# SOUTHWESTERN OKLAHOMA STATE UNIVERSITY

**June 30, 2013**

COLE + REED P.C.
CERTIFIED PUBLIC ACCOUNTANTS

SOUTHWESTERN OKLAHOMA STATE UNIVERSITY

June 30, 2013

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# Independent Auditors' Report

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

**Report on the Financial Statements**

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

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

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

**Auditors' Responsibility**

Our responsibility is to express an opinion on these financial statements based on our audit. We did not audit the financial statements of the University's discretely presented component unit, the Southwestern Pharmacy Alumni Foundation, Inc. (the "Pharmacy Foundation"), which represent total assets of 15% as of June 30, 2013, and total revenues of 17% for the year then ended, of the aggregate discretely presented component units. Those statements were audited by other auditors, whose report has been furnished to us, and our opinion, insofar as it relates to the amounts included for the Pharmacy Foundation, is based solely on the report of the other auditors. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. The financial statements of the Pharmacy Foundation and the financial statements of the Southwestern Oklahoma State University Foundation, Inc. (the "Foundation") were not audited in accordance with *Government Auditing Standards*.

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

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



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**Opinion**

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

**Emphasis of Matters**

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

**Other Matters**

*Required Supplementary Information*

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis and the required supplementary information, as listed in the table of contents, be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context.

We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

*Other Supplementary Information*

Our audit was conducted for the purpose of forming an opinion on the basic financial statements of Southwestern Oklahoma State University for the year ended June 30, 2013, taken as a whole. The combining financial statements of the University's discretely presented component units contained in other supplementary information are presented for purposes of additional analysis and are not a required part of the basic financial statements.

Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the basic financial statements. The information has been subjected to the auditing procedures applied in the audit of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic financial statements or to the basic financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the information is fairly stated, in all material respects, in relation to the basic financial statements as a whole.

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

In accordance with *Government Auditing Standards*, we have also issued our report dated October 31, 2013 on our consideration of the University's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the University's internal control over financial reporting and compliance.

Cole & Reed P.C.

Oklahoma City, Oklahoma
October 31, 2013

MANAGEMENT'S DISCUSSION AND ANALYSIS

SOUTHWESTERN OKLAHOMA STATE UNIVERSITY

June 30, 2013

## INTRODUCTION

The discussion and analysis of Southwestern Oklahoma State University's (the "University") financial statements provides an overview of the University's financial activities for the fiscal year ending June 30, 2013, with selected comparative information for the year ended June 30, 2012. Management's Discussion and Analysis is designed to focus on current activities, resulting changes, and current known facts, so it should be read in conjunction with the University's financial statements and footnotes.

These financial statements include those of the University and its discretely presented component units, Southwestern Pharmacy Alumni Foundation, Inc. and Southwestern Oklahoma State University Foundation, Inc. A component unit is a legally separate entity associated with the primary organization. However, this discussion only covers the University.

## 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 in one total. This report is provided to highlight and explain significant changes in the financial operations and condition of the University.

These statements include all assets and liabilities using the accrual basis of accounting, which is consistent with the accounting used by private sector institutions. All of the current year's revenues and expenses are recognized when earned or incurred, regardless of when cash is received or paid.

## FINANCIAL HIGHLIGHTS

The statement of net position and statement of revenues, expenses, and changes in net position report the University's net position and how it has changed. Assets are presented in two major classifications, current and non-current assets. Current assets represent resources that are available to meet current operational needs. Non-current assets represent resources that are not available to meet current obligations. Cash and investments designated for construction or other capital projects are included in this category. The major component of this category is the University's investment in property, buildings, and equipment. The financial statements contain a summary of capital asset activity.

## FINANCIAL HIGHLIGHTS--Continued

Liabilities are also separated into current and non-current classifications. Current liabilities are those obligations that are due within the current year and will be paid from current resources. Non-current liabilities are primarily made up of long-term debt. The financial statements provide detail related to Long-Term Liabilities.

Net position - the difference between assets, deferred outflows or resources, liabilities, and deferred inflows of resources - is one way to measure the University's health, or position. Over time, increases or decreases in net position are an indicator of whether or not the University's financial health is improving. Non-financial factors are also important to consider, including student enrollment and condition of campus buildings.

## CONDENSED STATEMENT OF NET POSITION

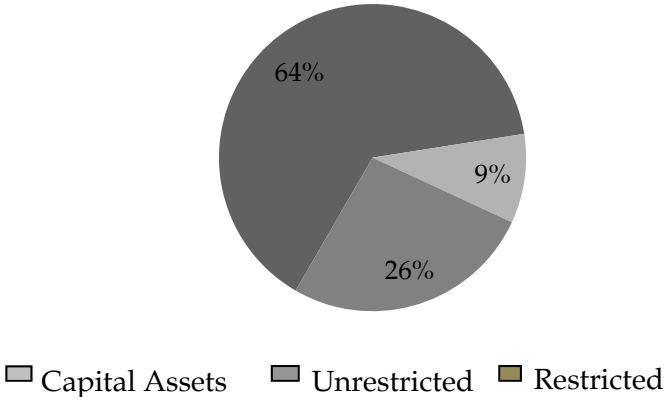
A Condensed Statement of Net Position is prepared from the University's statement of net position and summarizes the assets, liabilities, and net position as of June 30, 2013. Comparative data as of June 30, 2012, is provided.

| | June 30, (*in Millions*) | | Increase | Percent |
|---|---|---|---|---|
| | 2013 | 2012 (restated) | (Decrease) | Change |
| CURRENT ASSETS | $ 18.4 | $ 18.2 | $ 0.2 | 1.1% |
| NONCURRENT ASSETS | | | | |
| Capital Assets, Net of Depreciation | 68.2 | 57.0 | 11.2 | 19.6% |
| Other | 12.6 | 20.3 | (7.7) | -37.9% |
| TOTAL ASSETS | $ 99.2 | $ 95.5 | $ 3.7 | 3.9% |
| DEFERRED OUTFLOWS OF RESOURCES | $ 0.3 | $ 0.5 | $ (0.2) | -40.0% |
| CURRENT LIABILITIES | $ 7.9 | $ 5.8 | $ 2.1 | 36.2% |
| NONCURRENT LIABILITIES | 29.9 | 31.8 | (1.9) | -6.0% |
| TOTAL LIABILITIES | $ 37.8 | $ 37.6 | $ 0.2 | 0.5% |
| NET POSITION | | | | |
| Net investment in Capital Assets | $ 39.6 | $ 32.6 | $ 7.0 | 21.5% |
| Restricted | 5.8 | 7.9 | (2.1) | -26.6% |
| Unrestricted | 16.3 | 17.9 | (1.6) | -8.9% |
| TOTAL NET POSITION | $ 61.7 | $ 58.4 | $ 3.3 | 5.7% |

## ANALYSIS OF NET POSITION

Current assets increased by $209,081. Net Capital Assets increased by $11,213,929. This increase is due to construction of the Event Center; expected to be completed by December, 2013. This project is funded from master lease funds and sales tax revenue from the City of Weatherford.

The following graph indicates how the University's net position is split between investment in capital assets, unrestricted, and restricted net position.




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

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

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

A Condensed Statement of Revenues, Expenses, and Changes in Net Position is prepared from the University's statement of revenues, expenses, and changes in net position.

| | Years Ended June 30, *(in Millions)* | |
|---|---|---|
| | 2013 | 2012 (restated) |
| OPERATING REVENUES | | |
| Student tuition and fees | $ 17.0 | $ 17.6 |
| Federal, state, and local grants and contracts | 7.6 | 8.0 |
| Auxiliary | 7.0 | 6.6 |
| Other | 0.7 | 0.4 |
| TOTAL OPERATING REVENUES | 32.3 | 32.6 |
| OPERATING EXPENSES | | |
| Compensation and employee benefits | 43.5 | 43.9 |
| Contractual services | 3.7 | 3.8 |
| Supplies and materials | 4.0 | 3.9 |
| Depreciation | 3.4 | 3.5 |
| Utilities | 1.5 | 1.9 |
| Communication expense | 0.2 | 0.3 |
| Scholarships and fellowships | 6.0 | 8.2 |
| Other operating expense | 3.2 | 2.6 |
| TOTAL OPERATING EXPENSES | 65.5 | 68.1 |
| OPERATING INCOME (LOSS) | (33.2) | (35.5) |
| NONOPERATING REVENUES (EXPENSES) | | |
| State appropriations | 25.2 | 25.0 |
| City sales tax revenue | 0.7 | 0.7 |
| Grant (Federal & State) | 11.0 | 11.9 |
| Investment income | 0.3 | 0.4 |
| Interest costs | (2.3) | (1.2) |
| NET NONOPERATING REVENUES | 34.9 | 36.8 |
| Income (loss) before other revenues, expenses, gains, and losses | 1.7 | 1.3 |
| State appropriations restricted for capital purposes | 1.4 | 1.4 |
| Other | 0.2 | 0.3 |
| CHANGE IN NET POSITION | 3.3 | 3.0 |
| NET POSITION, BEGINNING OF YEAR, as restated | 58.4 | 55.4 |
| NET POSITION, END OF YEAR | $ 61.7 | $ 58.4 |

## REVENUES

Student tuition and fees, net of scholarships and allowances, decreased $688,144. The student full-time equivalent (FTE) enrollment for fiscal year 2013 and fiscal year 2012 was 4,678 and 4,850, respectively. This would indicate an FTE enrollment decrease of 3.5%.

Operating Grants and Contracts activity is $7.6 million, approximately $ .4 million less than the previous year. The bulk of the grant revenue is for group homes which provide services to state adjudicated delinquent male youths. Funding of approximately $3.9 million for this program is provided through an agreement with the Office of Juvenile Affairs. This program not only provides an invaluable service for these young men, but also provides internships and employment for academic students. Significant federal grants, classified as non-operating revenue, are for Student Financial Aid and include Pell, Student Work Study, and Supplemental Education Opportunity Grants. The current year decrease in nonoperating grants and contracts is attributable to decreased Pell Federal Grants.

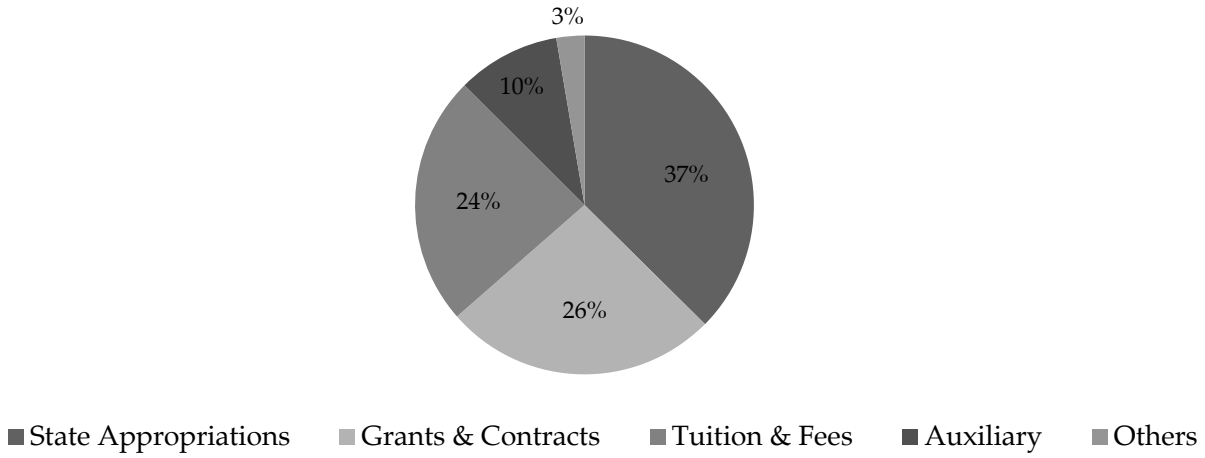
Auxiliary operations generated total revenues of $7.0 million in fiscal year 2013, of which $5.9 million is from housing and food services, as compared to fiscal year 2012 revenues of $6.6 million, of which $5.5 million is from housing and food services.

State appropriations for operations in fiscal year 2013 were $25.2 million, approximately the same as fiscal year 2012. This includes $2.4 million in Oklahoma Teachers Retirement System on-behalf contributions.

