

**SOUTHWESTERN OKLAHOMA
STATE UNIVERSITY**

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

SOUTHWESTERN OKLAHOMA STATE UNIVERSITY

June 30, 2014

AUDITED FINANCIAL STATEMENTS

Independent Auditors' Report..... 1
Management's Discussion and Analysis 4
Statement of Net Position 17
Statement of Revenues, Expenses, and Changes in Net Position 19
Statement of Cash Flows..... 20
Aggregate Discretely Presented Component Units
 Combined Statement of Financial Position 22
Aggregate Discretely Presented Component Units
 Combined Statement of Activities and Changes in Net Assets..... 23
Notes to Financial Statements 24

REQUIRED SUPPLEMENTARY INFORMATION

Schedule of Funding Progress for Supplemental Retirement Annuity Plan and
 Other Post Employment Insurance Benefits (Unaudited) 65

OTHER SUPPLEMENTARY INFORMATION

Component Units' Combining Statement of Financial Position 66
Component Units' Combining Statement of Activities and Changes in Financial Position..... 67

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* 68
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 70
Schedule of Expenditures of Federal Awards..... 72
Notes to Schedule of Expenditures of Federal Awards..... 74
Schedule of Findings and Questioned Costs..... 75
Summary Schedule of Prior Audit Findings..... 77



INDEPENDENT AUDITOR'S 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 department of the Regional University System of Oklahoma (RUSO), which is a component unit of the State of Oklahoma, that comprise the statement of net position as of June 30, 2014, and the related statements of revenues, expenses, and changes in net position, and cash flows for the year then ended, and the related notes to the financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

Our responsibility is to express an opinion on these financial statements based on our audit. We did not audit the financial statements of the University's aggregate discretely presented component units (the Component Units). Those financial statements were audited by other auditors, whose report has been furnished to us, and our opinion, insofar as it relates to the amounts included for the Component Units, is based solely on the report of the other auditors. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement. The financial statements of the Component Units were audited by other auditors and were not audited in accordance with *Governmental Auditing Standards*.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error.

In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

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

Opinion

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

Emphasis of Matter

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

Other Matters

Required Supplementary Information

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

Other Supplemental Information

Our audit was conducted for the purpose of forming an opinion on the basic financial statements of the University for the year ended June 30, 2014, 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. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic financial statements or to the basic financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the combining and individual nonmajor fund financial statements are fairly stated, in all material respects, in relation to the basic financial statements as a whole.

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated October 31, 2014, on our consideration of the University's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the University's internal control over financial reporting and compliance.

Arledge & Associates, P.C.

October 31, 2014

MANAGEMENT'S DISCUSSION AND ANALYSIS

SOUTHWESTERN OKLAHOMA STATE UNIVERSITY

June 30, 2014

INTRODUCTION

Southwestern Oklahoma State University has a long history of providing outstanding service to our region and the State of Oklahoma. Widely known for an excellent School of Pharmacy and 14 other nationally accredited academic programs, we are dedicated to continued improvement. This improvement process is currently being driven by “The Focus is you” strategic plan.

The plan focuses on a select number of initiatives to keep moving the university forward. These include increasing student retention and graduation rates, improving employee compensation and job satisfaction, upgrading technology services, diversifying our revenue sources and addressing the integration of our branch campus.

Our strategically focused budgeting process enabled the university to move forward with our initiatives during fiscal year 2014. The budget priorities in FY-2014 addressed increasing our international enrollment, strengthening our retention efforts, and improving our resident life facilities. Additionally we continue to expand on-line our RN to BSN program, strengthen the out-reach efforts of the School of Pharmacy and review the needs of region as it relates to the development of new areas of study.

Our investment in capital projects continued in FY2014 with the completion of 93,000 square foot Pioneer Cellular Event Center, an excellent example of a public and private partnership with nearly half of the funds coming from sources other than the university. Improvements in student housing are on-going including the addition of Black Kettle Hall and the feasibility study for the future of our main resident life facilities. We also continue to add and renovate additional space to support the needs of undergraduate research, the fine arts and athletics.

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, 2014, with selected comparative information for the year ended June 30, 2013. Management's Discussion and Analysis is designed to focus on current activities, resulting changes, and current known facts, so it should be read in conjunction with the University's financial statements and footnotes.

These financial statements include those of the University and its discretely presented component 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.

MANAGEMENT'S DISCUSSION AND ANALYSIS

SOUTHWESTERN OKLAHOMA STATE UNIVERSITY

June 30, 2014

OVERVIEW OF FINANCIAL STATEMENTS AND FINANCIAL ANALYSIS

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.

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 provided detail related to Long-Term Liabilities.

Net position - the difference between assets and liabilities - 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.

MANAGEMENT'S DISCUSSION AND ANALYSIS

SOUTHWESTERN OKLAHOMA STATE UNIVERSITY

June 30, 2014

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, deferred outflows, liabilities, deferred inflows, and net position as of June 30, 2014. Comparative data for years ending June 30, 2013, is provided.

Schedule A
Condensed Statements of Net Assets
as of June 30, 2014 and 2013
(In Millions)

	2014	2013	Increase (Decrease)	Percent Change
Current Assets	\$ 21.5	\$ 18.4	\$ 3.1	16.8%
Noncurrent Assets				
Capital Assets, Net of Depreciation	71.7	68.2	\$ 3.5	5.1%
Other	7.7	12.6	(4.9)	-38.9%
Total Assets	<u>\$ 100.9</u>	<u>99.2</u>	<u>1.7</u>	<u>1.7%</u>
Deferred Outflows of Resources	<u>\$ 0.2</u>	<u>\$ 0.3</u>	<u>\$ (0.1)</u>	<u>-33.3%</u>
Current Liabilities	5.4	7.9	(2.5)	-31.6%
Noncurrent Liabilities	28.8	29.9	(1.1)	-3.7%
Total Liabilities	<u>\$ 34.2</u>	<u>\$ 37.8</u>	<u>(3.6)</u>	<u>-9.5%</u>
Deferred Inflows of Resources	0.3	-	0.3	
Net Position				
Investment in Capital Assets	41.2	39.6	1.6	4.0%
Restricted	6.7	5.8	0.9	15.5%
Unrestricted	18.7	16.3	2.4	14.6%
Total Net Position	<u>\$ 66.6</u>	<u>\$ 61.7</u>	<u>\$ 4.9</u>	<u>7.9%</u>

MANAGEMENT'S DISCUSSION AND ANALYSIS

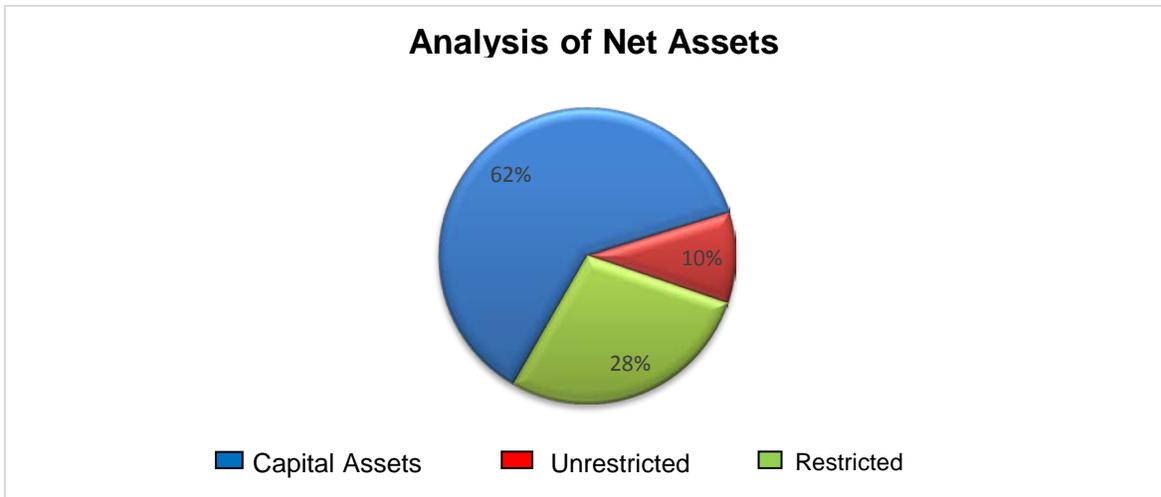
SOUTHWESTERN OKLAHOMA STATE UNIVERSITY

June 30, 2014

ANALYSIS OF NET POSITION 2014

Current assets increased by \$3,108,247. Net Capital Assets increased by \$3,509,520. This increase is due to construction of the Event Center; which was completed in December, 2013.

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

MANAGEMENT'S DISCUSSION AND ANALYSIS

SOUTHWESTERN OKLAHOMA STATE UNIVERSITY

June 30, 2014

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

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

Schedule B

Condensed Statements of Revenues, Expenses and Changes in Net Assets
Years Ended June 30, 2014 and 2013
(In Millions)

	2014	2013
Operating Revenue		
Student tuition and Fees	19.0	17.0
Federal, state and local grants and contracts	8.5	7.6
Auxiliary	6.7	7.0
Other	0.6	0.7
Total Operating Revenues	<u>34.8</u>	<u>32.3</u>
Operating Expenses		
Compensation and employee benefits	44.6	43.5
Contractual Services	3.2	3.7
Supplies and materials	4.3	4.0
Depreciation	3.6	3.4
Utilities	1.9	1.5
Communication expense	0.4	0.2
Scholarships and fellowships	6.6	6.0
Other Operating expense	3.2	3.2
Total Operating Expenses	<u>67.8</u>	<u>65.5</u>
Operating Income (Loss)	(33.0)	(33.2)
Nonoperating revenues (expenses)		
State appropriations	25.5	25.2
City sales tax revenue	0.8	0.7
Grant (Federal & State)	10.5	11.0
Investment income	0.1	0.3
Interest costs	(1.3)	(2.3)
Net Nonoperating Revenues	<u>35.6</u>	<u>34.9</u>
Income (loss) before other revenues, expenses, gains and losses	2.6	1.7
State appropriations restricted for capital purposes	2.1	1.4
Other	0.3	0.2
Change in Net Position	<u>5.0</u>	<u>3.3</u>
Net Position, Beginning of Year	<u>61.7</u>	<u>58.4</u>
Net Position, End of Year	<u><u>66.7</u></u>	<u><u>61.7</u></u>

