

**SOUTHWESTERN OKLAHOMA  
STATE UNIVERSITY**

**FINANCIAL REPORT**

**JUNE 30, 2007**

**SOUTHWESTERN OKLAHOMA STATE UNIVERSITY**  
**JUNE 30, 2007**

The following table of contents includes financial statements of Southwestern Oklahoma State University (the "University"), Southwestern Oklahoma State University Foundation, Inc. (the "University Foundation") and Southwestern Pharmacy Alumni Foundation, Inc. (the "Pharmacy Foundation").

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## **INDEPENDENT AUDITOR'S REPORT**

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

We have audited the statement of net assets of Southwestern Oklahoma State University (the "University"), component unit of the State of Oklahoma, as of June 30, 2007 and 2006, and the related statements of revenues, expenses and changes in net assets and cash flows for the years then ended. These financial statements are the responsibility of the University's management. Our responsibility is to express an opinion on these financial statements based on our audits. We did not audit the financial statements of the University's discretely presented component units Southwestern Oklahoma State University Foundation, Inc. (the "University Foundation") and Southwestern Pharmacy Alumni Foundation, Inc. (the "Pharmacy Foundation"). Those financial statements were audited by other auditors whose report thereon has been furnished to us, and our opinion, insofar as it relates to the amounts included for the University Foundation and the Pharmacy Foundation, is based on the report of the other auditors.

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

In our opinion based on our audits and the report of the other auditors, the June 30, 2007 and 2006 financial statements referred to above present fairly, in all material respects, the respective financial position of Southwestern Oklahoma State University and its discretely presented component units, Southwestern Oklahoma State University Foundation, Inc. and Southwestern Pharmacy Alumni Foundation, Inc. as of June 30, 2007 and 2006, and the respective changes in financial position and, where applicable, cash flows thereof for the years then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued our report dated October 13, 2007, on our consideration of the University's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

Management's Discussion and Analysis on Pages 3-11 and the Schedule of Funding Progress for the Supplemental Retirement Annuity Plan on Page 50 are not a required part of the basic financial statements but are supplementary information required by accounting principles generally accepted in the United States of America. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the University's basic financial statements. The accompanying Schedule of Expenditures of Federal Awards is presented for purposes of additional analysis as required by the U.S. Office of Management and Budget Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*, and is not a required part of the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, is fairly stated in all material respects, in relation to the basic financial statements taken as a whole.



October 13, 2007

**Southwestern Oklahoma State University**  
**Management's Discussion and Analysis**  
**Fiscal Year Ended June 30, 2007**

**Introduction**

The discussion and analysis of Southwestern Oklahoma State University's (the "University") financial statements provides an overview of the University's financial activities for the fiscal year ending June 30, 2007, with selected comparative information for the year ended June 30, 2006. 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 and Southwestern Oklahoma State University Foundation. A component unit is a legally separate entity associated with the primary organization. However, this discussion only covers the university; a discussion covering the presented components may be found in their statements.

**Using this report**

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

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

**Financial Highlights**

The Statement of Net Assets and Statement of Revenues, Expenses, and Changes in Net Assets report the University's net assets and how they have 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 provide detail related to Long-Term Liabilities.

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

## Statement of Net Assets

Schedule A is prepared from the University's Statement of Net Assets and summarizes the assets, liabilities, and net assets as of June 30, 2007. Comparative data for year ending June 30, 2006 is provided.

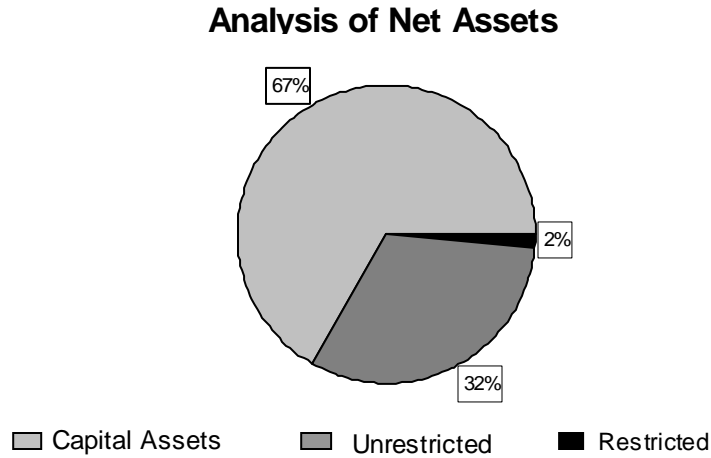
### Condensed Statements of Net Assets as of June 30, 2007 and 2006 (In Millions)

	2007	2006	Increase (Decrease)	Percent Change
Current Assets	\$ 16.6	\$ 15.3	\$ 1.3	8.5%
Noncurrent Assets				
Capital Assets, Net of Depreciation	40.5	35.1	5.4	15.4%
Other	13.7	14.7	(1.0)	6.8%
Total Assets	<u>70.8</u>	<u>65.1</u>	<u>5.7</u>	<u>8.8%</u>
Current Liabilities	4.7	4.6	0.1	2.2%
Noncurrent Liabilities	22.4	21.1	1.3	6.2%
Total Liabilities	<u>27.1</u>	<u>25.7</u>	<u>1.4</u>	<u>5.5%</u>
Net Assets				
Investment in Capital Assets	29.0	24.2	4.8	19.8%
Restricted	0.7	0.4	0.3	75.0%
Unrestricted	14.0	14.8	(0.8)	(5.4)%
Total Net Assets	<u>\$ 43.7</u>	<u>\$ 39.4</u>	<u>\$ 4.3</u>	<u>10.9%</u>

Current assets increased by \$1,287,499. This increase is due to a bond issue for energy improvements, of which \$1,000,000 was held by the issuing agency and used in July, 2007. The balance of the increase is mainly in cash and restricted cash and cash equivalents of \$197,156 and increased accounts receivable of \$121,056.

Net Capital Assets increased by \$5,362,231. The major renovation projects completed during the year include the Student Center; Chemistry, Pharmacy, & Physics North Wing; Wellness West Wing; and an elevator addition to the Administration Building. These projects are funded from revenue bonds, master lease funds, and the OCIA Revenue Bonds. Student facility fees are the source of funds pledged for debt service on a portion of the Student Center remodel. The Wellness West Wing and the Administration Building elevator are funded by the OCIA Revenue Bonds.

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



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

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

Schedule B is prepared from the University's Statement of Revenues, Expenses, and Changes in Net Assets (page 3).

**Schedule B**  
**Condensed Statements of Revenues, Expenses and Changes in Net Assets**  
**Years Ended June 30, 2007 and 2006**  
**(In Millions)**

	2007	2006
Operating Revenue		
Student tuition and Fees	13.8	12.5
Federal, state and local grants and contracts	11.5	12.0
Auxiliary	4.5	3.9
Other	1.3	1.1
Total Operating Revenues	31.1	29.5
Operating Expenses		
Compensation and employee benefits	35.8	34.0
Contractual Services	2.8	3.4
Supplies and materials	2.7	3.2
Depreciation	2.6	2.2
Utilities	2.0	2.2
Communication expense	0.4	0.3
Scholarships and fellowships	4.2	4.2
Other Operating expense	3.7	1.9
Total Operating Expenses	54.2	51.4
Operating Income (Loss)	(23.1)	(21.9)
Nonoperating revenues (expenses)		
State appropriations	25.4	23.1
Investment income	0.9	0.3
Interest costs	(0.3)	(0.3)
Net Nonoperating Revenues	25.8	23.1
Income (loss) before other revenues, expenses, gains and losses	2.7	1.2
Capital grants and gifts	0.1	0.1
State appropriations restricted for capital purposes	1.5	0.8
Net Change in Net Assets	4.3	2.1
Net Assets		
Net assets - beginning of year, as originally reported	39.4	37.3
Cumulative effect of change in accounting principle		
Deferred revenue recognition		
Net Assets - Beginning of Year, as Restated	39.4	37.3
Net Assets - End of Year	43.7	39.4

See notes to financial statements.

## Revenues

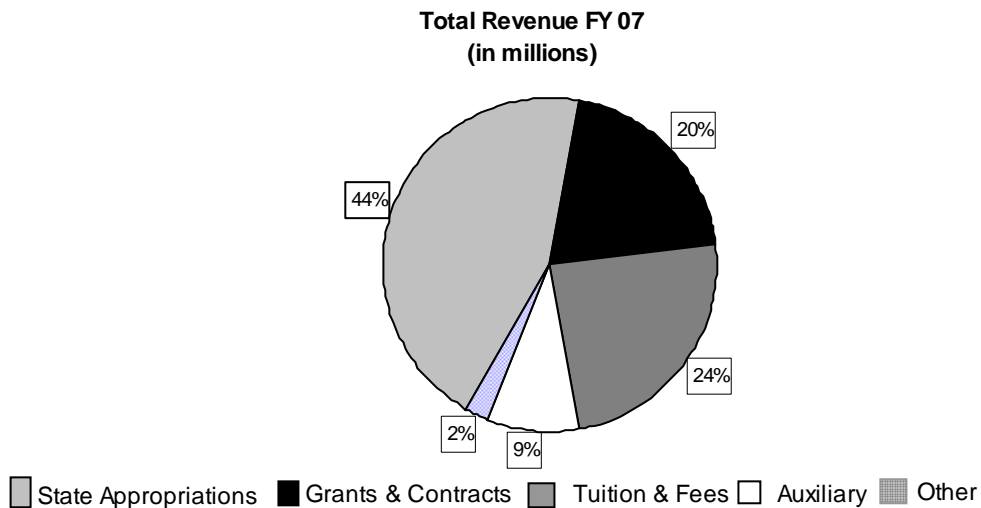
Student tuition and fees, net of scholarships and allowances, increased \$ 1.2 million. The student full-time equivalent (FTE) enrollment in Fall, 2006, was 4,482; headcount was 5,260 students. FTE is down 2.1% and headcount is up 1.1% over Fall, 2005.

Grants and Contracts activity is \$11.5 million, down about 4% from the previous year. Significant federal grants are for Student Financial Aid and include Pell, Student Work Study, and Supplemental Education Opportunity Grants. Southwestern also operates five residential group homes, providing services to state adjudicated delinquent male youths. Funding of approximately \$4.1 million for this program is provided through an agreement with the Office of Juvenile Affairs. This program not only provides an invaluable service for these young men but also provides internships and employment for academic students.

Auxiliary operations generated total revenues of \$ 5 million in FY2007 of which \$4.5 is from housing and food services.

State appropriations for operations in FY 2007 were \$ 25.4 million compared to \$ 23.1 million in FY 2006. This includes \$1.9 million in Oklahoma Teachers Retirement System on-behalf contributions.

The following graph represents sources and amounts of revenue.

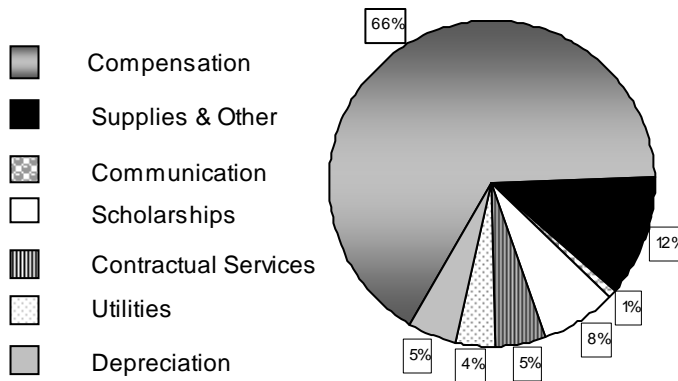


*Expenses*

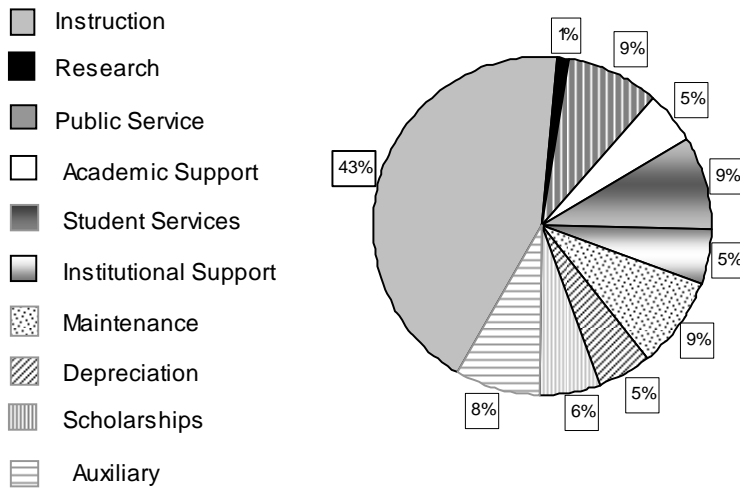
Operating expenses for the year is \$54.2 million, an increase of \$2.8 million or 5% over the previous year. The increase is due to compensation and benefit increases and increased cost of supplies, maintenance and repair cost.

