



**SOUTHWESTERN
OKLAHOMA STATE
UNIVERSITY**

June 30, 2012

SOUTHWESTERN OKLAHOMA STATE UNIVERSITY

June 30, 2012

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Independent Auditors' Report

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

We have audited the accompanying statements of net assets of Southwestern Oklahoma State University (the "University"), a component unit of the State of Oklahoma, as of and for the years ended June 30, 2012 and 2011, 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 Southwestern Pharmacy Alumni Foundation, Inc. (the "Pharmacy Foundation"), a discretely presented component unit of the University. The Pharmacy Foundation's financial statements reflect total assets of 15% and 15% as of June 30, 2012 and 2011, respectively, and total revenues of 16% and 13% for the years then ended, respectively, of the aggregate discretely presented component units. The financial statements of the Pharmacy Foundation 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 Pharmacy Foundation, is based solely on the report of the other auditors.

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

In our opinion, based on our audits and the report of the other auditors, the financial statements referred to above present fairly, in all material respects, the respective financial position of Southwestern Oklahoma State University and its discretely presented component units as of June 30, 2012 and 2011, and the respective changes in financial position and, where applicable, cash flows 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 November 1, 2012, on our consideration of the University's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on 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.

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

Our audits were conducted for the purpose of forming an opinion on the financial statements that collectively comprise the University's basic financial statements. The combining financial statements of the University's discretely presented component units contained in other supplementary information are presented for purposes of additional analysis and are not a required part of the basic financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the basic financial statements. Such information has been subjected to the auditing procedures applied by us and the other auditors in the audits of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements or to the financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, based upon our audits and the reports of other auditors as explained in our report on the financial statements, the information is fairly stated in all material respects in relation to the financial statements as a whole.

Cole & Reed P.C.

Oklahoma City, Oklahoma
November 1, 2012

Managements' Discussion and Analysis (Unaudited)
Southwestern Oklahoma State University
June 30, 2012

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, 2012, with selected comparative information for the years ended June 30, 2011 and 2010. Management's Discussions and Analysis is designed to focus on current activities, resulting changes, and current known facts, so it should be read in conjunction with the University's financial statements and footnotes.

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

USING THIS REPORT

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

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

FINANCIAL HIGHLIGHTS

The Statement of Net 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.

Managements' Discussion and Analysis (Unaudited) (Continued)
Southwestern Oklahoma State University
June 30, 2012

FINANCIAL HIGHLIGHTS--Continued

Liabilities are also separated into current and non-current classifications. Current liabilities are those obligations that are due within the current year and will be paid from current resources. Non-current liabilities are primarily made up of long-term debt. The financial statements provided 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 the University's 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, 2012. Comparative data for years ending June 30, 2011 and 2010 is provided.

Schedule A
Condensed Statement of Net Assets
(In Millions)

	June 30		Increase	%	June 30		Increase	%
	2012	2011	(Decrease)	Change	2010	(Decrease)	Change	
CURRENT ASSETS	\$ 26.9	\$ 25.2	\$ 1.7	6.7%	\$ 23.5	\$ 1.7	7.2%	
NONCURRENT ASSETS								
Capital assets, net of depreciation	57.0	51.9	5.1	9.8%	50.8	1.1	2.2%	
Other	12.3	17.8	(5.5)	-30.9%	5.2	12.6	242.3%	
TOTAL ASSETS	<u>96.2</u>	<u>94.9</u>	<u>1.3</u>	<u>1.4%</u>	<u>79.5</u>	<u>15.4</u>	<u>19.4%</u>	
CURRENT LIABILITIES	5.8	6.0	(0.2)	-3.3%	4.9	1.1	22.4%	
NONCURRENT LIABILITIES	31.8	33.3	(1.5)	-4.5%	20.3	13.0	64.0%	
TOTAL LIABILITIES	<u>37.6</u>	<u>39.3</u>	<u>(1.7)</u>	<u>-4.3%</u>	<u>25.2</u>	<u>14.1</u>	<u>56.0%</u>	
NET ASSETS								
Invested in capital assets,	32.6	31.2	1.4	4.5%	30.9	0.3	1.0%	
Restricted	8.1	6.6	1.5	22.7%	4.3	2.3	53.5%	
Unrestricted	17.9	17.8	0.1	0.6%	19.1	(1.3)	-6.8%	
TOTAL NET ASSETS	<u>\$ 58.6</u>	<u>\$ 55.6</u>	<u>\$ 3.0</u>	<u>5.4%</u>	<u>\$ 54.3</u>	<u>\$ 1.3</u>	<u>2.4%</u>	

Managements' Discussion and Analysis (Unaudited) (Continued)
Southwestern Oklahoma State University
June 30, 2012

FINANCIAL HIGHLIGHTS (Continued)

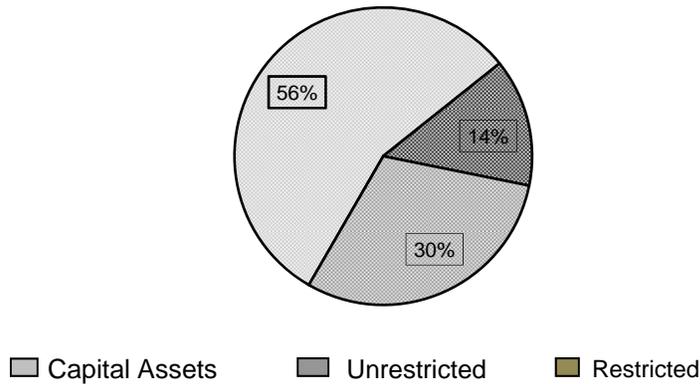
Statement of Net Assets (Continued)

June 30, 2012 compared to June 30, 2011

Current assets increased by \$1,727,140. Net Capital Assets increased by \$5,069,025. This increase is due to construction of the Event Center; expected to be completed by December, 2013. This project is funded from master lease funds and sales tax revenue from the City of Weatherford.

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

Analysis of Net Assets



Managements' Discussion and Analysis (Unaudited) (Continued)
Southwestern Oklahoma State University
June 30, 2012

FINANCIAL HIGHLIGHTS (Continued)

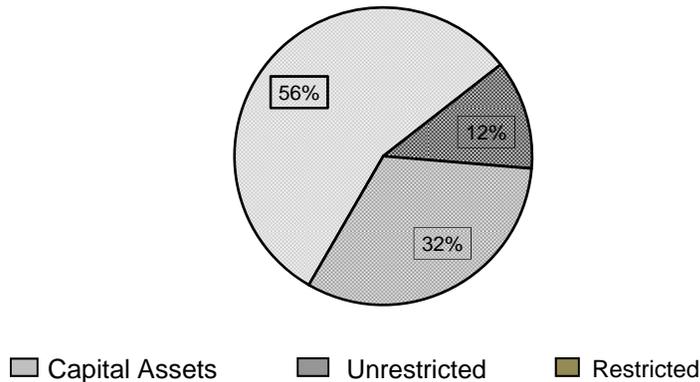
Statement of Net Assets (Continued)

June 30, 2011 compared to June 30, 2010

Current assets increased by \$1,705,102. Net Capital Assets increased by \$1,059,012. Projects completed during the year include renovation of the Sayre Campus Labs and Restrooms, Weatherford Campus Elevator upgrades and the Engineering and Technology building. These projects are funded from master lease funds and 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.

Analysis of Net Assets



Statement of Revenues, Expenses and Changes in Net Assets

The Statement of Revenues, Expenses and Changes in Net Assets present 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. Non-operating revenue and expenses are characterized as non-exchange and include such items as gifts and contributions, investment income or expense, federal Pell grants, and most significantly, state appropriations.

Managements' Discussion and Analysis (Unaudited) (Continued)
Southwestern Oklahoma State University
June 30, 2012

FINANCIAL HIGHLIGHTS (Continued)

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

Schedule B is prepared from the University's Statements of Revenues, Expenses and Changes in Net Assets (page 19).

Schedule B
Condensed Statement of Revenues, Expenses and Changes in Net Assets
(In Millions)

	Years Ended June 30,		
	<u>2012</u>	<u>2011</u>	<u>2010</u>
OPERATING REVENUES			
Student tuition and fees	\$ 17.6	\$ 15.3	\$ 13.6
Federal, state and local grants and contracts	8.0	7.9	7.2
Auxiliary	6.6	6.5	6.1
Other	<u>0.4</u>	<u>0.6</u>	<u>0.8</u>
TOTAL OPERATING REVENUES	32.6	30.3	27.7
OPERATING EXPENSES			
Compensation and employee benefits	43.9	43.0	41.3
Contractual services	3.8	3.7	3.4
Supplies and materials	3.9	3.6	3.7
Depreciation	3.5	3.5	3.4
Utilities	1.9	1.8	1.9
Communication expense	0.3	0.4	0.4
Scholarships and fellowships	8.2	9.9	6.6
Other operating expense	<u>2.6</u>	<u>3.6</u>	<u>3.6</u>
TOTAL OPERATING EXPENSES	<u>68.1</u>	<u>69.5</u>	<u>64.3</u>
Operating income (loss)	(35.5)	(39.2)	(36.6)
NONOPERATING REVENUES (EXPENSES)			
State appropriations	25.0	26.4	26.3
City sales tax revenue	0.7	0.4	-
Grant (Federal & State)	11.9	13.4	12.2
Investment income	0.4	0.1	0.3
Interest costs	<u>(1.2)</u>	<u>(0.9)</u>	<u>(0.9)</u>
NET NONOPERATING REVENUES	36.8	39.4	37.9
Income (loss) before other revenues, expenses, gains and losses	1.3	0.2	1.3
State appropriations restricted for capital purposes	1.4	1.1	2.0
Other	<u>0.3</u>	<u>-</u>	<u>-</u>
CHANGE IN NET ASSETS	3.0	1.3	3.3
NET ASSETS, BEGINNING OF YEAR, as restated	<u>55.6</u>	<u>54.3</u>	<u>51.0</u>
NET ASSETS, END OF YEAR	<u>\$ 58.6</u>	<u>\$ 55.6</u>	<u>\$ 54.3</u>

Managements' Discussion and Analysis (Unaudited) (Continued)
Southwestern Oklahoma State University
June 30, 2012

FINANCIAL HIGHLIGHTS (Continued)

Revenues

June 30, 2012 compared to June 30, 2011

Student tuition and fees, net of scholarships and allowances, increased \$2,315,490. The student full-time equivalent (FTE) enrollment for FY2012 and FY2011 was 4,850 and 4,896, respectively. This would indicate an FTE enrollment decrease of 1.0%.

Operating Grants and Contracts activity is \$8.0 million, approximately the same as the previous year. The bulk of the grant revenue is for group homes which provide services to state adjudicated delinquent male youths. Funding of approximately \$4.5 million for this program is provided through an agreement with the Office of Juvenile Affairs. This program not only provides an invaluable service for these young men but also provides internships and employment for academic students. Significant federal grants, classified as non-operating revenue, are for Student Financial Aid and include Pell, Student Work Study, and Supplemental Education Opportunity Grants. The current year decrease in nonoperating grants and contracts is attributable to decreased Pell Federal Grants.

Auxiliary operations generated total revenues of \$6.6 million in FY2012, of which \$5.5 million is from housing and food services; as compared to FY2011 revenues of \$6.5 million, of which \$5.6 million is from housing and food services.

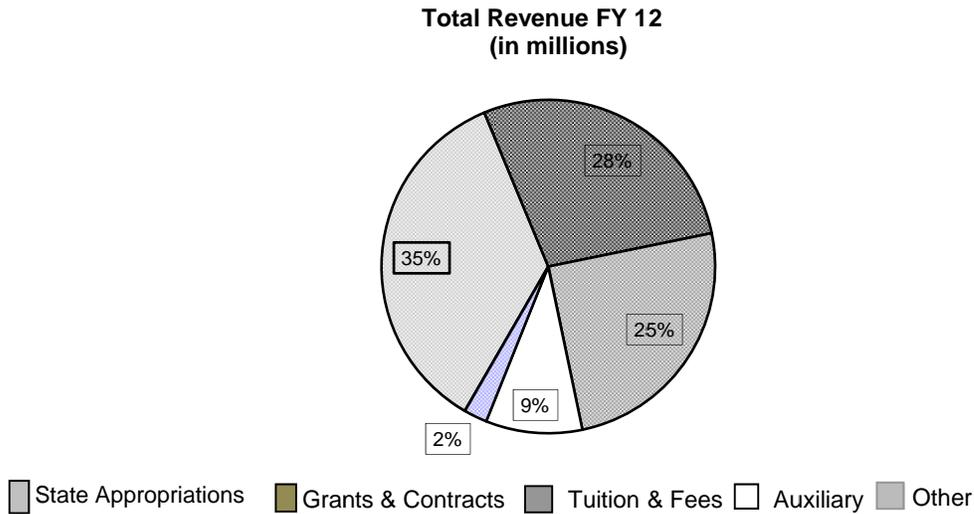
State appropriations for operations in FY 2012 were \$25 million compared to \$26.4 million in FY 2011. This includes \$2.4 million in Oklahoma Teachers Retirement System on-behalf contributions and there was no state payment from the federal ARRA revenues.