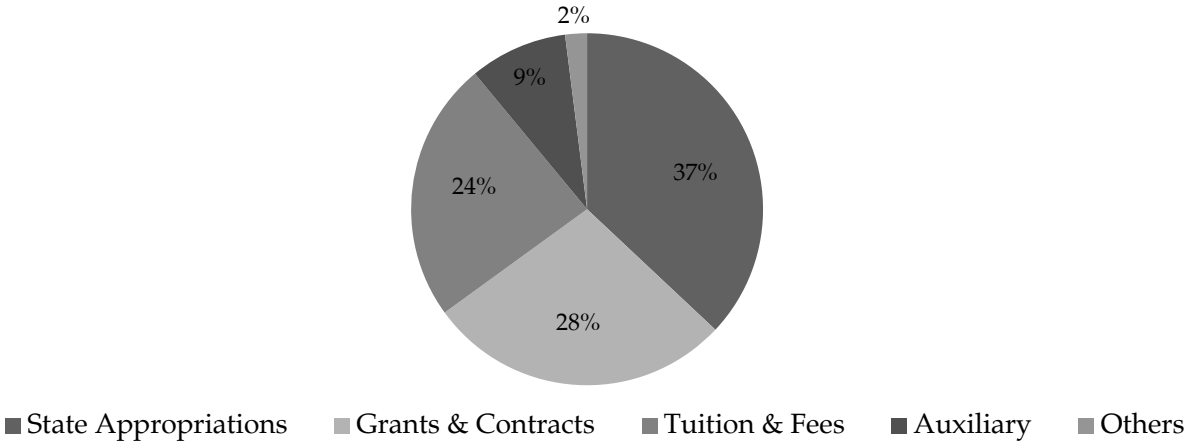
REVENUES--Continued

The following graphs represent the percentage of revenues by source:

**Total Revenue FY 13**
(*in Millions*)



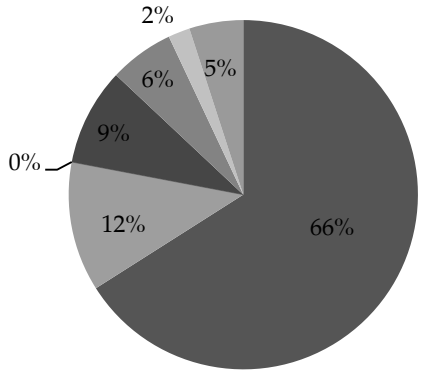

**Total Revenue FY 12**
(*in Millions*)



EXPENSES

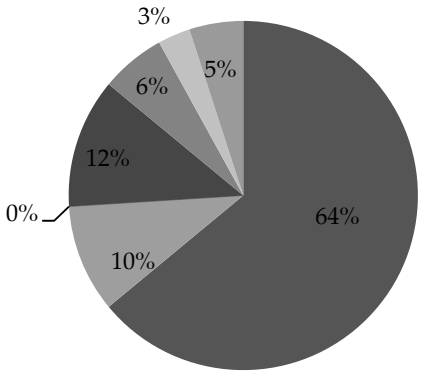
Operating expenses for the year are $65.5 million, a decrease of $2.6 million, 3.8% less than the previous year. This is due to decreases in spending in the areas of scholarships, contractual services and other utility expenses.

**Expenses by Natural Classification FY 13**
(*in millions*)




Compensation Supplies & Other Communication Scholarships
Contractual Services Utilities Depreciation

**Expenses by Natural Classification FY 12**
(*in millions*)




Compensation Supplies & Other Communication Scholarships
Contractual Services Utilities Depreciation

## STATEMENT OF CASH FLOWS

The primary purpose of the Statement of Cash Flows is to provide information about the cash receipts and distributions 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.

This statement is a summary of the cash flows for the year ended June 30, 2013, compared to the year ended June 30, 2012, and is prepared from the Statement of Cash Flows.

## CONDENSED STATEMENT OF CASH FLOWS

| | Years Ended June 30, *(in Millions)* | |
|---|---|---|
| | 2013 | 2012 |
| CASH PROVIDED BY (USED IN): | | |
| Operating activities | $ (27.1) | $ (29.5) |
| Noncapital financing activities | 34.6 | 35.1 |
| Investing activities | 8.0 | 5.3 |
| Capital and related financing activities | (15.6) | (9.2) |
| NET INCREASE (DECREASE) IN CASH | (0.1) | 1.7 |
| CASH, BEGINNING OF YEAR | 24.7 | 23.0 |
| CASH, END OF YEAR | $ 24.6 | $ 24.7 |

## CAPITAL ASSETS

At June 30, 2013, the University had approximately $68 million invested in capital assets, net of accumulated depreciation of $58 million. Depreciation charges totaled approximately $3.4 million for the current fiscal year. As previously discussed, capital assets increased due to the construction in progress of the Event Center and renovation of Parker Hall. These projects are funded by student fees, master lease programs, city sales taxes, and other sources.

At June 30, 2012, the University had approximately $57 million invested in capital assets, net of accumulated depreciation of $55 million. Depreciation charges totaled approximately $3.5 million for the fiscal year. As previously discussed, capital assets increased due to the construction in progress of the Event Center. These projects are funded by student fees, master lease programs, city sales taxes, and other sources.

Details of balances of capital assets for the years ended June 30, 2013, and 2012, are shown below.

CAPITAL ASSETS, net

| | June 30, *(in Millions)* | |
|---|---|---|
| | 2013 | 2012 |
| Land | $ 1.1 | $ 1.1 |
| Construction-in-progress | 20.5 | 9.9 |
| Infrastructure | 0.7 | 0.3 |
| Land improvements | 0.6 | 0.5 |
| Buildings | 41.3 | 41.1 |
| Furniture, fixtures, and equipment | 2.4 | 2.5 |
| Library materials | 1.6 | 1.6 |
| | $ 68.2 | $ 57.0 |

## DEBT

At June 30, 2013, the University had approximately $30.6 million in debt outstanding compared to $31.9 outstanding at June 30, 2012. The table below summarizes these amounts by type.

## OUTSTANDING DEBT

| | June 30, *(in Millions)* | |
|---|---|---|
| | 2013 | 2012 |
| OCIA Lease Obligations | $ 11.6 | $ 11.6 |
| ODFA Lease Obligations | 13.9 | 14.9 |
| Revenue Bonds Payable | 5.1 | 5.4 |
| | $ 30.6 | $ 31.9 |

The $5.4 million Revenue Bond was issued in 2004 (original issue amount was $8 million) for proceeds to build the Wellness Center and renovate the existing Student Center. This is a twenty year bond with student facility fees pledged for bond repayment and operating funds.

Southwestern is participating in the Master Lease program through the Oklahoma Capital Improvement Authority (OCIA) for $2,000,000 for campus energy improvements; and $1,000,000 for renovation at the Student Center. There is also a bond issue through Oklahoma Development Finance Authority (ODFA) in the amount of $515,000 for renovations to the Chemistry, Physics, and Pharmacy building. During 2011, there were two new bonds issued through ODFA: $2,000,000 for improvements to renovate an unused dormitory to classrooms and $13,000,000 for construction of the Weatherford Event Center.

During 2006, OCIA issued lease purchase obligations of about $11,640,758 for capital improvements. This is a 25 year lease agreement and includes several capital improvement projects. In August 2010, OCIA issued the 2010A and 2010B series bonds to partially refund the 2005F revenue bonds; therefore, no lease principal or interest payments were made on behalf of the University during 2011. During 2013, interest payments in the amount of $158,801 were made.

The OCIA lease obligations provide that the University is to make specified monthly payments to OCIA over 10 years for a bond issue in 1999. During the years ended June 30, 2013, and 2012, lease principal and interest payments were made on behalf of the University totaling $18,287 and $18,296, respectively. These on-behalf amounts have been recorded as restricted state appropriations in the University's statement of revenues, expenses, and changes in net position.

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

## DETERMINING WHETHER CERTAIN ORGANIZATIONS ARE COMPONENT UNITS

The Governmental Accounting Standards Board (GASB) published GASB Statement No. 39, *Determining Whether Certain Organizations Are Component Units*, which became effective June 2003, and which requires Universities to include in their financial statements component unit financial information.

Southwestern Oklahoma State University Foundation, Inc. and the Southwestern Pharmacy Alumni Foundation, Inc. are component units of Southwestern Oklahoma State University, and the most recent financial statements of the Foundations are included in this presentation.

## ECONOMIC OUTLOOK

The University experienced a positive year in FY-13 by closely monitoring expenditures and enhancing revenues with targeted increases in tuition and fees. Despite these increases in tuition and fees the cost of attendance at SWOSU remains very competitive within the state and our region. The FY-13 enrollment is down slightly but close to our initial budget estimates. We believe that our recently adopted strategic plan will enhance our ability to diversity our student enrollment base, increase student retention and provide additional resources for other initiatives.

Oklahoma, especially in western Oklahoma, has had a strong economic recovery lead by oil and natural gas production. This, in turn, has stabilized the state's tax revenues that are the source of our appropriation base. We understand the competition for appropriated dollars remains intense, but we are hopeful that this source of revenue with increase in the near future.

STATEMENT OF NET POSITION

SOUTHWESTERN OKLAHOMA STATE UNIVERSITY

June 30, 2013

ASSETS

| | |
|---|---|
| CURRENT ASSETS | |
| Cash and cash equivalents | $ 15,651,242 |
| Restricted cash and cash equivalents | 227,138 |
| Accounts receivable, current portion, net | 1,886,711 |
| Receivable from state agencies | 423,889 |
| Interest receivable | 21,049 |
| Inventories | 175,149 |
| TOTAL CURRENT ASSETS | 18,385,178 |
| NONCURRENT ASSETS | |
| Restricted cash and cash equivalents | 8,727,138 |
| Accounts receivable, noncurrent portion | 387,000 |
| Investments held by others | 368,662 |
| Notes receivable, net of allowance for uncollectibles | 150,701 |
| Prepaid pension asset | 2,836,764 |
| Other post employment benefits | 128,474 |
| Capital assets, net of accumulated depreciation | 68,165,297 |
| TOTAL NONCURRENT ASSETS | 80,764,036 |
| TOTAL ASSETS | $ 99,149,214 |
| DEFERRED OUTFLOWS OF RESOURCES | |
| Deferred charge on OCIA lease restructure | $ 322,961 |

STATEMENT OF NET POSITION--Continued

SOUTHWESTERN OKLAHOMA STATE UNIVERSITY

June 30, 2013

| LIABILITIES AND NET POSITION | |
|---|---|
| CURRENT LIABILITIES | |
| Accounts payable | $ 3,871,019 |
| Accrued payroll | 512,012 |
| Accrued interest payable | 124,188 |
| Unearned revenue | 175,052 |
| Deposits held in custody for others | 358,827 |
| Current portion of non current liabilities | 2,867,628 |
| TOTAL CURRENT LIABILITIES | 7,908,726 |
| NONCURRENT LIABILITIES | |
| Unearned revenue from long-term contracts | 387,000 |
| Accrued compensated absences | 557,396 |
| Bonds payable | 4,750,000 |
| Bond premium (net of amortization) | 276,556 |
| Lease obligations payable to state agency | 23,944,810 |
| TOTAL NONCURRENT LIABILITIES | 29,915,762 |
| TOTAL LIABILITIES | $ 37,824,488 |
| NET POSITION | |
| Net investment in capital assets | $ 39,552,770 |
| Restricted: | |
| Expendable: | |
| Scholarships, instruction and other | 1,709,035 |
| Capital projects | 4,109,639 |
| Unrestricted | 16,276,243 |
| TOTAL NET POSITION | $ 61,647,687 |

See notes to financial statements.

STATEMENT OF REVENUES, EXPENSES, AND CHANGES IN NET POSITION

SOUTHWESTERN OKLAHOMA STATE UNIVERSITY

Year Ended June 30, 2013

| | |
|---|---|
| OPERATING REVENUES | |
| Student tuition and fees, net of scholarship discounts and allowances of $11,959,000 | $ 16,949,423 |
| Federal grants and contracts | 1,858,319 |
| State and local grants and contracts | 5,679,805 |
| Housing and food service | 5,903,780 |
| Other auxiliary operations | 1,108,003 |
| Interest earned on loans to students | 15,694 |
| Other operating revenues | 726,803 |
| TOTAL OPERATING REVENUES | 32,241,827 |
| OPERATING EXPENSES | |
| Compensation and employee benefits | 43,477,241 |
| Contractual services | 3,657,069 |
| Supplies and materials | 3,987,880 |
| Depreciation | 3,407,915 |
| Utilities | 1,544,227 |
| Communication expense | 203,624 |
| Scholarships and fellowships | 6,007,214 |
| Other operating expenses | 3,159,746 |
| TOTAL OPERATING EXPENSES | 65,444,916 |
| OPERATING LOSS | (33,203,089) |
| NONOPERATING REVENUES (EXPENSES) | |
| State appropriations | 22,839,276 |
| On-behalf contributions for OTRS | 2,377,662 |
| City sales tax revenue | 737,012 |
| Federal grants and contracts | 7,139,397 |
| State and local grants and contracts | 3,845,825 |
| Investment income | 310,897 |
| Interest expense | (2,415,477) |
| NET NONOPERATING REVENUES | 34,834,592 |
| Income before other revenues, expenses, gains, and losses | 1,631,503 |
| Capital grants and gifts | 54,023 |
| State appropriations restricted for capital purposes | 1,403,061 |
| OCIA on-behalf appropriations | 171,745 |
| CHANGE IN NET POSITION | 3,260,332 |
| NET POSITION, BEGINNING OF YEAR | 58,598,345 |
| ADJUSTMENT FOR CHANGE IN ACCOUNTING PRINCIPLE - NOTE A | (210,990) |
| NET POSITION AT BEGINNING OF YEAR, RESTATED | 58,387,355 |
| NET POSITION, END OF YEAR | $ 61,647,687 |

See notes to financial statements.