The following are graphic representations of expenditures during FY 07:

**Expenditures by Natural Classification  
(in millions)**



**Expenditures by Functional Classification  
(in millions)**



## Statement of Cash Flows

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

Schedule C is a summary of the cash flows for the year ended June 30, 2007 compared to the year ended June 30, 2006 and is prepared from the Statement of Cash Flows.

**Schedule C**  
**Condensed Statements of Cash Flows**  
**Years Ended June 30, 2007 and 2006**  
**(In Thousands)**

	2007	2006
Cash provided (used) by:		
Operating activities	\$ (19,653)	\$ (18,065)
Noncapital financing activities	\$ 23,506	\$ 21,317
Investing activities	\$ (751)	\$ 261
Capital and related financing activities	\$ (2,905)	\$ (5,700)
Net increase (decrease) in cash	\$ 197	(2,187)
Cash, beginning of the year	\$ 14,229	16,416
Cash, end of the year	\$ 14,426	14,229

## Capital Assets

At June 30, 2007, the University had approximately \$ 40.5 million invested in capital assets, net of accumulated depreciation of \$40 million. Buildings increased significantly due to completion of the Student Center Renovation, Chemistry Building North Wing Renovation, and completion of the Wellness Center West Wing. Depreciation charges totaled approximately \$ 2.6 million for the current fiscal year. Details of balances of capital assets for the two years are shown below.

### Schedule D Capital Assets, Net, at Year-End (In Millions)

	<u>2007</u>	<u>2006</u>
Land	\$ 0.9	\$ 0.9
Construction in Progress	4.1	7.2
Infrastructure	0.3	0.2
Land Improvements	0.2	0.2
Buildings	31.3	23.0
Furniture, fixtures, and equipment	2.1	2.0
Library materials	<u>1.6</u>	<u>1.6</u>
Totals	40.5	35.1

## Debt

At year-end, the University had approximately \$22.5 million in debt outstanding. The table below summarizes these amounts by type.

### Schedule E Outstanding Debt, at Year-End (In Millions)

	<u>2007</u>	<u>2006</u>
OCIA & ODFA Lease Obligations	\$ 15.4	\$ 14.1
Revenue Bonds Payable	<u>7.1</u>	<u>7.4</u>
	<u>22.5</u>	<u>\$ 21.5</u>

The \$7.1 million Revenue Bond was issued in 2004, (original issue amount was \$8 million), for proceeds to build the Wellness Center and renovate the existing Student Center. This is a twenty year bond with student facility fees pledged for bond repayment and operating funds.

Southwestern is participating in the Master Lease program through the Oklahoma Capital Bond Authority (OCIA) for \$2,000,000 for campus energy improvements; \$250,000 for purchase of five new activity buses; and \$1,000,000 for renovations 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, Pharmacy building.

During 2006, Oklahoma Capital Bond Authority (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. During the year ended June 30, 2007, lease principal and interest payments were made on behalf of the university totaling \$662,014. These were recorded as restricted state appropriations. The projects that were started during the current year include preparation for new construction on the Black Box Theater; and continuation and/or completion of the Chemistry, Physics, Pharmacy building; academic equipment purchases; an ADA compliant elevator in the Administration building; and campus-wide energy improvements.

The Oklahoma Capital Bond Authority (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, 2007 and 2006, lease principal and interest payments were made on behalf of the university totaling \$130,907 and \$130,522, respectively. These on-behalf amounts have been recorded as restricted state appropriations in the university's statements of revenues, expenses and changes in net assets.

More detailed information about the university's outstanding debt is presented in notes to the 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, requires Universities to include in their financial statements component unit financial information.

Southwestern Oklahoma State University Foundation 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**

Southwestern continues to benefit from a strong state economy, increasing levels of state funded student financial aid and continued revenue growth from grants and private sources. The cost of attendance for our students remains very competitive with our peer institutions and our freshman class of 2008 is the largest in several years.

The University recorded another year of strong financial performance which is a long tradition of the institution. We continue to move forward in the achievement of our strategic goals. Our recent survey of student opinions indicates that our students have a higher level of satisfaction with Southwestern in College Services, College Environment, College Impressions and College Experiences than our peer institutions.

**SOUTHWESTERN OKLAHOMA STATE UNIVERSITY**  
**STATEMENTS OF NET ASSETS**  
**JUNE 30, 2007 AND 2006**

<u>Assets</u>	2007	2006
Current assets:		
Cash and cash equivalents	\$ 14,160,259	\$ 14,016,773
Restricted cash and cash equivalents	266,186	212,516
Accounts receivable, net	1,062,414	941,358
Interest receivable	16,616	55,110
Investments held by others	1,000,000	-
Inventories	117,640	109,859
Total current assets	16,623,115	15,335,616
Noncurrent assets:		
Receivable from state agency	8,947,620	11,166,771
Investments	246,686	217,175
Notes receivable, net of allowance for uncollectible loans	90,316	81,174
Prepaid pension asset	3,364,078	2,696,693
Other assets	1,008,898	482,829
Capital assets, net of accumulated depreciation	40,514,873	35,152,644
Total noncurrent assets	54,172,471	49,797,286
Total assets	70,795,586	65,132,902
<u>Liabilities</u>		
Current liabilities:		
Accounts payable	1,912,034	2,070,112
Accrued payroll	465,922	407,030
Accrued interest payable	101,969	98,585
Deferred revenue	290,918	431,351
Deposits held in custody for others	253,467	247,275
Current portion of noncurrent liabilities	1,632,403	1,306,631
Total current liabilities	4,656,713	4,560,984
Noncurrent liabilities, net of current portion:		
Accrued compensated absences	509,289	332,379
Bonds payable	6,800,000	7,110,000
Bond premium (net of amortization)	333,323	347,815
Lease obligation payable to state agency	14,758,358	13,393,673
Total noncurrent liabilities	22,400,970	21,183,867
Total liabilities	27,057,683	25,744,851
<u>Net Assets</u>		
Invested in capital assets, net of related debt	17,659,374	20,563,773
Restricted	717,732	403,707
Expendable		
Scholarships, instruction and other		
Capital projects	11,314,487	3,610,259
Unrestricted	14,046,310	14,810,312
Total net assets	\$ 43,737,903	\$ 39,388,051

See accompanying notes.

**SOUTHWESTERN OKLAHOMA STATE UNIVERSITY  
DISCRETELY PRESENTED COMPONENT UNITS  
COMBINED STATEMENTS OF FINANCIAL POSITION  
DECEMBER 31, 2006 AND 2005  
(FISCAL YEAR ENDS OF COMPONENT UNITS)**

	<u>2006</u>	<u>2005</u>
<b><u>Assets</u></b>		
Cash and cash equivalents	\$ 454,349	\$ 342,334
Certificates of deposit	51,026	557
Pledges receivable	25,120	65,420
Interest receivable	-	17,496
Investments	2,370,950	2,270,010
Loans receivable	2,000	2,650
Marketable securities, restricted and partially pledged	10,307,032	8,767,461
Equity in testamentary trust	580,000	580,000
Unconditional promises to give	34,000	84,400
Receivable from trust	-	127,539
Cash surrender value of life insurance policies	187,212	177,025
Mineral right's, net of amortization	-	3,140
Land held for investment	-	77,520
Rental property:		-
Land	120,000	127,300
Building, net	699,781	711,450
Office equipment, net	3,296	3,714
	<u>                    </u>	<u>                    </u>
Total assets	<u>\$ 14,834,766</u>	<u>\$ 13,358,016</u>
<b><u>Liabilities</u></b>		
Note payable to bank	-	217,153
Accounts payable	22,231	47,657
	<u>                    </u>	<u>                    </u>
Total liabilities	<u>22,231</u>	<u>264,810</u>
<b><u>Net Assets</u></b>		
Unrestricted	2,608,030	2,459,706
Temporarily restricted	2,175,907	2,112,267
Permanently restricted	10,028,598	8,521,233
	<u>                    </u>	<u>                    </u>
Total net assets	<u>14,812,535</u>	<u>13,093,206</u>
	<u>                    </u>	<u>                    </u>
Total Liabilities and Net Assets	<u>\$ 14,834,766</u>	<u>\$ 13,358,016</u>

See accompanying notes

**SOUTHWESTERN OKLAHOMA STATE UNIVERSITY**  
**STATEMENTS OF REVENUES, EXPENSES AND CHANGES IN NET ASSETS**  
**YEARS ENDED JUNE 30, 2007 AND 2006**

	<b>2007</b>	<b>2006</b>
Operating revenues		
Student tuition and fees, net of scholarship discounts and allowances of \$6,503,103 and \$6,035,751 for 2007 and 2006, respectively	\$ 13,796,821	\$ 12,535,188
Federal grants and contracts	7,128,592	7,702,022
State and local grants and contracts	4,328,281	4,291,075
Housing and food service	4,532,859	3,929,334
Other auxiliary operations	485,872	773,724
Interest earned on loans to students	14,484	18,679
Other operating revenues	830,567	276,539
Total operating revenues	31,117,476	29,526,561
Operating expenses		
Compensation and employee benefits	35,796,489	34,068,043
Contractual services	2,792,659	3,398,589
Supplies and materials	2,748,508	3,180,423
Depreciation	2,594,509	2,279,665
Utilities	1,958,175	2,191,233
Communications expense	392,976	260,187
Scholarships and fellowships	4,135,421	4,192,305
Other operating expenses	3,777,934	1,857,814
Total operating expenses	54,196,671	51,428,259
Net operating income (loss)	(23,079,195)	(21,901,698)
Nonoperating revenues (expenses)		
State appropriations	23,505,969	21,316,941
On-behalf contributions for OTRS	1,854,897	1,790,758
Investment income	898,380	313,572
Interest expense	(391,450)	(262,255)
Bond issue cost amortization	(41,015)	(13,823)
Net nonoperating revenues (expenses)	25,826,781	23,145,193
Income (loss) before other revenues, expenses, gains and losses	2,747,586	1,243,495
Capital grants and gifts	120,756	81,260
State appropriations restricted for capital purposes	688,589	630,732
OCIA on-behalf appropriations	792,921	130,522
Net increase in net assets	4,349,852	2,086,009
Net assets		
Net assets, beginning of year	39,388,051	37,302,042
Net assets, end of year	\$ 43,737,903	\$ 39,388,051

See accompanying notes

**SOUTHWESTERN OKLAHOMA STATE UNIVERSITY**  
**DISCRETELY PRESENTED COMPONENT UNITS**  
**COMBINED STATEMENTS OF ACTIVITIES AND CHANGES IN NET ASSETS**  
**YEAR ENDED DECEMBER 31, 2006 AND 2005**  
**(FISCAL YEAR ENDS OF COMPONENT UNITS)**

	<u>2006</u>	<u>2005</u>
Support, revenues, gains and other additions		
Contributions	\$ 858,586	\$ 1,404,633
Program service revenue	117,066	131,626
Interest and dividend income	407,627	464,897
Gain (loss) on sale of marketable securities	172,151	43,958
Unrealized gain on marketable securities, net	972,371	(139,006)
Building rental	72,978	76,884
Other revenue	76,970	35,263
Other investment income	77,981	48,692
Continuing education	77,064	80,654
	-	-
Net assets released from restrictions	-	-
	<hr/>	<hr/>
Total support revenues, gains and other additions	2,832,794	2,147,601
 Expenses		
Program services for university	844,778	776,198
Supporting services:	-	-
Management and general	93,754	103,252
Fundraising	38,142	10,324.00
Continuing education expenses	58,535	79,052
Scholarships and Grants	69,675	70,126
School of Pharmacy	8,581	15,677
Total expenses	<hr/> 1,113,465 <hr/>	<hr/> 1,054,629 <hr/>
Net increase in assets	1,719,329	1,092,972
Net assets, beginning of year	<hr/> 13,093,206 <hr/>	<hr/> 12,000,234 <hr/>
Net assets, end of year	<hr/> <u>\$ 14,812,535</u> <hr/>	<hr/> <u>\$ 13,093,206</u> <hr/>