Managements' Discussion and Analysis (Unaudited) (Continued)
Southwestern Oklahoma State University
June 30, 2012

FINANCIAL HIGHLIGHTS (Continued)

Revenues (Continued)

The following graph represents sources and amounts of revenue.



June 30, 2011 compared to June 30, 2010

Student tuition and fees, net of scholarships and allowances, increased \$1,702,714. The student full-time equivalent (FTE) enrollment for FY2011 and FY2010 was 4,896 and 4,768, respectively. This would indicate and FTE enrollment increase of 2.7%. In addition, the Regents approved a tuition and fee rate increase of 5.47% for the 2010-2011 school year (the Pharmacy D program tuition increased by \$31 per hour, resulting in more than a \$450,000 increase in Pharmacy tuition alone).

Operating Grants and Contracts activity is \$7.9 million, an increase of 9% from the previous year. Southwestern added an additional residential group home, bringing the total to six, which accounts for most of the increase in activity this year. These group homes are providing services to state adjudicated delinquent male youths. Funding of approximately \$4.5 million for this program is provided through an agreement with the Office of Juvenile Affairs. This program not only provides an invaluable service for these young men but also provides internships and employment for academic students. Significant federal grants, classified as nonoperating revenue, are for Student Financial Aid and include Pell, Student Work Study, and Supplemental Education Opportunity Grants. The current year increase in nonoperating grants and contracts is attributable to increased Pell Federal Grants.

Managements' Discussion and Analysis (Unaudited) (Continued)
Southwestern Oklahoma State University
June 30, 2012

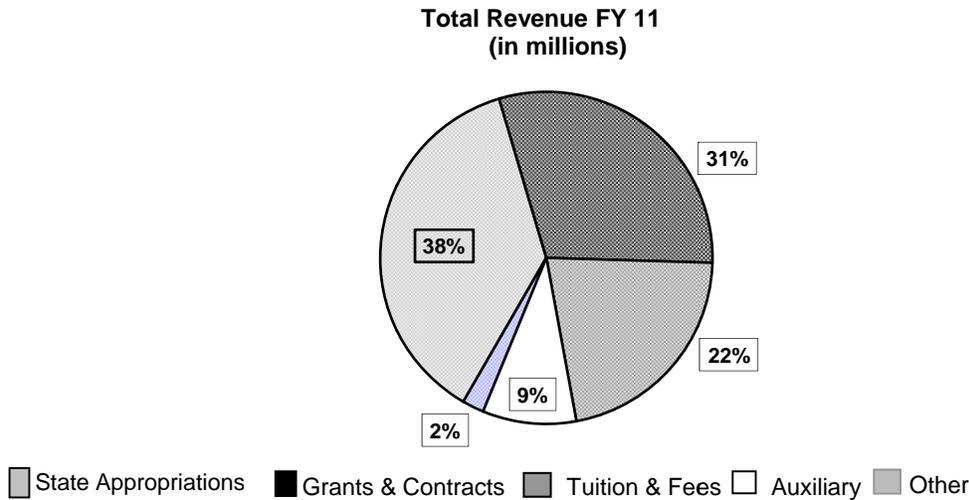
FINANCIAL HIGHLIGHTS (Continued)

Revenues (Continued)

Auxiliary operations generated total revenues of \$6.5 million in FY2011, of which \$5.6 million is from housing and food services; as compared to FY2010 revenues of \$6.2 million, of which \$5.1 million is from housing and food services.

State appropriations for operations in FY 2011 were \$26.4 million compared to \$26.3 million in FY 2010. This includes \$2.1 million in Oklahoma Teachers Retirement System on-behalf contributions and \$1.6 million in state payments from the federal ARRA revenues.

The following graph represents sources and amounts of revenue.



Managements' Discussion and Analysis (Unaudited) (Continued)
Southwestern Oklahoma State University
June 30, 2012

FINANCIAL HIGHLIGHTS (Continued)

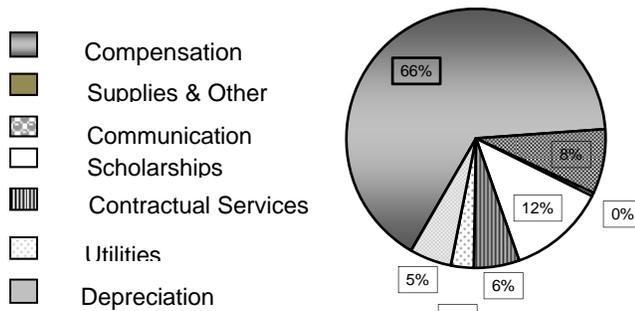
Expenses

June 30, 2012 compared to June 30, 2011

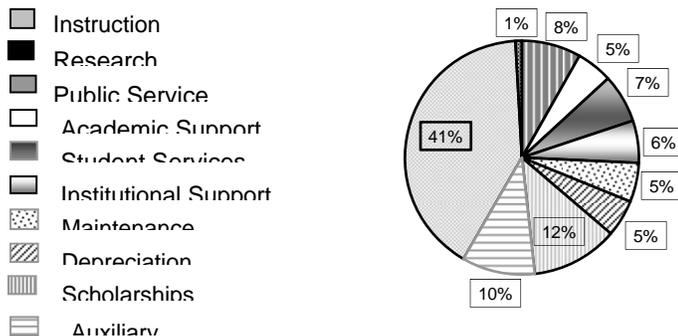
Operating expenses for the year are \$68.1 million, a decrease of \$1.4 million or 2.0% over the previous year. This is due to decreases in spending in the areas of scholarships and other operating expenses.

The following are graphic representations of expenses during FY 12:

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



**Expenses by Functional Classification FY12
(in millions)**



Managements' Discussion and Analysis (Unaudited) (Continued)
Southwestern Oklahoma State University
June 30, 2012

FINANCIAL HIGHLIGHTS (Continued)

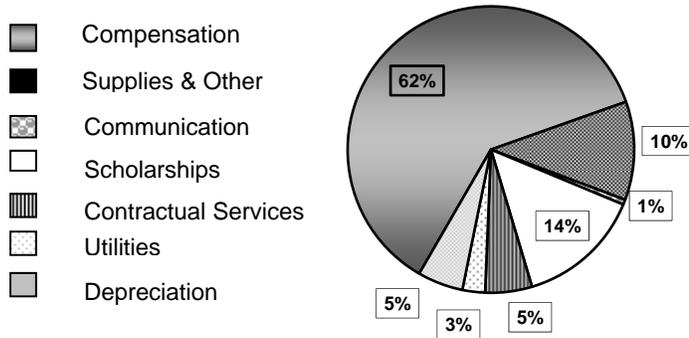
Expenses (Continued)

June 30, 2011 compared to June 30, 2010

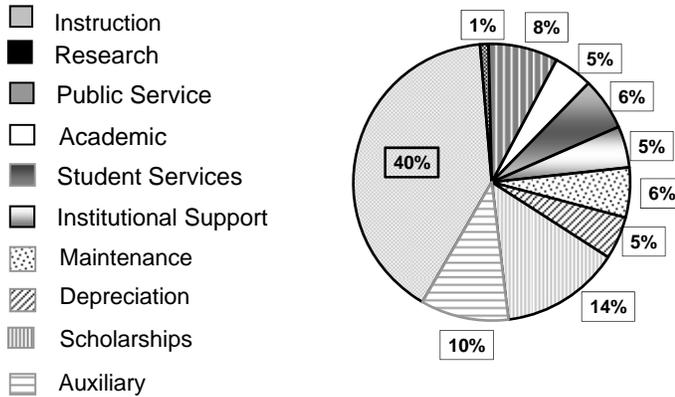
Operating expenses for the year are \$69.5 million, an increase of \$5.1 million or 8% over the previous year. This is mainly due to increased compensation and benefits costs of \$1.7 million, and scholarships and fellowships increased \$3.3 million.

The following are graphic representations of expenses during FY 11:

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



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



Managements' Discussion and Analysis (Unaudited) (Continued)
Southwestern Oklahoma State University
June 30, 2012

FINANCIAL HIGHLIGHTS (Continued)

Statement of Cash Flows

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

Schedule C is a summary of the cash flows for the year ended June 30, 2012 compared to the year ended June 30, 2011 and 2010, and is prepared from the Statement of Cash Flows.

Schedule C
Condensed Statements of Cash Flows
(In Millions)

	Years Ended June 30,		
	<u>2012</u>	<u>2011</u>	<u>2010</u>
CASH PROVIDED BY (USED IN):			
Operating activities	\$ (29.5)	\$ (33.4)	\$ (32.3)
Noncapital financing activities	35.1	38.1	36.7
Investing activities	5.3	(13.0)	0.3
Capital and related financing activities	<u>(9.2)</u>	<u>9.9</u>	<u>(2.1)</u>
NET INCREASE IN CASH	1.7	1.6	2.6
CASH, BEGINNING OF YEAR	<u>23.0</u>	<u>21.4</u>	<u>18.8</u>
CASH, END OF YEAR	<u>\$ 24.7</u>	<u>\$ 23.0</u>	<u>\$ 21.4</u>

Capital Assets

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

At June 30, 2011, the University had approximately \$51.9 million invested in capital assets, net of accumulated depreciation of \$51.9 million. Depreciation charges totaled approximately \$3.5 million for the current fiscal year. As previously discussed, capital assets increased due to the completion of the renovation of the Sayre Campus Labs and Restrooms, Weatherford Campus Elevator upgrades and the Engineering and Technology building. These projects are funded from master lease funds and the OCIA Revenue Bonds.

Managements' Discussion and Analysis (Unaudited) (Continued)
Southwestern Oklahoma State University
June 30, 2012

FINANCIAL HIGHLIGHTS (Continued)

Capital Assets (Continued)

Details of balances of capital assets for the three years are shown below

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

	2012	2011	2010
Land	\$ 1.1	\$ 1.1	\$ 1.1
Construction in Progress	9.9	3.7	4.8
Infrastructure	0.3	0.4	0.4
Land Improvements	0.5	0.6	0.7
Buildings	41.1	42.5	40.3
Furniture, fixtures and equipment	2.5	2.0	1.9
Library materials	1.6	1.6	1.6
Totals	<u>\$ 57.0</u>	<u>\$ 51.9</u>	<u>\$ 50.8</u>

Debt

At June 30, 2012 the University had approximately \$31.9 million in debt outstanding compared to \$34.1 and \$19.6 outstanding at June 30, 2011 and 2010. The table below summarizes these amounts by type.

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

	2012	2011	2010
OCIA Lease Obligations	\$ 11.6	\$ 11.7	\$ 10.5
ODFA Lease Obligations	14.9	16.6	3.0
Revenue Bonds Payable	5.4	5.8	6.1
	<u>\$ 31.9</u>	<u>\$ 34.1</u>	<u>\$ 19.6</u>

Managements' Discussion and Analysis (Unaudited) (Continued)
Southwestern Oklahoma State University
June 30, 2012

FINANCIAL HIGHLIGHTS (Continued)

Debt (Continued)

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

Southwestern is participating in the Master Lease program through the Oklahoma Capital Improvement Authority (OCIA) for \$2,000,000 for campus energy improvements; \$250,000 for purchase of five new activity buses; and \$1,000,000 for renovation at the Student Center. There is also a bond issue through Oklahoma Development Finance Authority (ODFA) in the amount of \$515,000 for renovations to the Chemistry, Physics and Pharmacy building. During 2011, there were two new bonds issued through ODFA; \$2,000,000 for improvements to renovate an unused dormitory to classrooms; \$13,000,000 for construction of the Weatherford Event Center

During 2006, OCIA issued lease purchase obligations of about \$11,640,758 for capital improvements. This is a 25 year lease agreement and includes several capital improvement projects. In August 2010, OCIA issued the 2010A and 2010B series bonds to partially refund the 2005F revenue bonds; therefore, no lease principal or interest payments were made on behalf of the University during 2011. During 2012, interest payments in the amount of \$153,458 were made.

The OCIA lease obligations provide that the University is to make specified monthly payments to OCIA over 10 years for a bond issue in 1999. During the years ended June 30, 2012 and 2011, lease principal and interest payments were made on behalf of the University totaling \$18,296 and \$18,307, 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 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, Inc. and the Southwestern Pharmacy Alumni Foundation, Inc. are component units of Southwestern Oklahoma State University and the most recent financial statements of the Foundations are included in this presentation.

Managements' Discussion and Analysis (Unaudited) (Continued)
Southwestern Oklahoma State University
June 30, 2012

ECONOMIC OUTLOOK

The University experienced a positive year in FY-12 by balancing enrollment levels and rate increases. The FY-13 enrollment is down slightly but close to our initial budget estimates. We believe that our recently adopted strategic plan will enhance our ability to have a stable enrollment base, increase student retention and provide additional resources for other initiatives.