MANAGEMENT'S DISCUSSION AND ANALYSIS

SOUTHWESTERN OKLAHOMA STATE UNIVERSITY

June 30, 2014

REVENUES 2014

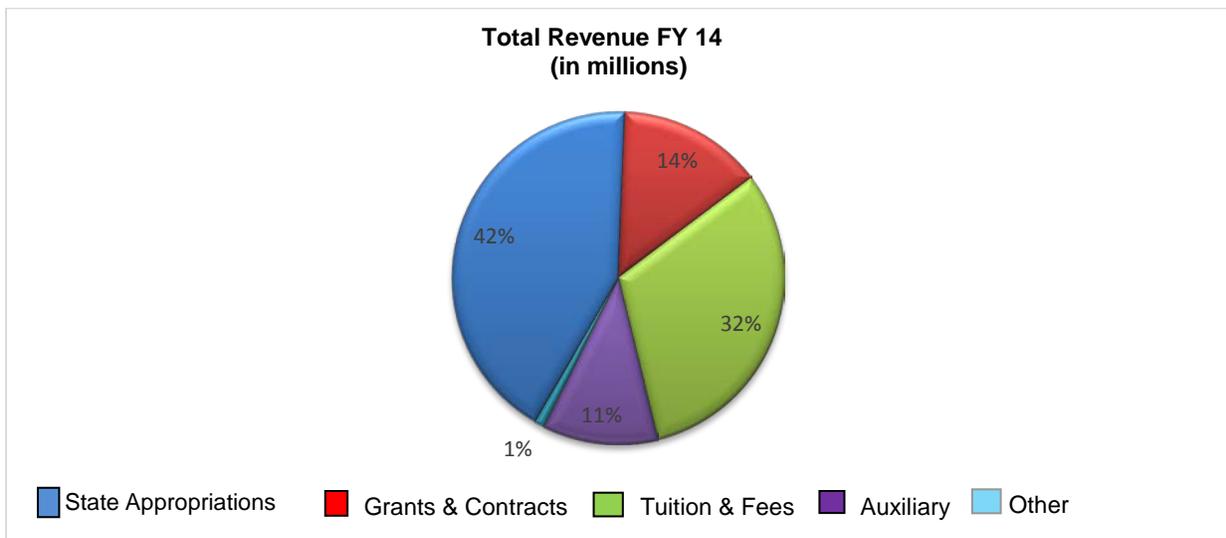
Student tuition and fees, net of scholarships and allowances, increased \$2,044,758. The student full-time equivalent (FTE) enrollment for fiscal year 2014 and fiscal year 2013 was 4,553 and 4,678, respectively. This would indicate an FTE enrollment decrease of 2.6%.

Operating Grants and Contracts activity is \$8.4 million, approximately \$.8 million more than the previous year. The bulk of the grant revenue is for group homes which provide services to state adjudicated male youths. Funding of approximately \$3.9 million for this program is provided through an agreement with the Office of Juvenile Affairs. Significant federal grants, classified as non-operating revenue, are for Student Financial Aid and include Pell, Student Work Study, and Supplemental Education Opportunity Grants.

Auxiliary operations generated total revenues of \$6.7 million in fiscal year 2014 of which \$5.6 million is from housing and food services, as compared to fiscal year 2013 revenues of \$7.5 million, of which \$5.9 million is from housing and food services.

State appropriations for operations in fiscal year 2014 were \$25.5 million. This includes \$2.4 million in Oklahoma Teachers Retirement System on-behalf contributions.

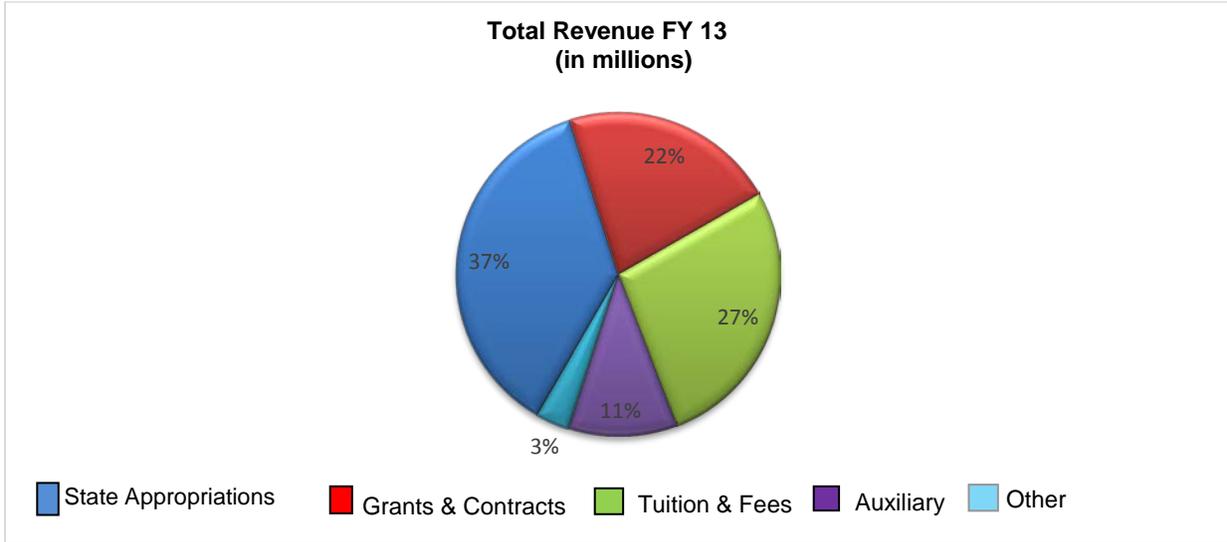
The following graph represents sources and amounts of revenue.



MANAGEMENT'S DISCUSSION AND ANALYSIS

SOUTHWESTERN OKLAHOMA STATE UNIVERSITY

June 30, 2014



EXPENSES 2014

Operating expenses for the year are \$67.8 million, an increase of \$2.38 million. This is due to increases in spending in the areas of compensation, scholarships and utility expenses.

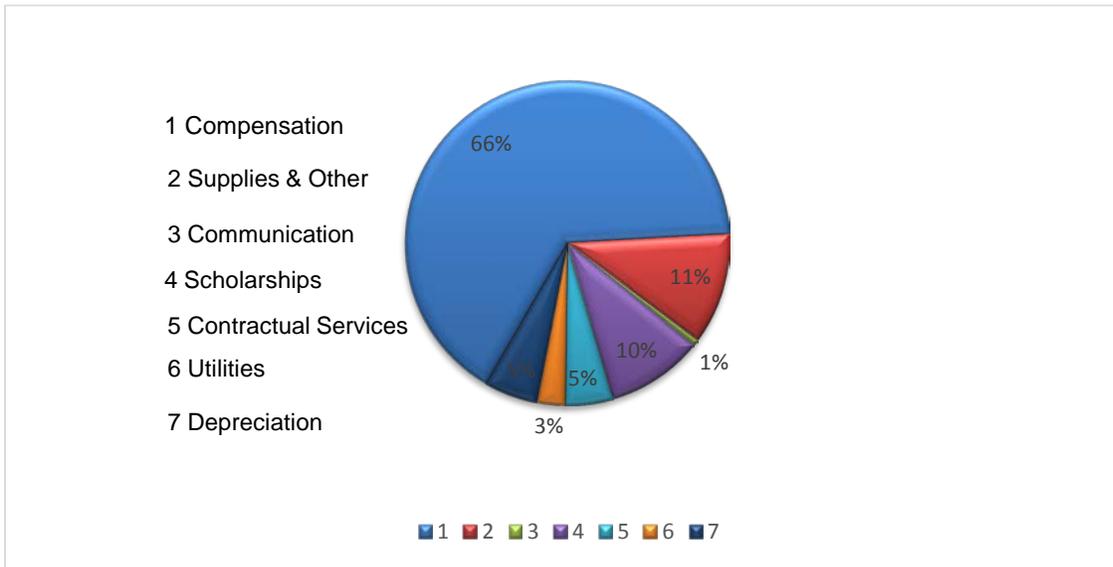
MANAGEMENT'S DISCUSSION AND ANALYSIS

SOUTHWESTERN OKLAHOMA STATE UNIVERSITY

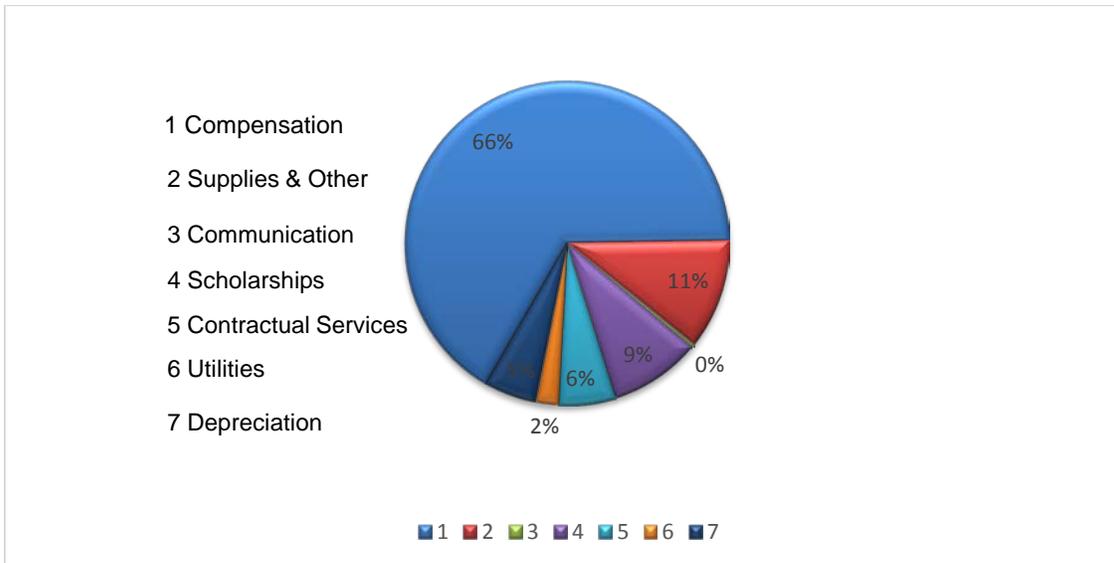
June 30, 2014

The following are graphic representations of expenses during fiscal year 2014:

*FY 14 Expenses by Natural Classification
(In Millions)*



*FY13 Expenses by Functional Classification
(In Millions)*



MANAGEMENT'S DISCUSSION AND ANALYSIS

SOUTHWESTERN OKLAHOMA STATE UNIVERSITY

June 30, 2014

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, 2014, compared to the year ended June 30, 2013, and is prepared from the Statement of Cash Flows.

CONDENSED STATEMENT OF CASH FLOWS

	Years Ended June 30, (in Millions)	
	<u>2014</u>	<u>2013</u>
CASH PROVIDED BY (USED IN):		
Operating activities	\$ (31.4)	\$ (27.1)
Noncapital financing activities	34.4	34.6
Investing activities	(1.7)	8.0
Capital and related financing activities	<u>(4.6)</u>	<u>(15.6)</u>
NET CHANGE IN CASH	(3.3)	(0.1)
CASH, BEGINNING OF YEAR	<u>24.6</u>	<u>24.7</u>
CASH, END OF YEAR	<u>\$ 21.3</u>	<u>\$ 24.6</u>

MANAGEMENT'S DISCUSSION AND ANALYSIS

SOUTHWESTERN OKLAHOMA STATE UNIVERSITY

June 30, 2014

CAPITAL ASSETS

At June 30, 2014, the University had approximately \$71.7 million invested in capital assets, net of accumulated depreciation of \$61 million. Depreciation charges totaled approximately \$3.64 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, 2013, the University had approximately \$68.2 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. 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, 2014, and 2013, are shown below.