STATEMENT OF CASH FLOWS

SOUTHWESTERN OKLAHOMA STATE UNIVERSITY

Year Ended June 30, 2013

| | |
|---|---|
| CASH FLOWS FROM OPERATING ACTIVITIES | |
| Tuition and fees | $ 16,837,525 |
| Grants and contracts | 7,709,734 |
| Housing and food service and other receipts | 7,499,519 |
| Interest on loans to students | 15,694 |
| Payments to employees for salaries and benefits | (40,685,376) |
| Payments to suppliers | (18,507,618) |
| NET CASH USED IN OPERATING ACTIVITIES | (27,130,522) |
| CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES | |
| State appropriations | 22,839,276 |
| Grants and contracts | 10,985,222 |
| City sales tax received | 737,012 |
| Direct Loan receipts | 18,515,064 |
| Direct Loan payments | (18,515,064) |
| NET CASH PROVIDED BY NONCAPITAL FINANCING ACTIVITIES | 34,561,510 |
| CASH FLOWS FROM INVESTING ACTIVITIES | |
| Proceeds from sale of investments | 7,843,786 |
| Interest income received | 163,781 |
| NET CASH PROVIDED BY INVESTING ACTIVITIES | 8,007,567 |
| CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES | |
| Cash paid for capital assets | (14,225,238) |
| Capital appropriations received | 1,403,061 |
| Repayment of capital debt and leases | (1,927,801) |
| Interest paid on capital debt and leases | (825,148) |
| NET CASH USED IN CAPITAL AND RELATED FINANCING ACTIVITIES | (15,575,126) |
| NET INCREASE IN CASH AND CASH EQUIVALENTS | (136,571) |
| CASH AND CASH EQUIVALENTS, BEGINNING OF YEAR | 24,742,089 |
| CASH AND CASH EQUIVALENTS, END OF YEAR | $ 24,605,518 |

STATEMENT OF CASH FLOWS--Continued

SOUTHWESTERN OKLAHOMA STATE UNIVERSITY

Year Ended June 30, 2013

| | |
|---|---|
| RECONCILIATION OF OPERATING LOSS TO NET CASH USED IN OPERATING ACTIVITIES | |
| Operating loss | $ (33,203,089) |
| Adjustments to reconcile operating loss to net cash used by operating activities: | |
| Depreciation expense | 3,407,915 |
| On-behalf contributions to teachers' retirement system | 2,377,662 |
| Changes in assets and liabilities: | |
| Accounts receivable | (96,838) |
| Inventories | (21,838) |
| Prepaid pension asset | 258,618 |
| Other post employment benefits | 17,778 |
| Accounts payable and accrued expenses | 185,268 |
| Deferred revenue | (76,738) |
| Compensated absences | 26,519 |
| Loans to students and employees | (5,779) |
| NET CASH USED IN OPERATING ACTIVITIES | $ (27,130,522) |
| NONCASH INVESTING, NONCAPITAL FINANCING AND CAPITAL AND RELATED FINANCING ACTIVITIES | |
| Interest on capital debt paid by State Agency on behalf of the University | $ 158,801 |
| Principal on capital debt paid by State Agency on behalf of the University | $ 12,944 |
| RECONCILIATION OF CASH AND CASH EQUIVALENTS TO STATEMENTS OF NET ASSETS | |
| Current assets: | |
| Cash and cash equivalents | 15,651,242 |
| Restricted cash and cash equivalents | 227,138 |
| Noncurrent assets | |
| Restricted cash and cash equivalents | 8,727,138 |
| TOTAL CASH AND CASH EQUIVALENTS | $ 24,605,518 |

See notes to financial statements.

AGGREGATE DISCRETELY PRESENTED COMPONENT UNITS
COMBINED STATEMENT OF FINANCIAL POSITION

SOUTHWESTERN OKLAHOMA STATE UNIVERSITY

December 31, 2012 (Fiscal Year End of Component Units)

| | |
|---|---|
| ASSETS | |
| Cash and cash equivalents | $ 539,576 |
| Pledges receivable | 9,725 |
| Interest receivable | 11,388 |
| Contributions receivable | 56,864 |
| Note receivable from related party | 406,766 |
| Investments | 16,833,740 |
| Loans receivable | 1,000 |
| Beneficial interest in perpetual trust | 1,233,100 |
| Property and equipment | 746,530 |
| Other assets | 289,653 |
| TOTAL ASSETS | $ 20,128,342 |
| LIABILITIES | |
| Accounts payable | $ 734 |
| Payable to related party | 201,645 |
| Funds held for others | 178,374 |
| TOTAL LIABILITIES | 380,753 |
| NET ASSETS | |
| Unrestricted | 1,016,827 |
| Temporarily restricted | 4,096,380 |
| Permanently restricted | 14,674,382 |
| TOTAL NET ASSETS | 19,787,589 |
| TOTAL LIABILITIES AND NET ASSETS | $ 20,168,342 |

See notes to financial statements.

AGGREGATE DISCRETELY PRESENTED COMPONENT UNITS'
COMBINED STATEMENT OF ACTIVITIES AND CHANGES IN NET ASSETS

SOUTHWESTERN OKLAHOMA STATE UNIVERSITY

December 31, 2012 (Fiscal Year End of Component Units)

| | |
|---|---|
| SUPPORT, REVENUES, GAINS AND OTHER ADDITIONS | |
| Contributions | $ 957,160 |
| Provision for loss on uncollectible contributions receivable | (55,514) |
| Program service revenue | 390,807 |
| Interest and dividend income | 210,071 |
| Realized gains (losses) on investments | 754,933 |
| Unrealized gain (loss) on investments | 452,053 |
| Investment income from perpetual trust | 80,000 |
| Loss on beneficial interest in perpetual trust | (48,021) |
| Rental income | 70,000 |
| Other income | 49,259 |
| Other investment income | 40,887 |
| Continuing education | 17,980 |
| TOTAL SUPPORT, REVENUES, GAINS, AND OTHER ADDITIONS | 2,919,615 |
| EXPENSES | |
| Program services for university | 1,151,055 |
| Supporting services: | |
| Management and general | 213,060 |
| Fundraising | 33,112 |
| Continuing education expenses | 23,563 |
| Scholarships and Grants | 75,100 |
| School of Pharmacy | 34,372 |
| TOTAL EXPENSES | 1,530,262 |
| NET INCREASE IN ASSETS | 1,389,353 |
| NET ASSETS, BEGINNING OF YEAR | 18,398,236 |
| NET ASSETS, END OF YEAR | $ 19,787,589 |

See notes to financial statements.

NOTES TO FINANCIAL STATEMENTS

SOUTHWESTERN OKLAHOMA STATE UNIVERSITY

June 30, 2013

## NOTE A--SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

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

Reporting Entity: The financial reporting entity, as defined by Governmental Accounting Standards Board (GASB) Statement No. 14, *The Financial Reporting Entity* and as amended by GASB Statement No. 39, *Determining whether Certain Organizations Are Component Units-an Amendment of GASB Statement No. 14* and GASB Statement No. 61, *The Financial Reporting Entity: Omnibus – an Amendment of GASB Statements No. 14 and No. 34* , includes the accounts and funds of the University and its discretely presented component units, Southwestern Oklahoma State University Foundation, Inc. (the "University Foundation") and Southwestern Pharmacy Alumni Foundation, Inc. (the "Pharmacy Foundation"). The University is a component unit of the State of Oklahoma and is included in the general-purpose financial statements of the state as part of the Higher Education component unit.

Discretely Presented Component Units: Southwestern Oklahoma State University Foundation, Inc. (the "University Foundation") and the Southwestern Pharmacy Alumni Foundation, Inc. (the "Pharmacy Foundation") are component units of the University under GASB 39 that should be discretely presented with the financial statements of the University. The University Foundation and the Pharmacy Foundation have a fiscal year ending December 31. The University is the beneficiary of the University Foundation and the Pharmacy Foundation, separate legal entities with their own Boards of Trustees. The University Foundation is organized for the benefit of the University and its faculty, student body, and programs. The University Foundation provides scholarships and support and enhances the further development of the University. The Pharmacy Foundation was formed to provide support for the School of Pharmacy at the University. The Pharmacy Foundation gives scholarships and makes loans available to pharmacy students. The Pharmacy Foundation also provides research grants to faculty and students.

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

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

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

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

Investments: The University accounts for its investments at fair value in accordance with GASB Statement No. 31, *Accounting and Financial Reporting for Certain Investments and for External Investment Pools*. Changes in unrealized gain (loss) on the carrying value of investments are reported as a component of investment income in the statement of revenues, expenses, and changes in net position.

Accounts Receivable: Accounts receivable consist of tuition and fee charges to students and auxiliary enterprise services provided to students, faculty, and staff, the majority of each residing in the State of Oklahoma. 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. Accounts receivable are recorded net of estimated uncollectible amounts.

Inventories: Inventories are carried at the lower of cost or market on the first-in, first-out (FIFO) basis.

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

Capital Assets: Capital assets are recorded at cost at the date of acquisition, or fair market value at the date of donation in the case of gifts. For equipment, the University's capitalization policy includes all items with a unit cost of $2,500 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.

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

Capital Assets--Continued: Depreciation is computed using the straight-line method over the estimated useful lives of the assets, generally 40 to 60 years for buildings, 20 to 30 years for infrastructure and land improvements, and 5 to 10 years for library materials and equipment.

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

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

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

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

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

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

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

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

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

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

Use of Estimates: The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect certain reported amounts and disclosures. Accordingly, actual results could differ from these 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 federal, state, or local 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, 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, certain governmental and other pass-through grants, and investment income.

Scholarship Discounts and Allowances: Student tuition and fee revenues and certain other revenues from students are reported net of scholarship discounts and allowances in the statements of revenues, expenses, and changes in net position. 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. 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.

Sales Tax Revenue: The University receives an allocation of the City of Weatherford's sales tax revenue. Revenues are recognized when collected.

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

Deferred Outflows of Resources: Deferred outflows are the consumption of net position by the University that are applicable to a future reporting period. At June 30, 2013, the University's deferred outflows of resources were comprised of deferred charges on OCIA lease restructurings. These deferred outflows of resources are recognized as a component of interest expense over the remaining life of the old debt or the life of the new debt, whichever is shorter.

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

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

- *Statement No. 60, Accounting and Financial Reporting for Service Concession Arrangements.*

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

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

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

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

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

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

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

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

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

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

  GASB Statement No. 65 establishes accounting and financial reporting standards that reclassify, as deferred outflows of resources or deferred inflows of resources, certain items that were previously reported as assets and liabilities and recognizes, as outflows of resources (expenses) or inflows of resources (revenues), certain items that were previously recognized as assets and liabilities. The University has chosen to early adopt GASB Statement No. 65 in 2013. As a result of the adoption of GASB Statement No. 65, the University's Net Position as of July 1, 2012 decreased by $210,990 from amounts previously reported.

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

*Fiscal Year Ended June 30, 2014*

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

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

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

New Accounting Pronouncements Issued Not Yet Adopted--Continued:

*Fiscal Year Ended June 30, 2015*

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

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

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

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

## 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 participate 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; (e) collateralized certificates of deposit; (f) commercial paper; (g) obligations of state and local governments; and (h) State of Israel bonds.

At June 30, 2013, the carrying amount of all University deposits with the OST and other financial institutions was $24,605,518. This amount consisted of deposits with the OST ($24,541,143), deposits with financial institutions ($31,900), and change funds ($32,475). Of funds on deposit with the OST, amounts invested in *OK INVEST* total $12,563,027 in 2013 (market value of $12,624,627). The differences between the bank balance of deposits and the related carrying amounts were generally not significant and are due to outstanding checks and deposits in transit.

NOTE B--DEPOSITS AND INVESTMENTS--Continued

Deposits--Continued: For financial reporting purposes, deposits with the OST that are invested in *OK INVEST* are classified as cash equivalents. The distribution of deposits in *OK INVEST* is as follows at June 30, 2013:

| OK INVEST Portfolio | Cost | Market Value |
|---|---|---|
| U.S. Agency securities | $ 4,938,312 | $ 4,917,434 |
| Certificates of deposit | 320,929 | 320,929 |
| Money market mutual funds | 1,178,874 | 1,178,874 |
| End of day commercial paper sweep | 264,053 | 264,053 |
| Mortgage backed agency securities | 5,398,379 | 5,424,882 |
| Municipal Bonds | 211,646 | 234,277 |
| Foreign bonds | 99,232 | 99,173 |
| U.S. treasury obligations | 151,602 | 185,005 |
| TOTAL | $ 12,563,027 | $ 12,624,627 |

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 and 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 investments in securities with an overnight maturity as well as in U.S. government securities with a maturity of up to ten years. *OK INVEST* maintains an overall weighted average maturity of no more than four years.