Oklahoma, especially western Oklahoma, has a strong economic recovery lead by oil and natural gas production. This, in turn, has stabilized and increased state tax revenues that are the source of our appropriation base. We are confident the state's political, business and higher education leaders are aware that a well-educated workforce is the key to continued economic success and that a well-funded higher education system is a critical part of that effort. We understand the competition for appropriated dollars remains intense, but are confident that we can stabilize and perhaps increase this source of revenue in the near future.

STATEMENTS OF NET ASSETS

SOUTHWESTERN OKLAHOMA STATE UNIVERSITY

	University	
	June 30	
	2012	2011
ASSETS		
CURRENT ASSETS		
Cash and cash equivalents	\$ 24,648,007	\$ 22,824,371
Restricted cash and cash equivalents	94,082	174,055
Accounts receivable, net	1,717,873	2,018,434
Receivable from state agencies	280,710	-
Interest receivable	18,210	7,470
Inventories	153,311	160,723
TOTAL CURRENT ASSETS	<u>26,912,193</u>	<u>25,185,053</u>
NONCURRENT ASSETS		
Investments held by others	8,211,350	13,331,014
Notes receivable, net of allowance for uncollectible loans	144,922	146,387
Prepaid pension asset	3,095,382	3,392,776
Other post employment benefits	146,252	143,206
Deferred cost on OCIA lease restructure	484,442	645,923
Other assets	210,990	226,521
Capital assets, net of accumulated depreciation	56,951,368	51,882,343
TOTAL NONCURRENT ASSETS	<u>69,244,706</u>	<u>69,768,170</u>
TOTAL ASSETS	<u>\$ 96,156,899</u>	<u>\$ 94,953,223</u>
LIABILITIES AND NET ASSETS		
CURRENT LIABILITIES		
Accounts payable	\$ 2,307,195	\$ 1,574,781
Accrued payroll	400,724	473,409
Accrued interest payable	131,525	138,438
Deferred revenue	251,790	485,282
Deposits held in custody for others	214,138	280,451
Current portion of non current liabilities	2,517,221	3,071,511
TOTAL CURRENT LIABILITIES	<u>5,822,593</u>	<u>6,023,872</u>
NONCURRENT LIABILITIES		
Accrued compensated absences	551,300	539,922
Note payable	377,634	408,326
Bonds payable	5,120,000	5,480,000
Bond premium (net of amortization)	291,122	306,444
Lease obligations payable to state agency	25,395,905	26,567,015
TOTAL NONCURRENT LIABILITIES	<u>31,735,961</u>	<u>33,301,707</u>
TOTAL LIABILITIES	<u>37,558,554</u>	<u>39,325,579</u>
NET ASSETS		
Invested in capital assets, net of related debt	32,634,234	31,240,016
Restricted:		
Expendable:		
Scholarships, instruction and other	366,087	88,297
Capital projects	7,669,126	6,539,388
Unrestricted	17,928,898	17,759,943
TOTAL NET ASSETS	<u>\$ 58,598,345</u>	<u>\$ 55,627,644</u>

See notes to financial statements.

AGGREGATE DISCRETELY PRESENTED COMPONENT UNITS
 COMBINED STATEMENTS OF FINANCIAL POSITION

SOUTHWESTERN OKLAHOMA STATE UNIVERSITY

December 31, 2011 and 2010
 (FISCAL YEAR ENDS OF COMPONENT UNITS)

	<u>2011</u>	<u>2010</u>
ASSETS		
Cash and cash equivalents	\$ 697,838	\$ 609,215
Accounts receivable	35,000	-
Pledges receivable	8,050	8,050
Interest receivable	35,032	19,335
Contributions receivable	158,910	323,390
Note receivable from related party	470,766	550,000
Investments	15,430,994	14,789,860
Loans receivable	2,000	350
Beneficial interest in perpetual trust	1,281,121	1,318,445
Property and equipment	787,598	820,383
Other assets	<u>268,363</u>	<u>269,618</u>
TOTAL ASSETS	<u>\$ 19,175,672</u>	<u>\$ 18,708,646</u>
LIABILITIES		
Accounts payable	\$ 5,259	\$ 128,316
Payable to related party	250,536	-
Funds held for others	<u>521,641</u>	<u>819,129</u>
TOTAL LIABILITIES	<u>777,436</u>	<u>947,445</u>
NET ASSETS		
Unrestricted	319,934	654,124
Temporarily restricted	3,690,754	4,235,235
Permanently restricted	<u>14,387,548</u>	<u>12,871,842</u>
TOTAL NET ASSETS	<u>18,398,236</u>	<u>17,761,201</u>
TOTAL LIABILITIES AND NET ASSETS	<u>\$ 19,175,672</u>	<u>\$ 18,708,646</u>

See notes to financial statements.

STATEMENTS OF REVENUES, EXPENSES AND CHANGES IN NET ASSETS

SOUTHWESTERN OKLAHOMA STATE UNIVERSITY

	University	
	Years Ended June 30	
	2012	2011
OPERATING REVENUES		
Student tuition and fees, net of scholarship discounts and allowances of \$10,739,027 and \$10,702,701	\$ 17,637,567	\$ 15,322,077
Federal grants and contracts	1,920,776	2,103,120
State and local grants and contracts	6,036,512	5,805,453
Housing and food service	5,540,638	5,559,252
Other auxiliary operations	1,108,271	919,607
Interest earned on loans to students	48,386	20,145
Other operating revenues	329,621	566,161
TOTAL OPERATING REVENUES	32,621,771	30,295,815
OPERATING EXPENSES		
Compensation and employee benefits	43,944,624	43,019,858
Contractual services	3,841,183	3,650,124
Supplies and materials	3,859,962	3,560,026
Depreciation	3,479,381	3,500,361
Utilities	1,894,078	1,787,851
Communication expense	276,417	421,635
Scholarships and fellowships	8,180,050	9,952,701
Other operating expenses	2,620,740	3,615,189
TOTAL OPERATING EXPENSES	68,096,435	69,507,745
OPERATING LOSS	(35,474,664)	(39,211,930)
NONOPERATING REVENUES (EXPENSES)		
State appropriations	22,571,305	22,652,433
State payments from federal ARRA revenues	-	1,608,443
On-behalf contributions for OTRS	2,382,630	2,123,319
City sales tax revenue	698,638	369,262
Federal grants and contracts	7,668,916	9,407,459
State and local grants and contracts	4,194,843	4,035,556
Investment income	450,286	143,658
Interest expense	(1,212,343)	(931,768)
NET NONOPERATING REVENUES	36,754,275	39,408,362
Income before other revenues, expenses, gains and losses	1,279,611	196,432
Capital grants and gifts	165,294	4,175
State appropriations restricted for capital purposes	1,354,042	1,107,035
OCIA on-behalf appropriations	171,754	18,307
CHANGE IN NET ASSETS	2,970,701	1,325,949
NET ASSETS, BEGINNING OF YEAR	55,627,644	54,301,695
NET ASSETS, END OF YEAR	\$ 58,598,345	\$ 55,627,644

See notes to financial statements.

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

SOUTHWESTERN OKLAHOMA STATE UNIVERSITY

December 31, 2011 and 2010
 (FISCAL YEAR ENDS OF COMPONENT UNITS)

	<u>2011</u>	<u>2010</u>
SUPPORT, REVENUES, GAINS AND OTHER ADDITIONS		
Contributions	\$ 1,982,994	\$ 884,740
Provision for loss on uncollectible contributions receivable	16,113	74,549
Program service revenue	290,538	286,265
Interest and dividend income	265,081	267,504
Realized gains (losses) on investments	458,646	787,856
Unrealized gain (loss) on investments	(1,148,262)	207,351
Investment income from perpetual trust	50,000	46,000
Loss on beneficial interest in perpetual trust	(37,324)	(10,471)
Rental income	70,000	70,000
Other income	51,627	75,514
Other investment income	24,605	22,879
Continuing education	88,589	88,349
TOTAL SUPPORT, REVENUES, GAINS AND OTHER ADDITIONS	<u>2,112,607</u>	<u>2,800,536</u>
EXPENSES		
Program services for university	1,059,152	1,130,695
Supporting services:		
Management and general	213,225	205,139
Fundraising	10,634	102,936
Continuing education expenses	64,981	55,448
Scholarships and Grants	98,725	71,775
School of Pharmacy	28,855	37,974
TOTAL EXPENSES	<u>1,475,572</u>	<u>1,603,967</u>
NET INCREASE IN ASSETS	637,035	1,196,569
NET ASSETS, BEGINNING OF YEAR	<u>17,761,201</u>	<u>16,564,632</u>
NET ASSETS, END OF YEAR	<u>\$ 18,398,236</u>	<u>\$ 17,761,201</u>

See notes to financial statements.

STATEMENTS OF CASH FLOWS

SOUTHWESTERN OKLAHOMA STATE UNIVERSITY

	Years Ended June 30,	
	2012	2011
CASH FLOWS FROM OPERATING ACTIVITIES		
Tuition and fees	\$ 17,369,796	\$ 15,256,840
Grants and contracts	8,313,745	7,899,328
Housing and food service and other receipts	6,958,378	6,990,183
Interest on loans to students	48,386	20,145
Payments to employees for salaries and benefits	(41,342,254)	(40,538,694)
Payments to suppliers	(20,807,438)	(23,054,076)
NET CASH USED IN OPERATING ACTIVITIES	<u>(29,459,387)</u>	<u>(33,426,274)</u>
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES		
State appropriations	22,571,305	22,652,433
State payments from federal ARRA revenues	-	1,608,443
Grants and contracts	11,863,759	13,443,015
City sales tax received	698,638	369,262
Direct Loan receipts	20,625,591	20,528,476
Direct Loan payments	(20,625,591)	(20,528,476)
NET CASH PROVIDED BY NONCAPITAL FINANCING ACTIVITIES	<u>35,133,702</u>	<u>38,073,153</u>
CASH FLOWS FROM INVESTING ACTIVITIES		
Purchase of investments	-	(13,137,031)
Proceeds from sale of investments	5,120,103	-
Interest income received	158,397	146,862
NET CASH PROVIDED BY (USED IN) INVESTING ACTIVITIES	<u>5,278,500</u>	<u>(12,990,169)</u>
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES		
Cash paid for capital assets	(7,616,283)	(4,987,038)
Capital appropriations received	1,354,042	1,107,035
Repayment of capital debt and leases	(2,048,763)	(4,662,831)
Proceeds from capital debt and leases	-	19,444,391
Interest paid on capital debt and leases	(898,148)	(973,795)
NET CASH PROVIDED BY (USED IN) CAPITAL AND RELATED FINANCING ACTIVITIES	<u>(9,209,152)</u>	<u>9,927,762</u>
NET INCREASE IN CASH AND CASH EQUIVALENTS	1,743,663	1,584,472
CASH AND CASH EQUIVALENTS, BEGINNING OF YEAR	<u>22,998,426</u>	<u>21,413,954</u>
CASH AND CASH EQUIVALENTS, END OF YEAR	<u>\$ 24,742,089</u>	<u>\$ 22,998,426</u>

See notes to financial statements.

STATEMENTS OF CASH FLOWS--Continued

SOUTHWESTERN OKLAHOMA STATE UNIVERSITY

	Years Ended June 30,	
	<u>2012</u>	<u>2011</u>
RECONCILIATION OF OPERATING LOSS TO NET CASH USED IN OPERATING ACTIVITIES		
Operating loss	\$ (35,474,664)	\$ (39,211,930)
Adjustments to reconcile operating loss to net cash used by operating activities		
Depreciation expense	3,479,381	3,500,361
On-behalf contributions to teachers' retirement system	2,382,630	2,123,319
Changes in assets and liabilities		
Accounts receivable	300,561	(96,984)
Inventories	7,412	(26,850)
Prepaid pension asset	297,394	305,939
Accounts payable and accrued expenses	(218,151)	99,383
Deferred revenue	(233,492)	(32,335)
Compensated absences	(1,923)	(50,159)
Loans to students and employees	1,465	(37,018)
NET CASH USED IN OPERATING ACTIVITIES	<u><u>\$ (29,459,387)</u></u>	<u><u>\$ (33,426,274)</u></u>
NONCASH INVESTING, NONCAPITAL FINANCING AND CAPITAL AND RELATED FINANCING ACTIVITIES		
Interest on capital debt paid by State Agency on behalf of the University	<u><u>\$ 159,418</u></u>	<u><u>\$ 6,548</u></u>
Principal on capital debt paid by State Agency on behalf of the University	<u><u>\$ 12,336</u></u>	<u><u>\$ 11,759</u></u>
Deferred cost on OCIA lease restructure	<u><u>\$ -</u></u>	<u><u>\$ 1,105,533</u></u>
RECONCILIATION OF CASH AND CASH EQUIVALENTS TO STATEMENTS OF NET ASSETS		
Current assets		
Cash and cash equivalents	24,648,007	22,824,371
Restricted cash and cash equivalents	<u>94,082</u>	<u>174,055</u>
TOTAL CASH AND CASH EQUIVALENTS	<u><u>\$ 24,742,089</u></u>	<u><u>\$ 22,998,426</u></u>

See notes to financial statements.