	June 30, (in Millions)	
	2014	2013
Land	\$ 1.1	\$ 1.1
Construction-in-progress	0.5	20.5
Infrastructure	0.7	0.7
Land improvements	0.5	0.6
Buildings	65.0	41.3
Furniture, fixtures, and equipment	2.3	2.4
Library materials	1.6	1.6
	<u>\$ 71.7</u>	<u>\$ 68.2</u>

MANAGEMENT'S DISCUSSION AND ANALYSIS

SOUTHWESTERN OKLAHOMA STATE UNIVERSITY

June 30, 2014

DEBT

At June 30, 2014, the University had approximately \$30.1 million in debt outstanding compared to \$30.6 outstanding at June 30, 2013. The table below summarizes these amounts by type.

OUTSTANDING DEBT

	June 30, (in Millions)	
	2014	2,013
OCIA Lease Obligations	\$ 10.9	\$ 11.6
ODFA Lease Obligations	19.2	13.9
Revenue Bonds Payable	-	5.1
	<u>\$ 30.1</u>	<u>\$ 30.6</u>

The 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 revenue bond was refinanced by an ODFA lease at a much lower interest rate.

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 fiscal year 2014 a master lease was added in the amount of \$4,610,000 for refinancing the Revenue Bond issued in 2004. In addition, there was a \$2,000,000 master lease added for renovation of Parker Hall.

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 2014 interest payments in the amount of \$158,801 were made.

In April 2014, OCIA issued the 2014A series bonds to partially refund the 2005F bonds.

MANAGEMENT'S DISCUSSION AND ANALYSIS

SOUTHWESTERN OKLAHOMA STATE UNIVERSITY

June 30, 2014

DEBT – Continued

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 another positive year in FY-14 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 compared to other regional universities including our IPEDS peer group. The FY-14 enrollment is down slightly however we continue to expand our online, non-traditional and international enrollment. This change in enrollment mix is in alignment with our strategic goal of diversifying our revenue mix. We believe that the current strategic plan will continue to enhance our ability to diversity our student enrollment base, increase student retention and provide additional resources for other initiatives.

MANAGEMENT'S DISCUSSION AND ANALYSIS

SOUTHWESTERN OKLAHOMA STATE UNIVERSITY

June 30, 2014

ECONOMIC OUTLOOK - Continued

Oklahoma, especially western Oklahoma, continues to expand economic activity lead by oil and natural gas production and related service industries. This provides a stable base of revenues for the part of our budget funded by this the state.

STATEMENT OF NET POSITION--Continued

SOUTHWESTERN OKLAHOMA STATE UNIVERSITY

June 30, 2014

LIABILITIES AND NET POSITION

CURRENT LIABILITIES

Accounts payable	\$ 681,627
Accrued payroll	537,146
Accrued interest payable	36,911
Unearned revenue	292,779
Deposits held in custody for others	327,581
Current portion of non current liabilities	<u>3,531,486</u>
TOTAL CURRENT LIABILITIES	5,407,530

NONCURRENT LIABILITIES

Unearned revenue from long-term contracts	321,000
Accrued compensated absences	598,050
Bond premium (net of amortization)	238,747
Lease obligations payable to state agency	<u>27,600,281</u>
TOTAL NONCURRENT LIABILITIES	<u>28,758,078</u>
TOTAL LIABILITIES	<u>\$ 34,165,608</u>

DEFERRED INFLOWS OF RESOURCES

\$ 324,542

NET POSITION

Invested in capital assets, net of related debt	\$ 41,253,163
Restricted:	
Expendable:	
Scholarships, instruction and other	2,641,717
Capital projects	4,032,868
Unrestricted	<u>18,679,069</u>
TOTAL NET POSITION	<u><u>\$ 66,606,817</u></u>

See notes to financial statements.

STATEMENTS OF REVENUES, EXPENSES, AND CHANGES IN NET POSITION

SOUTHWESTERN OKLAHOMA STATE UNIVERSITY

Year Ended June 30, 2014

OPERATING REVENUES

Student tuition and fees, net of scholarship discounts and allowances of \$12,456,683	\$ 18,994,181
Federal grants and contracts	1,796,654
State and local grants and contracts	6,651,638
Housing and food service, discounts and allowances of \$254,218	5,559,974
Other auxiliary operations	1,175,852
Interest earned on loans to students	8,774
Other operating revenues	<u>571,958</u>
TOTAL OPERATING REVENUES	34,759,031

OPERATING EXPENSES

Compensation and employee benefits	44,644,534
Contractual services	3,159,102
Supplies and materials	4,329,180
Depreciation	3,604,900
Utilities	1,883,713
Communication expense	363,037
Scholarships and fellowships	6,564,856
Other operating expenses	<u>3,232,965</u>
TOTAL OPERATING EXPENSES	<u>67,782,287</u>

OPERATING LOSS

(33,023,256)

NONOPERATING REVENUES (EXPENSES)

State appropriations	23,127,895
On-behalf contributions for OTRS	2,415,473
City sales tax revenue	770,498
Federal grants and contracts	6,873,180
State and local grants and contracts	3,612,927
Investment income	153,556
Interest expense	<u>(1,333,162)</u>
NET NONOPERATING REVENUES	<u>35,620,367</u>

Income before other revenues, expenses, gains, and losses	2,597,111
Capital grants and gifts	270,493
State appropriations restricted for capital purposes	1,133,861
OCIA on-behalf appropriations	<u>957,665</u>
CHANGE IN NET POSITION	4,959,130
NET POSITION, BEGINNING OF YEAR	<u>61,647,687</u>
NET POSITION, END OF YEAR	<u>\$ 66,606,817</u>

See notes to financial statements.

STATEMENT OF CASH FLOWS

SOUTHWESTERN OKLAHOMA STATE UNIVERSITY

Year Ended June 30, 2014

CASH FLOWS FROM OPERATING ACTIVITIES

Tuition and fees	\$ 18,996,387
Grants and contracts	8,462,827
Housing and food service and other receipts	7,367,537
Interest on loans to students	8,774
Payments to employees for salaries and benefits	(41,850,471)
Payments to suppliers	<u>(24,360,164)</u>
NET CASH USED IN OPERATING ACTIVITIES	(31,375,110)

CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES

State appropriations	23,127,895
State payments from federal ARRA revenues	-
Grants and contracts	10,486,107
City sales tax received	770,498
Direct Loan receipts	-
Direct Loan payments	<u>-</u>
NET CASH PROVIDED BY NONCAPITAL FINANCING ACTIVITIES	34,384,500

CASH FLOWS FROM INVESTING ACTIVITIES

Purchase of investments	-
Proceeds from sale of investments	(1,806,252)
Interest income received	<u>92,607</u>
NET CASH PROVIDED BY (USED IN) INVESTING ACTIVITIES	(1,713,645)

CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES

Cash paid for capital assets	(5,209,394)
Capital appropriations received	2,091,526
Repayment of capital debt and leases	(12,668,367)
Proceeds from capital debt and leases	12,521,437
Interest paid on capital debt and leases	<u>(1,364,188)</u>
NET CASH PROVIDED BY (USED IN) CAPITAL AND RELATED FINANCING ACTIVITIES	<u>(4,628,986)</u>

NET INCREASE IN CASH AND CASH EQUIVALENTS (3,333,241)

CASH AND CASH EQUIVALENTS, BEGINNING OF YEAR 24,605,518

CASH AND CASH EQUIVALENTS, END OF YEAR \$ 21,272,277

STATEMENTS OF CASH FLOWS--Continued

SOUTHWESTERN OKLAHOMA STATE UNIVERSITY
Year Ended June 30, 2014

RECONCILIATION OF OPERATING LOSS TO
NET CASH USED IN OPERATING ACTIVITIES

Operating loss	\$ (33,023,256)
Adjustments to reconcile operating loss to net cash used by operating activities:	
Depreciation expense	3,604,900
On-behalf contributions to teachers' retirement system	2,415,473
Changes in assets and liabilities:	
Accounts receivable	(49,512)
Inventories	27,861
Prepaid pension asset	250,000
Other post employment benefits	30,906
Accounts payable and accrued expenses	(4,830,038)
Deferred revenue	117,727
Compensated absences	72,550
Loans to students and employees	<u>8,279</u>
NET CASH USED IN OPERATING ACTIVITIES	<u>\$ (31,375,110)</u>

NONCASH INVESTING, NONCAPITAL FINANCING
AND CAPITAL AND RELATED FINANCING ACTIVITIES

Interest on capital debt paid by State Agency on behalf of the University	<u>\$ 560,504</u>
Principal on capital debt paid by State Agency on behalf of the University	<u>\$ 397,161</u>

RECONCILIATION OF CASH AND CASH
EQUIVALENTS TO STATEMENTS OF NET ASSETS

Current assets:	
Cash and cash equivalents	18,690,457
Restricted cash and cash equivalents	<u>2,581,820</u>
TOTAL CASH AND CASH EQUIVALENTS	<u>\$ 21,272,277</u>

See notes to financial statements.

AGGREGATE DISCRETELY PRESENTED COMPONENT UNITS
 COMBINED STATEMENTS OF FINANCIAL POSITION

SOUTHWESTERN OKLAHOMA STATE UNIVERSITY

December 31, 2013 (Fiscal Year End of Component Units)

ASSETS

Cash and cash equivalents	\$ 1,367,561
Pledges receivable	29,325
Interest receivable	4,518
Contributions receivable	45,289
Investments	21,937,387
Loans receivable	2,240
Cash value, life insurance	304,634
Beneficial interest in perpetual trust	1,169,080
Property and equipment	<u>705,462</u>

TOTAL ASSETS \$ 25,565,496

LIABILITIES

Accounts payable	\$ 24,035
Payable to related party	367,912
Funds held for others	<u>178,393</u>

TOTAL LIABILITIES 570,340

NET POSITION

Unrestricted	3,379,168
Temporarily restricted	5,893,716
Permanently restricted	<u>15,722,272</u>

TOTAL NET POSITION 24,995,156

TOTAL LIABILITIES AND NET POSITION \$ 25,565,496

See notes to financial statements.

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

SOUTHWESTERN OKLAHOMA STATE UNIVERSITY

December 31, 2013 (Fiscal Year End of Component Units)

SUPPORT, REVENUES, GAINS
 AND OTHER ADDITIONS

Contributions	\$ 3,557,951
Sponsorship revenue	200,000
Program service revenue	481,047
Interest and dividend income	9,014
Net appreciation on investments	2,445,189
Loss on beneficial interest in perpetual trust	(3,582)
Rental income	70,000
Other income	47,661
Other investment income	333,812
Continuing education	62,712

TOTAL SUPPORT, REVENUES, GAINS, AND OTHER ADDITIONS	7,203,804
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EXPENSES

Program services for university	1,558,946
Supporting services:	
Management and general	203,428
Fundraising	66,740
Continuing education expenses	28,965
Scholarships and Grants	106,975
School of Pharmacy	31,183

TOTAL EXPENSES	1,996,237
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NET INCREASE IN ASSETS	5,207,567
NET ASSETS, BEGINNING OF YEAR	19,787,589
NET ASSETS, END OF YEAR	\$ 24,995,156

See notes to financial statements.