NOTE B--DEPOSITS AND INVESTMENTS--Continued

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

Investments: Investment *credit risk* is the risk that an issuer or other counterparty to an investment will not fulfill its obligations. Generally, the University's investments are managed by the State Treasurer. In accordance with state statutes, the State Treasurer may only purchase and invest in (a) obligations of the United States government, its agencies, and instrumentalities; (b) prime banker's acceptances; (c) investment grade obligations of state and local governments; (d) money market funds; (e) collateralized or insured certificates of deposits; (f) negotiable certificates of deposits; (g) prime commercial paper; and (h) repurchase agreements.

NOTE B--DEPOSITS AND INVESTMENTS--Continued

Investments--Continued: *Interest rate risk* is the risk that changes in interest rates will adversely affect the fair value of an investment. Investments that are held for longer periods of time are subject to increased risk of adverse interest changes. Neither the University nor state statutes limit investment maturities as a means of managing exposure to fair value losses arising from increasing interest rates; however, the OST Investment policy limits the average maturity on its portfolio to four (4) years, with certain individual securities having more restrictive limits as defined in the policy. *Concentration of credit risk* is the risk of loss attributed to the magnitude of the University's investment in a single issuer. Neither the University's investment policy nor state statutes place limits on amounts that can be invested in any one issuer; however, the OST Investment Policy states that, with the exception of U.S. Treasury securities, no more than 50% of the State's total funds may be invested in a single security type or with a single financial institution, with diversification percentages being more restrictive on individual securities. *Custodial credit risk* for investments is the risk that, in the event of failure of the counterparty, the University will not be able to recover the value of its investments or collateral securities in the possession of an outside party. As of June 30, 2013, none of the University's investments were subject to custodial credit risk.

Investments Held by Others: At June 30, 2013, the University had investments held by others totaling $368,662. The investments included investments related to the Oklahoma Development Finance Authority (ODFA) Lease program totaling $162,254 at June 30, 2013. These funds had a fair market value of $162,254 at June 30, 2013. The funds are not subject to maturity dates and are due on demand. The investments also included investments held at the Oklahoma State Regents for Higher Education for the University of $206,408 at June 30, 2013.

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

## NOTE C--ACCOUNTS RECEIVABLE

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

| | |
|---|---|
| Student tuition and fees | $ 1,449,378 |
| Auxiliary enterprises and other operating activities | 1,566,438 |
| Federal, state, and private grants and contracts | 411,920 |
| | 3,427,736 |
| Less: allowance for doubtful accounts | (1,154,025) |
| Less: noncurrent accounts receivable | (387,000) |
| NET ACCOUNTS RECEIVABLE, CURRENT PORTION | $ 1,886,711 |

## NOTE D--NOTES RECEIVABLE

The loans receivable balance at June 30, 2013, consists of University funds loaned to students. The University does not participate in the Perkins Loan Program. The University has provided an allowance for uncollectible loans, which in management's opinion, is sufficient to absorb loans that will ultimately be written off.

At June 30, 2013, loans receivable consisted of the following:

| | |
|---|---|
| Loans receivable students | $ 313,302 |
| Less: allowance for uncollectible loans | (162,601) |
| NET ACCOUNTS RECEIVABLE, CURRENT PORTION | $ 150,701 |

## NOTE E--CAPITAL ASSETS

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

| | Balance June 30, 2012 | Additions | Transfers | Retirements/ Adjustments | Balance June 30, 2013 |
|---|---|---|---|---|---|
| Capital assets not being depreciated | | | | | |
| Land | $ 1,084,452 | $ 6,000 | $ - | $ - | $ 1,090,452 |
| Construction in progress | 9,910,004 | 13,528,037 | (2,345,483) | (595,418) | 20,497,140 |
| TOTAL ASSETS NOT BEING DEPRECIATED | $ 10,994,456 | $ 13,534,037 | $ (2,345,483) | $ (595,418) | $ 21,587,592 |
| Other capital assets | | | | | |
| Non-major infrastructure networks | $ 1,138,300 | $ 431,451 | $ - | $ - | $ 1,569,751 |
| Land improvements | 1,561,641 | 167,306 | - | - | 1,728,947 |
| Buildings | 69,403,846 | 470,643 | 2,345,483 | (826,288) | 71,393,684 |
| Furniture, fixtures, and equipment | 13,203,846 | 678,406 | - | (120,000) | 13,762,252 |
| Library materials | 15,605,856 | 631,951 | - | (117,953) | 16,119,854 |
| TOTAL OTHER CAPITAL ASSETS | 100,913,489 | 2,379,757 | 2,345,483 | (1,064,241) | 104,574,488 |
| Less: accumulated depreciation for: | | | | | |
| Non-major infrastructure networks | (810,041) | (51,070) | - | - | (861,111) |
| Land improvements | (1,028,264) | (87,889) | - | - | (1,116,153) |
| Buildings | (28,349,754) | (1,877,922) | - | 129,756 | (30,097,920) |
| Furniture, fixtures, and equipment | (10,722,062) | (761,896) | - | 120,000 | (11,363,958) |
| Library materials | (14,046,456) | (629,138) | - | 117,953 | (14,557,641) |
| TOTAL ACCUMULATED DEPRECIATION | (54,956,577) | (3,407,915) | - | 367,709 | (57,996,783) |
| OTHER CAPITAL ASSETS, NET | $ 45,956,912 | $ (1,028,158) | $ 2,345,483 | $ (696,532) | $ 46,577,705 |
| Capital assets summary: | | | | | |
| Capital assets not being depreciated | $ 10,994,456 | $ 13,534,037 | $ (2,345,483) | $ (595,418) | $ 21,587,592 |
| Other capital assts, at cost | 100,913,489 | 2,379,757 | 2,345,483 | (1,064,241) | 104,574,488 |
| TOTAL COST OF CAPITAL ASSETS | 111,907,945 | 15,913,794 | - | (1,659,659) | 126,162,080 |
| Less: accumulated depreciation | (54,956,577) | (3,407,915) | - | 367,709 | (57,996,783) |
| CAPITAL ASSETS, NET | $ 56,951,368 | $ 12,505,879 | $ - | $ (1,291,950) | $ 68,165,297 |

At June 30, 2013, the cost and related accumulated depreciation of assets held under capital lease obligations were $30,371,484 and $3,731,271, respectively.

The University maintains various collection of inexhaustible assets for which no value can be determined. Such collections include works of art, historical treasures, and literature.

## NOTE F--LONG-TERM LIABILITIES

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

| | Balance June 30, 2012 | Additions | Reductions | Balance June 30, 2013 | Amounts due within one year |
|---|---|---|---|---|---|
| Bonds and Capital Leases | | | | | |
| OCIA lease obligations | $ 11,654,932 | $ - | $ (12,944) | $ 11,641,988 | $ 397,161 |
| ODFA master lease obligations | 14,911,918 | - | (1,115,167) | 13,796,751 | 1,096,768 |
| Premium on lease obligations | 291,122 | - | (14,566) | 276,556 | - |
| Revenue bonds payable | 5,480,000 | - | (360,000) | 5,120,000 | 370,000 |
| TOTAL BONDS AND CAPITAL LEASES | 32,337,972 | - | (1,502,677) | 30,835,295 | 1,863,929 |
| Other liabilities | | | | | |
| Note payable | 452,634 | - | (452,634) | - | - |
| Unearned revenue from long-term contracts | - | 459,000 | | 459,000 | 72,000 |
| Accrued compensated absences | 1,462,576 | 871,332 | (844,813) | 1,489,095 | 931,699 |
| TOTAL OTHER LIABILITIES | 1,915,210 | 1,330,332 | (1,297,447) | 1,948,095 | 1,003,699 |
| TOTAL LONG-TERM LIABILITIES | $ 34,253,182 | $ 1,330,332 | $ (2,800,124) | $ 32,783,390 | $ 2,867,628 |

### Capital Lease Obligations:

*Oklahoma Capital Improvement Authority Lease Obligations*

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 $1,200,000 to the University. Concurrently with the allocation, the University entered into four individual lease agreements with OCIA, representing the four individual 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 agreements, ranging from 4 to 20 years. The proceeds of the bonds and subsequent leases are to provide for capital improvements at the University. At June 30, 2013, the outstanding balance of the 2000 Series A, B, and C lease obligations was $95,064.

In 2004, the OCIA issued bond series 2004A that refunded a significant portion of the 1999A bonds. Consequently, the amortization of the 1999A bond issue ended in 2010. The lease agreement will no longer secure the 1999A bond issue but will now act as security for the 2004A bond issue over the term of the lease through the year 2020.

NOTE F--LONG-TERM LIABILITIES--Continued

Capital Lease Obligations--Continued:

*Oklahoma Capital Improvement Authority Lease Obligations--Continued*

During the 2006 legislative session, the OCIA issued its OCIA bond issue 2005F series. Of the total indebtedness, the State Regents for Higher Education allocated $11,640,758 to the University. The University is one of several that entered into a lease agreement with OCIA for a portion of these bonds proceeds. The lease agreement provides for the University to make specified monthly payments to OCIA over a 25 year period. The proceeds of the bonds are to provide for capital improvements at the University. At June 30, 2013, the outstanding balance of this capital lease obligation was $7,475,584.

In August 2010, the University's 2005F lease agreement with the OCIA was restructured through a partial refunding of OCIA's 2005F bond debt. OCIA issued two new bonds, Series 2010A and 2010B. The University's lease agreements with OCIA secure the OCIA bond debt and any future debt that might be issued to refund earlier bond issues. OCIA issued this new debt to provide budgetary relief for fiscal years 2011 and 2012 by extending and restructuring debt service. Consequently, the University's lease agreement with OCIA automatically restructured to secure the new bond issues. This lease restructuring has extended certain principal payments into the future, resulting in a cost for restructuring. The University has recorded a deferred charge of $1,105,533 on restructuring as a deferred outflow of resources that will be amortized over a period of six years.

During the year ended June 30, 2013, amortization of the deferred charge was $161,481. This restructuring resulted in an aggregate debt service difference for principal and interest between the original lease agreement and the restructure lease agreement of $412,016, which also approximates the economic cost of the lease restructuring.

During the year ended June 30, 2013, OCIA made lease payments totaling $171,745 on behalf of the University. These on-behalf payments have been recorded as restricted state appropriations in the statement of revenues, expenses, and changes in net position.

NOTE F--LONG-TERM LIABILITIES--Continued

Capital Lease Obligations--Continued:

*Oklahoma Development Finance Authority Master Lease Program*

In August 2004, the ODFA issued its ODFA Master Lease Revenue Bonds, Series 2004B. Of the total bond indebtedness, the State Regents for Higher Education allocated $515,000 to the University. Concurrently with the allocation, the University entered into an agreement with ODFA for the project being funded by the ODFA bonds. The lease agreement provides for the University to make specified monthly payments to ODFA over the respective terms of the agreement, which is through June 1, 2014. The proceeds of the bonds and subsequent leases are to provide for capital improvements to the University. The outstanding balance of this lease obligation payable is $62,000 at June 30, 2013.

In May 2005, the ODFA issued its ODFA Master Lease Revenue Bonds, Series 2005B. Of the total bond indebtedness, the State Regents for Higher Education allocated $1,000,000 to the University. Concurrently with the allocation, the University entered into a lease agreement with ODFA for the project being funded by the ODFA bonds. The lease agreement provides for the University to make specified monthly payments to ODFA over the respective terms of the agreement, which is through May 31, 2025. The proceeds of the bonds and subsequent leases are to provide for capital improvements to the University. These bonds were sold in August 2005, and the allocated proceeds were disbursed to the University at that time. The outstanding payable at June 30, 2013, is $554,583.

In May 2007, the ODFA issued its ODFA Master Lease Revenue Bonds, Series 2007A. Of the total bond indebtedness, the State Regents for Higher Education allocated $2,023,000 to the University. Concurrently with the allocation, the University entered into a lease agreement with ODFA for the project being funded by the ODFA bonds. The lease agreement provides for the University to make specified monthly payment to ODFA over the respective terms of the agreement, which is through June 1, 2027. The proceeds of the bonds and subsequent leases are to provide for capital improvements to the University. These bonds were sold in May 2007, and the allocated proceeds were disbursed to the University at that time. The remaining lease obligation payable pursuant to this capital lease obligation is $1,580,667 at June 30, 2013.

In September 2010, the ODFA issued its ODFA Master Lease Revenue Bonds, Series 2010A. Of the total bond indebtedness, the State Regents for Higher Education allocated $2,002,000 to the University. Concurrently with the allocation, the University entered into a lease agreement with ODFA for the project being funded by the ODFA bonds. The lease agreement provides for the University to make specified monthly payment to ODFA over the respective terms of the agreement, which is through June 1, 2025. The proceeds of the bonds and subsequent leases are to provide for capital improvements to the University. The remaining lease obligation payable pursuant to this capital lease obligation is $1,677,836 at June 30, 2013.