NOTES TO FINANCIAL STATEMENTS

SOUTHWESTERN OKLAHOMA STATE UNIVERSITY

June 30, 2012

NOTE A--SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

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

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

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

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

NOTES TO FINANCIAL STATEMENTS--Continued

SOUTHWESTERN OKLAHOMA STATE UNIVERSITY

June 30, 2012

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

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

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

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

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 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.

NOTES TO FINANCIAL STATEMENTS--Continued

SOUTHWESTERN OKLAHOMA STATE UNIVERSITY

June 30, 2012

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

Capital Assets: Capital assets are recorded at cost at the date of acquisition, or fair market value at the date of donation in the case of gifts. For equipment, the University's capitalization policy includes all items with a unit cost of \$2,500 or more, and an estimated useful life of greater than one year. Renovations to buildings, infrastructure, and land improvements that significantly increase the value or extend the useful life of the structure are capitalized. Routine repairs and maintenance are charged to operating expense in the year in which the expense was incurred.

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

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, (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.

NOTES TO FINANCIAL STATEMENTS--Continued

SOUTHWESTERN OKLAHOMA STATE UNIVERSITY

June 30, 2012

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

Net Assets--Continued:

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

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

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

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

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

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

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

NOTES TO FINANCIAL STATEMENTS--Continued

SOUTHWESTERN OKLAHOMA STATE UNIVERSITY

June 30, 2012

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

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

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

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

Reclassification of Financial Statement Presentation: Certain reclassifications have been made to the 2011 financial statements to conform with the 2012 financial statement presentation. Such reclassifications have had no effect on changes in net assets as previously reported.

NOTE B--DEPOSITS AND INVESTMENTS

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

NOTES TO FINANCIAL STATEMENTS--Continued

SOUTHWESTERN OKLAHOMA STATE UNIVERSITY

June 30, 2012

NOTE B--DEPOSITS AND INVESTMENTS--Continued

Deposits--Continued: Some deposits with the OST are placed in the OST's internal investment pool *OK INVEST*. *OK INVEST* pools the resources of all state funds and agencies and invests them in (a) U.S. treasury securities which are explicitly backed by the full faith and credit of the U.S. government; (b) U.S. agency securities which carry an implicit guarantee of the full faith and credit of the U.S. government; (c) money market mutual funds which participates in investments, either directly or indirectly, in securities issued by the U.S. treasury and/or agency and repurchase agreements relating to such securities; and (d) investments related to tri-party repurchase agreements which are collateralized at 102% and, whereby, the collateral is held by a third party in the name of the OST; (e) collateralized certificates of deposit; (f) commercial paper; (g) obligations of state and local governments; and (h) State of Israel bonds.

At June 30, 2012 and 2011, the carrying amount of all University deposits with the OST and other financial institutions were \$24,742,089 and \$22,998,426, respectively. These amounts consisted of deposits with the OST (\$24,677,624 and \$22,930,725), deposits with financial institutions (\$31,964 and \$34,930) and change funds (\$32,501 and \$32,771). Of funds on deposit with the OST, amounts invested in *OK INVEST* total \$9,514,417 in 2012 (market value of 9,841,064) and \$5,437,558 in 2011 (market value of \$5,564,089). The difference between the bank balance of deposits and the related carrying amounts were generally not significant and are due to outstanding checks and deposits in transit.

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

OK INVEST Portfolio	June 30, 2012	
	Cost	Market Value
U.S. Agency securities	\$ 3,363,829	\$ 3,373,717
Certificates of deposit	307,310	307,310
Money market mutual funds	1,302,337	1,302,337
Mortgage backed agency securities	4,199,518	4,461,811
Municipal Bonds	170,659	194,702
Foreign bonds	47,878	47,878
U.S. treasury obligations	122,886	153,309
TOTAL	<u>\$ 9,514,417</u>	<u>\$ 9,841,064</u>

NOTES TO FINANCIAL STATEMENTS--Continued

SOUTHWESTERN OKLAHOMA STATE UNIVERSITY

June 30, 2012

NOTE B--DEPOSITS AND INVESTMENTS--Continued

Deposits--Continued:

OK INVEST Portfolio	June 30, 2011	
	Cost	Market Value
U.S. Agency securities	\$ 1,985,986	\$ 2,001,909
Certificates of deposit	256,746	256,746
Money market mutual funds	597,830	597,830
Tri-party repurchase agreements	366,932	366,932
Mortgage backed agency securities	1,972,479	2,059,593
Municipal Bonds	108,382	117,366
Foreign bonds	20,217	20,217
Commercial paper	50,536	50,541
U.S. treasury obligations	78,450	92,955
TOTAL	<u>\$ 5,437,558</u>	<u>\$ 5,564,089</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 probably 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 investments in securities with an overnight maturity as well as in U.S. government securities with a maturity of up to ten years. *OK INVEST* maintains an overall weighted average maturity of no more than four years.

NOTES TO FINANCIAL STATEMENTS--Continued

SOUTHWESTERN OKLAHOMA STATE UNIVERSITY

June 30, 2012

NOTE B--DEPOSITS AND INVESTMENTS--Continued

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

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

NOTES TO FINANCIAL STATEMENTS--Continued

SOUTHWESTERN OKLAHOMA STATE UNIVERSITY

June 30, 2012

NOTE B--DEPOSITS AND INVESTMENTS--Continued

Investments--Continued: *Interest rate risk* is the risk that changes in interest rates will adversely affect the fair value of an investment. Investments that are held for longer periods of time are subject to increased risk of adverse interest changes. Neither the University nor state statutes limit investment maturities as a means of managing exposure to fair value losses arising from increasing interest rates; however, the OST Investment policy limits the average maturity on its portfolio to four (4) years, with certain individual securities having more restrictive limits as defined in the policy. *Concentration of credit risk* is the risk of loss attributed to the magnitude of the University's investment in a single issuer. Neither the University's investment policy nor state statutes place limits on amounts that can be invested in any one issuer; however, the OST Investment Policy states that, with the exception of U.S. Treasury securities, no more than 50% of the State's total funds may be invested in a single security type or with a single financial institution, with diversification percentages being more restrictive on individual securities. *Custodial credit risk* for investments is the risk that, in the event of failure of the counterparty, the University will not be able to recover the value of its investments or collateral securities in the possession of an outside party. As of June 30, 2012 and 2011, none of the University's investments were subject to custodial credit risk.

Investments held by others: At June 30, 2012 and 2011, the University had investments held by others totaling \$8,211,350 and \$13,331,014, respectively. The investments included investments related to the Oklahoma Development Finance Authority (ODFA) Lease program totaling \$8,006,040 and \$13,126,143 at June 30, 2012 and 2011. These funds had a fair market value of \$8,006,040 and \$13,126,143 at June 30, 2012 and 2011. The funds are not subject to maturity dates and are due on demand. The investments also included investments held at the Oklahoma State Regents for Higher Education for the University of \$205,310 and \$204,871 at June 30, 2012 and 2011, respectively.

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.

NOTES TO FINANCIAL STATEMENTS--Continued

SOUTHWESTERN OKLAHOMA STATE UNIVERSITY

June 30, 2012

NOTE C--ACCOUNTS RECEIVABLE

Accounts receivable consisted of the following at June 30, 2012 and 2011:

	<u>2012</u>	<u>2011</u>
Student tuition and fees	\$ 1,270,980	\$ 1,103,833
Auxiliary enterprises and other operating activities	629,286	533,638
Federal, state, and private grants and contracts	<u>929,837</u>	<u>1,327,083</u>
	2,830,103	2,964,554
Less: allowance for doubtful accounts	<u>(1,112,230)</u>	<u>(946,120)</u>
Net accounts receivable	<u>\$ 1,717,873</u>	<u>\$ 2,018,434</u>

NOTE D--NOTES RECEIVABLE

The loans receivable balance at June 30, 2012 and 2011, 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, 2012 and 2011, loans receivable consisted of the following:

Loans receivable	\$ 274,487	\$ 252,660
Less allowance for uncollectible loans	<u>(129,565)</u>	<u>(106,273)</u>
Net loans receivable	<u>\$ 144,922</u>	<u>\$ 146,387</u>

NOTES TO FINANCIAL STATEMENTS--Continued

SOUTHWESTERN OKLAHOMA STATE UNIVERSITY

June 30, 2012

NOTE E--CAPITAL ASSETS

Following are the changes in capital assets for the year ended June 30, 2012:

	Balance June 30, 2011	Additions	Transfers	Retirements/ Adjustments	Balance June 30, 2012
Capital assets not being depreciated					
Land	\$ 1,084,452	\$ -	\$ -	\$ -	\$ 1,084,452
Construction in progress	3,665,139	6,385,010	-	(140,145)	9,910,004
Total assets not being depreciated	<u>\$ 4,749,591</u>	<u>\$ 6,385,010</u>	<u>\$ -</u>	<u>\$ (140,145)</u>	<u>\$ 10,994,456</u>
Other capital assets					
Non-major infrastructure networks	\$ 1,138,300	\$ -	\$ -	\$ -	\$ 1,138,300
Land improvements	1,561,641	-	-	-	1,561,641
Buildings	68,933,570	470,276	-	-	69,403,846
Furniture, fixtures and equipment	11,975,962	1,227,884	-	-	13,203,846
Library materials	15,404,611	605,381	-	(404,136)	15,605,856
Total other capital assets	99,014,084	2,303,541	-	(404,136)	100,913,489
Less accumulated depreciation for:					
Non-major infrastructure networks	(780,540)	(29,501)	-	-	(810,041)
Land improvements	(954,102)	(74,162)	-	-	(1,028,264)
Buildings	(26,440,611)	(1,909,143)	-	-	(28,349,754)
Furniture, fixtures and equipment	(9,888,006)	(834,056)	-	-	(10,722,062)
Library materials	(13,818,073)	(632,519)	-	404,136	(14,046,456)
Total accumulated depreciation	(51,881,332)	(3,479,381)	-	404,136	(54,956,577)
Other capital assets, net	<u>\$ 47,132,752</u>	<u>\$ (1,175,840)</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 45,956,912</u>
Capital assets summary:					
Capital assets not being depreciated	\$ 4,749,591	\$ 6,385,010	\$ -	\$ (140,145)	\$ 10,994,456
Other capital assets, at cost	99,014,084	2,303,541	-	(404,136)	100,913,489
Total cost of capital assets	103,763,675	8,688,551	-	(544,281)	111,907,945
Less accumulated depreciation	(51,881,332)	(3,479,381)	-	404,136	(54,956,577)
Capital assets, net	<u>\$ 51,882,343</u>	<u>\$ 5,209,170</u>	<u>\$ -</u>	<u>\$ (140,145)</u>	<u>\$ 56,951,368</u>

At June 30, 2012, the cost and related accumulated depreciation of assets held under capital lease obligations were \$24,217,353 and \$3,356,520, respectively.

NOTES TO FINANCIAL STATEMENTS--Continued

SOUTHWESTERN OKLAHOMA STATE UNIVERSITY

June 30, 2012

NOTE E--CAPITAL ASSETS--Continued

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

	Balance June 30, 2010	Additions	Transfers	Retirements/ Adjustments	Balance June 30, 2011
Capital assets not being depreciated					
Land	\$ 1,084,452	\$ -	\$ -	\$ -	\$ 1,084,452
Construction in progress	<u>4,790,697</u>	<u>2,758,083</u>	<u>(3,883,641)</u>	<u>-</u>	<u>3,665,139</u>
Total assets not being depreciated	<u>\$ 5,875,149</u>	<u>\$ 2,758,083</u>	<u>\$ (3,883,641)</u>	<u>\$ -</u>	<u>\$ 4,749,591</u>
Other capital assets					
Non-major infrastructure networks	\$ 1,138,300	\$ -	\$ -	\$ -	\$ 1,138,300
Land improvements	1,561,641	-	-	-	1,561,641
Buildings	64,798,477	251,452	3,883,641	-	68,933,570
Furniture, fixtures and equipment	11,093,476	942,038	-	(59,552)	11,975,962
Library materials	<u>15,104,900</u>	<u>607,800</u>	<u>-</u>	<u>(308,089)</u>	<u>15,404,611</u>
Total other capital assets	93,696,794	1,801,290	3,883,641	(367,641)	99,014,084
Less accumulated depreciation for:					
Non-major infrastructure networks	(746,040)	(34,500)	-	-	(780,540)
Land improvements	(875,669)	(78,433)	-	-	(954,102)
Buildings	(24,534,877)	(1,905,734)	-	-	(26,440,611)
Furniture, fixtures and equipment	(9,111,858)	(835,700)	-	59,552	(9,888,006)
Library materials	<u>(13,480,168)</u>	<u>(645,994)</u>	<u>-</u>	<u>308,089</u>	<u>(13,818,073)</u>
Total accumulated depreciation	(48,748,612)	(3,500,361)	-	367,641	(51,881,332)
Other capital assets, net	<u>\$ 44,948,182</u>	<u>\$ (1,699,071)</u>	<u>\$ 3,883,641</u>	<u>\$ -</u>	<u>\$ 47,132,752</u>
Capital assets summary:					
Capital assets not being depreciated	\$ 5,875,149	\$ 2,758,083	\$ (3,883,641)	\$ -	\$ 4,749,591
Other capital assets, at cost	<u>93,696,794</u>	<u>1,801,290</u>	<u>3,883,641</u>	<u>(367,641)</u>	<u>99,014,084</u>
Total cost of capital assets	99,571,943	4,559,373	-	(367,641)	103,763,675
Less accumulated depreciation	<u>(48,748,612)</u>	<u>(3,500,361)</u>	<u>-</u>	<u>367,641</u>	<u>(51,881,332)</u>
Capital assets, net	<u>\$ 50,823,331</u>	<u>\$ 1,059,012</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 51,882,343</u>

At June 30, 2011, the cost and related accumulated depreciation of assets held under capital lease obligations were \$18,207,712 and \$2,981,769, respectively.