NOTES TO FINANCIAL STATEMENTS--Continued

SOUTHWESTERN OKLAHOMA STATE UNIVERSITY

June 30, 2014

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

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

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

Discretely Presented Component Units: 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.

NOTES TO FINANCIAL STATEMENTS--Continued

SOUTHWESTERN OKLAHOMA STATE UNIVERSITY

June 30, 2014

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

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

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

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

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.

NOTES TO FINANCIAL STATEMENTS--Continued

SOUTHWESTERN OKLAHOMA STATE UNIVERSITY

June 30, 2014

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

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.

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

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

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

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

NOTES TO FINANCIAL STATEMENTS--Continued

SOUTHWESTERN OKLAHOMA STATE UNIVERSITY

June 30, 2014

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

Net Position--Continued:

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

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

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

NOTES TO FINANCIAL STATEMENTS--Continued

SOUTHWESTERN OKLAHOMA STATE UNIVERSITY

June 30, 2014

NOTE A--SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – Continued

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

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

Deferred Inflows of Resources: Deferred inflows are the acquisition of net position by the University that is applicable to a future reporting period. At June 30, 2014, the University's deferred inflows of resources were comprised of deferred gains on capital lease restructure.

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

NOTES TO FINANCIAL STATEMENTS--Continued

SOUTHWESTERN OKLAHOMA STATE UNIVERSITY

June 30, 2014

NOTE B--DEPOSITS AND INVESTMENTS – continued

Deposits-continued: Federal Deposit Insurance or collateralized by securities held by the cognizant Federal Reserve Bank in the University's name.

Some deposits with the OST are placed in the OST's internal investment pool, *OK INVEST*. *OK INVEST* pools the resources of all state funds and agencies and invests them in (a) U.S. treasury securities which are explicitly backed by the full faith and credit of the U.S. government; (b) U.S. agency securities which carry an implicit guarantee of the full faith and credit of the U.S. government; (c) money market mutual funds which participates in investments, either directly or indirectly, in securities issued by the U.S. treasury and/or agency and repurchase agreements relating to such securities; and (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, 2014, the carrying amount of all University deposits with the OST and other financial institutions was \$21,272,277. This amount consisted of deposits with the OST (\$21,207,899), deposits with financial institutions (\$31,899), and change funds (\$32,479). Of funds on deposit with the OST, amounts invested in *OK INVEST* total \$9,607,120 in 2014 (market value of \$9,723,044). The differences between the bank balance of deposits and the related carrying amounts were generally not significant and are due to outstanding checks and deposits in transit.

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

<u>OK INVEST Portfolio</u>	<u>Cost</u>	<u>Market Value</u>
U.S. Agency securities	\$ 4,407,777	\$ 4,399,207
Certificates of deposit	249,386	463,849
End of day commercial paper sweep	202,172	202,172
Money market mutual funds	463,849	249,386
Mortgage backed agency securities	3,946,695	4,028,132
Municipal Bonds	147,390	163,233
Foreign bonds	75,473	75,473
U.S. treasury obligations	114,378	141,592
TOTAL	<u>\$ 9,607,120</u>	<u>\$ 9,723,044</u>

NOTES TO FINANCIAL STATEMENTS--Continued

SOUTHWESTERN OKLAHOMA STATE UNIVERSITY

June 30, 2014

NOTE B--DEPOSITS AND INVESTMENTS--Continued

Deposits--Continued: Agencies and funds that are considered to be part of the State's reporting entity in the State's Comprehensive Annual Financial Report are allowed to participate in OK INVEST. Oklahoma statutes and the 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.

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

NOTES TO FINANCIAL STATEMENTS--Continued

SOUTHWESTERN OKLAHOMA STATE UNIVERSITY

June 30, 2014

NOTE B--DEPOSITS AND INVESTMENTS--Continued

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

Interest rate risk is the risk that changes in interest rates will adversely affect the fair value of an investment. Investments that are held for longer periods of time are subject to increased risk of adverse interest changes. Neither the University nor state statutes limit investment maturities as a means of managing exposure to fair value losses arising from increasing interest rates; however, the OST Investment policy limits the average maturity on its portfolio to four (4) years, with certain individual securities having more restrictive limits as defined in the policy. *Concentration of credit risk* is the risk of loss attributed to the magnitude of the University's investment in a single issuer. Neither the University's investment policy nor state statutes place limits on amounts that can be invested in any one issuer; however, the OST Investment Policy states that, with the exception of U.S. Treasury securities, no more than 50% of the State's total funds may be invested in a single security type or with a single financial institution, with diversification percentages being more restrictive on individual securities. *Custodial credit risk* for investments is the risk that, in the event of failure of the counterparty, the University will not be able to recover the value of its investments or collateral securities in the possession of an outside party. As of June 30, 2014, none of the University's investments were subject to custodial credit risk.

Investments held by others: At June 30, 2014, the University had investments held by others totaling \$2,192,869. The investments included investments related to the Oklahoma Development Finance Authority (ODFA) Lease program totaling \$1,968,506 at June 30, 2014. These funds had a fair market value of \$1,968,506 at June 30, 2014. 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 \$224,363 at June 30, 2014.

NOTES TO FINANCIAL STATEMENTS--Continued

SOUTHWESTERN OKLAHOMA STATE UNIVERSITY

June 30, 2014

NOTE B--DEPOSITS AND INVESTMENTS--Continued

Bond fund cash and investments: Certain non-pooled cash and investments are restricted in purpose by policies incorporated in applicable bond indentures. *Credit risk* policy generally restricts investing to cash, investments fully insured by the FDIC, and U.S. government and agency securities or mutual funds investing in these types of securities. There may be some variance among the investments authorized by the specific bond indentures of University bond issues. The OST and/or a trustee bank generally provide the management of restricted, non-pooled investments. *Custodial credit risk* is not addressed by bond indentures. *Interest rate risk* in bond indentures 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, 2014:

Student tuition and fees	\$ 1,679,093
Auxiliary enterprises and other operating activities	1,263,633
Federal, state, and private grants and contracts	<u>466,451</u>
	3,409,177
Less: allowance for doubtful accounts	<u>(1,544,954)</u>
NET ACCOUNTS RECEIVABLE	<u>\$ 1,864,223</u>

NOTE D--NOTES RECEIVABLE

The loans receivable balance at June 30, 2014, consists entirely 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, 2014, loans receivable consisted of the following:

Loans receivable	\$ 331,776
Less: allowance for uncollectible loans	<u>(189,354)</u>
NET LOANS RECEIVABLE	<u>\$ 142,422</u>

NOTES TO FINANCIAL STATEMENTS--Continued

SOUTHWESTERN OKLAHOMA STATE UNIVERSITY

June 30, 2014

NOTE E--CAPITAL ASSETS

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

	June 30, 2013	Additions	Transfers	Retirements	June 30, 2014
Capital assets not being depreciated					
Land	\$ 1,090,452	\$ 121,000	\$ -	\$ 121,924	\$ 1,089,528
Construction in progress	20,497,140	5,043,061	(24,991,622)	-	548,579
TOTAL ASSETS NOT BEING DEPRECIATED	<u>\$ 21,587,592</u>	<u>\$ 5,164,061</u>	<u>\$ (24,991,622)</u>	<u>\$ 121,924</u>	<u>\$ 1,638,107</u>
Other capital assets					
Non-major infrastructure networks	\$ 1,569,751	\$ 68,454	\$ -	\$ -	\$ 1,638,205
Land improvements	1,728,947	-	-	-	1,728,947
Buildings	71,393,684	673,673	24,991,622	-	97,058,979
Furniture, fixtures, and equipment	13,762,252	650,891	-	221,894	14,191,249
Library materials	16,119,854	679,265	-	272,912	16,526,207
TOTAL OTHER CAPITAL ASSETS	104,574,488	2,072,283	24,991,622	494,806	131,143,587
Less: accumulated depreciation for:					
Non-major infrastructure networks	(861,111)	(40,860)	-	-	(901,971)
Land improvements	(1,116,153)	(80,757)	-	-	(1,196,910)
Buildings	(30,097,920)	(1,963,418)	-	-	(32,061,338)
Furniture, fixtures, and equipment	(11,363,958)	(883,806)	-	(221,894)	(12,025,870)
Library materials	(14,557,641)	(636,059)	-	(272,912)	(14,920,788)
TOTAL ACCUMULATED DEPRECIATION	<u>(57,996,783)</u>	<u>(3,604,900)</u>	<u>-</u>	<u>(494,806)</u>	<u>(61,106,877)</u>
OTHER CAPITAL ASSETS, NET	<u>\$ 46,577,705</u>	<u>\$ (1,532,617)</u>	<u>\$ 24,991,622</u>	<u>\$ -</u>	<u>\$ 70,036,710</u>
Capital assets summary:					
Capital assets not being depreciated	\$ 21,587,592	\$ 5,164,061	\$ (24,991,622)	\$ 121,924	\$ 1,638,107
Other capital assets, at cost	104,574,488	2,072,283	24,991,622	494,806	131,143,587
TOTAL COST OF CAPITAL ASSETS	126,162,080	7,236,344	-	616,730	132,781,694
Less: accumulated depreciation	(57,996,783)	(3,604,900)	-	(494,806)	(61,106,877)
CAPITAL ASSETS, NET	<u>\$ 68,165,297</u>	<u>\$ 3,631,444</u>	<u>\$ -</u>	<u>\$ 121,924</u>	<u>\$ 71,674,817</u>

At June 30, 2014, the cost and related accumulated depreciation of assets held under capital lease obligations were \$36,953,484 and \$5,519,822, 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.

NOTES TO FINANCIAL STATEMENTS--Continued

SOUTHWESTERN OKLAHOMA STATE UNIVERSITY

June 30, 2014

NOTE F--LONG-TERM LIABILITIES

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

	Balance <u>June 30, 2013</u>	<u>Additions</u>	<u>Reductions</u>	Balance <u>June 30, 2014</u>	Amounts due <u>within one year</u>
Bonds and Capital Leases					
OCIA lease obligations	\$ 11,641,988	\$ 5,939,437	\$ (6,666,184)	\$ 10,915,241	\$ 918,687
ODFA master lease obligations	13,796,751	6,582,000	(1,220,320)	19,158,431	1,554,704
Premium on lease obligations	276,556	-	(14,566)	261,990	-
Revenue bonds payable	<u>5,120,000</u>	<u>-</u>	<u>(5,120,000)</u>	<u>-</u>	<u>-</u>
TOTAL BONDS AND CAPITAL LEASES	<u>30,835,295</u>	<u>12,521,437</u>	<u>(13,021,070)</u>	<u>30,335,662</u>	<u>2,473,391</u>
Other liabilities					
Unearned revenue or long-term contracts	459,000	60,000	(103,500)	415,500	94,500
Accrued compensated absences	<u>1,489,095</u>	<u>951,263</u>	<u>(878,713)</u>	<u>1,561,645</u>	<u>963,595</u>
TOTAL OTHER LIABILITIES	<u>1,948,095</u>	<u>1,011,263</u>	<u>(982,213)</u>	<u>1,977,145</u>	<u>1,058,095</u>
TOTAL LONG-TERM LIABILITIES	<u>\$ 32,783,390</u>	<u>\$ 13,532,700</u>	<u>\$ (14,003,283)</u>	<u>\$ 32,312,807</u>	<u>\$ 3,531,486</u>

Unearned Revenue or Long-term Contract:

The unearned revenue from long-term contracts in the amount of \$415,500 is sponsorship contracts for artificial football turn and for the Pioneer Cellular Event Center scoreboard. Revenue is recognized over the life of the sponsorship contracts of up to ten years.