See accompanying notes

**SOUTHWESTERN OKLAHOMA STATE UNIVERSITY**  
**STATEMENTS OF CASH FLOWS**  
**YEARS ENDED JUNE 30, 2007 AND 2006**

	<u>2007</u>	<u>2006</u>
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>		
Tuition and fees	\$ 13,515,563	\$ 12,558,163
Grants and contracts	11,450,530	12,169,981
Housing and food charges	5,875,410	5,040,266
Interest earned on loans to students	14,484	18,679
Payments to employees for salaries and benefits	(34,377,955)	(32,817,216)
Payments to suppliers	(16,121,721)	(15,074,663)
Loans issued to students and employees	(9,142)	39,763
Net cash used by operating activities	<u>(19,652,831)</u>	<u>(18,065,027)</u>
<b>CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES</b>		
State appropriations	23,505,969	21,316,941
Federal Family Education Loan receipts	15,817,555	15,876,061
Federal Family Education Loan payments	<u>(15,817,555)</u>	<u>(15,876,061)</u>
Net cash provided (used) by noncapital financing activities	23,505,969	21,316,941
<b>CASH FLOWS FROM INVESTING ACTIVITIES</b>		
Purchase of Investments	(1,000,000)	-
Interest income received	<u>248,965</u>	<u>261,145</u>
Net cash provided (used) by investing activities	(751,035)	261,145
<b>CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES</b>		
Cash paid for fixed assets	(7,760,898)	(7,395,532)
Capital appropriations received	688,589	630,732
Cash paid on bond maturities	(428,250)	(440,167)
Proceeds from capital debt and leases	4,940,829	2,071,800
Interest paid on capital debt and leases	<u>(345,217)</u>	<u>(566,970)</u>
Net cash provided (used) by capital and related financing activities	<u>(2,904,947)</u>	<u>(5,700,137)</u>
Net increase (decrease) in cash and cash equivalents	197,156	(2,187,078)
Cash and cash equivalents, beginning of year	<u>14,229,289</u>	<u>16,416,367</u>
Cash and cash equivalents, end of year	<u>\$ 14,426,445</u>	<u>\$ 14,229,289</u>

See accompanying notes

**SOUTHWESTERN OKLAHOMA STATE UNIVERSITY**  
**STATEMENTS OF CASH FLOWS**  
**YEARS ENDED JUNE 30, 2007 AND 2006**

	<b>2007</b>	<b>2006</b>
<b>RECONCILIATION OF OPERATING LOSS TO NET CASH</b>		
<b>USED IN OPERATING ACTIVITIES</b>		
Operating loss	\$ (23,079,195)	\$ (21,901,698)
Adjustments to reconcile operating loss to net cash		
used by operating activities		
Depreciation expense	2,594,509	2,279,665
On-behalf contributions to teachers' retirement system	1,854,897	1,790,758
Changes in assets and liabilities		
Accounts receivable	(121,056)	156,417
Inventories	(7,781)	(23,889)
Prepaid pension asset	(667,385)	(698,831)
Accounts payable and accrued expenses	(249,375)	63,083
Deferred revenue	(140,433)	104,111
Compensated absences	172,130	125,594
Loans to students and employees	(9,142)	39,763
	<b>\$ (19,652,831)</b>	<b>\$ (18,065,027)</b>
 <b>NONCASH INVESTING, NONCAPITAL FINANCING AND CAPITAL</b>		
<b>AND RELATED FINANCING ACTIVITIES</b>		
Interest on capital debt paid by State Agency on behalf of the University	\$ 583,408	\$ 29,541
Principal on capital debt paid by State Agency on behalf of the University	\$ 209,513	\$ 100,981
 <b>RECONCILIATION OF CASH AND CASH EQUIVALENTS</b>		
<b>TO THE STATEMENT OF NET ASSETS</b>		
Current assets		
Cash and cash equivalents	\$ 14,160,259	\$ 14,016,773
Restricted cash and cash equivalents	266,186	212,516
Noncurrent assets		
Restricted cash and cash equivalents	-	-
Total cash and cash equivalents	\$ 14,426,445	\$ 14,229,289

See accompanying notes

**SOUTHWESTERN OKLAHOMA STATE UNIVERSITY**  
**NOTES TO FINANCIAL STATEMENTS**  
**JUNE 30, 2007**

**I. Summary of Significant Accounting Policies**

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

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

Discretely Presented Component Unit: The University implemented GASB Statement No. 39 in 2004. 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 are required to be discretely presented with the financial statements of the University. The University Foundation and the Pharmacy Foundation have a fiscal year ending December 31. The University is the beneficiary of the University Foundation and the Pharmacy Foundation, separate legal entities with their own Boards of Trustees. The University Foundation is organized for the benefit of the University, and its faculty, student body and programs. The University Foundation provides scholarships and support and enhances the further development of the University. The Pharmacy Foundation was formed to provide support for the School of Pharmacy at the University. The Pharmacy Foundation gives scholarships and makes loans available to pharmacy students. The Pharmacy Foundation also provides research grants to faculty and students.

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

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

**SOUTHWESTERN OKLAHOMA STATE UNIVERSITY**  
**NOTES TO FINANCIAL STATEMENTS**  
**JUNE 30, 2007**

**I. Summary of Significant Accounting Policies (continued)**

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

Changes in Accounting Principles: The University adopted the provisions of Governmental Accounting Standards Board (GASB) Statement No. 40, *Deposit and Investment Risk Disclosures-an amendment of GASB Statement No. 3*, which was effective for periods beginning after June 15, 2004. GASB Statement No. 40 modifies or eliminates certain investment reporting requirements previously established by GASB Statement No. 3 *Deposits with Financial Institutions, Investments (including Repurchase Agreements), and Reserve Repurchase Agreements*. Statement No. 40 has an impact on the presentation of the notes to financial statements but no impact on net assets.

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 statements of revenues, expenses and changes in net assets.

Accounts Receivable: Accounts receivable consists of tuition and fee charges to students and to auxiliary enterprise services provided to students, faculty and staff, the majority of each residing in the State of Oklahoma. Accounts receivable also include amounts due from the federal government, state and local governments, or private sources, in connection with reimbursement of allowable expenditures made pursuant to the University's grant and contracts. Accounts receivable are recorded net of estimated uncollectible amounts.

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

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

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 is incurred.

**SOUTHWESTERN OKLAHOMA STATE UNIVERSITY**  
**NOTES TO FINANCIAL STATEMENTS**  
**JUNE 30, 2007**

**I. Summary of Significant Accounting Policies (continued)**

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

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

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

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

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

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

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

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

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

**SOUTHWESTERN OKLAHOMA STATE UNIVERSITY**  
**NOTES TO FINANCIAL STATEMENTS**  
**JUNE 30, 2007**

**I. Summary of Significant Accounting Policies (continued)**

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 scholarships and allowances, (3) most federal, state and 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 their 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 and investment income.

Scholarship Discounts and Allowances: Student tuition and fee revenues, and certain other revenues from students, are reported net of scholarship discounts and allowances in the statements of revenues, expenses, and changes in net assets. Scholarship discounts and allowances are the difference between the stated charge for goods and services provided by the University and the amount that is paid by students and/or third parties making payments on the students' behalf. Certain governmental grants, such as Pell grants, and other federal, state or nongovernmental programs, are recorded as either operating or 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.

**Southwestern Oklahoma State University Foundation, Inc.**

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

**SOUTHWESTERN OKLAHOMA STATE UNIVERSITY**  
**NOTES TO FINANCIAL STATEMENTS**  
**JUNE 30, 2007**

**I. Summary of Significant Accounting Policies (continued)**

**Southwestern Oklahoma State University Foundation, Inc.(continued)**

Promises to Give and Other Receivables: Contributions are recognized when the donor makes a promise to give to the Foundation that is, in substance, unconditional. All contributions are considered to be available for unrestricted use unless specifically restricted by donor. Donor restricted funds are reported as an increase in temporarily or permanently restricted net assets depending on the nature of the restriction. When a restriction expires, restricted net assets are reclassified to unrestricted net assets.

Management charges income with doubtful accounts when they are considered uncollectible. Management believes that the remaining promises to give are fully collectible, therefore no provision for uncollectible promises to give has been recorded.

Contributed Services and Materials: During the year ended December 31, 2006, the value of contributed services meeting the requirements for recognition in the financial statements was not material and has not been recorded. In addition, many individuals volunteer their time and perform a variety of tasks that assist the Foundation, but these services do not meet the criteria for recognition as contributed services. Donated materials and supplies are recorded at estimated fair value and reported as contributions and program expenses.

Use of Estimates: The preparation of financial statements in accordance with generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and the disclosures of contingent assets or liabilities at the date of the financial statements, and the reported amounts of revenue, gain (loss), and other support and expenses during the period. Actual results could differ from the estimates.

Property and Equipment: It is the University Foundation's policy to capitalize property and equipment over \$5,000. Donations of property and equipment are recorded as contributions at their estimated fair value. Such donations are reported as unrestricted contributions unless the donor has restricted the donated asset to a specific purpose. Assets donated with explicit restrictions regarding their use and contributions of cash that must be used to acquire property and equipment are reported as restricted contributions. If there are no donor stipulations regarding how long these donated assets must be maintained, the Foundation reports expirations of donor restrictions when the donated or acquired assets are placed in service as instructed by the donor. Property and equipment is depreciated using the straight-line method as follows: Office equipment –10 years; Buildings- 40 years.

Amortization: Mineral rights were initially recorded at fair value of \$15,700 and are amortized by the straight-line method over a 5-year period. The mineral rights were fully amortized at December 31, 2006.

**SOUTHWESTERN OKLAHOMA STATE UNIVERSITY**  
**NOTES TO FINANCIAL STATEMENTS**  
**JUNE 30, 2007**

**I. Summary of Significant Accounting Policies (continued)**

**Southwestern Oklahoma State University Foundation, Inc.(continued)**

Office Facility and Staff Support: The Foundation and University operate under an agreement that the University will provide office space for the University Foundation records, administrator and secretarial support, and various other operating costs. The University Foundation pays the University a personnel usage fee. This fee for 2006 was \$24,000. The Foundation also provides monies for scholarship support and other program needs of the University, which is in excess of the benefits provided by the University. All costs incurred for University programs are included in program expenses. No additional accounting entries are made to record the benefit received from the University.

Financial Statement Presentation: The Foundation has adopted Statement of Financial Accounting Standards (SFAS) No. 117, *Financial Statements of Not-for-Profit Organizations*. Under SFAS No. 117, the Foundation is required to report information regarding its financial position and activities according to three classes of net assets: unrestricted net assets, temporarily restricted net assets, and permanently restricted net assets. As permitted by the statement, the University Foundation does not use fund accounting.

Contributions: The Foundation has also adopted SFAS No. 116, *Accounting for Contributions Received and Contributions Made*. Contributions received are recorded as unrestricted, temporarily restricted, or permanently restricted support depending on the existence or nature of any donor restrictions.

Income Taxes: The Foundation is a not-for-profit organization that is exempt from income taxes under Section 501 (c)(3) of the Internal Revenue Code and classified by the Internal Revenue Service as other than a private foundation.

Investments: The Foundation has adopted SFAS No. 124, *Accounting for Certain Investments Held by Not-For-Profit Organizations*. Under SFAS No. 124, investments in marketable securities with readily determinable fair values and all investments in debt securities are reported at their fair values in the statement of financial position. Unrealized gains and losses are included in the change in net assets. Investment income and gains restricted by a donor are reported as increases in restricted net assets. When the restrictions are met (either by passage of time or by use) the amount is transferred to unrestricted net assets.

Management fees charged by the investment companies are paid from the unrestricted funds. The fees for 2006 were \$15,413.

Cash and Cash Equivalents: For purposes of the statements of cash flows, the Foundation considers all highly liquid investments available for current use with an initial maturity of three months or less to be cash equivalents.

Restrictions on Net Assets: Temporarily restricted net assets include the various program activity accounts maintained for the university departments. All support and revenue for these various

**SOUTHWESTERN OKLAHOMA STATE UNIVERSITY**  
**NOTES TO FINANCIAL STATEMENTS**  
**JUNE 30, 2007**

**I. Summary of Significant Accounting Policies (continued)**

**Southwestern Oklahoma State University Foundation, Inc.(continued)**

accounts are reported as an increase in temporarily restricted net assets. Temporarily restricted net assets also include the income earned on permanently restricted net assets, which is available for distributions as scholarships or other expenses are required by the donor.

Permanently restricted net assets are generally contributions received from an estate or trust or provided by an endowment. Generally a certain percentage of the investment return for these accounts are available and transferred to temporarily restricted net assets for the benefit of the university as specified by the donor.