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

NOTES TO FINANCIAL STATEMENTS--Continued

SOUTHWESTERN OKLAHOMA STATE UNIVERSITY

June 30, 2012

NOTE F--LONG-TERM LIABILITIES

Long-term liability activity for the year ended June 30, 2012 was as follows:

	Balance June 30, 2011	Additions	Reductions	Balance June 30, 2012	Amounts due within one year
Bonds and Capital Leases					
OCIA lease obligations	\$ 11,667,268	\$ -	\$ (12,336)	\$ 11,654,932	\$ 12,945
ODFA master lease obligations	16,615,681	-	(1,703,763)	14,911,918	1,158,000
Premium on lease obligations	306,444	-	(15,322)	291,122	-
Revenue bonds payable	5,825,000	-	(345,000)	5,480,000	360,000
Total bonds and capital leases	<u>34,414,393</u>	<u>-</u>	<u>(2,076,421)</u>	<u>32,337,972</u>	<u>1,530,945</u>
Other liabilities					
Note payable	494,326	32,308	(74,000)	452,634	75,000
Accrued compensated absences	1,464,499	815,786	(817,709)	1,462,576	911,276
Total other liabilities	<u>1,958,825</u>	<u>848,094</u>	<u>(891,709)</u>	<u>1,915,210</u>	<u>986,276</u>
Total long-term liabilities	<u>\$ 36,373,218</u>	<u>\$ 848,094</u>	<u>\$ (2,968,130)</u>	<u>\$ 34,253,182</u>	<u>\$ 2,517,221</u>

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

	Balance June 30, 2010	Additions	Reductions	Balance June 30, 2011	Amounts due within one year
Bonds and Capital Leases					
OCIA lease obligations	\$ 10,573,700	\$ 4,071,340	\$ (2,977,772)	\$ 11,667,268	\$ 12,336
ODFA master lease obligations	2,865,499	15,112,000	(1,361,818)	16,615,681	1,703,598
Premium on lease obligations	289,847	314,302	(297,705)	306,444	-
Revenue bonds payable	6,160,000	-	(335,000)	5,825,000	345,000
Total bonds and capital leases	<u>19,889,046</u>	<u>19,497,642</u>	<u>(4,972,295)</u>	<u>34,414,393</u>	<u>2,060,934</u>
Other liabilities					
Note payable	623,000	13,826	(142,500)	494,326	86,000
Accrued compensated absences	1,514,658	840,819	(890,978)	1,464,499	924,577
Total other liabilities	<u>2,137,658</u>	<u>854,645</u>	<u>(1,033,478)</u>	<u>1,958,825</u>	<u>1,010,577</u>
Total long-term liabilities	<u>\$ 22,026,704</u>	<u>\$ 20,352,287</u>	<u>\$ (6,005,773)</u>	<u>\$ 36,373,218</u>	<u>\$ 3,071,511</u>

NOTES TO FINANCIAL STATEMENTS--Continued

SOUTHWESTERN OKLAHOMA STATE UNIVERSITY

June 30, 2012

NOTE F--LONG-TERM LIABILITIES--Continued

Capital Lease Obligations

Oklahoma Capital Improvement Authority Lease Obligations

In September 1999, the Oklahoma Capital Improvement Authority (OCIA) issued its OCIA Bond Issues, 1999 Series A, B and C. Of the total bond indebtedness, the State Regents for Higher Education allocated \$1,200,000 to the University. Concurrently with the allocation, the University entered into four individual lease agreements with OCIA, representing the four individual projects being funded by the OCIA bonds. The lease agreement provides for the University to make specified monthly payments to OCIA over the respective terms of the agreements, ranging from 4 to 20 years. The proceeds of the bonds and subsequent leases are to provide for capital improvements at the University. At June 30, 2012 and 2011, the outstanding balance of the 2000 Series A, B and C lease obligations was \$108,008 and \$120,345, respectively.

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

During the 2006 legislative session, the OCIA issued its OCIA bond issue 2005F series. Of the total indebtedness, the State Regents for Higher Education allocated \$11,640,758 to the University. The University is one of several that entered into a lease agreement with OCIA for a portion of these bonds proceeds. The lease agreement provides for the University to make specified monthly payments to OCIA over a 25 year period. The proceeds of the bonds are to provide for capital improvements at the University. At June 30, 2012 and 2011, the outstanding balance of this capital lease obligation was \$7,475,584.

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

NOTES TO FINANCIAL STATEMENTS--Continued

SOUTHWESTERN OKLAHOMA STATE UNIVERSITY

June 30, 2012

NOTE F--LONG-TERM LIABILITIES--Continued

Capital Lease Obligations--Continued

Oklahoma Capital Improvement Authority Lease Obligations--Continued

During the year ended June 30, 2012 and 2011, amortization of the deferred charge was \$161,481 and \$184,256, respectively. This restructuring resulted in an aggregate debt service difference for principal and interest between the original lease agreement and the restructure lease agreement of \$412,016, which also approximates the economic cost of the lease restructuring.

During the years ended June 30, 2012 and 2011, OCIA made lease principal and interest payments totaling \$171,754 and \$18,307, 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 an agreement with ODFA, for the project being funded by the ODFA bonds. The lease agreement provides for the University to make specified monthly payments to ODFA over the respective terms of the agreement, which is through June 1, 2014. The proceeds of the bonds and subsequent leases are to provide for capital improvements to the University. The outstanding balance of this lease obligation payable is \$121,000 and \$178,000 at June 30, 2012 and 2011, respectively.

NOTES TO FINANCIAL STATEMENTS--Continued

SOUTHWESTERN OKLAHOMA STATE UNIVERSITY

June 30, 2012

NOTE F--LONG-TERM LIABILITIES--Continued

Capital Lease Obligations--Continued

Oklahoma Development Finance Authority Master Lease Program--Continued

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. At June 30, 2012 and 2011, the remaining lease obligation payable totals \$0 and \$36,666, respectively.

In May 2005, the ODFA issued its ODFA Master Lease Revenue Bonds, Series 2005B. Of the total bond indebtedness, the State Regents for Higher Education allocated \$1,000,000 to the University. Concurrently with the allocation, the University entered into a lease agreement with ODFA, for the project being funded by the ODFA bonds. The lease agreement provides for the University to make specified monthly payments to ODFA over the respective terms of the agreement, which is through May 31, 2025. The proceeds of the bonds and subsequent leases are to provide for capital improvements to the University. These bonds were sold in August 2005 and the allocated proceeds were disbursed to the University at that time. The outstanding payable at June 30, 2012 and 2011 is \$619,583 and \$680,000, respectively.

In May 2007, the ODFA issued its ODFA Master Lease Revenue Bonds, Series 2007A. Of the total bond indebtedness, the State Regents for Higher Education allocated \$2,023,000 to the University. Concurrently with the allocation, the University entered into a lease agreement with ODFA, for the project being funded by the ODFA bonds. The lease agreement provides for the University to make specified monthly payment to ODFA over the respective terms of the agreement, which is through June 1, 2027. The proceeds of the bonds and subsequent leases are to provide for capital improvements to the University. These bonds were sold in May 2007 and the allocated proceeds were disbursed to the University at that time. The remaining lease obligation payable pursuant to this capital lease obligation is \$1,662,250 and \$1,741,416 at June 30, 2012 and 2011, respectively.

NOTES TO FINANCIAL STATEMENTS--Continued

SOUTHWESTERN OKLAHOMA STATE UNIVERSITY

June 30, 2012

NOTE F--LONG-TERM LIABILITIES--Continued

Capital Lease Obligations--Continued

Oklahoma Development Finance Authority Master Lease Program--Continued

In September, 2010, the ODFA issued its ODFA Master Lease Revenue Bonds, Series 2010A. Of the total bond indebtedness, the State Regents for Higher Education allocated \$2,002,000 to the University. Concurrently with the allocation, the University entered into a lease agreement with ODFA, for the project being funded by the ODFA bonds. The lease agreement provides for the University to make specified monthly payment to ODFA over the respective terms of the agreement, which is through June 1, 2025. The proceeds of the bonds and subsequent leases are to provide for capital improvements to the University. The remaining lease obligation payable pursuant to this capital lease obligation is \$1,796,169 and \$1,911,418 at June 30, 2012 and 2011.

In December, 2010, the ODFA issued its ODFA Master Lease Revenue Bonds, Series 2010D. Of the total bond indebtedness, the State Regents for Higher Education allocated \$13,110,000 to the University. Concurrently with the allocation, the University entered into a lease agreement with ODFA, for the project being funded by the ODFA bonds. The lease agreement provides for the University to make specified monthly payment to ODFA over the respective terms of the agreement, which is through November 15, 2030. The proceeds of the bonds and subsequent leases are to provide for capital improvements to the University. The remaining lease obligation payable pursuant to this capital lease obligation is \$10,712,916 and \$12,068,182 at June 30, 2012 and 2011.

Investments held by others consist of the following funds under the ODFA program at June 30, 2012 and 2011:

	<u>2012</u>	<u>2011</u>
Acquisition fund	\$ 8,006,040	\$ 13,126,143
Total assets held by others	<u>\$ 8,006,040</u>	<u>\$ 13,126,143</u>

Funds in the acquisition fund are restricted for the project being funded by the Series 2010A and 2010D programs. Debt service reserve funds are restricted for the payment of principal and interest pursuant to the agreements, and capitalized interest fund are restricted for the payment of interest during the construction period.

NOTES TO FINANCIAL STATEMENTS--Continued

SOUTHWESTERN OKLAHOMA STATE UNIVERSITY

June 30, 2012

NOTE F--LONG-TERM LIABILITIES--Continued

Capital Lease Obligations--Continued

Oklahoma Development Finance Authority Master Lease Program—Continued

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

Year Ending June 30:	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2013	\$ 1,170,945	\$ 775,145	\$ 1,946,090
2014	1,494,577	1,137,762	2,632,339
2015	2,173,890	1,074,849	3,248,739
2016	2,186,985	1,002,025	3,189,010
2017	2,151,812	889,580	3,041,392
2018-2022	7,286,992	3,210,147	10,497,139
2023-2027	6,066,996	1,957,203	8,024,199
2028-2032	4,034,653	518,203	4,552,856
	<u>\$ 26,566,850</u>	<u>\$ 10,564,914</u>	<u>\$ 37,131,764</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 \$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.

NOTES TO FINANCIAL STATEMENTS--Continued

SOUTHWESTERN OKLAHOMA STATE UNIVERSITY

June 30, 2012

NOTE F--LONG-TERM LIABILITIES--Continued

Revenue Bonds Payable--Continued

Southwestern Oklahoma State University Revenue Bonds, Series 2003--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>
2013	\$ 360,000	\$ 239,366	\$ 599,366
2014	370,000	223,508	593,508
2015	390,000	206,591	596,591
2016	405,000	190,341	595,341
2017	425,000	172,956	597,956
2018-2022	2,405,000	559,906	2,964,906
2023-2024	1,125,000	55,031	1,180,031
	<u>\$ 5,480,000</u>	<u>\$ 1,647,699</u>	<u>\$ 7,127,699</u>

NOTE G--RETIREMENT PLANS

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

NOTES TO FINANCIAL STATEMENTS--Continued

SOUTHWESTERN OKLAHOMA STATE UNIVERSITY

June 30, 2012

NOTE G--RETIREMENT PLANS--Continued

Oklahoma Teachers' Retirement System (OTRS)

Plan Description

The University contributes to the Oklahoma Teachers' Retirement System ("OTRS"), a cost-sharing multiple-employer defined benefit pension plan sponsored by the State of Oklahoma. OTRS provides defined retirement benefits based on members' final compensation, age and term of service. In addition, the retirement program provides for benefits upon disability and to survivors upon the death of eligible members. The benefit provisions are established and may be amended by the legislature of the State of Oklahoma. Title 70 of the Oklahoma Statutes, Sections 17-101 through 17-116.9, as amended, assigns the authority for management and operation of the Plan to the Board of Trustees of OTRS. The OTRS issues a publicly available financial report that includes financial statements and supplementary information for OTRS. That report may be obtained by writing to Teachers' Retirement System of Oklahoma, P.O. Box 53524, Oklahoma City, Oklahoma 73152, or by calling (405) 521-2387.