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, 2014, the outstanding balance of the 2000 Series A, B, and C lease obligations was \$81,470.

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.

NOTES TO FINANCIAL STATEMENTS--Continued

SOUTHWESTERN OKLAHOMA STATE UNIVERSITY

June 30, 2014

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, 2014, the outstanding balance of this capital lease obligation was \$7,092,017.

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 cost that will be amortized over a period of six years.

During the years ended June 30, 2014, amortization of the deferred charge was \$107,654. As of June 30, 2014, the unamortized balance totaled \$215,307. 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.

In April, 2014, the University's 2005F lease agreement with the OCIA was restructured through a partial refunding of OCIA's 2005F bond debt; OCIA issued one new bond, Series 2014A. OCIA issued this new debt to reduce the interest paid on this bond. The University has recorded a deferred inflow of \$329,586 which will be amortized over the life of the bond. As of June 30, 2014, the unamortized cost totaled \$324,542.

During the years ended June 30, 2014, the State of Oklahoma made lease principal and interest payments to OCIA totaling \$957,665 on behalf of the University. These on-behalf payments have been recorded as restricted state appropriations in the statements of revenues, expenses, and changes in net position.

NOTES TO FINANCIAL STATEMENTS--Continued

SOUTHWESTERN OKLAHOMA STATE UNIVERSITY

June 30, 2014

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. This lease obligation was paid in full during fiscal 2014.

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, 2014, is \$489,165.

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 \$1,492,500 at June 30, 2014.

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 \$1,555,503 at June 30, 2014.

NOTES TO FINANCIAL STATEMENTS--Continued

SOUTHWESTERN OKLAHOMA STATE UNIVERSITY

June 30, 2014

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 \$9,126,667 at June 30, 2014.

In December 2013, the ODFA issued its ODFA Master Lease Revenue Bonds, Series 2013B. Of the total bond indebtedness, the State Regents for Higher Education allocated \$4,610,000 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 May 15, 2024. The proceeds of the bonds and subsequent leases are to retire the Revenue Bond issued in 2004 to construct the Wellness Center. The remaining lease obligation payable pursuant to this capital lease obligation is \$4,532,750 at June 30, 2014.

In March, 2014, the ODFA issued its ODFA Master Lease Revenue Bonds, Series 2014C. Of the total bond indebtedness, the State Regents for Higher Education allocated \$1,972,000 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 May 15, 2034. 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 \$1,961,846 at June 30, 2014.

Investments held by others consist of the following funds under the ODFA program at June 30, 2014:

Acquisition fund	\$ 2,192,869
TOTAL ASSETS HELD BY OTHERS	<u>\$ 2,192,869</u>

Funds in the acquisition fund are restricted for the project being funded.

NOTES TO FINANCIAL STATEMENTS--Continued

SOUTHWESTERN OKLAHOMA STATE UNIVERSITY

June 30, 2014

NOTE F--LONG-TERM LIABILITIES--Continued

Capital Lease Obligations--Continued:

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

	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
Year Ending June 30:			
2015	\$ 2,473,391	\$ 957,254	\$ 3,430,645
2016	3,069,172	1,169,345	4,238,517
2017	2,256,644	1,047,713	3,304,357
2018	2,765,878	954,718	3,720,596
2019	2,851,129	845,170	3,696,299
2020-2024	8,534,262	3,050,116	11,584,378
2025-2029	6,398,308	1,366,979	7,765,287
2030-2034	1,724,888	133,368	1,858,256
	<u>\$ 30,073,672</u>	<u>\$ 9,524,663</u>	<u>\$ 39,598,335</u>

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.

This revenue bond was paid in full in December 2013 when ODFA issued its ODFA Master Lease Revenue Bonds, Series 2013B as discussed previously.

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.

NOTES TO FINANCIAL STATEMENTS--Continued

SOUTHWESTERN OKLAHOMA STATE UNIVERSITY

June 30, 2014

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 2014, 2013, and 2012. 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 2014, 2013, and 2012. 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, 2014, 2013 and 2012, were \$2,325,089, \$2,268,167 and \$2,323,420 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 2014, 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, 2014, the total amounts contributed to the OTRS by the State of Oklahoma on behalf of the University were \$2,415,473. These on-behalf payments have been recorded as both revenues and expenses in the statements of revenues, expenses, and changes in net position.

NOTES TO FINANCIAL STATEMENTS--Continued

SOUTHWESTERN OKLAHOMA STATE UNIVERSITY

June 30, 2014

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, 2014, and 2013.

Supplemental Retirement Annuity (SRA)

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

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

Annual Cost and Net Pension Obligation (Asset): Actuarial valuations are required every other year; therefore there is no valuation for 2014. 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	(256,249)
Adjustment to annual required contribution	<u>315,271</u>
Annual pension cost	310,000
Contribution made	<u>(60,000)</u>
Increase in net pension obligation	250,000
Net pension obligation (asset) at beginning of year	<u>(2,836,764)</u>
Net pension obligation (asset) at end of year	<u>\$ (2,586,764)</u>

The annual required contribution for 2014 was determined as part of an actuarial valuation on June 30, 2013, using the projected unit credit actuarial cost method. The actuarial assumptions included (a) a discount rate of 6.5% per year to determine the present value of future benefit payments, (b) retirement age 63, (c) an 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.

NOTES TO FINANCIAL STATEMENTS--Continued

SOUTHWESTERN OKLAHOMA STATE UNIVERSITY

June 30, 2014

NOTE G--RETIREMENT PLANS--Continued

Supplemental Retirement Annuity (SRA)--Continued

Trend Information:

<u>Year Ended</u> <u>June 30</u>	<u>Annual Pension</u> <u>Cost (APC)</u>	<u>Percentage of APC</u> <u>Contributed</u>	<u>Net Pension</u> <u>Obligation (Asset)</u>
2014	\$ 310,000	19.3%	\$ (2,586,764)
2013	\$ 318,618	18.8%	\$ (2,836,764)
2012	\$ 322,394	7.8%	\$ (3,095,382)

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	<u>3,833,007</u>
Unfunded actuarial accrued liability (UAAL)	<u>\$ 4,439,877</u>
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%

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, 2014, the University's contributions for retired employees' health insurance premiums totaled approximately \$209,511, and life insurance premiums totaled approximately \$7,400.

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

NOTES TO FINANCIAL STATEMENTS--Continued

SOUTHWESTERN OKLAHOMA STATE UNIVERSITY

June 30, 2014

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

Postemployment Healthcare Plan--continued

Plan Description--continued: preceding the date of retirement, been a member of the Oklahoma Teachers' Retirement System during that time, and elected to receive a vested benefit under the provision of the Oklahoma Teachers' Retirement System. As of June 30, 2014, there were approximately 450 active 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, 2014, the ARC is \$392,395 and represents 1.2% of covered payroll.

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

Annual required contribution	\$ 392,395
Interest on net OPEB obligation	14,241
Adjustment to annual required contribution	<u>(16,395)</u>
Annual OPEB cost	390,241
Contribution made	<u>(359,334)</u>
Increase (decrease) in net OPEB obligation	30,907
Net OPEB obligation (asset) at beginning of year	<u>(128,475)</u>
Net OPEB obligation (asset) at end of year	<u><u>\$ (97,568)</u></u>

NOTES TO FINANCIAL STATEMENTS--Continued

SOUTHWESTERN OKLAHOMA STATE UNIVERSITY

June 30, 2014

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:

<u>Ended</u>	<u>OPEB Cost</u>	<u>Contributed</u>	<u>Obligation (Asset)</u>
2014	\$ 390,241	92%	\$ (97,568)
2013	\$ 341,692	95%	\$ (128,474)
2012	\$ 333,540	101%	\$ (146,252)

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

Actuarial accrued liability (AAL)	\$ 4,503,532
Actuarial value of plan assets	<u>1,821,946</u>
Unfunded actuarial accrued liability (UAAL)	<u>\$ 2,681,586</u>
Funded ratio (actuarial value of plan assets/AAL)	40.5%
Covered payroll (active plan members)	\$ 32,492,756
UAAL as a percentage of covered payroll	8.3%

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, 2014, 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 2.5%.

NOTES TO FINANCIAL STATEMENTS--Continued

SOUTHWESTERN OKLAHOMA STATE UNIVERSITY

June 30, 2014

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 \$1,004,850 during the year ended June 30, 2014, which is restricted to the construction or acquisition of buildings, equipment, or other capital items. This amount is recorded as 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 \$19,446,719 at June 30, 2014.

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 \$3,829,849 at June 30, 2014, 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 \$472,000 at June 30, 2014, have been reflected as assets in the statements of net position. With regards to institutional funds, investments totaling \$224,363 at June 30, 2014, are included in the financial statements of the University.

NOTE J--COMMITMENTS AND CONTINGENCIES

The University conducts certain programs pursuant to various grants and contracts that are subject to audit by federal and state agencies. 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.

NOTES TO FINANCIAL STATEMENTS--Continued

SOUTHWESTERN OKLAHOMA STATE UNIVERSITY

June 30, 2014

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 the State Insurance Fund, public entity risk pools currently operating as a common risk management and insurance program for its members. The University pays annual premiums to the pools for tort, property, and liability insurance coverage.

The 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 the State Insurance Fund. CALM is a political subdivision of the State of Oklahoma and is governed by a board of trustees elected from members of the participating colleges and universities.

NOTE L--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, 2015.

NOTES TO FINANCIAL STATEMENTS--Continued

SOUTHWESTERN OKLAHOMA STATE UNIVERSITY

June 30, 2014

NOTE M--ACCOUNTING STANDARDS ISSUED

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

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

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

The government is required to report the guaranteed obligation until it is legally released as an obligor, and when it is legally released, it should recognize revenue as a result of this release. The provisions of this Statement are effective for reporting periods beginning after June 15, 2013. Earlier application is encouraged.

Except for certain disclosure requirements which may be applied prospectively, the provisions of this Statement are required to be applied retroactively. The University did not have any transactions affected by this pronouncement.

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

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

GASB No. 68 establishes standards for measuring and recognizing liabilities, deferred outflows of resources, deferred inflows of resources, and pension expenses. GASB No. 68 also details the recognition and disclosure requirements for employers with liabilities to a defined benefit pension plan and for employers whose employees are provided with defined contribution pensions. Defined benefit pensions are further classified by GASB No. 68 as single employer plans, agent employer plans and cost-sharing plans, and recognition and disclosure requirements are addressed for each classification. GASB No. 68 was issued in June 2012, and the University has not yet 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. This statement has an effective date of June 30, 2015.