Related Parties: Substantially all expenditures are incurred for the benefit of the university. University management faculty are very much involved in the operations of the Foundation and are considered related parties.

Comparative Data: The financial statements include certain 2005 comparative information. With respect to the statement of activities, 2005 support and revenue are presented in total rather than by type of restriction. With respect to the statement of functional expenses, 2005 expenses by object are presented in total rather than by functional category. Accordingly, such information should be read in conjunction with the Foundation's financial statements for the year ended December 31, 2005, from which the summarized information was prepared.

**Southwestern Pharmacy Alumni Foundation, Inc.**

Organization: Southwestern Pharmacy Alumni Foundation, Inc. (the "Pharmacy 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.

*Summary of Significant Accounting Policies*

Investments: The Pharmacy Foundation has valued its investments based on Statement of Financial Accounting Standards (SFAS) No. 124, *Accounting for Certain Investments Held by Not-for-Profit Organizations*. Under SFAS No. 124, the Pharmacy 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.

Recognition of Revenues and Expenses: Revenues and expenses are recognized when earned or incurred and are allocated to the appropriate fund balance at the end of the Pharmacy Foundation's year.

**SOUTHWESTERN OKLAHOMA STATE UNIVERSITY**  
**NOTES TO FINANCIAL STATEMENTS**  
**JUNE 30, 2007**

**I. Summary of Significant Accounting Policies (continued)**

**Southwestern Pharmacy Alumni Foundation, Inc.(continued)**

Financial Statement Presentation: The Pharmacy Foundation has prepared its financial statements using Statement of Financial Accounting Standards (SFAS) No. 117, *Financial Statements of Not-for-Profit Organizations*. Under SFAS No. 117, the Pharmacy Foundation is required to report information regarding its financial position and activities according to three classes of net assets; unrestricted net assets, temporarily restricted net assets, and permanently restricted net assets. In addition, the Pharmacy Foundation is required to present a statement of cash flows.

Permanently restricted net assets include donor-imposed restrictions that stipulate that resources be maintained permanently, but permit the Pharmacy Foundation to use or expend the income derived from the donated assets.

Temporarily restricted net assets result from contributions and other inflows of assets whose use is limited by donor-imposed stipulations that either expire by passage of time or can be removed by actions of the Pharmacy Foundation pursuant to those stipulations.

Unrestricted net assets consist of amounts that are neither permanently restricted nor temporarily restricted by donor-imposed stipulations.

Restricted on gifts of fixed assets or cash for the purchase of fixed assets expire when the asset is placed in service.

Cash and Cash Equivalents: Cash and cash equivalents includes cash in checking accounts, petty cash, and money funds held at UBS Financial Services, Inc.

Use of Estimates: The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of 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.

Material estimates that are particularly susceptible to significant change relate to the market value of investment securities. Management relies on the current market value of investments, as valued by an investment brokerage firm. However, the values of these securities may change significantly within the next twelve months.

Equipment: Any equipment purchased by the Pharmacy Foundation is donated, at cost, to the University to be utilized by all faculty and students.

Inventory - Continuing Education Courses: The costs of continuing education courses are consistently charged to expense. The Pharmacy Foundation does not deem such amounts to be sufficiently material to warrant capitalization and matching of expense to revenue when courses are sold.

**SOUTHWESTERN OKLAHOMA STATE UNIVERSITY**  
**NOTES TO FINANCIAL STATEMENTS**  
**JUNE 30, 2007**

**II. Deposits and Investments**

*Deposits*

**Custodial credit risk** for deposits is the risk that in the event of a bank failure, the University's deposits may not be returned or the University will not be able to recover collateral securities in the possession of an outside party. Generally, the University deposits its funds with the Office of the State Treasurer (OST) and those funds are pooled with funds of other state agencies and then, in accordance with statutory limitations, are placed in financial institutions or invested as the OST may determine, in the state's name. State statutes require the OST to ensure that all state funds are either insured by Federal Deposit Insurance, collateralized by securities held by the cognizant Federal Reserve Bank, or invested in U.S. government obligations. The OST's responsibilities include receiving and collateralizing the deposit of State funds, investing State funds in compliance with statutory requirements, and maintaining adequate liquidity to meet the cash flow needs of the State and all its funds and agencies. If the University deposits funds directly with financial institutions, those funds must be insured by Federal Deposit Insurance or collateralized by securities held by the cognizant Federal Reserve Bank in the University's name. Some deposits with the OST are placed in the OST's internal investment pool *OK INVEST*. *OK INVEST* pools the resources of all state funds and agencies and invests them in (a) U.S. treasury securities which are explicitly backed by the full faith and credit of the U.S. government; (b) U.S. agency securities which carry an implicit guarantee of the full faith and credit of the U.S. government; (c) money market mutual funds which participates in investments, either directly or indirectly, in securities issued by the U.S. treasury and/or agency and repurchase agreements relating to such securities; 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.

At June 30, 2007 and 2006, the carrying amount of all University deposits with the OST and other financial institutions were \$14,426,543 and \$14,229,289, respectively. These amounts consisted of deposits with the OST (\$14,360,897 and \$14,153,690), deposits with financial institutions (\$34,945 and \$34,948) and change funds (\$30,701 and \$40,651). Of funds on deposit with the OST, amounts invested in *OK INVEST* total \$3,990,141 in 2007 and \$6,345,498 in 2006.

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

At June 30, 2007

<u><i>OK INVEST</i> Portfolio</u>	<u>Cost</u>	<u>Market Value</u>
U.S. agency securities	\$ 2,163,194	\$ 2,163,160
Money market mutual fund	232,927	232,927
Certificates of Deposit	274,173	274,173
Tri-party repurchase agreements	637,148	637,148
U. S. treasury obligations	682,700	682,642
Totals	<u>\$ 3,990,142</u>	<u>\$ 3,990,050</u>

**SOUTHWESTERN OKLAHOMA STATE UNIVERSITY**  
**NOTES TO FINANCIAL STATEMENTS**  
**JUNE 30, 2007**

**II. Deposits and Investments (continued)**

At June 30, 2006

<u>OK INVEST Portfolio</u>	<u>Cost</u>	<u>Market Value</u>
U.S. agency securities	\$ 3,037,202	\$ 3,015,052
Money market mutual fund	796,606	796,606
Tri-party repurchase agreements	1,156,835	1,156,835
U. S. treasury obligations	1,354,855	1,339,863
Totals	<u>\$ 6,345,498</u>	<u>\$ 6,308,356</u>

Agencies and funds that are considered to be part of the State's reporting entity in the State's Comprehensive Annual Financial Report are allowed to participate in *OK INVEST*. Oklahoma statutes and the OST establish the primary objectives and guidelines governing the investment of funds in *OK INVEST*. Safety, liquidity, and return on investment are the objectives which establish the framework for the day to day *OK INVEST* management with an emphasis on safety of the capital and the probable income to be derived and meeting the State and its funds and agencies' daily cash flow requirements. Guidelines in the Investment Policy address credit quality requirements, diversification percentages and specify the types and maturities of allowable investments, and the specifics regarding these policies can be found on the OST website at <http://www.treasurer.state.ok.us/>. The State Treasurer, at his discretion, may further limit or restrict such investments on a day to day basis. *OK INVEST* includes a substantial investment in securities with an overnight maturity as well as in U.S. government securities with a maturity of up to three years. *OK INVEST* maintains an overall weighted average maturity of less than 270 days. Participants in *OK INVEST* maintain an interest in its underlying investments and, accordingly, may be exposed to certain risks. As stated in the OST information statement, the main risks are interest rate risk, credit/default risk, liquidity risk, and U.S. government securities risk. **Interest rate risk** is the risk that during periods of rising interest rates, the yield and market value of the securities will tend to be lower than prevailing market rates; in periods of falling interest rates, the yield will tend to be higher. **Credit/default risk** is the risk that an issuer or guarantor of a security, or a bank or other financial institution that has entered into a repurchase agreement, may default on its payment obligations. **Liquidity risk** is the risk that *OK INVEST* will be unable to pay redemption proceeds within the stated time period because of unusual market conditions, an unusually high volume of redemption requests, or other reasons. **U.S. Government securities risk** is the risk that the U.S. government will not provide financial support to U.S. government agencies, instrumentalities or sponsored enterprises if it is not obligated to do so by law. Various investment restrictions and limitations are enumerated in the State Treasurer's Investment Policy to mitigate those risks; however, any interest in *OK INVEST* is not insured or guaranteed by the State of Oklahoma, the Federal Deposit Insurance Corporation or any other government agency.

*Investments*

Investment **credit risk** is the risk that an issuer or other counterparty to an investment will not fulfill its obligations. Generally, the University's investments are managed by the State Treasurer. In accordance with state statutes the State Treasurer may only purchase and invest in (a) obligations of the United States government, its agencies and instrumentalities; (b) prime banker's acceptances;

**SOUTHWESTERN OKLAHOMA STATE UNIVERSITY**  
**NOTES TO FINANCIAL STATEMENTS**  
**JUNE 30, 2007**

**II. Deposits and Investments (continued)**

(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 the 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, 2007 and 2006, none of the University's investments were subject to custody credit risk.

At June 30, 2007 and 2006, the University held non-negotiable certificates of deposit totaling \$ 0 and \$0, respectively. Certificates of deposit are not rated by credit rating agencies. At June 30, 2007 and 2006, the University had investments in money market funds totaling \$1,000,000 and \$0, respectively as part of the ODFA Lease program. These funds had a fair market value of \$1,000,000 at June 30, 2007. The money market funds are not subject to maturity dates and are due on demand. The money market funds had an average credit rating of AAAM at June 30, 2007 according to Standard and Poor's.

*Bond fund cash and investments*

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

Marketable securities are stated at fair value. The securities consist of investment in mutual funds and common stocks. Fair values and unrealized appreciation consists of the following:

**SOUTHWESTERN OKLAHOMA STATE UNIVERSITY**  
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**II. Deposits and Investments (continued)**

**Southwestern Oklahoma State University Foundation, Inc.**

As of December 31, 2006

	<u>Cost</u>	<u>Unrealized Fair Value</u>	<u>Appreciation</u>
Marketable securities	\$8,826,297	\$10,307,032	\$1,480,735

As of December 31, 2005

	<u>Cost</u>	<u>Unrealized Fair Value</u>	<u>Appreciation</u>
Marketable securities	\$8,044,041	\$8,767,461	\$723,420

These investments are restricted to the extent of temporarily and permanently restricted net assets.

Financial instruments that potentially subject the Foundation to credit risk consist principally of unconditional promises to give and other receivables.

The Foundation maintains its cash in bank deposit accounts, which at times exceed Federally insured limits. The Foundation has not experienced any losses in such accounts. The Foundation believes it is not exposed to any significant credit risk on these accounts. The Foundation also participates in diversified asset mutual funds and common equity securities, which are not covered by FDIC insurance. These funds are reported as marketable securities, except for cash management accounts that are reported as cash and cash equivalents.

**Southwestern Pharmacy Alumni Foundation, Inc.**

*Investments*

Cost, unrealized gain or loss and carrying amounts and approximate market values of investments are summarized as follows:

December 31, 2006

	Cost	Unrealized Gain or Loss	Carrying Value
Mutual funds	\$ 801,439	\$ 139,406	\$ 940,845
GNMA securities	105	-	105
Certificates of deposit	<u>1,430,000</u>	<u>-</u>	<u>1,430,000</u>
	<u>\$2,231,544</u>	<u>\$ 139,406</u>	<u>\$2,370,950</u>

**SOUTHWESTERN OKLAHOMA STATE UNIVERSITY**  
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**II. Deposits and Investments (continued)**

**Southwestern Pharmacy Alumni Foundation, Inc. (continued)**

December 31, 2005

	Cost	Unrealized Gain or Loss	Carrying Value
Mutual funds	\$ 724,292	\$ 79,514	\$ 803,806
GNMA securities	204	-	204
Certificates of deposit	<u>1,466,000</u>	-	<u>1,466,000</u>
	<u>\$2,190,496</u>	<u>\$ 79,514</u>	<u>\$2,270,010</u>

**III. Accounts Receivable**

Accounts receivable consisted of the following at June 30, 2007 and 2006:

	2007	2006
Student tuition and fees	\$ 667,765	\$ 498,203
Auxiliary enterprise and other operating activities	483,006	439,579
Federal, state, and private grants, and contracts	<u>472,909</u>	<u>466,209</u>
	1,623,680	1,403,991
Less allowance for doubtful accounts	<u>(561,266)</u>	<u>(462,633)</u>
Net accounts receivable	<u>\$ 1,062,414</u>	<u>\$ 941,358</u>

**Southwestern Oklahoma State University Foundation, Inc.**

	2006	2005
Unconditional promises to give consists of the following:		
Unrestricted promises	\$ -	\$ -
Restricted promises	<u>34,000</u>	<u>84,400</u>
	<u>34,000</u>	<u>84,400</u>
Amounts due in:		
Less than one year	23,000	60,400
One to five years	<u>11,000</u>	<u>24,000</u>
	<u>\$ 34,000</u>	<u>\$ 84,400</u>

Unconditional promises to give in more than one year are not reflected at present value of estimated future cash flows, as the amount of discount is not material. At December 31, 2006, Promises to give are reported as temporarily restricted contributions since they are not available for expenditure until received.