Funding Policy

The University is required to contribute a fixed percentage of annual compensation on behalf of active members. The employer contribution rate was 8.05% for the first six months of fiscal year 2010 and at January 1, 2010 the contribution rate changed to 8.55%, where it remained throughout 2011 and 2012. This rate is applied to annual compensation, and is determined by state statute.

Employees' contributions are also determined by state statute. For all employees, the contribution rate was 7% of covered salaries and fringe benefits in 2012, 2011 and 2010. For University employees meeting the requirements of the University's SRA, and other employees who opted to enroll in OTRS prior to July 1, 1993, substantially all of the members' OTRS contributions are made directly by the University.

The University's contributions to OTRS for the years ended June 30, 2012, 2011 and 2010, were \$2,323,420, \$2,341,454 and \$2,274,116 respectively. These contributions included the University's statutory contribution and the share of the employee's contribution paid directly by the University.

NOTES TO FINANCIAL STATEMENTS--Continued

SOUTHWESTERN OKLAHOMA STATE UNIVERSITY

June 30, 2012

NOTE G--RETIREMENT PLANS--Continued

Oklahoma Teachers' Retirement System (OTRS)--Continued

Funding Policy--Continued

The State of Oklahoma is also required to contribute to the OTRS on behalf of the participating employers. For 2012 and 2011, the State of Oklahoma contribution was 5% of state revenues from sales and use taxes and individual income taxes, to the OTRS on behalf of participating employers. The University has estimated the amounts contributed to the OTRS by the State of Oklahoma on its behalf by multiplying the ratio of its covered salaries to total covered salaries for OTRS for the year by the applicable percentage of taxes collected during the year. For the years ended June 30, 2012 and 2011, the total amounts contributed to the OTRS by the State of Oklahoma on behalf of the University were \$2,382,630 and \$2,123,319, respectively. These on behalf payments have been recorded as both revenues and expenses in the statements of revenues, expenses and changes in net assets.

Teachers' Insurance and Annuity Association (TIAA)

The University also has a defined contribution 403(b) plan (DCP) available to full-time employees. The DCP is administered by the RUSO System, and the plan provisions are established and may be amended by the Board of Regents. Plan members may make voluntary contributions in accordance with IRS regulations. The University has no contribution requirements, and no contributions were made during the years ended June 30, 2012, 2011 and 2010.

Supplemental Retirement Annuity (SRA)

Plan Description

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

NOTES TO FINANCIAL STATEMENTS--Continued

SOUTHWESTERN OKLAHOMA STATE UNIVERSITY

June 30, 2012

NOTE G--RETIREMENT PLANS--Continued

Supplemental Retirement Annuity (SRA)--Continued

Funding Policy

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

Annual Cost and Net Pension Obligation (Asset)

Annual pension cost and net pension obligation (asset) of the SRA for 2012 and 2011 are as follows:

	<u>2012</u>	<u>2011</u>
Annual required contribution	\$ 248,254	\$ 225,114
Interest on net pension obligation	(271,422)	(295,897)
Adjustment to annual required contribution	<u>345,562</u>	<u>376,722</u>
Annual pension cost	322,394	305,939
Contribution made	<u>(25,000)</u>	<u>-</u>
Increase in net pension obligation	297,394	305,939
Net pension obligation (asset) at beginning of year	<u>(3,392,776)</u>	<u>(3,698,715)</u>
Net pension obligation (asset) at end of year	<u>\$ (3,095,382)</u>	<u>\$ (3,392,776)</u>

The annual required contribution for 2012 and 2011 was determined as part of an actuarial valuation on June 30, 2012 and 2011, 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 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 twenty years as a level dollar amount on a closed basis.

NOTES TO FINANCIAL STATEMENTS--Continued

SOUTHWESTERN OKLAHOMA STATE UNIVERSITY

June 30, 2012

NOTE G--RETIREMENT PLANS--Continued

Supplemental Retirement Annuity (SRA)--Continued

Trend Information

<u>Year Ended June 30</u>	<u>Annual Pension Cost (APC)</u>	<u>Percentage of APC Contributed</u>	<u>Net Pension Obligation (Asset)</u>
2012	\$ 322,394	7.8%	\$ (3,095,382)
2011	\$ 305,939	0.0%	\$ (3,392,776)
2010	\$ 248,169	0.0%	\$ (3,698,715)

Funded Status and Funding Progress

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

	<u>2012</u>	<u>2011</u>
Actuarial accrued liability (AAL)	\$ 6,504,370	\$ 6,735,124
Actuarial value of plan assets	<u>4,188,254</u>	<u>4,559,275</u>
Unfunded actuarial accrued liability (UAAL)	<u>\$ 2,316,116</u>	<u>\$ 2,175,849</u>
Funded ratio (actuarial value of plan assets/AAL)	64.4%	67.7%
Covered payroll (active plan members)	\$ 5,645,591	\$ 6,130,039
UAAL as a percentage of covered payroll	41.0%	35.5%

NOTE H--OTHER POST-EMPLOYMENT INSURANCE BENEFITS

In addition to the pension benefits, the University pays the group health and life insurance premiums for retired employees until age 65. A retiring employee must have been employed full-time in the Oklahoma State System of Higher Education for not less than ten years immediately preceding the date of retirement; been a member of the Oklahoma Teachers' Retirement System during that time; and elected to receive a vested benefit under the provisions of the Oklahoma Teachers' Retirement System. The retirement insurance program was adopted by the Board of Regents in 1985. For the years ended June 30, 2012 and 2011, the University's contributions for retired employees' health insurance premiums totaled approximately \$197,153 and \$201,264, respectively, and life insurance premiums totaled approximately \$13,633 and \$14,407, respectively.

NOTES TO FINANCIAL STATEMENTS--Continued

SOUTHWESTERN OKLAHOMA STATE UNIVERSITY

June 30, 2012

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

Postemployment Healthcare Plan

Plan Description

The University's postemployment healthcare plan is an agent multiple-employer defined benefit plan administered by the Regional University System of Oklahoma Board of Regents (the RUSO Board). The plan provides medical and life insurance benefits to eligible retired employees until age 65. A retiring employee must have been employed full-time in the Regional University System of Oklahoma for not less than ten years immediately preceding the date of retirement; been a member of the Oklahoma Teachers' Retirement System during that time; and elected to receive a vested benefit under the provision of the Oklahoma Teachers' Retirement System. As of June 30, 2012, there were approximately 500 active participants in the plan. The retirement insurance program was adopted by the RUSO Board in 1985. In March of 2008, the Retiree Medical Trust for Regional University System of Oklahoma was established to hold assets and pay benefits on behalf of the University's post employment healthcare plan, and is administered by The Bank Oklahoma, N.A. Prior to the establishment of the trust, the insurance benefits were accounted for on a pay-as-you-go basis so that premiums were made from current operating funds. The plan does not issue a stand-alone financial report nor is it included in the financial report of another entity.

Funding Policy

The contribution requirements of the University are established and may be amended by the RUSO Board. The University is required to contribute the *annual required contribution of the employer* (ARC), in an amount actuarially determined in accordance with the parameters of GASB Statement 45. The ARC represents a level of funding that, if paid on an ongoing basis, is projected to cover normal cost each year and amortize any unfunded actuarial liabilities (or funding excess) over a period not to exceed thirty years. For the years ended June 30, 2012 and 2011, the ARC is \$335,538 and \$345,374, respectively; and represents 1.04% and 1.06%, respectively, of covered payroll.

NOTES TO FINANCIAL STATEMENTS--Continued

SOUTHWESTERN OKLAHOMA STATE UNIVERSITY

June 30, 2012

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

Postemployment Healthcare Plan--Continued

Annual OPEB Cost and OPEB Net Obligation (Asset)

Annual OPEB cost and net OPEB obligation (asset) for 2012 and 2011 are as follows:

	<u>2012</u>	<u>2011</u>
Annual required contribution	\$ 335,538	\$ 345,374
Interest on net OPEB obligation	13,214	13,086
Adjustment to annual required contribution	<u>(15,212)</u>	<u>(15,065)</u>
Annual OPEB cost	333,540	343,395
Contribution made	<u>(336,586)</u>	<u>(341,575)</u>
Increase (Decrease) in net OPEB obligation	(3,046)	1,820
Net OPEB obligation (asset) at beginning of year	<u>(143,206)</u>	<u>(145,026)</u>
Net OPEB obligation (asset) at end of year	<u>\$ (146,252)</u>	<u>\$ (143,206)</u>

Trend Information

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

<u>Fiscal Year Ended</u>	<u>Annual OPEB Cost</u>	<u>Annual OPEB Cost Contributed</u>	<u>Net OPEB Obligation (Asset)</u>
2012	\$ 333,540	101%	\$ (146,252)
2011	\$ 343,395	99%	\$ (143,206)
2010	\$ 389,441	165%	\$ (145,026)

NOTES TO FINANCIAL STATEMENTS--Continued

SOUTHWESTERN OKLAHOMA STATE UNIVERSITY

June 30, 2012

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

Postemployment Healthcare Plan--Continued

Funded Status and Funding Progress

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

	<u>2012</u>	<u>2011</u>
Actuarial accrued liability (AAL)	\$ 3,701,407	\$ 3,558,958
Actuarial value of plan assets	<u>1,257,525</u>	<u>1,098,263</u>
Unfunded actuarial accrued liability (UAAL)	<u>\$ 2,443,882</u>	<u>\$ 2,460,695</u>
Funded ratio (actuarial value of plan assets/AAL)	34.0%	30.9%
Covered payroll (active plan members)	\$ 32,383,483	\$ 32,608,185
UAAL as a percentage of covered payroll	7.5%	7.5%

Actuarial Method and Assumptions

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

Projections of benefits for financial reporting purposes are based on the substantive plan and include the types of benefits provided at the time of each valuation. The actuarial methods and assumptions used include techniques that are designed to reduce short-term volatility in actuarial accrued liabilities and the actuarial value of assets, consistent with the long-term perspective of the calculations. For the June 30, 2012 actuarial valuation, the projected unit credit cost method was used. The actuarial assumptions included a 7% investment rate of return and an annual healthcare cost inflationary increase of 9.0%.

NOTES TO FINANCIAL STATEMENTS--Continued

SOUTHWESTERN OKLAHOMA STATE UNIVERSITY

June 30, 2012

NOTE I--FUNDS HELD IN TRUST BY OTHERS

Beneficial Interest in State School Land Funds

The University has a beneficial interest in the "Section Thirteen Fund State Educational Institutions" and the "New College Fund" administered by the Commissioners of the Land Office as trustees for the various educational institutions entitled thereto. The University has the right to receive annually 3.7% of the distributions of income produced by "Section Thirteen Fund State Educational Institutions" assets and 100% of the distributions of income produced by Southwestern Oklahoma State University's "New College Fund". The University received \$1,225,031 and \$971,515 during the years ended June 30, 2012 and 2011, respectively, which is restricted to the construction or acquisition of buildings, equipment, or other capital items. These amounts are recorded as state appropriations restricted for capital purposes in the statement 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 reserve for Southwestern Oklahoma State University, held in trust by the commissioners of Land Office, was \$16,029,581 and \$15,982,397 at June 30, 2012 and 2011, 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 program. The state match amounts, plus any retained accumulated earnings, totaled approximately \$2,498,000 and \$2,492,000 at June 30, 2012 and 2011, 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. As legal title of the match amount is retained by the Oklahoma State Regents, only the funds available for distribution, approximately \$281,000 at June 30, 2012, have been reflected as assets in the statements of net assets. With regards to institutional funds, investments totaling \$205,310 and \$204,871 at June 30, 2012 and 2011, respectively, are included in the financial statements of the University.

NOTES TO FINANCIAL STATEMENTS--Continued

SOUTHWESTERN OKLAHOMA STATE UNIVERSITY

June 30, 2012

NOTE J--COMMITMENTS AND CONTINGENCIES

The University had outstanding commitments under construction contracts of approximately \$15.5 million at June 30, 2012.

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

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

NOTE K--RISK MANAGEMENT

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

The University, along with other state agencies and political subdivisions, participates in the State of Oklahoma Risk Management Program and 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.