NOTES TO FINANCIAL STATEMENTS--Continued

SOUTHWESTERN OKLAHOMA STATE UNIVERSITY

June 30, 2014

NOTE M--ACCOUNTING STANDARDS ISSUED – continued

New Accounting Pronouncements Issued Not Yet Adopted--Continued

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

GASB No. 69 was issued in January 2013 and establishes accounting and financial reporting standards related to government combinations and disposals of government operations. Government combinations can include a variety of transactions, including mergers, acquisitions, and transfers of operations. A disposal of a government's operations results in the removal of specific activities of a government. The requirements of this Statement are effective for government combinations and disposals of government operations occurring in financial reporting periods beginning after December 15, 2013, and should be applied on a prospective basis. Earlier application is encouraged. This statement has an effective date of June 30, 2015.

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

GASB No. 71 addresses an issue regarding application of the transition provisions of Statement No. 68, *Accounting and Financial Reporting for Pensions*. The issue relates to the issue relates to amounts associated with contributions, if any, made by a state or local government employer or nonemployer contributing entity to a defined benefit pension plan after the measurement date of the government's beginning net pension liability. The College has not yet determined the impact that implementation of GASB No. 71 will have on its net position. This statement has an effective date of June 30, 2015

NOTES TO FINANCIAL STATEMENTS--Continued

SOUTHWESTERN OKLAHOMA STATE UNIVERSITY

June 30, 2014

NOTE N - DISCRETE COMPONENT UNITS

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

Organization

Southwestern Oklahoma State University Foundation, Inc. (the "Foundation") is organized for the benefit of Southwestern Oklahoma State University (the "University"), Weatherford, Oklahoma, branch campus in Sayre, Oklahoma, its faculty, its student body, and its programs. The Foundation provides scholarships and support and enhances the further development of the University. The Foundation receives contributions from the public which are generally to be used for the benefit of the University. The Foundation also receives certain program service revenues which support the various departmental activities at the University.

Although the University does not control the timing or amount of receipts from the Foundation, the majority of the Foundation's resources and related income are restricted by donors for the benefit of the University. Because these restricted resources held by the Foundation can only be used by, or for the benefit of, the University, the Foundation is considered a component unit of the University and is discretely presented in the University's financial statements.

Accounting Standards Codification

The Foundation follows the Financial Accounting Standards Board ("FASB") Accounting Standards Codification ("ASC"). The ASC provides the single source of authoritative accounting principles generally accepted in the United States of America ("U.S. GAAP") for nongovernmental entities and supersedes all other previously issued non-SEC accounting and reporting guidance.

Summary of Significant Accounting Policies

The Foundations financial statements have been prepared on the accrual basis of accounting in accordance with U.S. GAAP.

Net Position Classifications

Net assets, revenues, and gains and losses are classified based on the existence or absence of donor-imposed restrictions. The Foundation is required to report information regarding its financial position and activities according to three classes of net assets as follows:

Unrestricted net assets: Net assets for which there are no donor-imposed restrictions that the assets be used for a specific purpose or held for a certain period of time.

NOTES TO FINANCIAL STATEMENTS--Continued

SOUTHWESTERN OKLAHOMA STATE UNIVERSITY

June 30, 2014

NOTE N -DISCRETE COMPONENT UNITS – Continued

Southwestern Oklahoma State University Foundation, Inc. – Continued

Summary of Significant Accounting Policies--Continued

Temporarily restricted net assets: Net assets subject to donor-imposed stipulations that may or will be met, either by actions of the Foundation and/or the passage of time. When a restriction expires, temporarily restricted net assets are reclassified to unrestricted net assets and reported in the statements of activities as net assets released from restrictions.

Permanently restricted net assets: Net assets subject to donor-imposed stipulations that they be maintained permanently by the Foundation.

Beneficial Interest in Perpetual Trust - The Foundation is the beneficiary of a perpetual trust which is not in the possession of the Foundation. The Foundation has an irrevocable right to a portion of the net income from the trust. The Foundation's interest in the trust is recorded at fair value of the estimated future cash flows which is measured using the fair value of the underlying trust assets adjusted for the Foundation's beneficial interest percentage of the total trust. Under the terms of the trust agreement the trust generally distributes 50% of the annual income to the beneficiaries and the other 50% is reinvested and added to the trust's corpus. The beneficial interest is classified as permanently restricted net assets and distributions are classified as temporarily restricted investment income from perpetual trust in accordance with the donor's purpose restriction. Changes in the fair market value of the beneficial interest are recorded as permanently restricted gain or loss on beneficial interest in perpetual trust in the statement of activities.

Contributions - Contributions, including unconditional promises to give, are recognized as revenues in the period received by the Foundation. Conditional promises to give are not recognized until the conditions on which they depend are substantially met. Transfers of assets under conditional promises, which are received by the Foundation prior to fulfilling these conditions, are recorded as a liability (i.e. unearned revenue) until the conditions are substantially met. Contributions of assets other than cash are recorded at the estimated fair value on the gift date. Contributions to be received after one year are recorded at the present value of their estimated future cash flows using a discount rate which will commensurate with the risks involved. Amortization of the discount is recorded as additional contribution revenue in the same net asset class and fund as the original contribution. An allowance is made for uncollectable contributions based upon management's judgment and analysis of the creditworthiness of the donors, past collection experience, and other relevant factors.

NOTES TO FINANCIAL STATEMENTS--Continued

SOUTHWESTERN OKLAHOMA STATE UNIVERSITY

June 30, 2014

NOTE N -DISCRETE COMPONENT UNITS – Continued

Southwestern Oklahoma State University Foundation, Inc. – Continued

Summary of Significant Accounting Policies--Continued

Investments - Investments consist of cash and cash equivalent funds, certificates of deposit, mutual funds, common and preferred stock, structured investments in unsecured notes, an annuity contract, and an investment in private equity real estate. Investments are stated at fair value as determined by the fund and/or investment manager and realized gains and losses on sales of investments are computed on the first-in, first-out basis or the average cost basis.

Marketable Securities - Marketable securities are stated at fair value. Fair values are generally determined based upon quoted market prices. Realized gains and losses on sales of marketable securities are computed on the first-in, first-out basis.

The Foundation utilizes various investment instruments. Marketable securities, in general, are exposed to various risks, such as interest rate, credit, and overall market volatility. Due to the level of risk associated with certain investment securities, it is reasonably possible that changes in the values of marketable securities will occur in the near term and that such changes could materially affect the amounts reported in the statements of financial position. Significant fluctuations in fair values could occur from year to year and the amounts the Foundation will ultimately realize could differ materially.

Income Taxes - The Foundation is exempt from federal income tax under Section 501(c)(3) of the Internal Revenue Code and is classified by the Internal Revenue Service as other than a private foundation. Generally, all revenue earned outside the purpose for which the Foundation is created is taxable as earned income.

Property and Equipment - It is the Foundation's policy to capitalize property and equipment additions with a cost basis, or fair value on the gift date if donated, which exceed \$5,000. Property and equipment is depreciated using the straight-line methods as follows:

Office equipment	10 years
Buildings	44 years
Software	5 years

NOTES TO FINANCIAL STATEMENTS--Continued

SOUTHWESTERN OKLAHOMA STATE UNIVERSITY

June 30, 2014

NOTE N -DISCRETE COMPONENT UNITS--Continued

Southwestern Oklahoma State University Foundation, Inc. - Continued

Summary of Significant Accounting Policies--Continued

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 quotes 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 measure.

NOTES TO FINANCIAL STATEMENTS--Continued

SOUTHWESTERN OKLAHOMA STATE UNIVERSITY

June 30, 2014

NOTE N -DISCRETE COMPONENT UNITS – Continued

Southwestern Oklahoma State University Foundation, Inc. – Continued

Summary of Significant Accounting Policies--Continued

Accounting for Uncertain Tax Positions - Management has evaluated the Foundation's tax positions and concluded that the Foundation has taken no uncertain tax positions that required adjustment or disclosure in the financial statements to comply with the provisions of this guidance. With few exceptions, the Foundation is no longer subject to income tax examinations by the U.S. federal, state or local tax authorities for years ending on or before December 31, 2008.

Concentrations of Credit Risk - The Foundation maintains cash in bank deposit accounts that, at times, may exceed federally insured limits. The Foundation has not experienced any losses in such accounts and believes that it is not exposed to any significant credit risk on cash or cash equivalents.

Management Estimates - The preparation of financial statements in conformity with accounting principles generally accepted in the United State of America requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosed contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

Estimates that are particularly susceptible to significant change include the valuation of investments, beneficial interest in perpetual trust, and contributions receivable. Investments and beneficial interest in perpetual trust are exposed to various risks, such as interest rate, credit, and overall market volatility. Due to the level of risk associated with these financial instruments, it is reasonable possible that changes in the values of these assets will occur in the near term and that such changes could materially affect the amounts reported in the statement of financial position. Significant fluctuations in fair values could occur from year to year and the amounts the Foundation will ultimately realize could differ materially. Management's estimate of contributions receivable and the related allowance for doubtful accounts is based on considerations of all relevant available information and an analysis of the collectability of individual contributions, which arise primarily from pledges at the financial statement date.

NOTES TO FINANCIAL STATEMENTS--Continued

SOUTHWESTERN OKLAHOMA STATE UNIVERSITY

June 30, 2014

NOTE N -DISCRETE COMPONENT UNITS – Continued

Southwestern Oklahoma State University Foundation, Inc. – Continued

Fair Value Measurements

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: The Foundation is the beneficiary of a number of life insurance policies. The carrying value of the life insurance policies is the cash surrender value on the policies and as such approximates fair value.

Accounts receivable: Accounts receivable are carried *at* cost due to its short maturity (less than one year).

Note receivable from related party: The balance of the note was paid in full in February 2013. For 2012, the note was carried at cost and fair value was 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 was not materially different than its carrying value.

Assets held for sale: The Foundation sold the donated property in February 2013. For 2012, the property held for sale was carried at fair value. The fair value was determined using the income approach and was based on the expected future cash flows from sale of the property in an open market.

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 equivalents 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.

NOTES TO FINANCIAL STATEMENTS--Continued

SOUTHWESTERN OKLAHOMA STATE UNIVERSITY

June 30, 2014

NOTE N -DISCRETE COMPONENT UNITS – Continued

Southwestern Oklahoma State University Foundation, Inc. - Continued

Fair Value Measurements - 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.

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.