NOTE F--LONG-TERM LIABILITIES--Continued

Capital Lease Obligations--Continued:

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

In December 2010, the ODFA issued its ODFA Master Lease Revenue Bonds, Series 2010D. Of the total bond indebtedness, the State Regents for Higher Education allocated $13,110,000 to the University. Concurrently with the allocation, the University entered into a lease agreement with ODFA for the project being funded by the ODFA bonds. The lease agreement provides for the University to make specified monthly payment to ODFA over the respective terms of the agreement, which is through November 15, 2030. The proceeds of the bonds and subsequent leases are to provide for capital improvements to the University. The remaining lease obligation payable pursuant to this capital lease obligation is $9,921,666 at June 30, 2013.

Investments held by others consist of the following funds under the ODFA program at June 30, 2013:

| | |
|---|---|
| Acquisition fund | $ 162,254 |
| TOTAL ASSETS HELD BY OTHERS | $ 162,254 |

Funds in the acquisition fund are restricted for the project being funded by the Series 2010A and 2010D programs.

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

| | Principal | Interest | Total |
|---|---|---|---|
| Year Ending June 30: | | | |
| 2014 | $ 1,493,929 | $ 1,137,762 | $ 2,631,691 |
| 2015 | 2,173,890 | 1,074,849 | 3,248,739 |
| 2016 | 2,186,985 | 1,002,025 | 3,189,010 |
| 2017 | 2,151,812 | 889,580 | 3,041,392 |
| 2018 | 2,240,466 | 800,103 | 3,040,569 |
| 2019-2023 | 6,239,623 | 2,917,718 | 9,157,341 |
| 2024-2028 | 5,983,503 | 1,663,966 | 7,647,469 |
| 2029-2031 | 2,968,531 | 303,767 | 3,272,298 |
| | $ 25,438,739 | $ 9,789,770 | $ 35,228,509 |

NOTE F--LONG-TERM LIABILITIES--Continued

Revenue Bonds Payable:

*Southwestern Oklahoma State University Revenue Bonds, Series 2003*

On August 19, 2003, the Regional University System of Oklahoma (the "Board") Southwestern Oklahoma State University Revenue Bonds, Series 2003 (the "Bonds"), were issued for $8,000,000 for the purpose of constructing, acquiring, furnishing, and equipping a wellness center and renovating and expanding the current Student Union.

The Bonds are limited and special obligations of the Board secured by a first lien on and a pledge of the following sources of revenue: (i) the gross receipts from the Student Facilities Fee in the amount $7.30 per credit hour per semester to be imposed and collected from all students in attendance at the University and (ii) earnings from the Bond Fund Reserve, if no Surety is purchased.

Future minimum bond payments under the University's obligation are as follows:

| | Principal | Interest | Total |
|---|---|---|---|
| Year Ending June 30: | | | |
| 2014 | $ 370,000 | $ 223,508 | $ 593,508 |
| 2015 | 390,000 | 206,591 | 596,591 |
| 2016 | 405,000 | 190,341 | 595,341 |
| 2017 | 425,000 | 172,956 | 597,956 |
| 2018 | 440,000 | 154,355 | 594,355 |
| 2019-2023 | 2,515,000 | 446,639 | 2,961,639 |
| 2024 | 575,000 | 13,944 | 588,944 |
| | $ 5,120,000 | $ 1,408,334 | $ 6,528,334 |

NOTE G--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, and the Supplemental Retirement Annuity ("SRA"), a single employer defined benefit plan available to employees hired prior to July 1, 1995. The University does not maintain the accounting records, hold the investments for, or administer these plans.

NOTE G--RETIREMENT PLANS--Continued

*Oklahoma Teachers' Retirement System (OTRS)*

Plan Description: The University contributes to the Oklahoma Teachers' Retirement System ("OTRS"), 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. 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% for 2013, 2012 and 2011. This rate is applied to annual compensation and is determined by state statute.

Employees' contributions are also determined by state statute. For all employees, the contribution rate was 7% of covered salaries and fringe benefits in 2013, 2012 and 2011. For University employees meeting the requirements of the University's SRA and other employees who opted to enroll in OTRS prior to July 1, 1993, substantially all of the members' OTRS contributions are made directly by the University.

The University's contributions to OTRS for the years ended June 30, 2013, 2012, and 2011, were $2,268,167, $2,323,420, and $2,341,454 respectively. These contributions included the University's statutory contribution and the share of the employee's contribution paid directly by the University.

The State of Oklahoma is also required to contribute to the OTRS on behalf of the participating employers. For 2013, the State of Oklahoma contribution was 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 for OTRS for the year by the applicable percentage of taxes collected during the year. For the year ended June 30, 2013, the total amounts contributed to the OTRS by the State of Oklahoma on behalf of the University were $2,377,662. These on-behalf payments have been recorded as both revenues and expenses in the statements of revenues, expenses, and changes in net position.

NOTE G--RETIREMENT PLANS--Continued

*Teachers' Insurance and Annuity Association (TIAA)*

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, and no contributions were made during the years ended June 30, 2013, 2012, and 2011.

*Supplemental Retirement Annuity (SRA)*

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

Funding Policy: The authority to establish and amend eligible employees' and employer contribution obligations to the SRA rests with the University's Board of Regents. Eligible employees are not required to make contributions to the SRA. The University is required to contribute to the SRA an actuarially determined amount on an annual basis.

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

| | |
|---|---|
| Annual required contribution | $ 250,978 |
| Interest on net pension obligation | (247,631) |
| Adjustment to annual required contribution | 315,271 |
| Annual pension cost | 318,618 |
| Contribution made | (60,000) |
| Increase in net pension obligation | 258,618 |
| Net pension obligation (asset) at beginning of year | (3,095,382) |
| Net pension obligation (asset) at end of year | $ (2,836,764) |

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

NOTE G--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) |
|---|---|---|---|
| 2013 | $ 318,618 | 18.8% | $ (2,836,764) |
| 2012 | $ 322,394 | 7.8% | $ (3,095,382) |
| 2011 | $ 305,939 | 0.0% | $ (3,392,776) |

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

| | |
|---|---|
| Actuarial accrued liability (AAL) | $ 8,272,884 |
| Actuarial value of plan assets | 3,833,007 |
| Unfunded actuarial accrued liability (UAAL) | $ 4,439,877 |
| Funded ratio (actuarial value of plan assets/AAL) | 46.3% |
| Covered payroll (active plan members) | $ 5,415,988 |
| UAAL as a percentage of covered payroll | 82.0% |

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

NOTE H--OTHER POST-EMPLOYMENT INSURANCE BENEFITS

In addition to the pension benefits, the University pays the group health and life insurance premiums for retired employees until age 65. A retiring employee must have been employed full-time in the Oklahoma State System of Higher Education 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 provisions of the Oklahoma Teachers' Retirement System. The retirement insurance program was adopted by the Board of Regents in 1985. For the year ended June 30, 2013, the University's contributions for retired employees' health insurance premiums totaled approximately $188,756, and life insurance premiums totaled approximately $9,358.

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

*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 RUSO Board). The plan provides medical and life insurance benefits to eligible retired employees until age 65. A retiring employee must have been employed full-time in the Regional University System of Oklahoma for not less than ten years immediately preceding the date of retirement, been a member of the Oklahoma Teachers' Retirement System during that time, and elected to receive a vested benefit under the provision of the Oklahoma Teachers' Retirement System. As of June 30, 2013, there were approximately 450 participants in the plan. The retirement insurance program was adopted by the RUSO Board 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 post-employment healthcare plan and is 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 RUSO Board. The University is required to contribute the *annual required contribution of the employer* (ARC), in an amount actuarially determined in accordance with the parameters of GASB Statement 45. The ARC represents a level of funding that, if paid on an ongoing basis, is projected to cover normal cost each year and amortize any unfunded actuarial liabilities (or funding excess) over a period not to exceed thirty years. For the year ended June 30, 2013, the ARC is $343,657 and represents 1.09% of covered payroll.

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

| | |
|---|---|
| Annual required contribution | $ 343,657 |
| Interest on net OPEB obligation | 12,997 |
| Adjustment to annual required contribution | (14,962) |
| Annual OPEB cost | 341,692 |
| Contribution made | (323,914) |
| Increase (decrease) in net OPEB obligation | 17,778 |
| Net OPEB obligation (asset) at beginning of year | (146,252) |
| Net OPEB obligation (asset) at end of year | $ (128,474) |

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

*Postemployment Healthcare Plan--Continued*

Trend Information: Three-year trend information on the percentage of the annual OPEB cost funded through contributions and the change in the net OPEB obligation (asset) is as follows:

| Fiscal Year Ended | Annual OPEB Cost | Annual OPEB Cost Contributed | Net OPEB Obligation (Asset) |
|---|---|---|---|
| 2013 | $ 341,692 | 95% | $ (128,474) |
| 2012 | $ 333,540 | 101% | $ (146,252) |
| 2011 | $ 343,395 | 99% | $ (143,206) |

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

| | |
|---|---|
| Actuarial accrued liability (AAL) | $ 4,321,018 |
| Actuarial value of plan assets | 1,479,581 |
| Unfunded actuarial accrued liability (UAAL) | $ 2,841,437 |
| Funded ratio (actuarial value of plan assets/AAL) | 34.2% |
| Covered payroll (active plan members) | $ 31,542,748 |
| UAAL as a percentage of covered payroll | 9.0% |

Actuarial Method 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 as required supplementary information following the notes to the financial statements, presents multiyear trend information that shows whether the actuarial value of plan assets is increasing or decreasing over time relative to the actuarial accrued liabilities for benefits.

Projections of benefits for financial reporting purposes are based on the substantive plan and include the types of benefits provided at the time of each valuation. The actuarial methods and assumptions used include techniques that are designed to reduce short-term volatility in actuarial accrued liabilities and the actuarial value of assets, consistent with the long-term perspective of the calculations. For the June 30, 2013, actuarial valuation, the projected unit credit cost method was used. The actuarial assumptions included a 7% investment rate of return and an annual healthcare cost inflationary increase of 8.5%.

## NOTE I--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 Southwestern Oklahoma State University's "New College Fund." The University received $1,274,050 during the year ended June 30, 2013, which is restricted to the construction or acquisition of buildings, equipment, or other capital items. This amount is recorded as state appropriations restricted for capital purposes in the statement of revenues, expenses, and changes in net position. State law prohibits the distribution of any corpus of these funds to the beneficiaries. The total trust reserve for Southwestern Oklahoma State University, held in trust by the commissioners of Land Office, was $17,338,455 at June 30, 2013.

Oklahoma State Regents Endowment Trust Fund: In connection with the Oklahoma State Regents' Endowment Program (the Endowment Program), the State of Oklahoma has matched contributions received under the program. The state match amount, plus any retained accumulated earnings, totaled approximately $3,420,000 at June 30, 2013, and are invested by the Oklahoma State Regents on behalf of the University. The University is entitled to receive an annual distribution of earnings on these funds. As legal title of the match amount is retained by the Oklahoma State Regents, only the funds available for distribution, approximately $424,000 at June 30, 2013, have been reflected as assets in the statements of net position. With regards to institutional funds, investments totaling $206,408 at June 30, 2013, are included in the financial statements of the University.

## NOTE J--COMMITMENTS AND CONTINGENCIES

The University had outstanding commitments under construction contracts of approximately $3.5 million at June 30, 2013.

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

During the ordinary course of business, the University may be subjected to various lawsuits and civil action claims. Management does not anticipate any significant losses as the result of any such asserted claims.

## NOTE K--RISK MANAGEMENT

The University is exposed to various risks of loss from torts; theft of, damage to, and destruction of assets; business interruptions; errors and omission; employee injuries and illness; 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 CompSource Oklahoma (formerly 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 Oklahoma Risk Management 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 CompSource Oklahoma. 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.

## NOTE L--SEGMENT REPORTING

The following financial information represents an identifiable activity for which revenue bonds are outstanding. This includes activities in the Wellness Center as well as the renovations to the Student Union.