NOTES TO FINANCIAL STATEMENTS--Continued

SOUTHWESTERN OKLAHOMA STATE UNIVERSITY

June 30, 2012

NOTE L--SEGMENT REPORTING

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

Southwestern Oklahoma State University Revenue Bonds, Series 2003		
Condensed Statement of Net Assets		
	June 30	
	2012	2011
ASSETS		
Current assets	\$ 749,207	\$ 746,770
Capital assets	6,885,808	7,059,508
Other assets	<u>84,870</u>	<u>92,470</u>
TOTAL ASSETS	7,719,885	7,898,748
LIABILITIES		
Current liabilities	82,069	86,299
Long-term liabilities	<u>5,480,000</u>	<u>5,825,000</u>
TOTAL LIABILITIES	5,562,069	5,911,299
NET ASSETS		
Unrestricted	-	-
Restricted for debt services	749,207	746,770
Invested in capital assets, net of debt	<u>1,408,609</u>	<u>1,240,679</u>
TOTAL NET ASSETS	<u>\$ 2,157,816</u>	<u>\$ 1,987,449</u>

NOTES TO FINANCIAL STATEMENTS--Continued

SOUTHWESTERN OKLAHOMA STATE UNIVERSITY

June 30, 2012

NOTE L--SEGMENT REPORTING--Continued

Condensed Statement of Revenues, Expenses and Changes in Net Assets

	Years Ended June 30	
	2012	2011
Operating Revenue	\$ 1,012,085	\$ 1,000,193
Depreciation expense	(173,700)	(173,700)
Other operating expenses	<u>(7,600)</u>	<u>(7,600)</u>
NET OPERATING REVENUES	830,785	818,893
NONOPERATING INCOME (EXPENSE)		
Investment income	<u>-</u>	<u>-</u>
NET NONOPERATING REVENUES	-	-
Transfers	(660,418)	(664,427)
CHANGE IN NET ASSETS	170,367	154,466
NET ASSETS, BEGINNING OF PERIOD	<u>1,987,449</u>	<u>1,832,983</u>
NET ASSETS, END OF PERIOD	<u>\$ 2,157,816</u>	<u>\$ 1,987,449</u>

Condensed Statement of Cash Flows

	June 30	
	2012	2011
Net cash flows provided by operating activities	\$ 360,000	\$ 345,000
Net cash flows provided by capital and related financing activities	-	-
Net cash flows provided by investing activities	<u>(360,000)</u>	<u>(345,000)</u>
NET INCREASE (DECREASE) IN CASH	-	-
CASH, BEGINNING OF PERIOD	<u>-</u>	<u>-</u>
CASH, END OF PERIOD	<u>\$ -</u>	<u>\$ -</u>

NOTES TO FINANCIAL STATEMENTS--Continued

SOUTHWESTERN OKLAHOMA STATE UNIVERSITY

June 30, 2012

NOTE M--ACCOUNTING STANDARDS ISSUED NOT YET ADOPTED

The GASB has issued several new accounting pronouncements, which will be effective to the University in subsequent years. A description of the new accounting pronouncements, the fiscal year in which they are effective, and the University's consideration of the impact of these pronouncements are described below:

Fiscal Year Ended June 30, 2013

- *Statement No. 60, Accounting and Financial Reporting for Service Concession Arrangements.*
GASB No. 60 addresses issues related to service concession arrangements (SCAs), which are a type of public-private or public-public partnership. This Statement applies only to those arrangements in which specific criteria determining whether a transferor has control over the facility are met. The University will only be required to adopt the provisions of GASB No. 60 if it enters into an SCA, and it currently has not entered into any such arrangements.
- *Statement No. 61, The Financial Reporting Entity: Omnibus – An Amendment of GASB Statements No. 14 and No. 34.*
GASB No. 61 modifies certain requirements for inclusion of component units in the financial reporting entity and also amends the criteria for reporting component units as if they were part of the primary government (that is, blending) in certain circumstances. Earlier application is encouraged. The University does not believe that the adoption of GASB No. 61 will have a significant impact on its financial statement presentation.
- *Statement No. 62, Codification of Accounting and Financial Reporting Guidance Contained in Pre-November 30, 1989 FASB and AICPA Pronouncements.*
GASB No. 62 is intended to enhance the usefulness of its Codification by incorporating guidance that previously could only be found in certain FASB and AICPA pronouncements. The University does not believe that the adoption GASB No. 62 will have a significant impact on its financial position, activities or cash flows, or its financial statement presentation.
- *Statement No. 63, Financial Reporting of Deferred Outflows of Resources, Deferred Inflows of Resources, and Net Position.*
GASB No. 63 provides financial reporting guidance for deferred outflows of resources and deferred inflows of resources. Previous financial reporting standards do not include guidance for reporting those financial statement elements, which are distinct from assets and liabilities. Adoption of this statement will require the University to make changes in its financial statement presentation.

NOTES TO FINANCIAL STATEMENTS--Continued

SOUTHWESTERN OKLAHOMA STATE UNIVERSITY

June 30, 2012

NOTE M--ACCOUNTING STANDARDS ISSUED NOT YET ADOPTED

Fiscal Year Ended June 30, 2014

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

GASB No. 65 establishes accounting and financial reporting standards that reclassify, as deferred outflows of resources or deferred inflows of resources, certain items that were previously reported as assets and liabilities and recognizes, as outflows of resources (expenses) or inflows of resources (revenues), certain items that were previously recognized as assets and liabilities. The University has not quantified the effects of adoption of GASB No. 65 on its net position.

Fiscal Year Ended June 30, 2015

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

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

NOTES TO FINANCIAL STATEMENTS--Continued

SOUTHWESTERN OKLAHOMA STATE UNIVERSITY

June 30, 2012

NOTE N--RELATED PARTY TRANSACTIONS

The University leases a building from the Foundation. The lease provides for an annual rental of \$70,000 payable in monthly installments of \$5,833. The lessor is to provide for any significant repairs and maintenance. The lessee is to provide for all utilities, services and other operating costs including general repairs and maintenance. The lessee has the sole option to renew for a 10-year period. Terms and conditions of the lease are to be reviewed annually. The University has renewed the lease through June 30, 2012.

In April, 2010, the Foundation provided the funds to enable the University to install artificial turf on the football field. The Foundation and the University entered into an agreement where the Foundation will loan the University \$623,000 with an annual interest rate of 2.5%. The University will make annual payments of \$25,000 for a period not to exceed ten years. The remainder of the balance is to be repaid through assignment of sponsorship agreements entered into by the University for advertising space available in the stadium. The principal balance was \$452,634 and \$494,326 at June 30, 2012 and 2011, respectively.

NOTES TO FINANCIAL STATEMENTS--Continued

SOUTHWESTERN OKLAHOMA STATE UNIVERSITY

June 30, 2012

NOTE O--DISCRETE COMPONENT UNITS

Southwestern Oklahoma State University Foundation, Inc.:

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

FAIR VALUE MEASUREMENTS

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

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

Financial assets and liabilities carried at fair value on a recurring basis include investments, beneficial interest in perpetual trust, and funds held for others. The Foundation has no financial assets or liabilities carried at fair value on a non-recurring basis in 2011 or 2010.

The FASB continues to clarify and enhance disclosures related to Topic 820 and as a result, the Foundation implemented Improving Disclosures about Fair Value Measurements (ASU 2010-06) which requires additional disclosures about transfers in and out of Levels 1 and 2 and disaggregation within the reconciliation for fair value measurements using significant unobservable inputs in 2010. The update also clarifies existing disclosures regarding disaggregation by class and disclosures about inputs and valuation techniques. Implementation of these new requirements did not have a significant impact on the Foundation's financial statements.

NOTES TO FINANCIAL STATEMENTS--Continued

SOUTHWESTERN OKLAHOMA STATE UNIVERSITY

June 30, 2012

NOTE O--DISCRETE COMPONENT UNITS--Continued

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

FAIR VALUE MEASUREMENTS--Continued

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

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

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

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

Investments: Investments are carried at fair value and are based on quoted market prices, when available, or the best estimate of fair value as determined by the investment and/or fund manager. Generally, quoted market prices are available for cash and cash equivalent funds, common and preferred stocks, and mutual funds and as such are classified as Level 1 in the fair value hierarchy. The fair value of certificates of deposit are determined based on interest rates and maturity dates, and are classified as Level 1 or Level 2 based on maturity date. The structured investments which are investments in pooled unsecured notes are determined using the income approach. The key inputs include yield curves, interest rates, maturity dates, and other relevant factors which are observable and therefore are classified as Level 2. The annuity contract investment is carried at cash surrender value as determined by the investment manager and is classified as Level 3.

NOTES TO FINANCIAL STATEMENTS--Continued

SOUTHWESTERN OKLAHOMA STATE UNIVERSITY

June 30, 2012

NOTE O--DISCRETE COMPONENT UNITS--Continued

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

FAIR VALUE MEASUREMENTS--Continued

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

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

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

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

NOTES TO FINANCIAL STATEMENTS--Continued

SOUTHWESTERN OKLAHOMA STATE UNIVERSITY

June 30, 2012

NOTE O--DISCRETE COMPONENT UNITS--Continued

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

FAIR VALUE MEASUREMENTS--Continued

Assets and liabilities measured at fair value on a recurring basis are classified within the fair value hierarchy as follows:

	As of December 31, 2011			
	<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>	<u>Total</u>
ASSETS				
Investments				
Cash and cash equivalent funds	\$ 1,195,442	\$ -	\$ -	\$ 1,195,442
Certificates of deposit	255,642	264,778	-	520,420
Common and preferred stock	1,047,345	-	-	1,047,345
Equity mutual funds	3,999,688	-	-	3,999,688
Fixed income mutual funds	2,761,254	-	-	2,761,254
Index funds	446,884	-	-	446,884
Annuity contract	-	-	172,143	172,143
Structured investments - unsecured notes	-	2,651,335	-	2,651,335
Total investments	9,706,255	2,916,113	172,143	12,794,511
Beneficial interest in perpetual trust	-	-	1,281,121	1,281,121
Total assets carried at fair value	<u>\$ 9,706,255</u>	<u>\$ 2,916,113</u>	<u>\$ 1,453,264</u>	<u>\$ 14,075,632</u>
LIABILITIES				
Funds held for others	\$ -	\$ 521,641	\$ -	\$ 521,641
Total liabilities carried at fair value	<u>\$ -</u>	<u>\$ 521,641</u>	<u>\$ -</u>	<u>\$ 521,641</u>

NOTES TO FINANCIAL STATEMENTS--Continued

SOUTHWESTERN OKLAHOMA STATE UNIVERSITY

June 30, 2012

NOTE O--DISCRETE COMPONENT UNITS--Continued

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

FAIR VALUE MEASUREMENTS--Continued

	As of December 31, 2010			
	Level 1	Level 2	Level 3	Total
ASSETS				
Investments				
Cash and cash equivalent funds	\$ 273,731	\$ -	\$ -	\$ 273,731
Certificates of deposit	-	813,562	-	813,562
Common and preferred stock	1,049,932	-	-	1,049,932
Equity mutual funds	4,353,834	-	-	4,353,834
Fixed income mutual funds	3,262,909	-	-	3,262,909
Annuity contract	-	-	179,659	179,659
Structured investments - unsecured notes	-	2,142,919	-	2,142,919
Total investments	8,940,406	2,956,481	179,659	12,076,546
Beneficial interest in perpetual trust	-	-	1,318,445	1,318,445
Total assets carried at fair value	<u>\$ 8,940,406</u>	<u>\$ 2,956,481</u>	<u>\$ 1,498,104</u>	<u>\$ 13,394,991</u>
LIABILITIES				
Funds held for others	\$ -	\$ 819,129	\$ -	\$ 819,129
Total liabilities carried at fair value	<u>\$ -</u>	<u>\$ 819,129</u>	<u>\$ -</u>	<u>\$ 819,129</u>

The following table summarizes the changes in the fair value of the Foundation's Level 3 financial assets. The Foundation has no liabilities classified as Level 3 in 2011 or 2010.