**SOUTHWESTERN OKLAHOMA STATE UNIVERSITY**  
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**III. Accounts Receivable (continued)**

**Southwestern Pharmacy Alumni Foundation, Inc.**

Pledges Receivable

Total unconditional promises to give, were as follows at December 31, 2006 and 2005.

	<u>2006</u>	<u>2005</u>
Receivable in less than one year	\$ 25,850	\$ 23,330
Receivable in one to five years	24,600	42,090
	<u>\$ 50,450</u>	<u>\$ 65,420</u>

All pledges were deemed collectible. The present value of cash flows from recorded promises to give approximates the stated value and no discount has been recorded.

**IV. Notes Receivable**

The loans receivable balance at June 30, 2007 and 2006, consist 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, 2007 and 2006, loans receivable consisted of the following:

	<u>2007</u>	<u>2006</u>
Loans receivable	\$ 138,263	\$ 116,988
Less allowance for uncollectible loans	<u>(47,947)</u>	<u>(35,814)</u>
Net notes receivable	<u>\$ 90,316</u>	<u>\$ 81,174</u>

**Southwestern Pharmacy Alumni Foundation, Inc.**

*Loans Receivable*

The breakdown of loans receivable at December 31, 2006 and 2005 is as follows:

	<u>2006</u>	<u>2005</u>
Burroughs Welcome Fund	<u>\$ 2,000</u>	<u>\$ 2,650</u>

**SOUTHWESTERN OKLAHOMA STATE UNIVERSITY**  
**NOTES TO FINANCIAL STATEMENTS**  
**JUNE 30, 2007**

**IV. Notes Receivable (continued)**

**Southwestern Pharmacy Alumni Foundation, Inc. (continued)**

The Burroughs Welcome Fund loans are generally short-term non-interest bearing loans made to University pharmacy students in need of funds for short-term expenses.

Travel advances are short-term non-interest bearing loans made to faculty members of the School of Health Sciences upon approval by University officials. There were no travel advances at December 31, 2006 and 2005.

Nursing loans are generally short-term non-interest bearing loans made to nursing students in need of funds for short-term expenses. There were no nursing loans at December 31, 2006 or 2005.

Loans are all deemed to be collectible and no allowance for uncollectible accounts has been provided.

**V. Rental Property**

**Southwestern Oklahoma State University Foundation, Inc.**

The Foundation has acquired property and completed construction of a building during 2003. The Foundation has renewed a lease agreement with the University to lease the property for a one year term expiring June 30, 2007. 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 repair 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. At December 31, 2006, the University is committed to pay rentals which total \$35,000 through June 30, 2007. Also, the Foundation received a donation of real property located in Colony, Oklahoma. Most of this property is rented to the University at a nominal amount. The fair value of the rental is not recorded as the amount is immaterial. Two of the Colony properties were rented under short-term leases totaling \$2,627 for the year.

**SOUTHWESTERN OKLAHOMA STATE UNIVERSITY**  
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**VI. Capital Assets**

Following are the changes in capital assets for the year ended June 30, 2007:

	Balance June 30, 2006	Additions	Transfers	Retirements/ Adjustments	Balance June 30, 2007
Capital assets not being depreciated					
Land	\$ 922,350	\$ 1,180	\$ -	\$ -	\$ 923,530
Construction-in-progress	7,226,888	6,076,379	(9,204,809)	-	4,098,458
Total assets not being depreciated	<u>\$ 8,149,238</u>	<u>\$ 6,077,559</u>	<u>\$ (9,204,809)</u>	<u>\$ -</u>	<u>\$ 5,021,988</u>
Other capital assets					
Non-major infrastructure networks	\$ 726,712	\$ 178,095	\$ -	\$ -	\$ 904,807
Land improvements	932,741	-	-	-	932,741
Buildings	41,847,486	169,120	9,204,809	-	51,221,415
Furniture, fixtures and equipment	8,063,121	845,424	-	(6,654)	8,901,891
Library materials	12,943,522	686,540	-	(109,331)	13,520,731
Total other capital assets	<u>64,513,582</u>	<u>1,879,179</u>	<u>9,204,809</u>	<u>(115,985)</u>	<u>75,481,585</u>
Less accumulated depreciation for					
Non-major infrastructure networks	(494,209)	(87,603)	-	-	(581,812)
Land improvements	(729,937)	(34,281)	-	-	(764,218)
Buildings	(18,899,236)	(1,052,572)	-	-	(19,951,808)
Furniture, fixtures and equipment	(6,067,191)	(752,765)	-	6,654	(6,813,302)
Library materials	(11,319,603)	(667,288)	-	109,331	(11,877,560)
Total accumulated depreciation	<u>(37,510,176)</u>	<u>(2,594,509)</u>	<u>-</u>	<u>115,985</u>	<u>(39,988,700)</u>
Other capital assets, net	<u>\$ 27,003,406</u>	<u>\$ (715,330)</u>	<u>\$ 9,204,809</u>	<u>\$ -</u>	<u>\$ 35,492,885</u>
Capital asset summary:					
Capital assets not being depreciated	\$ 8,149,238	\$ 6,077,559	\$ (9,204,809)	\$ -	\$ 5,021,988
Other capital assets, at cost	64,513,582	1,879,179	9,204,809	(115,985)	75,481,585
Total cost of capital assets	<u>72,662,820</u>	<u>7,956,738</u>	<u>-</u>	<u>(115,985)</u>	<u>80,503,573</u>
Less accumulated depreciation	(37,510,176)	(2,594,509)	-	115,985	(39,988,700)
Capital assets, net	<u>\$ 35,152,644</u>	<u>\$ 5,362,229</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 40,514,873</u>

At June 30, 2007, the cost and related accumulated depreciation of assets (equipment) held under capital lease obligations was \$4,747,429 and \$1,619,085, respectively.

**SOUTHWESTERN OKLAHOMA STATE UNIVERSITY**  
**NOTES TO FINANCIAL STATEMENTS**  
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**VI. Capital Assets (continued)**

Following are the changes in capital assets for the year ended June 30, 2006:

	Balance June 30, 2005	Additions	Transfers	Retirements/ Adjustments	Balance June 30, 2006
Capital assets not being depreciated					
Land	\$ 920,070	\$ 2,280	\$ -	\$ -	\$ 922,350
Construction-in-progress	8,591,497	5,583,384	-	(6,947,993)	7,226,888
Total assets not being depreciated	<u>\$ 9,511,567</u>	<u>\$ 5,585,664</u>	<u>\$ -</u>	<u>\$ (6,947,993)</u>	<u>\$ 8,149,238</u>
Other capital assets					
Non-major infrastructure networks	\$ 726,712	\$ -	\$ -	\$ -	\$ 726,712
Land improvements	932,741	-	-	-	932,741
Buildings	34,899,493	6,947,993	-	-	41,847,486
Furniture, fixtures and equipment	7,275,690	1,340,944	-	(553,513)	8,063,121
Library materials	12,380,718	661,377	-	(98,573)	12,943,522
Total other capital assets	<u>56,215,354</u>	<u>8,950,314</u>	<u>-</u>	<u>(652,086)</u>	<u>64,513,582</u>
Less accumulated depreciation for					
Non-major infrastructure networks	(435,512)	(58,697)	-	-	(494,209)
Land improvements	(699,809)	(30,128)	-	-	(729,937)
Buildings	(18,048,438)	(850,798)	-	-	(18,899,236)
Furniture, fixtures and equipment	(5,957,014)	(663,690)	-	553,513	(6,067,191)
Library materials	(10,741,824)	(676,352)	-	98,573	(11,319,603)
Total accumulated depreciation	<u>(35,882,597)</u>	<u>(2,279,665)</u>	<u>-</u>	<u>652,086</u>	<u>(37,510,176)</u>
Other capital assets, net	<u>\$ 20,332,757</u>	<u>\$ 6,670,649</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 27,003,406</u>
Capital asset summary:					
Capital assets not being depreciated	\$ 9,511,567	\$ 5,585,664	\$ -	\$ (6,947,993)	\$ 8,149,238
Other capital assets, at cost	56,215,354	8,950,314	-	(652,086)	64,513,582
Total cost of capital assets	<u>65,726,921</u>	<u>14,535,978</u>	<u>-</u>	<u>(7,600,079)</u>	<u>72,662,820</u>
Less accumulated depreciation	(35,882,597)	(2,279,665)	-	652,086	(37,510,176)
Capital assets, net	<u>\$ 29,844,324</u>	<u>\$ 12,256,313</u>	<u>\$ -</u>	<u>\$ (6,947,993)</u>	<u>\$ 35,152,644</u>

At June 30, 2006, the cost and related accumulated depreciation of assets (equipment) held under capital lease obligations was \$2,747,429 and \$1,328,542, respectively.

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

**SOUTHWESTERN OKLAHOMA STATE UNIVERSITY**  
**NOTES TO FINANCIAL STATEMENTS**  
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**VI. Capital Assets (continued)**

**Southwestern Oklahoma State University Foundation, Inc.**

The following is a summary of property and equipment at December 31, 2006.

Rental Property						
Land	\$	120,000	\$	120,000		
Buildings	\$	766,049	\$	66,268	\$	699,781
Office Equipment	\$	4,185	\$	889	\$	3,296
	\$	890,234	\$	67,157	\$	823,077

**SOUTHWESTERN OKLAHOMA STATE UNIVERSITY**  
**NOTES TO FINANCIAL STATEMENTS**  
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**VII. Long-term Liabilities**

Long-term liability activity for the year ended June 30, 2007 was as follows:

	Balance June 30, 2006	Additions	Reductions	Balance June 30, 2007	Amounts due within one year
Bonds and Capital Leases					
Capital lease obligations	\$ 13,721,939	\$ 2,023,000	\$ (332,763)	\$ 15,412,176	\$ 653,818
Revenue bonds payable	7,415,000	-	(305,000)	7,110,000	310,000
Total bonds and capital leases	21,136,939	2,023,000	(637,763)	22,522,176	963,818
Other liabilities					
Accrued compensated absences	1,005,744	667,378	(495,248)	1,177,874	668,585
Total other liabilities	1,005,744	667,378	(495,248)	1,177,874	668,585
		-			
Total long-term liabilities	<u>\$ 22,142,683</u>	<u>\$ 2,690,378</u>	<u>\$ (1,133,011)</u>	<u>\$ 23,700,050</u>	<u>\$ 1,632,403</u>

Long-term liability activity for the year ended June 30, 2006 was as follows:

	Balance June 30, 2005	Additions	Reductions	Balance June 30, 2006	Amounts due within one year
Bonds and Capital Leases					
OCIA lease obligation	\$ 2,327,331	\$ 11,640,758	\$ (246,150)	\$ 13,721,939	\$ 328,266
Revenue bonds payable	7,710,000	-	(295,000)	7,415,000	305,000
Total bonds and capital leases	10,037,331	11,640,758	(541,150)	21,136,939	633,266
Other liabilities					
Accrued compensated absences	880,150	621,268	(495,674)	1,005,744	673,365
Total other liabilities	880,150	621,268	(495,674)	1,005,744	673,365
Total long-term liabilities	<u>\$ 10,917,481</u>	<u>\$ 12,262,026</u>	<u>\$ (1,036,824)</u>	<u>\$ 22,142,683</u>	<u>\$ 1,306,631</u>

**Capital Lease Obligations**

*Oklahoma Capital Improvement Authority Lease Obligation*

In September 1999, the Oklahoma Capital Improvement Authority (OCIA) issued its OCIA Bond Issues, 2000 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 agreement, ranging from 4 to 20 years. The proceeds of the bonds and subsequent lease are to provide for capital improvements at the University.

**SOUTHWESTERN OKLAHOMA STATE UNIVERSITY**  
**NOTES TO FINANCIAL STATEMENTS**  
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**VII. Long-term Liabilities (continued)**

During the 2006 legislative session, the Oklahoma Capital Improvement Authority (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.