Southwestern Oklahoma State University Revenue Bonds, Series 2003:

### CONDENSED STATEMENT OF NET POSITION

| | June 30 2013 |
|---|---|
| ASSETS | |
| Current assets | $ 741,884 |
| Capital assets | 6,712,108 |
| Other assets | 77,270 |
| TOTAL ASSETS | 7,531,262 |
| LIABILITIES | |
| Current liabilities | 77,509 |
| Long-term liabilities | 5,120,000 |
| TOTAL LIABILITIES | 5,197,509 |
| NET POSITION | |
| Unrestricted | - |
| Restricted for debt services | 741,884 |
| Net investment in capital assets | 1,591,869 |
| TOTAL NET POSITION | $ 2,333,753 |

### CONDENSED STATEMENT OF REVENUES, EXPENSES, AND CHANGES IN NET POSITION

| | June 30 2013 |
|---|---|
| OPERATING REVENUE | |
| Operating revenue | $ 892,053 |
| Depreciation expense | (173,700) |
| Other operating expenses | (7,600) |
| NET OPERATING REVENUES | 710,753 |
| NONOPERATING INCOME (EXPENSE) | |
| Investment income | - |
| NET NONOPERATING REVENUES | - |
| Transfers | (534,816) |
| CHANGE IN NET POSITION | 175,937 |
| NET POSITION, BEGINNING OF PERIOD | 2,157,816 |
| NET POSITION, END OF PERIOD | $ 2,333,753 |

## NOTE L--SEGMENT REPORTING--Continued

### CONDENSED STATEMENT OF CASH FLOWS

| | June 30 2013 |
|---|---|
| Net cash flows provided by operating activities | $ 370,000 |
| Net cash flows provided by capital and related financing activities | - |
| Net cash flows provided by investing activities | (370,000) |
| NET INCREASE (DECREASE) IN CASH | - |
| CASH, BEGINNING OF PERIOD | - |
| CASH, END OF PERIOD | $ - |

## NOTE M--RELATED PARTY TRANSACTIONS

The University leases a building from the Foundation. The lease provides for an annual rental of $70,000 payable in monthly installments of $5,833. The lessor is to provide for any significant repairs and maintenance. The lessee is to provide for all utilities, services, and other operating costs, including general repairs and maintenance. The lessee has the sole option to renew for a 10-year period. Terms and conditions of the lease are to be reviewed annually. The University has renewed the lease through June 30, 2014.

In April 2010, the Foundation provided the funds to enable the University to install artificial turf on the football field. The Foundation and the University entered into an agreement where the Foundation loaned the University $623,000 with an annual interest rate of 2.5%. The University paid the remaining balance of $452,634 in full during 2013.

## NOTE N--DISCRETE COMPONENT UNITS

Southwestern Oklahoma State University Foundation, Inc.: The following are significant disclosures of Southwestern Oklahoma State University Foundation, Inc.:

Fair Value Measurements: The Foundation follows ASC Topic 820, *Fair Value Measurements*, which provides the framework for measuring fair value. The framework provides a fair value hierarchy that prioritizes the inputs to valuation techniques used to measure fair value.

The hierarchy gives highest priority to unadjusted quoted prices in active markets for identical assets or liabilities (Level 1 measurements) and the lowest priority to unobservable inputs (Level 3 measurements).

The inputs to the three levels of the fair value hierarchy under Topic 820 are described as follows:

Level 1: Unadjusted quoted prices for identical assets or liabilities in active markets that the Foundation has the ability to access.

Level 2: Quoted prices for similar assets or liabilities in active markets; quoted prices for identical assets or liabilities in inactive markets; inputs other than quoted prices that are observable for the asset or liability; and inputs that are derived principally from, or corroborated by, observable market data by correlation to other means. If the asset or liability has a specified (contractual) term, the Level 2 input must be observable for substantially the full term of the asset or liability.

Level 3: Unobservable and significant to the fair value measurement.

The Foundation has certain investments which are measured at net asset value per share ("NAV"). If the Foundation has the ability to redeem its investment with the investee at NAV at the measurement date or within ninety days of the measurement date, the fair value of the asset is categorized as a Level 2 fair value measurement. If the Foundation will never have the ability to redeem its investment with the investee at NAV or the Foundation cannot redeem its investment within ninety days of the measurement date, the Foundation categorizes the asset as a Level 3 measurement.

Financial assets and liabilities carried at fair value on a recurring basis include investments, beneficial interest in perpetual trust and funds held for others. At December 31, 2012, the Foundation has assets held for sale which are carried at fair value on a non-recurring basis.

NOTE N--DISCRETE COMPONENT UNITS--Continued

Southwestern Oklahoma State University Foundation, Inc.--Continued:

Fair Value Measurements--Continued: For the year ended December 31, 2012, the Foundation implemented *ASU 2011-04: Fair Value Measurement (Topic 820): Amendments to Achieve Common Fair Value Measurements and Disclosure Requirements in U.S. GAAP and IFRS*. The amendments in this update result in common fair value measurement and disclosure requirements in U.S. GAAP and IFRSs and are to be applied prospectively. Consequently, the amendments change the wording used to describe many of the requirements in U.S. GAAP for measuring fair value and for disclosing information about fair value measurements with no intention for the amendments to result in a change in the application of the requirements of Topic 820. The adoption of this guidance did not have a material impact on the Foundation's financial statements.

The methods and assumptions used to estimate the fair value of assets and liabilities in the financial statements, including a description of the methodologies used for the classifications within the fair value hierarchy for financial instruments carried at fair value, are as follows:

*Cash and cash equivalents, accounts receivable, interest receivable*: The assets' carrying amounts approximate fair value due to their short maturities.

*Cash surrender value of life insurance*: Other assets are carried at cost and consist of life insurance policies in which the Foundation is the beneficiary. The carrying value of the life insurance policies is the cash surrender value on the policies and as such approximates fair value.

*Note receivable from related party*: The note is carried at cost and fair value is determined by calculating the present value of the expected future cash flows using a discount rate equal to the rate of return earned on the Foundation's investment portfolio and due to its short maturity is not materially different then its carrying value.

*Investments*: Investments are carried at fair value and are based on quoted market prices, when available, or the best estimate of fair value as determined by the investment and/or fund manager. Generally, quoted market prices are available for cash and cash equivalent funds, common and preferred stocks, and exchange traded index and mutual funds and as such are classified as Level 1 in the fair value hierarchy. The fair values of certificates of deposit are determined using the income approach. The key inputs include interest rates, maturity dates, and yield curves and as such are classified as Level 1 or Level 2 depending on the maturity date. The fair value of the annuity contract is determined using the income approach and is based on the current cash surrender value as determined by the investment manager and is classified as Level 3.

NOTE N--DISCRETE COMPONENT UNITS--Continued

Southwestern Oklahoma State University Foundation, Inc.--Continued:

Fair Value Measurements--Continued:

*Investments--Continued*: The Foundation's interest in the limited liability company and the pooled funds are based on net asset value ("NAV") per share as provided by the fund manager; however, in certain circumstances, such as when the fund is in liquidation, fair values are determined using the income approach (i.e., estimated future cash flows). If the fair value of the underlying assets are transparent and have readily determinable fair values and the Foundation can redeem the investment at NAV within ninety days of the measurement date, the funds are classified as Level 2 and in all other cases are classified as Level 3.

Structured investments in unsecured notes are valued using the market approach or the income approach and are provided to the Foundation by the investment manager. Whenever possible, fair values are determined using the market approach and the key inputs are based on an underlying index and maturity or by analysis of documented trade history in the exact security and as such are classified as Level 2. In all other cases, fair values are determined using the income approach and are valued using fundamental analysis of investments based on information provided by fund manager and are classified as Level 3.

*Assets held for sale:* The Foundation's property held for sale is carried at fair value at December 31, 2012. The fair value determined using the income approach and is based on the expected future cash flows from sale of the property in an open market.

*Contributions receivable*: The asset is carried at cost net of a discount to net present value using a rate which is commensurate with the risks involved on the gift date and an allowance for uncollectible accounts at the financial reporting date. Fair value is the price a market participant would pay to acquire the right to receive the cash flows inherent in the promise to pay the Foundation and due to inclusion of a discount to net present value and allowance for uncollectible accounts the carrying value approximates fair value.

NOTE N--DISCRETE COMPONENT UNITS--Continued

Southwestern Oklahoma State University Foundation, Inc.--Continued:

Fair Value Measurements--Continued:

*Beneficial interest in perpetual trust*: The beneficial interest is carried at fair value which is based on the fair value of the underlying trust assets. The fair value of the underlying trust assets are based on the quoted market prices when available, qualified appraisals on a periodic basis, or the best estimate of fair value as determined by the trustee and/or the Foundation's management. The fair value of the beneficial interest in perpetual trust is the fair value of the underlying assets adjusted for the Foundation's respective beneficial percentage of the trust. Due to the significant unobservable inputs required to estimate the expected future cash receipts from the trust, the Foundation's beneficial interest is classified as Level 3 in the hierarchy.

*Accounts payable and accrued liabilities*: The liability's carrying amount approximates fair value due to its short maturity.

*Funds held for others*: The liability is carried at fair value which is based on the fair value of the cash and investment assets held by the Foundation for the benefit of the agency. The specific assets held for the benefit of the agency have been classified within the hierarchy for investments (as discussed above). The related and associated liability is classified as Level 2 in the hierarchy as the principal inputs (i.e., fair value of the cash and investments) are corroborated by observable market data. (The assets related to this liability are held in a separate investment account and are not a part of the Foundation's investment pool.)

NOTE N--DISCRETE COMPONENT UNITS--Continued

Southwestern Oklahoma State University Foundation, Inc.--Continued:

Fair Value Measurements--Continued: Assets and liabilities measured at fair value are classified within the fair value hierarchy as follows:

| | As of December 31, 2012 | | | |
|---|---|---|---|---|
| | Level 1 | Level 2 | Level 3 | Total |
| ASSETS | | | | |
| *Assets recorded at fair value on a recurring basis* | | | | |
| Investments: | | | | |
| Cash and cash equivalent funds | $ 653,818 | $ - | $ - | $ 653,818 |
| Certificates of deposit | - | 712 | - | 712 |
| Common and preferred stock | 1,208,859 | - | - | 1,208,859 |
| Equity mutual funds | 5,375,981 | - | - | 5,375,981 |
| Fixed income mutual funds | 2,793,552 | - | - | 2,793,552 |
| Index funds | 316,682 | - | - | 316,682 |
| Annuity contract | - | - | 190,398 | 190,398 |
| Pooled funds | | 527,470 | | 527,470 |
| Interest in limited liability company | - | - | 245,018 | 245,018 |
| Structured investments - unsecured notes | - | 2,258,867 | 442,555 | 2,701,422 |
| Total investments | 10,348,892 | 2,786,337 | 877,971 | 14,013,912 |
| Beneficial interest in perpetual trust | - | - | 1,233,100 | 1,233,100 |
| *Assets recorded at fair value on a non-recurring basis* | | | | |
| Assets held for sale | - | - | 40,000 | 40,000 |
| Total assets carried at fair value | $ 10,348,892 | $ 2,786,337 | $ 2,151,071 | $ 15,287,012 |
| LIABILITIES | | | | |
| Funds held for others | $ - | $ 178,374 | $ - | $ 178,374 |
| Total liabilities carried at fair value | $ - | $ 178,374 | $ - | $ 178,374 |

NOTE N--DISCRETE COMPONENT UNITS--Continued

Southwestern Oklahoma State University Foundation, Inc.--Continued:

Fair Value Measurements--Continued: The following table summarizes the changes in the fair value of the Foundation's Level 3 financial assets. The Foundation has no liabilities classified as Level 3 in 2012.

| | Beneficial Interest in Perpetual Trust | Annuity Contract | Structured Investments | Assets Held for Sale |
|---|---|---|---|---|
| Balance at January 1, 2012 | $ 1,281,121 | $ 172,143 | $ - | $ - |
| Contributions | - | - | - | 40,000 |
| Purchase of investments | | | 425,000 | |
| Loss on beneficial interest in perpetual trust--included in earnings | (48,021) | - | - | - |
| Unrealized gain/(loss) on investments --included in earnings | - | 18,255 | 17,555 | - |
| Balance at December 31, 2012 | $ 1,233,100 | $ 190,398 | $ 442,555 | $ 40,000 |

The summary of changes in fair value of Level 3 assets has been prepared to reflect the activity in the same categories as those provided in the statements of activities.

NOTE N--DISCRETE COMPONENT UNITS--Continued

Southwestern Oklahoma State University Foundation, Inc.--Continued:

Fair Value Measurements--Continued: The Foundation's investments in certain entities that calculate net asset value per share which are measured at fair value include the following:

| | Fair Value December 31 2012 | Redemption Frequency | Redemption Notice Period |
|---|---|---|---|
| Pooled funds [(a)] | $ 527,470 | Quarterly | 90 days |
| Interest in limited liability company [(b)] | 245,018 | Illiquid until sale of assets | N/A |
| | $ 772,488 | | |

(a) This fund is a multi-strategy program with an objective of generating consistent capital appreciation over the long term with relatively low volatility and correlation with traditional equity and fixed income markets. The fund will invest in investment funds which are managed by experienced third-party investment advisers who invest in a variety of markets. The fund may also invest in derivative instruments, such as swap returns, structured notes. Opportunity of redemption is generally offered quarterly, with no guarantee provided that the all of the shares wished to be redeemed will be re-purchased by the fund. This fund has no short positions or unfunded commitments.