NOTES TO FINANCIAL STATEMENTS--Continued

SOUTHWESTERN OKLAHOMA STATE UNIVERSITY

June 30, 2014

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:

	<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>	<u>Total</u>
Assets				
<i>Assets recorded at fair value on a recurring basis</i>				
Investments:				
Cash and cash equivalents	\$ 1,127,214	\$ -	\$ -	\$ 1,127,214
Certificates of deposits	-	738	-	738
Common and preferred stock	1,646,217	-	-	1,646,217
Equity mutual funds	7,519,682	-	-	7,519,682
Fixed income mutual funds	2,467,895	-	-	2,467,895
Index Funds	882,413	-	-	882,413
Annuity Contract	-	-	233,596	233,596
Pooled funds	-	589,904	-	589,904
Interest in limited liability company	-	-	323,381	323,381
Structured Investments-unsecured notes	-	2,181,119	124,162	2,305,281
Total Investments	<u>\$ 13,643,421</u>	<u>\$ 2,771,761</u>	<u>\$ 681,139</u>	<u>\$ 17,096,321</u>
Beneficial interest in perpetual trust	-	-	1,169,080	1,169,080
<i>Assets recorded at fair value on a non-recurring basis</i>				
Assets held for sale	-	-	-	-
Total assets carried at fair value	13,643,421	2,771,761	1,850,219	18,265,401
Liabilities				
Funds held for others	\$ -	\$ 178,393	\$ -	\$ 178,393
	<u>\$ -</u>	<u>\$ 178,393</u>	<u>\$ -</u>	<u>\$ 178,393</u>

NOTES TO FINANCIAL STATEMENTS--Continued

SOUTHWESTERN OKLAHOMA STATE UNIVERSITY

June 30, 2014

NOTE N -DISCRETE COMPONENT UNITS – Continued

Southwestern Oklahoma State University Foundation, Inc. - Continued

Fair Value Measurements - Continued

The following table summarizes the changes in fair value of the Foundation’s Level 3 financial assets.

Assets	<u>Beneficial Interest in Perpetual Trust</u>	<u>Annuity Contract</u>	<u>Structured Investments</u>	<u>Assets Held for Sale</u>
Balance at December 31, 2012	\$ 1,233,100	\$ 190,398	\$ 442,555	\$ 40,000
Sales proceeds of investments	-	-	(344,600)	(40,000)
Loss on beneficial interest in perpetual trust				
-included in earnings	(64,020)	-	-	-
Realized (gain)/loss on investments				
-included in earnings	-	-	44,600	-
Unrealized gain/(loss) on investments				
-included in earnings	-	43,198	(18,393)	-
Balance at December 31, 2013	<u>\$ 1,169,080</u>	<u>\$ 233,596</u>	<u>\$ 124,162</u>	<u>\$ -</u>

Land, Building, and Equipment

Property and equipment consist of the following at December 31, 2013:

Land	\$ 120,000
Buildings	729,549
Leasehold improvements	32,720
Office equipment	11,185
Software	95,136
	<u>988,590</u>
Less accumulated depreciation	<u>(283,128)</u>
	<u>\$ 705,462</u>

NOTES TO FINANCIAL STATEMENTS--Continued

SOUTHWESTERN OKLAHOMA STATE UNIVERSITY

June 30, 2014

NOTE N-DISCRETE COMPONENT UNITS – Continued

Southwestern Oklahoma State University Foundation, Inc. – Continued

Related Party Transactions

Substantially all expenditures are incurred for the benefit of the University. University management and faculty are very much involved in the operations of the Foundation and are considered related parties. Accounts payable of \$367,912 at December 31, 2013 reflect amounts to be paid to the University. Included in this amount is a demand note payable of \$14,680 at December 31, 2013 to be paid to the University in annual increments of \$10,000 related to the University's purchase of a baseball scoreboard.

Rental Property: The Foundation acquired property and completed construction of a building during 2003. The Foundation has a lease agreement with the University to lease the property for a one year term expiring on June 30, 2014. The lease provides for annual rental payments of \$70,000 payable in monthly installments of \$5,833. The Foundation is to provide for any significant repairs and maintenance. The University is to provide for all utilities, services and other operating costs including general repair and maintenance. Terms and conditions of the lease are to be reviewed annually. At December 31, 2013, the University is committed to pay rentals, which total \$35,000 through June 30, 2014.

Note Receivable: In April 2010, the Foundation entered into an agreement with the University whereby the Foundation would purchase and transfer ownership of certain athletic facility upgrades to the University. In return the University agreed to make annual payments of \$25,000 by December 31 of each year, for ten years to the Foundation and assign field sponsorship revenues to the Foundation until the combined total of the annual payments and sponsorship revenues equals the Foundation's investment and accrued interest charges. In February 2013, the note was repaid in full by the University. The note had carried an interest rate of 2.5% calculated annually on the average outstanding balance. At December 31, 2013 and 2012, the principal balance on the note receivable is \$0 and \$406,766, respectively, and accrued interest receivable is \$0 and \$0, respectively. The Foundation recognized interest income of \$1,453 in 2013 and \$10,879 in 2012 which is included in interest and dividend income in the statements of activities.

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

NOTES TO FINANCIAL STATEMENTS--Continued

SOUTHWESTERN OKLAHOMA STATE UNIVERSITY

June 30, 2014

NOTE N -DISCRETE COMPONENT UNITS– Continued

Southwestern Oklahoma State University Foundation, Inc. - Continued

Endowment Disclosures - Continued

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;
- The investment policies of the Foundation.

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

NOTES TO FINANCIAL STATEMENTS--Continued

SOUTHWESTERN OKLAHOMA STATE UNIVERSITY

June 30, 2014

NOTE N -DISCRETE COMPONENT UNITS – Continued

Southwestern Oklahoma State University Foundation, Inc. - Continued

Endowment Disclosures - Continued

Return Objectives and Risk Parameters – Continued

relative rate of return of three percent over the inflation rate and to earn a real rate of return defined by the endowment 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 formally adopted a revised investment policy statement on October 25, 2013. The revised investment policy statement includes allocation guidelines for assets diversification ranges of (1) a minimum of 47% up to a maximum of 77% in equities, (2) a minimum of 10% up to a maximum of 40% in fixed income,(3) a minimum of 0% up to a maximum of 10% in cash and cash equivalents, and (4) a minimum of 0% up to a maximum of 26% of alternative investments.

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 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-restrictions, 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.

NOTES TO FINANCIAL STATEMENTS--Continued

SOUTHWESTERN OKLAHOMA STATE UNIVERSITY

June 30, 2014

NOTE N -DISCRETE COMPONENT UNITS – Continued

Southwestern Oklahoma State University Foundation, Inc. - Continued

Endowment Disclosures - Continued

Endowment net assets composition as of December 31, 2013 is as follows:

	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Permanently Restricted</u>	<u>Total</u>
Donor-restricted endowment funds	\$ (511,640)	\$ 3,747,308	\$ 13,496,188	\$ 16,731,856
Board-designated endowment funds	<u>1,534,541</u>	<u>-</u>	<u>-</u>	<u>1,534,541</u>
Total endowment funds	<u>\$ 1,022,901</u>	<u>\$ 3,747,308</u>	<u>\$ 13,496,188</u>	<u>\$ 18,266,397</u>

Changes in endowment net assets during 2013 are as follows:

	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Permanently Restricted</u>	<u>Total</u>
Endowment net assets, beginning of year	\$ 769,439	\$ 2,065,919	\$ 12,468,387	\$ 15,303,745
Investment return:				
Interest and dividends	18,272	175,458	15,377	209,107
Net realized and unrealized gains (losses)	<u>226,214</u>	<u>1,635,778</u>	<u>376,819</u>	<u>2,238,811</u>
Total investment returns	244,486	1,811,236	392,196	2,447,918
Contributions	320	24,381	634,063	658,764
Provision for losses on uncollectible pledge	-	-	-	-
Other income	19,159	2,512	42	21,713
Reclassification - donor directed	10	5,562	1,500	7,072
Appropriation of endowment assets for expr	<u>(10,513)</u>	<u>(162,302)</u>	<u>-</u>	<u>(172,815)</u>
Endowment net assets, end of year	<u>\$ 1,022,901</u>	<u>\$ 3,747,308</u>	<u>\$ 13,496,188</u>	<u>\$ 18,266,397</u>

NOTES TO FINANCIAL STATEMENTS--Continued

SOUTHWESTERN OKLAHOMA STATE UNIVERSITY

June 30, 2014

NOTE N -DISCRETE COMPONENT UNITS– Continued

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

Organization

Southwestern Pharmacy Alumni Foundation, Inc. (Foundation), was formed in November, 1974 to provide support for the School of Pharmacy at Southwestern Oklahoma State University (University); to give scholarships and make loans available to pharmacy students; and to provide research grants to faculty and students.

The organization is supported primarily by contributions from the general public, proceeds from sponsoring continuing education courses, and income earned from invested funds.

The Foundation prepares its financial statements in accordance with accounting principles generally accepted in the United States of America.

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 earning 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 years ended December 31, 2013 and 2012 were 5.0% and 2.5% respectively.

NOTES TO FINANCIAL STATEMENTS--Continued

SOUTHWESTERN OKLAHOMA STATE UNIVERSITY

June 30, 2014

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:

	<u>Cost</u>	<u>Unrealized Gain or Loss</u>	<u>Fair Value</u>
Mutual funds	\$ 2,718,928	\$ 192,072	\$ 2,911,000
Equities	369,497	41,985	411,482
Unit trust investment	278,273	5,311	283,584
Certificates of deposit - Local	1,235,000	-	1,235,000
	<u>\$ 4,601,698</u>	<u>\$ 239,368</u>	<u>\$ 4,841,066</u>

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, 2013. 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, 2013.

	<u>Less than 12 Months</u>		<u>12 Months or Longer</u>		<u>Total</u>	
	<u>Fair Value</u>	<u>Unrealized Losses</u>	<u>Fair Value</u>	<u>Unrealized Losses</u>	<u>Fair Value</u>	<u>Unrealized Losses</u>
Equities	<u>\$ 57,097</u>	<u>\$ (6,031)</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 57,097</u>	<u>\$ (6,031)</u>
Mutual Funds	<u>\$ 1,205,686</u>	<u>\$ (16,215)</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 1,205,686</u>	<u>\$ (16,213)</u>
Unit Trust	<u>\$ 159,692</u>	<u>\$ (305)</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 159,692</u>	<u>\$ (305)</u>

Included in investments are the permanently restricted assets as reflected in schedules 2 and 3 of the supplementary information.

NOTES TO FINANCIAL STATEMENTS--Continued

SOUTHWESTERN OKLAHOMA STATE UNIVERSITY

June 30, 2014

NOTE N -DISCRETE COMPONENT UNITS– Continued

Southwestern Pharmacy Alumni Foundation, Inc.--Continued

Fair Market Value Measurement

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 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.

Financial assets and liabilities carried at fair value on a recurring basis include common stocks (equities), mutual funds with equity related investment, 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

	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	\$ 1,705,314	\$ 1,705,314	\$ -	\$ -
Mutual funds - fixed income	1,205,686	1,205,686	-	-
Equity securities	411,482	411,482	-	-
Unit trust investment	283,584	-	283,584	-
Certificates of deposit - Local	1,235,000	-	-	1,235,000
	<u>\$4,841,066</u>	<u>\$ 3,322,482</u>	<u>\$ 283,584</u>	<u>\$ 1,235,000</u>

NOTES TO FINANCIAL STATEMENTS--Continued

SOUTHWESTERN OKLAHOMA STATE UNIVERSITY

June 30, 2014

NOTE N -DISCRETE COMPONENT UNITS – Continued

Southwestern Pharmacy Alumni Foundation, Inc.--Continued

Endowment

The Foundation's endowment consists of approximately 50 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, are classified and reported based on the existence or absence of donor-imposed restrictions.