The University has recorded a lease obligation payable to OCIA for the total amount of the allotment, less the repayments made during the fiscal year. The University has also recorded an asset for its pro-rata share of the bond issuance costs, and is amortizing that asset over the term of the lease agreement. At June 30, 2007 and 2006, the unamortized bond issuance costs totaled \$162,839 and \$153,758, respectively.

During the years ended June 30, 2007 and 2006, OCIA made lease principal and interest payments totaling \$792,921 and \$130,522, respectively, on behalf of the University. These on-behalf payments have been recorded as restricted state appropriations in the statements of revenues, expenses and changes in net assets.

*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 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 June 1, 2014. The proceeds of the bonds and subsequent leases are to provide for capital improvements to the University.

In May 2005, the ODFA issued its ODFA Master Lease Revenue Bonds, Series 2005A. Of the total bond indebtedness, the State Regents for Higher Education allocated \$250,000 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, 2012. The proceeds of the bonds and subsequent leases are to provide for six vans for the University.

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.

**SOUTHWESTERN OKLAHOMA STATE UNIVERSITY**  
**NOTES TO FINANCIAL STATEMENTS**  
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**VII. Long-term Liabilities (continued)**

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 payments 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.

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

Year Ending June 30:	Principal	Interest	Total
2008	\$ 626,818	\$ 668,736	\$ 1,295,554
2009	695,598	645,453	1,341,051
2010	631,990	618,685	1,250,675
2011	595,014	595,080	1,190,094
2012	613,826	572,680	1,186,506
2013-2017	2,927,161	2,495,363	5,422,524
2018-2022	3,201,612	1,856,067	5,057,679
2023-2027	3,888,503	1,083,770	4,972,273
2028-2031	2,231,654	225,517	2,457,171
	<u>\$ 15,412,176</u>	<u>\$ 8,761,351</u>	<u>\$ 24,173,527</u>

**Revenue Bonds Payable**

*Southwestern Oklahoma State University Revenue Bonds, Series 2003*

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

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

**SOUTHWESTERN OKLAHOMA STATE UNIVERSITY  
NOTES TO FINANCIAL STATEMENTS  
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**VII. Long-term Liabilities (continued)**

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

Year Ending June 30:	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2008	\$ 310,000	\$ 289,135	\$ 599,135
2009	315,000	280,990	595,990
2010	325,000	271,474	596,474
2011	335,000	260,497	595,497
2012	345,000	252,416	597,416
2013-2017	1,950,000	1,032,762	2,982,762
2018-2022	2,405,000	559,906	2,964,906
2023-2024	1,125,000	55,031	1,180,031
	<u>\$ 7,110,000</u>	<u>\$ 3,002,212</u>	<u>\$ 10,112,212</u>

**VIII. Note Payable to Bank**

**Southwestern Oklahoma State University Foundation, Inc.**

Note payable to bank consists of a demand note payable with a provision for monthly payments until October 20, 2013. If the bank does not demand payment of the note, the following payment schedule will apply:

	<u>Interest Rate</u>	<u>Monthly Payment</u>
November 20, 2003 to October 20, 2008	5%	\$ 5,303
November 20, 2008 to October 20, 2013	6%	\$ 5,460

During 2005, the Foundation made additional principal payments of \$163,148. The foundation paid off the note payable in 2006.

The note is secured by shares of a mutual fund.

Interest Expense was \$3,777 for 2006 and \$13,211 for 2005.

**SOUTHWESTERN OKLAHOMA STATE UNIVERSITY**  
**NOTES TO FINANCIAL STATEMENTS**  
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**IX. 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, which is a State of Oklahoma public employees' retirement system, the Teachers' Insurance Annuity Association, which is a defined contribution plan, and the Supplemental Retirement Annuity, 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.

Oklahoma Teachers' Retirement System (OTRS)

Plan Description

The University contributes to the Oklahoma Teachers' Retirement System, a cost-sharing multiple-employer defined benefit pension plan sponsored by the State of Oklahoma. OTRS provides defined retirement benefits based on members' final compensation, age and term of service. In addition, the retirement program provides for benefits upon disability and to survivors upon the death of eligible members. The benefit provisions are established and may be amended by the legislature of the State of Oklahoma. Title 70 of the Oklahoma Statutes, Sections 17-101 through 17-116.9, as amended, assigns the authority for management and operation of the Plan to the Board of Trustees of OTRS. The OTRS issues a publicly available financial report that includes financial statement 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 member. The employer contribution rate was 7.05% for 2007 and 2006, respectively, 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 2007 and 2006, respectively. 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 the OTRS for the years ended June 30, 2007, and 2006, were approximately \$2,002,720 and \$3,729,121 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 2007, the State of Oklahoma contributed 3.54% of state revenues from sales and use taxes and individual income taxes to the OTRS on behalf of participating employers. The

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**IX. Retirement Plans (continued)**

University has estimated the amounts contributed to the OTRS by the State of Oklahoma on its behalf by multiplying the ratio of its covered salaries to total covered salaries to total covered salaries for the OTRS for the year by the applicable percentage of taxes collected during the year. For the years ended June 30, 2007 and 2006, the total amounts contributed to the OTRS by the State of Oklahoma on behalf of the University were approximately \$1,854,898 and \$1,790,759, respectively. These on-behalf payments have been recorded as both revenues and expenses in the statements of revenues, expenses and changes in net assets.

**Supplemental Retirement Annuity (SRA)**

**Plan Description**

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

**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.

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**IX. Retirement Plans (continued)**

Annual Pension Cost and Net Pension Obligation (Asset)

Annual pension cost and net pension obligation (asset) of the SRA for 2007 and 2006 are as follows:

	2007	2006
Annual required contribution	\$ 272,686	\$ 312,511
Interest on net pension obligation (asset)	(215,735)	(159,829)
Adjustment to annual required contribution	274,664	203,487
Annual pension cost	331,615	356,169
Contributions made	(999,000)	(1,055,000)
Change in net pension obligation (asset)	(667,385)	(698,831)
Net pension obligation (asset) at beginning of year	(2,696,693)	(1,997,862)
Net pension obligation (asset) at end of year	\$ (3,364,078)	\$ (2,696,693)

The annual required contribution for 2007 was determined as part of an actuarial valuation on June 30, 2007, using the projected unit credit actuarial cost method. The actuarial assumptions included (a) a discount rate of 8% per year to determine the present value of future benefit payments; (b) retirement at age 65; (c) an 8% rate of return on investments; and (d) projected salary increases of 3.5% 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 fifteen years as a level dollar amount on a closed basis.

Trend Information

Year Ended June 30	Annual Pension Cost (APC)	Percentage of APC Contributed	Net Pension Obligation (Asset)
2007	\$ 331,615	301.3%	\$ (3,364,078)
2006	356,169	296.2%	\$ (2,696,693)
2005	280,819	284.9%	(1,997,862)

**Southwestern Pharmacy Alumni Foundation, Inc.**

The Pharmacy Foundation contributed \$2,336 into an IRA for its full-time employee in 2006 and 2005. The foundation contracted this employee through the University in 2006; therefore there were no contributions to the IRA in 2006.

**X. 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

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**X. Other Post-Employment Insurance Benefits (continued)**

Regents in 1985. The insurance benefits for current retirees are accounted for on a cash basis so that premium payments are made from current operational funds. For the years ended June 30, 2007 and 2006, the University's contributions for retired employees' health insurance premiums totaled approximately \$185,216 and \$231,606, respectively, and life insurance premiums totaled approximately \$11,434 and \$14,677, respectively.

**XI. 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 approximately \$550,625 and \$492,768 during the years ended June 30, 2007 and 2006, respectively, which is restricted to the construction or acquisition of buildings, equipment, or other capital items. These amounts are recorded as capital gifts and grants in the statements of revenues, expenses and changes in net assets. State law prohibits the distribution of any corpus of these funds to the beneficiaries. The total trust fund for Southwestern Oklahoma State University, held in trust by the Commissioners of the Land Office, was approximately \$12,924,497 and \$11,560,527 at June 30, 2007 and 2006, respectively.

**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 Endowment Program. The match amounts, plus any retained accumulated earnings, totaled approximately \$1,625,695 and \$1,200,704 at June 30, 2007 and 2006, respectively, and is 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; however, since legal title of the match amount is retained by the Oklahoma State Regents, such funds have not been reflected in the accompanying financial statements. With regards to institutional funds, investments totaling approximately \$246,686 and \$217,175 at June 30, 2007 and 2006, respectively, are included in the financial statements of the University.

**XII. 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.

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**XII. Commitments and Contingencies (continued)**

The University participates in the Federal Family Education Loan Program (the “FFEL Program”). The FFEL Program does not require the University to draw down cash; however, the University is required to perform certain administrative functions under the FFEL Program. Failure to perform such functions may require the University to reimburse the loan guarantee agencies. For the years ended June 30, 2007 and 2006, approximately \$15,995,654 and \$15,876,061, respectively, of FFEL Program loans were provided to University students.

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.

**XIII. Risk Management**

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

The University, along with other state agencies and political subdivisions, participates in the State of Oklahoma Risk Management Program and the State Insurance Fund, public entity risk pools currently operating as a common risk management and insurance program for its members. The University pays annual premiums to the pools for tort, property, and liability insurance coverage. The 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.

**SOUTHWESTERN OKLAHOMA STATE UNIVERSITY**  
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**XIV. Segment Reporting**

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

**Southwestern Oklahoma State University Revenue Bonds, Series 2003**

<b>Condensed Statement of Net Assets</b>	<b><u>June 30, 2007</u></b>	<b><u>June 30, 2006</u></b>
Assets:		
Current assets	\$ 751,900	\$ 759,005
Capital assets	7,754,308	7,927,808
Other assets	122,870	130,470
	<u>Total assets</u>	<u>8,817,283</u>
	8,629,078	8,817,283
Liabilities:		
Current Liabilities	98,360	100,392
Long-term Liabilities	7,110,000	7,415,000
	<u>Total liabilities</u>	<u>7,515,392</u>
	7,208,360	7,515,392
Net Assets:		
Unrestricted	-	-
Restricted for debt service	751,900	759,005
Invested in capital assets, net of debt	668,818	542,886
	<u>Total net assets</u>	<u>\$ 1,301,891</u>
	\$ 1,420,718	\$ 1,301,891

<b>Condensed Statement of Revenue, Expenses and Changes in Net Assets</b>	<b>Years Ended</b>	
	<b><u>June 30, 2007</u></b>	<b><u>June 30, 2006</u></b>
Operating revenue	\$ 601,230	\$ 1,003,037
Depreciation expense	(173,700)	(86,850)
Other operating expenses	(7,600)	(7,600)
	<u>Net operating revenues</u>	<u>908,587</u>
	419,930	908,587
Nonoperating income (expense)		
Investment income	-	28,574
	<u>Net nonoperating income</u>	<u>28,574</u>
	-	28,574
Transfers	(301,103)	(928,535)
	<u>Change in net assets</u>	<u>8,626</u>
	118,827	8,626
Net asset at beginning of year	1,301,891	1,293,265
Net assets at end of year	<u>\$ 1,420,718</u>	<u>\$ 1,301,891</u>
	\$ 1,420,718	\$ 1,301,891

<b>Consolidated Statement of Cash Flows</b>		
Net cash flows provided by operating activities	\$ 305,000	\$ 1,003,037
Net cash flows provided by capital and related financing activities	-	(3,302,325)
Net cash flows provided by investing activities	(305,000)	(295,000)
	<u>Net increase (decrease) in cash</u>	<u>(2,594,288)</u>
	-	(2,594,288)
Cash at beginning of year	-	2,594,288
Cash at end of year	<u>\$ -</u>	<u>\$ -</u>
	\$ -	\$ -

**SOUTHWESTERN OKLAHOMA STATE UNIVERSITY**  
**NOTES TO FINANCIAL STATEMENTS**  
**JUNE 30, 2007**

**XV. Functional Allocation of Expenses**

**Southwestern Oklahoma State University Foundation, Inc.**

The costs of providing the various programs and other activities have been summarized on a functional basis in the statement of activities. Accordingly, certain costs have been allocated among the programs and supporting services benefited.

**XVI. Accounting Standards Issued Not Yet Adopted**

In June 2004, GASB issued Statement No. 45, *Accounting and Financial Reporting By Employers for Postemployment Benefits Other Than Pensions*. For the University, Statement No. 45 is effective for periods beginning after December 15, 2007. Statement No. 45 establishes standards for the measurement, recognition and display of Other Postemployment Benefits (OPEB) expenses and related liabilities (assets), note disclosures and, if applicable, required supplementary information (RSI) in the financial statements of the University.