(b) This limited liability company was formed for the purpose of investing in and renting residential rental properties, and incidental leasing of commercial retail space and shall continue in existence until the earlier of the manager's decision to dissolve the company, or the sale of substantially all the Company's assets. There is no opportunity for redemption of funds until substantially all assets are sold which is currently anticipated to take place between 2015 and 2017. The company has no short positions or unfunded commitments.

NOTE N--DISCRETE COMPONENT UNITS--Continued

Southwestern Oklahoma State University Foundation, Inc.--Continued:

Endowment Disclosures: The Foundation's endowment consists of approximately 180 endowment funds established for a variety of purposes. Its endowment includes both donor-restricted endowment funds and funds designated by the Trustees to function as endowments. As required by U.S. GAAP, net assets associated with endowment funds, including funds designated by the Trustees to function as endowments, are classified and reported based on the existence or absence of donor-imposed restrictions.

**Interpretation of Relevant Law**

The Trustees of the Foundation have chosen to preserve the fair value of the original gift as of the gift date of the donor-restricted endowment funds absent explicit donor stipulations to the contrary. As a result of this interpretation, the Foundation classifies as permanently restricted net assets (a) the original value of gifts donated to the permanent endowment, (b) the original value of subsequent gifts to the permanent endowment, and (c) accumulations to the permanent endowment made in accordance with the direction of the applicable donor gift instrument at the time the accumulation is added to the fund. The remaining portion of 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 Foundation in a manner consistent with the standard of prudence prescribed by OK UPMIFA. In accordance with OK UPMIFA, the Foundation considers the following factors in making a determination to appropriate or accumulate donor-restricted endowment funds:

- The duration and preservation of the fund;
- The purposes of the Foundation and the donor-restricted endowment fund;
- General economic conditions;
- The possible effect of inflation and deflation;
- The expected total return from income and the appreciation of investments;
- Other resources of the Foundation; and
- The investment policies of the Foundation.

NOTE N--DISCRETE COMPONENT UNITS--Continued

Southwestern Oklahoma State University Foundation, Inc.--Continued:

Endowment Disclosures--Continued:

**Return Objectives and Risk Parameters**

The Foundation has adopted investment policies for endowment funds that facilitate the Foundation's ability to provide funding for programs and provide adequate returns for invested funds. Endowment assets include those assets of donor-restricted funds that the Foundation must hold in perpetuity or for a donor-specified period as well as board-designated funds. Under this policy, the endowment assets are invested in a manner that is intended to attain a minimum return of seven percent compounded annually after deducting all expenses and advisory fees over the period of a full market cycle in order to achieve a relative rate of return of three percent over the inflation rate and to earn a real rate of return defined by the endowed spending of the fund plus the inflation rate. The Foundation has established an investment committee to monitor the rates of returns of endowment funds in order to maximize earnings. Actual returns in any given year are dependent on market conditions and other factors, and may vary from time to time.

**Strategies for Achieving Objectives**

To satisfy its long-term rate-of-return objectives, the Foundation relies on a strategy in which investment returns are achieved through both capital appreciation (realized and unrealized) and current yield (interest and dividends). The Foundation's investment policy relating to its investment objectives allocates its assets through a diversification that includes a mix of (1) no greater than 75% in fixed income and no less than 25% in fixed income (2) no more than 70% in equities and no less than 25% in equities and (3) no more than 25% in cash and cash equivalents.

**Spending Policy**

The Foundation has a policy of appropriating for distribution each year, eighty-five percent of the earnings from each endowment fund for the donor-restricted purpose, if any. The remaining fifteen percent of the earnings plus all of the unrealized and realized gains or losses are held in the endowment fund in order to provide for inflation and future growth. The Foundation honors the specific requests of each donor, recognizes all investment income, realized and unrealized gains and/or losses as temporarily or permanently restricted based on donor-restriction, and makes distributions accordingly. In the absence of donor-restrictions on investment income all earnings from donor-restricted endowment funds are classified as temporarily restricted until appropriated for expenditure. All earnings on board-designated endowment funds are classified as unrestricted.

NOTE N--DISCRETE COMPONENT UNITS--Continued

Southwestern Oklahoma State University Foundation, Inc.--Continued:

Endowment Disclosures--Continued:

**Spending Policy--Continued**

Endowment net asset composition as of December 31, 2012 is as follows:

| | Unrestricted | Temporarily Restricted | Permanently Restricted | Total |
|---|---|---|---|---|
| Donor-restricted endowment funds | $ (512,092) | $ 2,065,919 | $ 12,468,387 | $ 14,022,214 |
| Board-designated endowment funds | 1,281,531 | - | - | 1,281,531 |
| Total endowment funds | $ 769,439 | $ 2,065,919 | $ 12,468,387 | $ 15,303,745 |

Changes in endowment net assets during 2012 are as follows:

| | Unrestricted | Restricted | Restricted | Total |
|---|---|---|---|---|
| Endowment net assets, beginning of year | $ 185,550 | $ 1,710,388 | $ 12,205,923 | $ 14,101,861 |
| Investment return: | | | | |
| Interest and dividends | 14,343 | 137,146 | 12,156 | 163,645 |
| Net realized and unrealized gains (losses) | 93,582 | 594,301 | 435,091 | 1,122,974 |
| Total investment return | 107,925 | 731,447 | 447,247 | 1,286,619 |
| Contributions | 1,088 | 42,902 | 134,349 | 178,339 |
| Provision for losses on uncollectible pledges | - | - | (60,514) | (60,514) |
| Other income | 6,914 | - | 61 | 6,975 |
| Reclassification - donor directed | 469,051 | (250,372) | (258,679) | (40,000) |
| Appropriation of endowment assets for expenditure | (1,089) | (168,446) | - | (169,535) |
| Endowment net assets, end of year | $ 769,439 | $ 2,065,919 | $ 12,468,387 | $ 15,303,745 |

NOTE N--DISCRETE COMPONENT UNITS--Continued

Southwestern Oklahoma State University Foundation, Inc.--Continued:

Endowment Disclosures--Continued:

**Funds with Deficiencies**

From time to time, the fair value of assets associated with individual donor-restricted endowment funds may fall below the level that the donor or OK UPMIFA requires the Foundation to retain as a fund of perpetual duration. In accordance with U.S. GAAP, deficiencies of this nature that are reported in unrestricted net assets were $512,092 at December 31, 2012. These deficiencies resulted from unfavorable market fluctuations that occurred shortly after the investment of new permanently restricted contributions and continued appropriation that was deemed prudent by the Trustees.

Southwestern Pharmacy Alumni Foundation, Inc.: The following are significant disclosures of Southwestern Pharmacy Alumni Foundation, Inc.:

Investments: The Foundation has valued its investments based on Financial Accounting Standards Board Accounting Standards Codification 958 (FASB ASC 958), *Accounting for Certain Investments Held by Not-for-Profit Organizations*. Under FASB ASC 958, the Foundation is required to report investments in equity securities with readily determinable fair values and all investments in debt securities in the statement of financial position at fair value and report realized and unrealized gains and losses in the statement of activities.

Investment return is reflected in the statement of activities as unrestricted, temporarily restricted, or permanently restricted based upon the existence and nature of any donor or legally imposed restrictions.

The Foundation maintains pooled investment accounts for its endowments and special funds. A target earning percentage of 5% is to be posted annually to all funds based on the average balance of each fund. This target earnings percentage may be adjusted based on Management's review of the economic and other conditions as approved by the Board of Director's. The earnings percentage used for the year ended December 31, 2012 was 2.5%.

NOTE N--DISCRETE COMPONENT UNITS--Continued

Southwestern Pharmacy Alumni Foundation, Inc.--Continued:

Investments--Continued: Cost, unrealized gain or loss, and carrying amounts which are at the lower of cost or market of investments are summarized as follows as of December 31, 2012:

| | Cost | Unrealized Gain or Loss | Fair Value |
|---|---|---|---|
| Mutual funds | $ 1,083,873 | $ 146,843 | $ 1,230,716 |
| Equities | 156,493 | (7,724) | 148,769 |
| Unit trust investment | 119,986 | (4,643) | 115,343 |
| Certificates of deposit | 1,325,000 | - | 1,325,000 |
| | $ 2,685,352 | $ 134,476 | $ 2,819,828 |

The following table shows the investments' gross unrealized losses and fair value, aggregated by length of time that individual securities were in a continuous unrealized loss position at December 31, 2012. Based on the Foundation's evaluation of the investment and its ability and intent to hold the investment for a reasonable period of time sufficient for a forecasted recovery of fair value, the Foundation does not consider this investment to be other-than-temporarily impaired at December 31, 2012.

| | Less than 12 Months | | 12 Months or Longer | | Total | |
|---|---|---|---|---|---|---|
| | Fair Value | Unrealized Losses | Fair Value | Unrealized Losses | Fair Value | Unrealized Losses |
| Equities | $ 115,938 | $ (8,062) | $ - | $ - | $ 115,938 | $ (8,062) |
| Unit Trust | $ 115,343 | $ (4,643) | $ - | $ - | $ 115,343 | $ (4,643) |

Fair Market Value: The Organization has determined the fair value of certain assets and liabilities through application FASB ASC 820, *Fair Value Measurements*.

Financial assets and liabilities valued using Level 1 inputs are based on unadjusted quoted market prices for identical assets and liabilities in active markets that are accessible at the measurement date. Financial assets and liabilities valued using Level 2 inputs are based primarily on quoted prices for similar assets or liabilities in active or inactive markets. Financial assets and liabilities using Level 3 inputs were primarily valued using management's assumptions about the assumptions market participants would utilize in pricing the asset or liability. Valuation techniques utilized to determine fair value are consistently applied.

NOTE N--DISCRETE COMPONENT UNITS--Continued

Southwestern Pharmacy Alumni Foundation, Inc.--Continued:

Fair Market Value--Continued: Financial assets and liabilities carried at fair value on a recurring basis include common stocks (equities), mutual funds with equity related investments, mutual funds with fixed income related investments, unit trust with fixed income related investments, and certificates of deposit held as investment. The Foundation has no financial assets or liabilities carried at fair value on a non-recurring basis.

| | Fair Value Measurements at Reporting Date Using | | | |
|---|---|---|---|---|
| December 31, 2012 | Fair Value | Quoted Prices in Active Markets for Identical Assets (Level 1) | Other Observable Inputs (Level 2) | Significant Unobservable Inputs (Level 3) |
| Mutual funds - equity related | $ 623,332 | $ 623,332 | $ - | $ - |
| Mutual funds - fixed income | 607,384 | 607,384 | - | - |
| Equity securities | 148,769 | 148,769 | - | - |
| Unit trust investments | 115,343 | - | 115,343 | - |
| Certificates of deposit - Local | 1,325,000 | - | - | 1,325,000 |
| TOTAL | $ 2,819,828 | $ 1,379,485 | $ 115,343 | $ 1,325,000 |

All assets have been valued using a market approach. There have been no changes in valuation techniques and related inputs.

Assets measured at fair value on a recurring basis using significant unobservable inputs (Level 3):

| | Certificates of Deposit |
|---|---|
| Balance December 31, 2011 | 1,815,545 |
| Additional investments | - |
| Distributions | (490,545) |
| Total gains or losses | - |
| Balance December 31, 2012 | $ 1,325,000 |

NOTE N--DISCRETE COMPONENT UNITS--Continued

Southwestern Pharmacy Alumni Foundation, Inc.--Continued:

Endowment: The Foundation's endowment consists of approximately 45 individual funds established for a variety of purposes. The endowment includes both donor-restricted endowment funds and funds designated by the governing body to function as endowments (board-designated endowment funds). Net assets associated with endowment funds, including board-designated endowment funds, is classified and reported based on the existence or absence of donor-imposed restrictions.

The Foundation's governing body has interpreted the State of Oklahoma Prudent Management of Institutions Funds Act (SPMIFA) as requiring preservation of the fair value of the original gift as of the gift date of the donor-restricted endowment funds, absent explicit donor stipulations to the contrary. As a result of this interpretation, the Foundation classifies as permanently restricted net assets the original value of the gift, the subsequent gifts and accumulations of all investment return to the permanent endowment made in accordance with the direction of the applicable donor gift instrument at the time the accumulation is added. The remaining portion of the endowment fund is classified as temporarily restricted until they are appropriated for expenditure by the Foundation in a manner consistent with the standard of prudence prescribed by SPMIFA. In accordance with SPMIFA, the Foundation considers the following factors in making a determination to appropriate or accumulate donor-restricted endowment funds:

- The duration and preservation of the fund,
- The purposes of the Foundation and the fund,
- General economic conditions,
- The possible effect of inflation and deflation,
- The expected total return from investment income and appreciation or depreciation of investments,
- Other resources of the Foundation, and
- The investment policies contained herein.

The Foundation spends monies on an annual basis for scholarships as directed by the donor. The amounts funded by each individual endowment may vary from year to year, and if funds are not available, then no scholarship shall be awarded.