The Foundations' 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:

1. Duration and preservation of the fund
2. Purposes of the Foundation and the fund
3. General economic conditions
4. Possible effect of inflation and deflation
5. Expected total return from investment income and appreciation or depreciation of investments
6. Other resources of the Foundation
7. Investment policies 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, 2014

SCHEDULE OF FUNDING PROGRESS FOR SUPPLEMENTARY RETIREMENT ANNUITY PLAN

Actuarial Valuation Date	Actuarial Value of Assets (a)	Actuarial Accrued Liability (AAL) (b)	Unfunded AAL (UAAL) (b-a)	Funded Ratio (a/b)	Covered Payroll (c)	UAAL as a percentage of Covered Payroll (b-a)/(c)
6/30/2007	\$ 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	13.8%	\$ 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%
6/30/2014	1,821,946	4,503,532	2,681,586	40.46%	32,492,756	8.3%

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

OTHER SUPPLEMENTARY
INFORMATION

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

SOUTHWESTERN OKLAHOMA STATE UNIVERSITY

December 31, 2013 (Fiscal Year End of Component Units)

	University Foundation	Pharmacy Foundation	Total
ASSETS			
Cash and cash equivalents	\$ 982,022	\$ 385,539	\$ 1,367,561
Pledges receivable	-	29,325	29,325
Interest receivable	-	4,518	4,518
Contributions receivable	45,289	-	45,289
Investments	17,096,321	4,841,066	21,937,387
Loans Receivable		2,240	2,240
Cash value, Life insurance	304,634	-	304,634
Beneficial interest in perpetual trust	1,169,080	-	1,169,080
Property and equipment	705,462	-	705,462
	<u>\$ 20,302,808</u>	<u>\$ 5,262,688</u>	<u>\$ 25,565,496</u>
LIABILITIES			
Accounts payable	\$ 24,035	\$ -	\$ 24,035
Payable to related party	367,912	-	367,912
Funds held for others	178,393	-	178,393
	<u>570,340</u>	<u>-</u>	<u>570,340</u>
NET POSITION			
Unrestricted			
Board designated endowment			
Specific purposes	655,106	-	655,106
General	879,434	-	879,434
Undesignated	(1,514,013)	3,358,641	1,844,628
Temporarily restricted	5,046,673	847,043	5,893,716
Permanently restricted	14,665,268	1,057,004	15,722,272
	<u>19,732,468</u>	<u>5,262,688</u>	<u>24,995,156</u>
TOTAL LIABILITIES AND NET POSITION	<u>\$ 20,302,808</u>	<u>\$ 5,262,688</u>	<u>\$ 25,565,496</u>

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

SOUTHWESTERN OKLAHOMA STATE UNIVERSITY

Year Ended December 31, 2013 (Fiscal Year End of Component Units)

	<u>University Foundation</u>	<u>Pharmacy Foundation</u>	<u>Total</u>
SUPPORT, REVENUES, GAINS AND OTHER ADDITIONS			
Contributions	\$ 1,427,788	\$ 2,130,163	\$ 3,557,951
Sponsorship revenue	200,000	-	200,000
Program service revenue	481,047	-	481,047
Interest and dividend income	-	9,014	9,014
Net appreciation on investments	2,253,792	191,397	2,445,189
Loss on beneficial interest in perpetual trust	(3,582)	-	(3,582)
Rental income	70,000	-	70,000
Other income	11,099	36,562	47,661
Other investment income	238,602	95,210	333,812
Continuing education	-	62,712	62,712
TOTAL SUPPORT, REVENUES, GAINS, AND OTHER ADDITIONS	<u>4,678,746</u>	<u>2,525,058</u>	<u>7,203,804</u>
EXPENSES			
Program services for university	1,428,025	130,921	1,558,946
Supporting services:			
Management and general	177,003	26,425	203,428
Fundraising	66,740	-	66,740
Continuing education expenses	-	28,965	28,965
Scholarships and grants	-	106,975	106,975
School of Pharmacy	-	31,183	31,183
TOTAL EXPENSES	<u>1,671,768</u>	<u>324,469</u>	<u>1,996,237</u>
NET INCREASE (DECREASE) IN NET POSITION	3,006,978	2,200,589	5,207,567
NET ASSETS, BEGINNING OF YEAR	<u>16,725,490</u>	<u>3,062,099</u>	<u>19,787,589</u>
NET ASSETS, END OF YEAR	<u>\$ 19,732,468</u>	<u>\$ 5,262,688</u>	<u>\$ 24,995,156</u>

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



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

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

We have audited the financial statements of Southwestern Oklahoma State University (the "University"), a department of the Regional University System of Oklahoma (RUSO), which is a component unit of the State of Oklahoma, that comprise the statement of net position as of June 30, 2014, and the related statements of revenues, expenses, and changes in net position and cash flows for the year then ended, and the related notes to the financial statements, which collectively comprise the University's basic financial statements, and have issued our report thereon dated October 31, 2014. We conducted our audit in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States. Our report includes a reference to other auditors who audited the aggregate discretely presented component units, as described in our report on the University's financial statements. The financial statements of the component units 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 component units.

Internal Control over Financial Reporting

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

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

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

Compliance and Other Matters

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

Purpose of this Report

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

Arledge & Associates, P.C.

October 31, 2014



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

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

Report on Compliance for Each Major Federal Program

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

Management's Responsibility

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

Auditor's Responsibility

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

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

Opinion on Each Major Federal Program

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

Report on Internal Control over Compliance

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

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

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

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

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

We have audited the financial statements of the University as of and for the year ended June 30, 2014, and the related notes to the financial statements, which collectively comprise the University's basic financial statements. We issued our report thereon dated October 31, 2014, which contained an unmodified opinion on the financial statements.

Our audit was conducted for the purpose of forming our opinion on the financial statements that collectively comprise the basic financial statements. The accompanying schedule of expenditures of federal awards is presented for purposes of additional analysis as required by OMB Circular A-133 and is not a required part of the basic financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the basic financial statements. The information has been subjected to the auditing procedures applied in the audit of the financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic financial statements or to the basic financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the schedule of expenditures of federal awards is fairly stated in all material respects in relation to the basic financial statements as a whole.

Arlidge & Associates, P. C.

October 31, 2014

SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS

SOUTHWESTERN OKLAHOMA STATE UNIVERSITY

Year Ended June 30, 2014

<u>Federal Grantor/Pass-through Grantor/Program Title</u>	<u>Federal CFDA Number</u>	<u>Expenditures</u>
U.S. Department of Education		
Student Financial Aid Cluster		
Federal Pell Grant Program	84.063	\$ 6,667,809
Federal Supplemental Education Opportunity Grants	84.007	65,850
Federal Workstudy Program	84.033	172,133
Federal Direct Student Loan Program	84.268	18,474,239
Academic Competitiveness Grants	84.375	14,335
Total Student Financial Aid Cluster		<u>25,394,366</u>
Other Programs		
TRIO Upward Bound	84.047	352,871
Improving Teacher Quality State Grants	84.367	133,805
Mathematics and Science Partnerships	84.366	628
Total Other Programs		<u>487,304</u>
Total U.S. Department of Education		25,881,670
U.S. Department of Health and Human Services		
National Center for Research Resources		
National Institute of Health	93.389	152,969
National Institute of Health - Summer Student Mentors	93.859	1,000
Total U.S. Department of Health and Human Services		<u>153,969</u>
U.S. Department of Veterans Affairs		
Vocational Rehabilitation for disabled veterans	64.116	262,249
Small Business Administration		
Passed through Southeastern Oklahoma State University		
Small Business Development Centers	59.037	165,833
National Endowment for the Humanities		
Promotion of the Humanities - Federal/State Partnership	45.129	4,000
National Science Foundation		
Biological Sciences	47.074	56,636
Education and Human Resources	47.076	13,871
Office of Experimental Program to Stimulate Competitive Research	47.081	19,247
Total National Science Foundation		<u>89,754</u>
National Aeronautics and Space Administration		
Science	43.001	29,469
Education	43.008	1,740
Total National Aeronautics and Space Administration		<u>31,209</u>

SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS--Continued

SOUTHWESTERN OKLAHOMA STATE UNIVERSITY

Year Ended June 30, 2013

<u>Federal Grantor/Pass-through Grantor/Program Title</u>	<u>Federal CFDA Number</u>	<u>Expenditures</u>
U.S. Department of Interior		
Indian Education Higher Education Grant Program	15.114	130,896
U.S. Department of Commerce		
Economic Development Technical Assistance	11.303	<u>102,798</u>
Total U.S. Department of Commerce		102,798
U.S. Department of Agriculture		
School Breakfast Program	10.553	59,958
National School Lunch Program	10.555	<u>67,612</u>
<i>Total Child Nutrition Cluster</i>		127,570
U.S. Department of Justice		
Grants to Reduce Domestic Violence and Dating Violence	16.525	<u>3,567</u>
TOTAL EXPENDITURES OF FEDERAL AWARDS		<u>\$ 26,953,515</u>

See notes to schedule of expenditures of federal awards.

NOTES TO SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS

SOUTHWESTERN OKLAHOMA STATE UNIVERSITY

June 30, 2014

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 in this schedule is presented in accordance with the requirements of OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. Therefore, some amounts presented in the schedule may differ from amounts presented in, or used in the preparation of, the basic financial statements.

NOTE B--FEDERAL DIRECT STUDENT LOAN PROGRAM

Under the Federal Direct Student Loan Program ("Direct Loan Program"), the U.S. Department of Education makes loans to enable a student or parent to pay the costs of the student's attendance at a postsecondary school. The Direct Loan Program enables an eligible student or parent to obtain a loan to pay for the student's cost of attendance directly from the U.S. Department of Education rather than through private lenders. The University began participation in the Direct Loan Program on July 1, 2010. The University administers the origination and disbursement of the loans to eligible students or parents. The University is not responsible for the collection of these loans.

NOTE C--SUB-RECIPIENTS

During the year ended June 30, 2014, the University provided no federal awards to sub-recipients.

SCHEDULE OF FINDINGS AND QUESTIONED COSTS

SOUTHWESTERN OKLAHOMA STATE UNIVERSITY

June 30, 2014

Section I--Summary of Auditors' Results

Financial statements

Type of auditors' report issued:

Unmodified

Internal control over financial reporting:

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

Federal Awards

Internal control over major programs:

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

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

Unmodified

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

yes no

Identification of major programs:

Program

Student Financial Aid Cluster

CFDA Number

*

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

Dollar threshold used to distinguish between type A and type B programs:

\$300,000

Auditee qualified as low-risk auditee?

yes no

SCHEDULE OF FINDINGS AND QUESTIONED COSTS--Continued

SOUTHWESTERN OKLAHOMA STATE UNIVERSITY

June 30, 2014

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

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

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

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

SUMMARY SCHEDULE OF PRIOR AUDIT FINDINGS

SOUTHWESTERN OKLAHOMA STATE UNIVERSITY

June 30, 2014

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