In September 2006, GASB issued Statement No. 48, *Sales and Pledges of Receivables and Future Revenues and Intra-Entity Transfers of Assets and Future Revenues*. This Statement establishes criteria that governments will use to ascertain whether proceeds received should be reported as revenue or as a liability. GASB Statement No. 48 is effective for periods beginning after December 15, 2006.

In December 2006, GASB issued Statement No. 49, *Sales Accounting and Financial Reporting for Pollution Remediation Obligations*. This statement provides governments with better accounting guidance and consistency on identifying the circumstances under which an entity would be required to report a liability related to pollution remediation. GASB Statement No. 49 is effective for periods beginning after December 15, 2007.

In May 2007, GASB issued Statement No. 50, *Pension Disclosures--an amendment of GASB Statements No. 25 and No. 27*. This Statement amends Statements 25 and 27 to require defined benefit pension plans and sole and agent employer's present specific information related to note disclosures or required supplementary information. GASB Statement No. 50 is effective for periods beginning after June 15, 2007.

In July 2007, GASB issued Statement No. 51 *Sales Accounting and Financial Reporting for Intangible Assets*. Statement 51 provides additional guidance that addresses the unique nature of intangible assets. GASB Statement No. 51 is effective for periods beginning after June 15, 2009.

**SOUTHWESTERN OKLAHOMA STATE UNIVERSITY**  
**NOTES TO FINANCIAL STATEMENTS**  
**JUNE 30, 2007**

**XVII. Related Party Transactions**

The University leases a building for 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, 2007.

**Southwestern Pharmacy Alumni Foundation, Inc.**

The Pharmacy Foundation leases certain facilities from the University pursuant to an agreement dated July 1, 2001 at no additional cost in exchange for the Pharmacy Foundation's continued donations of equipment to the University and scholarships and grants to University students.

**XVIII. Funds Released From Restrictions**

**Southwestern Pharmacy Alumni Foundation, Inc.**

Net assets released from restrictions in 2006 and 2005, respectively, are as follows:

	<u>2006</u>	<u>2005</u>
Scholarships	\$ 41,100	\$ 39,250
Program expenses	13,187	17,373
Time restrictions	<u>14,970</u>	<u>-</u>
	<u>\$ 69,257</u>	<u>\$ 56,623</u>

Restrictions on Net Assets are as Follows:

	<u>2006</u>	
	<u>Temporarily Restricted</u>	<u>Permanently Restricted</u>
Scholarship Endowments	\$ 240,123	\$ 812,708
Special Net Assets	<u>227,521</u>	<u>3,125</u>
	<u>\$ 467,644</u>	<u>\$ 815,833</u>

**XIX. Continuing Education**

**Southwestern Pharmacy Alumni Foundation, Inc.**

The Pharmacy Foundation sponsors continuing education courses to enable pharmacists to comply with requirements of the State Board of Pharmacists. These courses are designed to inform pharmacy graduates of changes in the field of pharmacy.

**SOUTHWESTERN OKLAHOMA STATE UNIVERSITY**  
**NOTES TO FINANCIAL STATEMENTS**  
**JUNE 30, 2007**

**XX. Contributions**

**Southwestern Pharmacy Alumni Foundation, Inc.**

The Pharmacy Foundation is responsible for the administration of various scholarship and memorial funds established by individuals and the Board of Directors of the Pharmacy Foundation. Contributions are made by former students, faculty and the general public.

**XXI. Southwestern Pharmacy Alumni Association**

**Southwestern Pharmacy Alumni Foundation, Inc.**

Graduates of the University School of Pharmacy and friends of the Southwestern School of Pharmacy are eligible to join this association and are required to pay dues to maintain their membership.

**XXII. Scholarships**

**Southwestern Pharmacy Alumni Foundation, Inc.**

Scholarships are given to University pharmacy students based on need, leadership ability, scholastic achievement, and other qualifications as required by the donor of the scholarship or memorial funds.

**XXIII. Focus Campaign**

**Southwestern Pharmacy Alumni Foundation, Inc.**

The Focus Campaign is a fundraiser initiated by the University. The Pharmacy Foundation was invited to participate in this campaign in 2004 and has a goal set at \$650,000 to \$1,000,000 by 2009. At December 31, 2006, \$103,200 has been pledged and \$50,450 is included in pledges receivable.

A contract was entered into during 2004 at the direction of the Board with Cargill Associates to provide services related to the fund raising campaign. For the year ended December 31, 2006 and 2005, the total fund raising expenses included in other program expenses is \$3,761 and \$1,377.

**XXIV. Taxes**

**Southwestern Pharmacy Alumni Foundation, Inc.**

The Pharmacy Foundation is exempt from Federal income taxes under Code Section 501(c) (3) and is classified as not a private foundation under Code Section 509(a)(1) and 170(b)(1)(A)(vi).

**SOUTHWESTERN OKLAHOMA STATE UNIVERSITY**  
**NOTES TO FINANCIAL STATEMENTS**  
**JUNE 30, 2007**

**XXV. Equity In Testamentary Trust**

**Southwestern Oklahoma State University Alumni Foundation, Inc.**

During the year, the Foundation received an endowment contribution of an interest in a testamentary trust. The trust provides for a distribution of income in perpetuity to the Foundation. Management is reporting the interest in the trust at an estimated value based on projected income distributions. No distributions were received in 2006.

**XXVI. Reclassifications**

**Southwestern Oklahoma State University Alumni Foundation, Inc.**

Certain amounts from the 2005 financial statements have been reclassified to conform to the 2006 presentation. Prior year financial statements include \$127,539 in temporarily restricted net assets which should have been reclassified as permanently restricted. These reclassifications resulted in no change to total assets, liabilities, net assets, or change in net assets of the Foundation.

**Southwestern Pharmacy Alumni Foundation, Inc.**

Certain reclassifications have been made to the 2005 financial statements to conform with 2006 financial statement presentation.

**SOUTHWESTERN OKLAHOMA STATE UNIVERSITY**  
**REQUIRED SUPPLEMENTAL INFORMATION - SCHEDULE OF FUNDING PROGRESS FOR**  
**SUPPLEMENTAL RETIREMENT ANNUITY PLAN**  
**JUNE 30, 2007**

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 )
6/30/2003	2,178,200	2,608,271	430,071	83.51%	8,369,829	5.14%
6/30/2004	2,181,706	4,098,042	1,916,336	53.24%	8,747,710	21.91%
6/30/2005	2,789,618	5,172,523	2,382,905	53.93%	8,502,040	28.03%
6/30/2006	3,608,439	5,588,450	1,980,011	64.57%	8,228,504	24.06%
6/30/2007	4,403,040	5,866,504	1,463,464	75.05%	7,987,340	18.32%

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

**SOUTHWESTERN OKLAHOMA STATE UNIVERSITY**  
**OTHER SUPPLEMENTAL INFORMATION - DISCRETELY PRESENTED COMPONENT UNITS**  
**COMBINING SCHEDULE OF FINANCIAL POSITION**  
**DECEMBER 31, 2006**  
**(FISCAL YEAR END OF COMPONENT UNITS)**

	<u>Foundation</u>	<u>Pharmacy</u>	<u>Total</u>
<b><u>Assets</u></b>			
Cash and cash equivalents	\$ 170,010	\$ 284,339	\$ 454,349
Certificates of deposit	576	50,450	51,026
Pledges receivable	-	25,120	25,120
Interest receivable	-	-	-
Investments	-	2,370,950	2,370,950
Loans Receivable	-	2,000	2,000
Marketable securities, restricted and partially pledged	10,307,032		10,307,032
Equity in Testamentary Trust	580,000		580,000
Unconditional promises to give	34,000		34,000
Receivable from trust	-		-
Cash surrender value of life insurance policies	187,212		187,212
Mineral right's, net of amortization	-		-
Land held for investment	-		-
Rental property:			
Land	120,000		120,000
Building, net	699,781		699,781
Office equipment, net	3,296		3,296
<b>Total Assets</b>	<b><u>\$ 12,101,907</u></b>	<b><u>\$ 2,732,859</u></b>	<b><u>\$ 14,834,766</u></b>
<b><u>Liabilities</u></b>			
Note payable to bank	-	-	-
Accounts payable	22,231	-	22,231
<b>Total Liabilities</b>	<b><u>22,231</u></b>	<b><u>-</u></b>	<b><u>22,231</u></b>
<b><u>Net Assets</u></b>			
Unrestricted	1,158,648	1,449,382	2,608,030
Temporarily restricted	1,708,263	467,644	2,175,907
Permanently restricted	9,212,765	815,833	10,028,598
<b>Total Net Assets</b>	<b><u>12,079,676</u></b>	<b><u>2,732,859</u></b>	<b><u>14,812,535</u></b>
<b>Total Liabilities and Net Assets</b>	<b><u>\$ 12,101,907</u></b>	<b><u>\$ 2,732,859</u></b>	<b><u>\$ 14,834,766</u></b>

**SOUTHWESTERN OKLAHOMA STATE UNIVERSITY**  
**OTHER SUPPLEMENTAL INFORMATION - DISCRETELY PRESENTED COMPONENT UNITS**  
**COMBINING SCHEDULE OF FINANCIAL POSITION**  
**DECEMBER 31, 2005**  
**(FISCAL YEAR END OF COMPONENT UNITS)**

	<u>Foundation</u>	<u>Pharmacy</u>	<u>Total</u>
<b><u>Assets</u></b>			
Cash and cash equivalents	\$ 226,314	\$ 116,020	\$ 342,334
Certificates of deposit	557	-	557
Pledges receivable	-	65,420	65,420
Interest receivable	-	17,496	17,496
Investments	-	2,270,010	2,270,010
Loans Receivable	-	2,650	2,650
Marketable securities, restricted and partially pledged	8,767,461	-	8,767,461
Equity in Testamentary Trust	580,000	-	580,000
Unconditional promises to give	84,400	-	84,400
Receivable from trust	127,539	-	127,539
Cash surrender value of life insurance policies	177,025	-	177,025
Mineral right's, net of amortization	3,140	-	3,140
Land held for investment	77,520	-	77,520
Rental property:			
Land	127,300	-	127,300
Building, net	711,450	-	711,450
Office equipment, net	3,714	-	3,714
<b>Total Assets</b>	<b><u>\$ 10,886,420</u></b>	<b><u>\$ 2,471,596</u></b>	<b><u>\$ 13,358,016</u></b>
<b><u>Liabilities</u></b>			
Note payable to bank	217,153	-	217,153
Accounts payable	47,657	-	47,657
<b>Total Liabilities</b>	<b><u>264,810</u></b>	<b><u>-</u></b>	<b><u>264,810</u></b>
<b><u>Net Assets</u></b>			
Unrestricted	1,094,690	1,365,016	2,459,706
Temporarily restricted	1,716,404	395,863	2,112,267
Permanently restricted	7,810,516	710,717	8,521,233
<b>Total Net Assets</b>	<b><u>10,621,610</u></b>	<b><u>2,471,596</u></b>	<b><u>13,093,206</u></b>
<b>Total Liabilities and Net Assets</b>	<b><u>\$ 10,886,420</u></b>	<b><u>\$ 2,471,596</u></b>	<b><u>\$ 13,358,016</u></b>

**SOUTHWESTERN OKLAHOMA STATE UNIVERSITY**  
**OTHER SUPPLEMENTAL INFORMATION - DISCRETELY PRESENTED COMPONENT UNITS**  
**COMBINING SCHEDULE OF ACTIVITIES AND CHANGES IN NET ASSETS**  
**YEAR ENDED DECEMBER 31, 2006**  
**(FISCAL YEAR END OF COMPONENT UNITS)**

	<u>Foundation</u>	<u>Pharmacy</u>	<u>Totals</u>
Support, revenues, gains and other additions			
Contributions	\$ 652,943	\$ 205,643	\$ 858,586
Program service revenue	117,066	-	117,066
Interest and dividend income	342,890	64,737	407,627
Gain (loss) on sale of marketable securities	172,151	-	172,151
Unrealized gain on marketable securities, net	912,478	59,893	972,371
Building rental	72,978	-	72,978
Other revenue	47,333	29,637	76,970
Other investment income	-	77,981	77,981
Continuing education	-	77,064	77,064
	-	-	-
Net assets released from restrictions	-	-	-
	<u>2,317,839</u>	<u>514,955</u>	<u>2,832,794</u>
Expenses			
Program services for university	758,584	86,194	844,778
Supporting services:	-	-	-
Management and general	63,047	30,707	93,754
Fundraising	38,142	-	38,142
Continuing education expenses	-	58,535	58,535
Scholarships and Grants	-	69,675	69,675
School of Pharmacy	-	8,581	8,581
Total expenses	<u>859,773</u>	<u>253,692</u>	<u>1,113,465</u>
Net increase in assets	1,458,066	261,263	1,719,329
Net assets, beginning of year	<u>10,621,610</u>	<u>2,471,596</u>	<u>13,093,206</u>
Net assets, end of year	<u>\$ 12,079,676</u>	<u>\$ 2,732,859</u>	<u>\$ 14,812,535</u>