# REQUIRED SUPPLEMENTARY INFORMATION

REQUIRED SUPPLEMENTARY INFORMATION--UNAUDITED

SOUTHWESTERN OKLAHOMA STATE UNIVERSITY

June 30, 2013

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

| Actuarial Valuation Date | Actuarial Value of Assets (a) | Actuarial Accrued Liability (AAL) (b) | Unfunded AAL (UAAL) (b-a) | Funded Ratio (a/b) | Covered Payroll (c) | UAAL as a percentage of Covered Payroll (b-a)/(c) |
|---|---|---|---|---|---|---|
| 6/30/2007 | $ 4,403,040 | $ 5,866,504 | $ 1,463,464 | 75.05% | $ 7,987,340 | 18.32% |
| 6/30/2008 | 5,320,623 | 5,811,093 | 490,470 | 91.56% | 8,158,641 | 6.01% |
| 6/30/2009 | 5,169,517 | 6,170,022 | 1,000,505 | 83.78% | 7,891,417 | 12.67% |
| 6/30/2010 | 4,907,022 | 6,701,903 | 1,794,881 | 73.22% | 6,742,780 | 26.62% |
| 6/30/2011 | 4,559,275 | 6,735,124 | 2,175,849 | 67.69% | 6,130,039 | 35.49% |
| 6/30/2012 | 4,188,254 | 6,504,370 | 2,316,116 | 64.39% | 5,645,591 | 41.03% |
| 6/30/2013 | 3,833,007 | 8,272,884 | 4,439,877 | 46.33% | 5,415,988 | 81.98% |

**SCHEDULE OF FUNDING PROGRESS FOR OTHER POST EMPLOYMENT 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) |
|---|---|---|---|---|---|---|
| 6/30/2009 | $ 438,745 | $ 3,190,009 | $ 2,751,264 | 13.75% | $ 26,584,455 | 10.35% |
| 6/30/2010 | 849,241 | 3,285,792 | 2,436,551 | 25.85% | 31,636,990 | 7.7% |
| 6/30/2011 | 1,098,263 | 3,558,958 | 2,460,695 | 30.86% | 32,608,185 | 7.5% |
| 6/30/2012 | 1,257,525 | 3,701,407 | 2,443,882 | 33.97% | 32,383,483 | 7.5% |
| 6/30/2013 | 1,479,581 | 4,321,018 | 2,841,437 | 34.24% | 31,542,748 | 9.0% |

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

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

# OTHER SUPPLEMENTARY INFORMATION

OTHER SUPPLEMENTARY INFORMATION
DISCRETELY PRESENTED COMPONENT UNITS'
COMBINING STATEMENT OF FINANCIAL POSITION

SOUTHWESTERN OKLAHOMA STATE UNIVERSITY

December 31, 2012 (Fiscal Year End of Component Units)

| | University Foundation | Pharmacy Foundation | Total |
|---|---|---|---|
| ASSETS | | | |
| Cash and cash equivalents | $ 319,418 | $ 220,158 | $ 539,576 |
| Pledges receivable | - | 9,725 | 9,725 |
| Interest receivable | - | 11,388 | 11,388 |
| Contributions receivable | 56,864 | - | 56,864 |
| Note receivable from related party | 406,766 | - | 406,766 |
| Investments | 14,013,912 | 2,819,828 | 16,833,740 |
| Assets held for sale | 40,000 | - | 40,000 |
| Loans receivable | - | 1,000 | 1,000 |
| Beneficial interest in perpetual trust | 1,233,100 | - | 1,233,100 |
| Property and equipment | 746,530 | - | 746,530 |
| Other assets | 289,653 | - | 289,653 |
| TOTAL ASSETS | $ 17,106,243 | $ 3,062,099 | $ 20,168,342 |
| LIABILITIES | | | |
| Accounts payable | $ 734 | $ - | $ 734 |
| Payable to related party | 201,645 | | 201,645 |
| Funds held for others | 178,374 | - | 178,374 |
| TOTAL LIABILITIES | 380,753 | - | 380,753 |
| NET ASSETS | | | |
| Unrestricted | (295,287) | 1,312,114 | 1,016,827 |
| Temporarily restricted | 3,319,289 | 777,091 | 4,096,380 |
| Permanently restricted | 13,701,488 | 972,894 | 14,674,382 |
| TOTAL NET ASSETS | 16,725,490 | 3,062,099 | 19,787,589 |
| TOTAL LIABILITIES AND NET ASSETS | $ 17,106,243 | $ 3,062,099 | $ 20,168,342 |

See notes to financial statements.

OTHER SUPPLEMENTARY INFORMATION
DISCRETELY PRESENTED COMPONENT UNITS'
COMBINING STATEMENT OF ACTIVITIES AND CHANGES IN NET ASSETS

SOUTHWESTERN OKLAHOMA STATE UNIVERSITY

Year Ended December 31, 2012 (Fiscal Year End of Component Units)

| | University Foundation | Pharmacy Foundation | Total |
|---|---|---|---|
| SUPPORT, REVENUES, GAINS AND OTHER ADDITIONS | | | |
| Contributions | $ 634,479 | $ 322,681 | $ 957,160 |
| Provision for loss on uncollectible contributions receivable | (55,514) | - | (55,514) |
| Program service revenue | 390,807 | - | 390,807 |
| Interest and dividend income | 195,812 | 14,259 | 210,071 |
| Realized gains (losses) on investments | 754,933 | - | 754,933 |
| Unrealized gain (loss) on investments | 392,884 | 59,169 | 452,053 |
| Investment income from perpetual trust | 80,000 | - | 80,000 |
| Loss on beneficial interest in perpetual trust | (48,021) | - | (48,021) |
| Rental income | 70,000 | - | 70,000 |
| Other income | 11,659 | 37,600 | 49,259 |
| Other investment income | - | 40,887 | 40,887 |
| Continuing education | - | 17,980 | 17,980 |
| TOTAL SUPPORT, REVENUES, GAINS, AND OTHER ADDITIONS | 2,427,039 | 492,576 | 2,919,615 |
| EXPENSES | | | |
| Program services for university | 1,022,247 | 128,808 | 1,151,055 |
| Supporting services: | | | |
| Management and general | 187,382 | 25,678 | 213,060 |
| Fundraising | 33,112 | - | 33,112 |
| Continuing education expenses | - | 23,563 | 23,563 |
| Scholarships and grants | - | 75,100 | 75,100 |
| School of Pharmacy | - | 34,372 | 34,372 |
| TOTAL EXPENSES | 1,242,741 | 287,521 | 1,530,262 |
| NET INCREASE IN NET ASSETS | 1,184,298 | 205,055 | 1,389,353 |
| NET ASSETS, BEGINNING OF YEAR | 15,541,192 | 2,857,044 | 18,398,236 |
| NET ASSETS, END OF YEAR | $ 16,725,490 | $ 3,062,099 | $ 19,787,589 |

See notes to financial statements.

# 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
Southwestern Oklahoma State University
Oklahoma City, Oklahoma

We have audited the financial statements of Southwestern Oklahoma State University (the "University"), a component unit of the State of Oklahoma, which comprise the statement of net position as of June 30, 2013, and the related statements of revenues, expenses, and changes in net position and cash flows for the year then ended, and the related notes to the financial statements, and have issued our report thereon dated October 31, 2013. We conducted our audit in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Our report includes a reference to other auditors who audited the financial statements of the Southwestern Pharmacy Alumni Foundation, Inc. (the "Pharmacy Foundation"), a discretely presented component unit, as described in our report on the University's financial statements. The financial statements of the Pharmacy Foundation and Southwestern Oklahoma State University Foundation, Inc. (the "Foundation"), a discretely presented component unit, were not audited in accordance with *Government Auditing Standards* and accordingly this report does not include reporting on internal control over financial reporting or instances of reportable noncompliance associated with the Pharmacy Foundation or the Foundation.

**Internal Control Over Financial Reporting**

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



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

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

**Compliance and Other Matters**

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

**Purpose of this Report**

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

Cole & Reed P.C.

Oklahoma City, Oklahoma
October 31, 2013

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

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

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

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

**Management's Responsibility**

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

**Auditors' Responsibility**

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

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



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**Opinion on Each Major Federal Program**

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

**Report on Internal Control Over Compliance**

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

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

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

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

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

We have audited the financial statements of the University as of and for the year ended June 30, 2013, and have issued our report thereon dated October 31, 2013, which contained an unmodified opinion on the financial statements. Our audit was conducted for the purpose of forming an opinion on the financial statements as a whole. The accompanying schedule of expenditures of federal awards is presented for the purposes of additional analysis as required by OMB Circular A-133 and is not a required part of the financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the financial statements. The information has been subjected to the auditing procedures applied in the audit of the financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements or to the financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the schedule of expenditures of federal awards is fairly stated in all material respects in relation to the financial statements as a whole.

Cole & Reed P.C.

Oklahoma City, Oklahoma
October 31, 2013

SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS

SOUTHWESTERN OKLAHOMA STATE UNIVERSITY

Year Ended June 30, 2013

| Federal Grantor/Pass-through Grantor/Program Title | Federal CFDA Number | Expenditures |
|---|---|---|
| U.S. Department of Education | | |
| Student Financial Aid Cluster | | |
| Federal Pell Grant Program | 84.063 | $ 7,069,010 |
| Federal Supplemental Education Opportunity Grants | 84.007 | 70,387 |
| Federal Direct Student Loan Program | 84.268 | 18,515,064 |
| Federal Workstudy Program | 84.033 | 183,500 |
| *Total Student Financial Aid Cluster* | | 25,837,961 |
| Other Programs | | |
| TRIO Upward Bound | 84.047 | 350,719 |
| KESAM | 84.367 | 161,932 |
| Mathematics and Science Partnerships | 84.366 | 12,541 |
| Total U.S. Department of Education | | 26,363,153 |
| U.S. Department of Health and Human Services | | |
| Development Disabilities | | |
| National Institute of Health | 93.389 | 187,093 |
| Total U.S. Department of Health and Human Services | | 187,093 |
| U.S. Department of Veterans Affairs | | |
| Vocational Rehabilitation | 64.116 | 385,279 |
| Small Business Administration | | |
| Passed through Southeastern Oklahoma State University | | |
| Small Business Development Center | 59.037 | 102,326 |
| National Endowment for the Humanities | | |
| Much Ado About Words; East Encounters West | 45.129 | 6,127 |
| National Science Foundation | | |
| RUI: Modulation of Synaptic Vesicle Exocytosis in C. elegans | 47.074 | 101,844 |
| Louis Stokes Alliance for Minority Participation in Science, Mathematics, Engineering, and Technology | 47.076 | 24,134 |
| EPSCoR | 47.081 | 1,000 |
| Total National Science Foundation | | 126,978 |
| National Aeronautics and Space Adminsitration | | |
| NASA/Fellowship/Career workforce | 43.001 | 52,740 |

SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS--Continued

SOUTHWESTERN OKLAHOMA STATE UNIVERSITY

Year Ended June 30, 2013

| Federal Grantor/Pass-through Grantor/Program Title | Federal CFDA Number | Expenditures |
|---|---|---|
| U.S. Department of Interior | | |
| Bureau of Indian Affairs | 15.114 | 106,386 |
| U.S. Department of Commerce | | |
| Economic Development Technical Assistance | 11.303 | 93,439 |
| U.S. Department of Agriculture | | |
| National School Lunch Program | 10.555 | 135,234 |
| U.S. Department of Justice | | |
| RUSO-Violence Protection Program | 16.525 | 27,265 |
| TOTAL EXPENDITURES OF FEDERAL AWARDS | | $ 27,586,020 |

See notes to schedule of expenditures of federal awards.

NOTES TO SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS

SOUTHWESTERN OKLAHOMA STATE UNIVERSITY

June 30, 2013

## NOTE A--SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The schedule of expenditures of federal awards includes the federal awards activity of Southwestern Oklahoma State University (the "University") and is presented on the accrual basis of accounting. The information is 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

During the year ended June 30, 2013, the University did not provide federal awards to sub-recipients.

SCHEDULE OF FINDINGS AND QUESTIONED COSTS

SOUTHWESTERN OKLAHOMA STATE UNIVERSITY

June 30, 2013

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

*Financial statements*

Type of auditors' report issued: *Unmodified*

Internal control over financial reporting:

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

Noncompliance material to financial statements noted? ____ yes __X__ no

*Federal Awards*

Internal control over major programs:

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

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

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

Identification of major programs:

| Program / Cluster | CFDA Number |
|---|---|
| Student Financial Aid Cluster | * |
| TRIO Upward Bound | 84.047 |

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

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

Auditee qualified as low-risk auditee? __X__ yes ____ no

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

None to report for the June 30, 2013, period.

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

None to report for the June 30, 2013, period.

SUMMARY SCHEDULE OF PRIOR AUDIT FINDINGS

SOUTHWESTERN OKLAHOMA STATE UNIVERSITY

June 30, 2013

No matters were reportable.