

In our opinion, Southeastern Oklahoma State University complied, in all material respects, with the compliance requirements referred to above that could have a direct and material effect on each of its major federal programs for the year ended June 30, 2011.

## Internal Control Over Compliance

The management of Southeastern Oklahoma State University is responsible for establishing and maintaining effective internal control over compliance with the requirements of laws, regulations, contracts, and grants applicable to federal programs. In planning and performing our audit, we considered the University's internal control over compliance with requirements that could have a direct and material effect on a major federal program in order to determine our auditing procedures for the purpose of expressing our opinion on compliance and to test and report on internal control over compliance in accordance with OMB circular A-133, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of the University's internal control over compliance.

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

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

## Schedule of Expenditures of Federal Awards

We have audited the basic financial statements of the University as of and for the year ended June 30, 2011, and have issued our report thereon dated October 27, 2011. Our audit was performed for the purpose of forming an opinion on the basic financial statements taken as a whole. 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 has been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, is fairly stated, in all material respects, in relation to the basic financial statements taken as a whole.

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

Cole & Reed P.C.

Oklahoma City, Oklahoma  
October 27, 2011



SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS

SOUTHEASTERN OKLAHOMA STATE UNIVERSITY

Year Ended June 30, 2011

Federal Grantor/Pass-Through Grantor/Program Title	CFDA Number	Pass-Through Entity Identification Number	Amount Expended
<b>U.S. Department of Education</b>			
Direct Programs			
Student Financial Aid Cluster			
Federal Pell Grant Program	84.063	P063P102050	\$ 7,898,563
Federal Work Study Program	84.033	P033A103453	245,574
Federal Supplemental Education Opportunity Grants	84.007	P007A103453	185,534
William D Ford Direct Loan Program	84.268	P268K112050	11,309,161
Academic Competitive Grant	84.375	P375A102050	233,253
National Smart Grant	84.376	P376S102050	111,898
Erma Byrd Scholarship Program	84.116P	P116P090017/P116P100032	<u>69,442</u>
Total Student Financial Aid Cluster			20,053,425
Trio Cluster			
Upward Bound	84.047A/M	P047A090109	948,042
Talent Search	84.044A	P044A070287	443,955
Student Supportive Services	84.042A	P042A100101	510,986
Educational Opportunity Centers	84.066A	P066A070041	<u>495,702</u>
Total trio cluster			2,398,685
Other Direct Programs			
Native American Excellence in Education	84.299B	S299B090003	385,922
Passed Through Oklahoma State Regents for Higher Education			
State Fiscal Stabilization Fund	84.394ARRA	S394A090037	<u>1,336,685</u>
Total U.S. Department of Education			24,174,717
<b>U.S. Small Business Administration</b>			
Small Business Development Center	59.037	10-603001-Z-0038-26	1,055,515
Veterans Assistance and Services Program	59.037	SBAHQ-10-V-0002	<u>759</u>
Total U.S. Small Business Administration			1,056,274
<b>U.S. Department of Health and Human Services</b>			
Passed through OU Health Science Center			
Role of Protein Phosphatase in Cancer	93.389	P20RR016478	4,483
Equipment	93.389	5P20RR016478-10	<u>39,356</u>
Total U.S. Department of Health and Human Services			43,839
<b>National Science Foundation</b>			
Renovation of Biotech/Chem Labs ARRA Money	47.082ARRA	0963332	278,952
Passed through Oklahoma State University			
Louis Stokes-Oklahoma Alliance for Minority Participation	47.076	HRD-0902027	32,245
Science Educators Training on Globe Objective	47.080	EPS-0814361	19,413
Evaluation of Filamentous Freshwater Algae	47.081	EPS-0814361	18,251
Passed through Mathematics Assoc of America			
Texas/Oklahoma Regional Undergraduate Symposium	47.049	DMS-0846477	<u>1,048</u>
Total National Science Foundation			349,909

SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS--Continued

SOUTHEASTERN OKLAHOMA STATE UNIVERSITY

Year Ended June 30, 2011

Federal Grantor/Pass-Through Grantor/Program Title	CFDA Number	Pass-Through Entity Identification Number	Amount Expended
<b>U.S. Department of Agriculture</b>			
Passed through Oklahoma Department of Agriculture Food / Forestry Highway Tree Program	20.205	SAFETEALU-09-02	8,656
Passed through Oklahoma Department of Education Summer food service program/TRIO program	10.559	07-U000	7,167
Total U.S. Department of Agriculture			15,823
<b>U.S. Department of Justice</b>			
Community Oriented Policing Plan	16.710	2010CKWX0270	144,617
Passed through East Central University RUSO-Violence Prevention Project	16.525	2007-WA-AX-0004	<u>61,150</u>
Total U.S. Department of Justice			205,767
<b>U.S. Department of Commerce</b>			
Center for Regional Competitiveness	11.303	08-66-04210.02	16,466
<b>National Aeronautics and Space Administration</b>			
Passed through University of Oklahoma NASA-Oklahoma Space Grant Consortium	43.001	NNG05GN42H	41,886
<b>National Endowment for the Arts</b>			
Passed through Mid-American Arts Alliance Heartland Arts Fund Visiting Artists Musical Arts Series	45.025	FY11-0039	12,500
<b>U.S. Fish and Wildlife Services</b>			
Passed through Oklahoma Department of Wildlife Conservation Survey of Freshwater Turtles in Eastern Oklahoma	15.634	T-51-1	22,007
<b>U.S. Department of Interior</b>			
Passed through U.S. Bureau of Reclamation Channel Catfish Diets in the San Juan River	15.529	R10AC40008	24,583
<b>National Institute of Health</b>			
Passed through OU Health Science Center Oklahoma INBRE Summer Internship Supplies	93.389	520RR016478-10	4,391
Corporation for National and Community Service Passed through OK State Regents for Higher Education Students in Service	94.006	10EDHWA001	<u>1,607</u>
Total Expenditures of Federal Awards			<u>\$ 25,969,769</u>

See notes to schedule of expenditures of federal awards.

NOTES TO SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS

SOUTHEASTERN OKLAHOMA STATE UNIVERSITY

June 30, 2011

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 began participation in the Direct Loan Program on July 1, 2010. The University administers the origination and disbursement of the loans to eligible students or parents. The University is not responsible for the collection of these loans.

NOTE C--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	\$ 102,762
Small Business Development Center	59.037	Northeastern Oklahoma State University	264,394
Small Business Development Center	59.037	Northwestern Oklahoma State University	197,428
Small Business Development Center	59.037	Rose State College	35,513
Small Business Development Center	59.037	Southwestern Oklahoma State University	261,353
Small Business Development Center	59.037	Langston University	66,990
Small Business Development Center	59.037	University of Central Oklahoma	175,005
			<u>\$ 1,103,445</u>

SCHEDULE OF FINDINGS AND QUESTIONED COSTS

SOUTHEASTERN OKLAHOMA STATE UNIVERSITY

June 30, 2011

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

*Financial statements*

Type of auditors' report issued:

*Unqualified*

Internal control over financial reporting:

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

Noncompliance material to financial statements noted?

yes  no

*Federal Awards*

Internal control over major programs:

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

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

*Unqualified*

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

yes  no

Identification of major programs:

<u>Program</u>	<u>CFDA Number</u>
Student Financial Aid Cluster	*
State Fiscal Stabilization Fund-Education Grants Recovery Funds	84.394 ARRA
Renovation of Biotech/Chem Labs	47.082
Small Business Development Centers	59.037
Native American Excellence in Education	84.299B

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

SCHEDULE OF FINDINGS AND QUESTIONED COSTS--Continued

SOUTHEASTERN OKLAHOMA STATE UNIVERSITY

June 30, 2011

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

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

Auditee qualified as low-risk auditee?  yes  no

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

None to report for the June 30, 2011 period.

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

None to report for the June 30, 2011 period.

SUMMARY SCHEDULE OF PRIOR AUDIT FINDINGS

SOUTHEASTERN OKLAHOMA STATE UNIVERSITY

June 30, 2011

No matters were reportable.