**SOUTHWESTERN OKLAHOMA STATE UNIVERSITY**  
**OTHER SUPPLEMENTAL INFORMATION - DISCRETELY PRESENTED COMPONENT UNITS**  
**COMBINING SCHEDULE OF ACTIVITIES AND CHANGES IN NET ASSETS**  
**YEAR ENDED DECEMBER 31, 2005**  
**(FISCAL YEAR END OF COMPONENT UNITS)**

	<u>Foundation</u>	<u>Pharmacy</u>	<u>Totals</u>
Support, revenues, gains and other additions			
Contributions	\$ 1,203,426	\$ 201,207	\$ 1,404,633
Program service revenue	131,626	-	131,626
Interest and dividend income	412,626	52,271	464,897
Gain (loss) on sale of marketable securities	43,958	-	43,958
Unrealized gain on marketable securities, net	(140,428)	1,422	(139,006)
Building rental	76,884	-	76,884
Other revenue	7,718	27,545	35,263
Other investment income	-	48,692	48,692
Continuing education	-	80,654	80,654
			-
Net assets released from restrictions	-	-	-
	<u>1,735,810</u>	<u>411,791</u>	<u>2,147,601</u>
Expenses			
Program services for university	715,220	60,978	776,198
Supporting services:	-	-	-
Management and general	65,576	37,676	103,252
Fundraising	10,324	-	10,324
Continuing education expenses	-	79,052	79,052
Scholarships and Grants	-	70,126	70,126
School of Pharmacy	-	15,677	15,677
Total expenses	<u>791,120</u>	<u>263,509</u>	<u>1,054,629</u>
Net increase in assets	944,690	148,282	1,092,972
Net assets, beginning of year	<u>9,676,920</u>	<u>2,323,314</u>	<u>12,000,234</u>
Net assets, end of year	<u>\$10,621,610</u>	<u>\$ 2,471,596</u>	<u>\$ 13,093,206</u>



**Havern,  
Behrens  
and Heim**

CERTIFIED PUBLIC ACCOUNTANTS

**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 Universities System of Oklahoma  
Southwestern Oklahoma State University  
Oklahoma City, Oklahoma

We have audited the financial statements of Southwestern Oklahoma State University (the "University"), component unit of the State of Oklahoma, as of and for the years ended June 30, 2007 and 2006, and have issued our report thereon dated October 13, 2007. Our report was modified to include a reference to 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. Other auditors audited the financial statements of Southwestern Oklahoma State University Foundation, Inc. and Southwestern Pharmacy Alumni Foundation, Inc. as described in our report on Southwestern Oklahoma State University's financial statements. The financial statements of Southwestern Oklahoma State University Foundation, Inc. and Southwestern Pharmacy Alumni Foundation, Inc. were not audited in accordance with *Government Auditing Standards*.

**Internal Control Over Financial Reporting**

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

A control deficiency exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect misstatements on a timely basis. A significant deficiency is a control deficiency, or combination of control deficiencies, that adversely affects the entity's ability to initiate, authorize, record, process, or report financial data reliably in accordance with generally accepted accounting principles such that there is more than a remote likelihood that a misstatement of the entity's financial statements that is more than inconsequential will not be prevented or detected by the entity's internal control. We consider the deficiency described in the accompanying *schedule of findings and responses related to internal control over financial reporting and compliance and other matters* to be significant deficiencies over financial reporting. This deficiency is described in finding 2007-1.

A material weakness is a significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood that a material misstatement of the financial statements will not be prevented or detected by the entity's internal control.

Our consideration of internal control over financial reporting was for the limited purpose described in the first paragraph of this section and would not necessarily identify all deficiencies in internal control that might be significant deficiencies or material weaknesses. However, we believe that none of the significant deficiencies described above is a material weakness.

#### Compliance And Other Matters

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

Southwestern Oklahoma State University's response to the findings identified in our audit is described in the accompanying *schedule of findings and responses related to internal control over financial reporting and compliance and other matters*. We did not audit Southwestern Oklahoma State University's response and, accordingly, we express no opinion on it.

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



October 13, 2007

**SOUTHWESTERN OKLAHOMA STATE UNIVERSITY  
SCHEDULE OF FINDINGS AND RESPONSES RELATED TO INTERNAL CONTROL  
OVER FINANCIAL REPORTING AND OTHER COMPLIANCE MATTERS  
JUNE 30, 2007**

**FINDING: 2007-1**

**CRITERIA:** The University should have an accounting system and controls in place that allow for a timely and uniform closing of the financial records.

**CONDITION:** The University did not capture all information related to capital assets and capital leases in a timely manner following year-end.

**CAUSE:** The underlying records of the University were not updated throughout the year in a manner that would allow for timely year-end reconciliation and closing.

**EFFECT:** Final plant fund trial balances were not completed until after audit fieldwork was concluded . The University will not be able to meet the new reporting deadlines without improving the closing process.

**MANAGEMENT'S RESPONSE** The University will implement changes to insure documents from third parties, which have a material impact on our financial presentation, are received promptly. For example, the current year actuarial report regarding the supplemental retirement plan was received on September 24, 2007. The Council of Business Officers are reviewing options to insure these documents are received in time to meet the new reporting deadlines. The University will review our staffing levels and investigate other methods to ensure a more timely closing. This includes better communication with the audit team during field work.

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**Havern,  
Behrens  
and Heim**

CERTIFIED PUBLIC ACCOUNTANTS

**REPORT ON COMPLIANCE WITH  
REQUIREMENTS APPLICABLE TO EACH MAJOR PROGRAM AND  
INTERNAL CONTROL OVER COMPLIANCE IN ACCORDANCE WITH  
OMB CIRCULAR A-133**

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

Compliance

We have audited the compliance of Southwestern Oklahoma State University (the "University"), component unit of the State of Oklahoma, with the types of compliance requirements described in the U.S. Office of Management and Budget (OMB) Circular A-133 *Compliance Supplement* that are applicable to each of its major federal programs for the year ended June 30, 2007. The University's major federal programs are identified in the Summary of Auditors' Results Section of the accompanying Schedule of Findings and Questioned Costs. Compliance with the requirements of laws, regulations, contracts, and grants applicable to each of its major federal programs is the responsibility of the University's management. Our responsibility is to express an opinion on the University's compliance based on our audit.

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

In our opinion, Southwestern Oklahoma State University complied, in all material respects, with the requirements referred to above that are applicable to each of its major federal programs for the year ended June 30, 2007.

## Internal Control Over Compliance

The management of Southwestern Oklahoma State University is responsible for establishing and maintaining effective internal control over compliance with the requirements of laws, regulations, contracts, and grants applicable to federal programs. In planning and performing our audits, we considered the University's internal control over compliance with requirements that could have a direct and material effect on a major federal program in order to determine our auditing procedures for the purpose of expressing our opinion on compliance, 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 control deficiency in an entity's internal control over compliance 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 noncompliance with a type of compliance requirement of a federal program on a timely basis. A significant deficiency is a control deficiency, or combination of control deficiencies, that adversely affects the entity's ability to administer a federal program such that there is more than a remote likelihood that noncompliance with a type of compliance requirement of a federal program that is more than inconsequential will not be prevented or detected by the entity's internal control.

A material weakness is a significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood that material noncompliance with a type of compliance requirement of a federal program will not be prevented or detected by the entity's internal control.

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

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



October 13, 2007

**SOUTHWESTERN OKLAHOMA STATE UNIVERSITY  
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS  
YEAR ENDED JUNE 30, 2007**

Federal Grantor / Pass-Through Grantor / Program Title	CFDA Number	Pass-Through Entity Identification Number	Amount Expended
U.S. Department of Education			
Student financial aid cluster			
Federal Pell Grant Program	84.063	N/A	\$ 4,887,123
Federal Supplemental Education Opportunity Grants	84.077	N/A	146,220
Federal Work Study Program	84.033	N/A	202,742
Federal Family Education Loan Program	84.032	N/A	15,995,655
Academic Competitiveness Grants	84.375	N/A	181,469
National Science and Mathematics Access to Retain Talent	84.376	N/A	50,942
Total student financial aid cluster			<u>21,464,151</u>
Other programs			
ESM	84.367	N/A	102,214
TRIO Upward Bound	84.047	N/A	357,019
Total U.S. Department of Education			<u>21,923,384</u>
U.S. Department of Health and Human Services			
Development Disabilities			
Affiliated Programs	93.632	N/A	-
CWPEP	93.658	N/A	38,042
National Institute of Health	93.389	N/A	282,389
Small Business Administration			
Passed through Southeastern Oklahoma State University			
Small business development center	59.037	0-7620-0038-17	86,221
U.S. Department of Veterans Affairs			
Veterans prescription service	64.011	N/A	342,891
National Science Foundation			
Sure-Step	47.076	N/A	53,058
OKAMP	47.076	N/A	9,765
National Aeronautics and Space Administration			
NASA /Fellowship/Career Workforce	43.001	N/A	11,449
U.S. Department of Energy			
Lignocellulosic Biomass	81.041	N/A	
U.S. Department of Interior			
Bureau of Indian Affairs	15.114	N/A	17,502
U.S. Department of Commerce			
Manufacturing Extension Partnership	11.611	N/A	48,769
Economic Development	11.303	N/A	9,244
U.S. Department of Agriculture			
Upward Bound Nutrition	10.559	N/A	4,164
National School Lunch program	10.555	N/A	134,673
Black Kettle Survey	12.1106	N/A	2,120
U.S. Department of Labor			
Western OK Business & Com	17.261	N/A	<u>73,604</u>
Total expenditures of federal awards			<u>\$ 23,037,275</u>

See accompanying notes

**SOUTHWESTERN OKLAHOMA STATE UNIVERSITY**  
**NOTES TO SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS**  
**JUNE 30, 2007**

**I. 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.

**II. Federal Family Education Loan Program**

The University participates in the Federal Family Education Loan Program (the “FFEL Program”), CFDA number 84.032, which includes the Federal Stafford Loan Program and Federal Parents Loans for Undergraduate Students. The FFEL Program does not require the University to draw down cash; however, the University is required to perform certain administrative functions under the FFEL Program. Failure to perform such functions may require the University to reimburse the loan guarantee agencies.

**III. Sub-recipients**

During the year ended June 30, 2007, the University did not provide any federal awards to sub-recipients

**SOUTHWESTERN OKLAHOMA STATE UNIVERSITY  
SCHEDULE OF FINDINGS AND QUESTIONED COSTS  
JUNE 30, 2007**

Summary of Auditor's Reports

1. The independent auditor's report on the financial statements expressed an unqualified opinion.
2. There was one significant deficiency reported in the independent auditor's report on internal control over financial reporting.
3. No instance of noncompliance considered material to the financial statements of the University was disclosed during the audit.
4. No significant deficiencies in internal control over compliance with requirements applicable to major federal awards programs were reported in the independent auditor's report on internal control over compliance.
5. The independent auditor's report on compliance with requirements applicable to major federal awards programs expressed an unqualified opinion.
6. The audit disclosed no findings required to be reported by OMB Circular A-133.
7. The University's major programs were:

Program/Cluster	CFDA Number
Student financial aid cluster	
Federal Pell Grant Program	84.063
Federal Supplemental Education Opportunity Grants	84.007
Federal Work Study Program	84.033
Federal Family Education Loan Program	84.032
Academic Competitiveness Grant	84.375
National Science and Math Access to Retain Talent	84.376

8. A threshold of \$692,000 was used to distinguish between Type A and Type B programs as those terms are defined by OMB Circular A-133.
9. The University qualifies as a low risk auditee as that term is defined by OMB Circular A-133.

Findings Required to be Reported by *Government Auditing Standards*

There was one significant deficiency reported in the independent auditor's report on internal control over financial reporting and other compliance matters on page 57.

Findings Required to be Reported by OMB Circular A-133

No matters were reportable.

**SOUTHWESTERN OKLAHOMA STATE UNIVERSITY  
SUMMARY SCHEDULE OF PRIOR AUDIT FINDINGS  
JUNE 30, 2007**

No matters were reported.