NOTES TO FINANCIAL STATEMENTS--Continued

SOUTHWESTERN OKLAHOMA STATE UNIVERSITY

June 30, 2012

NOTE O--DISCRETE COMPONENT UNITS--Continued

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

FAIR VALUE MEASUREMENTS--Continued

	<u>Beneficial Interest in Perpetual Trust</u>	<u>Annuity Contract</u>
Balance at January 1, 2010	\$ 1,328,916	\$ 160,217
Gain on beneficial interest in perpetual trust	(10,471)	-
Unrealized loss on investments	-	19,442
Balance at December 31, 2010	1,318,445	179,659
Loss on beneficial interest in perpetual trust	(37,324)	-
Unrealized gain on investments	-	(7,516)
Balance at December 31, 2011	<u>\$ 1,281,121</u>	<u>\$ 172,143</u>

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

ENDOWMENT DISCLOSURES

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

NOTES TO FINANCIAL STATEMENTS--Continued

SOUTHWESTERN OKLAHOMA STATE UNIVERSITY

June 30, 2012

NOTE O--DISCRETE COMPONENT UNITS--Continued

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

ENDOWMENT DISCLOSURES--Continued

Interpretation of Relevant Law

The Trustees of the Foundation have chosen to preserve the fair value of the original gift as of the gift date of the donor-restricted endowment funds absent explicit donor stipulations to the contrary. As a result of this interpretation, the Foundation classifies as permanently restricted net assets (a) the original value of gifts donated to the permanent endowment, (b) the original value of subsequent gifts to the permanent endowment, and (c) accumulations to the permanent endowment made in accordance with the direction of the applicable donor gift instrument at the time the accumulation is added to the fund. The remaining portion of the donor-restricted endowment fund that is not classified in permanently restricted net assets is classified as temporarily restricted net assets until those amounts are appropriated for expenditure by the Foundation in a manner consistent with the standard of prudence prescribed by OK UPMIFA. In accordance with OK UPMIFA, the Foundation considers the following factors in making a determination to appropriate or accumulate donor-restricted endowment funds:

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

Return Objectives and Risk Parameters

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

NOTES TO FINANCIAL STATEMENTS--Continued

SOUTHWESTERN OKLAHOMA STATE UNIVERSITY

June 30, 2012

NOTE O--DISCRETE COMPONENT UNITS--Continued

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

ENDOWMENT DISCLOSURES--Continued

Strategies for Achieving Objectives

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

Spending Policy

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

NOTES TO FINANCIAL STATEMENTS--Continued

SOUTHWESTERN OKLAHOMA STATE UNIVERSITY

June 30, 2012

NOTE O--DISCRETE COMPONENT UNITS--Continued

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

ENDOWMENT DISCLOSURES--Continued

Endowment net asset composition as of December 31, 2011 is as follows:

	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Permanently Restricted</u>	<u>Total</u>
Donor-restricted				
endowment funds	\$ (981,425)	\$ 1,710,388	\$ 12,205,923	\$ 12,934,886
Board-designated				
endowment funds	<u>1,166,975</u>	<u>-</u>	<u>-</u>	<u>1,166,975</u>
Total endowment funds	<u>\$ 185,550</u>	<u>\$ 1,710,388</u>	<u>\$ 12,205,923</u>	<u>\$ 14,101,861</u>

Changes in endowment net assets during 2011 are as follows:

	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Permanently Restricted</u>	<u>Total</u>
Endowment net assets, beginning of year	\$ 466,635	\$ 2,270,394	\$ 10,712,203	\$ 13,449,232
Investment return				
Interest and dividends	22,209	170,838	16,434	209,481
Net realized and unrealized gains (losses)	<u>(315,133)</u>	<u>(590,843)</u>	<u>\$ 227,329</u>	<u>(678,647)</u>
Total investment return	(292,924)	(420,005)	243,763	(469,166)
Contributions	-	-	1,234,289	1,234,289
Provision for losses on uncollectible pledges	<u>-</u>	<u>-</u>	<u>15,613</u>	<u>15,613</u>
Net contribution revenue	-	-	1,249,902	1,249,902
Other income	11,839	-	55	11,894
Appropriation of endowment assets for expenditure	<u>-</u>	<u>(140,001)</u>	<u>-</u>	<u>(140,001)</u>
Endowment net assets, end of year	<u>\$ 185,550</u>	<u>\$ 1,710,388</u>	<u>\$ 12,205,923</u>	<u>\$ 14,101,861</u>

NOTES TO FINANCIAL STATEMENTS--Continued

SOUTHWESTERN OKLAHOMA STATE UNIVERSITY

June 30, 2012

NOTE O--DISCRETE COMPONENT UNITS--Continued

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

ENDOWMENT DISCLOSURES--Continued

Endowment net asset composition as of December 31, 2010 is as follows:

	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Permanently Restricted</u>	<u>Total</u>
Donor-restricted				
endowment funds	\$ (726,925)	\$ 2,270,394	\$ 10,712,203	\$ 12,255,672
Board-designated				
endowment funds	<u>1,193,560</u>	<u>-</u>	<u>-</u>	<u>1,193,560</u>
Total endowment funds	<u>\$ 466,635</u>	<u>\$ 2,270,394</u>	<u>\$ 10,712,203</u>	<u>\$ 13,449,232</u>

Changes in endowment net assets during 2010 are as follows:

	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Permanently Restricted</u>	<u>Total</u>
Endowment net assets, beginning of year	\$ 4,353	\$ 1,979,298	\$ 10,096,144	\$ 12,079,795
Investment return				
Interest and dividends	9,924	167,301	20,051	197,276
Net realized and unrealized gains (losses)	<u>436,932</u>	<u>308,241</u>	<u>79,455</u>	<u>824,628</u>
Total investment return	446,856	475,542	99,506	1,021,904
Contributions	-	6,564	446,412	452,976
Provision for losses on uncollectible pledges	<u>-</u>	<u>-</u>	<u>69,104</u>	<u>69,104</u>
Net contribution revenue	-	6,564	515,516	522,080
Other income	15,426	-	1,037	16,463
Appropriation of endowment assets for expenditure	<u>-</u>	<u>(191,010)</u>	<u>-</u>	<u>(191,010)</u>
Endowment net assets, end of year	<u>\$ 466,635</u>	<u>\$ 2,270,394</u>	<u>\$ 10,712,203</u>	<u>\$ 13,449,232</u>

NOTES TO FINANCIAL STATEMENTS--Continued

SOUTHWESTERN OKLAHOMA STATE UNIVERSITY

June 30, 2012

NOTE O--DISCRETE COMPONENT UNITS--Continued

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

ENDOWMENT DISCLOSURES--Continued

Funds with Deficiencies

From time to time, the fair value of assets associated with individual donor-restricted endowment funds may fall below the level that the donor or OK UPMIFA requires the Foundation to retain as a fund of perpetual duration. In accordance with U.S. GAAP, deficiencies of this nature that are reported in unrestricted net assets were \$981,425 and \$726,925 at December 31, 2011 and 2010, respectively. These deficiencies resulted from unfavorable market fluctuations that occurred shortly after the investment of new permanently restricted contributions and continued appropriation that was deemed prudent by the Trustees.

Southwestern Pharmacy Alumni Foundation, Inc.:

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

INVESTMENTS

The Foundation has valued its investments based on Financial Accounting Standards Board Accounting Standards Codification 958 (FASB ASC 958), formerly SFAS No. 124, *Accounting for Certain Investments Held by Not-for-Profit Organizations*. Under FASB ASC 958, formerly SFAS No. 124, the Foundation is required to report investments in equity securities with readily determinable fair values and all investments in debt securities in the statement of financial position at fair value and report realized and unrealized gains and losses in the statement of activities.

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

The Foundation maintains pooled investment accounts for its endowments and special funds. A target earning percentage of 5% is to be posted annually to all funds based on the average balance of each fund. This target earnings percentage may be adjusted based on Management's review of the economic and other conditions as approved by the Board of Director's. The earnings percentage used for the years ended December 31, 2011 and 2010 were 2% and 5% respectively.

NOTES TO FINANCIAL STATEMENTS--Continued

SOUTHWESTERN OKLAHOMA STATE UNIVERSITY

June 30, 2012

NOTE O--DISCRETE COMPONENT UNITS--Continued

Southwestern Pharmacy Alumni Foundation, Inc.--Continued:

INVESTMENTS--Continued

Cost, unrealized gain or loss and carrying amounts which are at the lower of cost or market of investments are summarized as follows:

	December 31, 2011		
	Cost	Unrealized Gain or Loss	Fair Value
	Mutual funds	\$ 762,725	\$ 58,213
Certificates of deposit	1,815,545	-	1,815,545
	<u>\$ 2,578,270</u>	<u>\$ 58,213</u>	<u>\$ 2,636,483</u>

	December 31, 2010		
	Cost	Unrealized Gain or Loss	Fair Value
	Mutual funds	\$ 833,131	\$ 69,183
Certificates of deposit	1,811,000	-	1,811,000
	<u>\$ 2,644,131</u>	<u>\$ 69,183</u>	<u>\$ 2,713,314</u>

The following table shows the investments' gross unrealized losses and fair value, aggregated by length of time that individual securities were in a continuous unrealized loss position at December 31, 2011. Based on the Foundation's evaluation of the investment and its ability and intent to hold the investment for a reasonable period of time sufficient for a forecasted recovery of fair value, the Foundation does not consider this investment to be other-than-temporarily impaired at December 31, 2011.

	Less than 12 Months		12 Months or Longer		Total	
	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses
	Mutual funds	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 43,161</u>	<u>\$ (11,106)</u>	<u>\$ 43,161</u>

NOTES TO FINANCIAL STATEMENTS--Continued

SOUTHWESTERN OKLAHOMA STATE UNIVERSITY

June 30, 2012

NOTE O--DISCRETE COMPONENT UNITS--Continued

Southwestern Pharmacy Alumni Foundation, Inc.--Continued:

FAIR MARKET VALUE

The Organization has determined the fair value of certain assets and liabilities through application FASB ASC 820, formerly SFAS No. 157, *Fair Value Measurements*. The Organization has also elected the fair value option for certain financial assets and liabilities as allowed by FASB ASC 825, formerly SFAS No. 159, *The Fair Value Option for Financial Assets and Financial Liabilities*.

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

FASB ASC 825, formerly SFAS No. 159 provides a fair value option that allows companies to irrevocably elect fair value as the initial and subsequent measurement attribute for certain financial assets and liabilities. When the fair value is elected, unrealized gains and losses are recognized in earnings as they occur. FASB ASC 825, formerly SFAS No. 159 permits the fair value option election on an instrument-by-instrument basis at specified election dates, primarily at the initial recognition of an asset or liability or upon an event that gives rise to a new basis of accounting for that instrument.

Management did not elect the fair value option for all financial assets, which were eligible for the fair value option, since those instruments were not affected by changes in management's risk management and investment strategy.

NOTES TO FINANCIAL STATEMENTS--Continued

SOUTHWESTERN OKLAHOMA STATE UNIVERSITY

June 30, 2012

NOTE O--DISCRETE COMPONENT UNITS--Continued

Southwestern Pharmacy Alumni Foundation, Inc.--Continued:

FAIR MARKET VALUE--Continued

Fair Value Measurements at Reporting Date Using			
	Fair Value	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Unobservable Inputs (Level 3)
<u>December 31, 2011</u>			
Mutual funds - equity related	\$ 820,938	\$ 820,938	\$ -
Certificates of deposit - Local	1,815,545	-	1,815,545
Total	<u>\$ 2,636,483</u>	<u>\$ 820,938</u>	<u>\$ 1,815,545</u>
<u>December 31, 2010</u>			
Mutual funds - equity related	\$ 902,314	\$ 902,314	\$ -
Certificates of deposit - UBS	96,000	-	96,000
Certificates of deposit - Local	1,715,000	-	1,715,000
Total	<u>\$ 2,713,314</u>	<u>\$ 902,314</u>	<u>\$ 1,811,000</u>

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

NOTES TO FINANCIAL STATEMENTS--Continued

SOUTHWESTERN OKLAHOMA STATE UNIVERSITY

June 30, 2012

NOTE O--DISCRETE COMPONENT UNITS--Continued

Southwestern Pharmacy Alumni Foundation, Inc.--Continued:

FAIR MARKET VALUE--Continued

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

	<u>Certificates of Deposit</u>
Balance December 31, 2009	\$ 1,553,854
Additional investments	1,210,000
Distributions	(952,854)
Total gains or losses	<u>-</u>
Balance December 31, 2010	1,811,000
Additional investments	200,000
Income reinvested	545
Distributions	(196,000)
Total gains or losses	<u>-</u>
Balance December 31, 2011	<u><u>\$ 1,815,545</u></u>

ENDOWMENT

The Foundation's endowment consists of approximately 57 individual funds established for a variety of purposes. The endowment includes both donor restricted endowment funds and funds designated by the governing body to function as endowments (board-designated endowment funds). Net assets associated with endowment funds, including board-designated endowment funds, are classified and reported based on the existence or absence of donor-imposed restrictions.

NOTES TO FINANCIAL STATEMENTS--Continued

SOUTHWESTERN OKLAHOMA STATE UNIVERSITY

June 30, 2012

NOTE O--DISCRETE COMPONENT UNITS--Continued

Southwestern Pharmacy Alumni Foundation, Inc.--Continued:

ENDOWMENT--Continued

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

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

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

REQUIRED SUPPLEMENTARY
INFORMATION

REQUIRED SUPPLEMENTARY INFORMATION--UNAUDITED

SOUTHWESTERN OKLAHOMA STATE UNIVERSITY

June 30, 2012

SCHEDULE OF FUNDING PROGRESS FOR SUPPLEMENTARY RETIREMENT ANNUITY PLAN						
Actuarial Valuation Date	Actuarial Value of Assets (a)	Actuarial Accrued Liability (AAL) (b)	Unfunded AAL (UAAL) (b-a)	Funded Ratio (a/b)	Covered Payroll (c)	UAAL as a percentage of Covered Payroll (b-a)/(c)
6/30/2006	\$ 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%
6/30/2008	5,320,623	5,811,093	490,470	91.56%	8,158,641	6.01%
6/30/2009	5,169,517	6,170,022	1,000,505	83.78%	7,891,417	12.67%
6/30/2010	4,907,022	6,701,903	1,794,881	73.22%	6,742,780	26.62%
6/30/2011	4,559,275	6,735,124	2,175,849	67.69%	6,130,039	35.49%
6/30/2012	4,188,254	6,504,370	2,316,116	64.39%	5,645,591	41.03%

SCHEDULE OF FUNDING PROGRESS FOR OTHER POST EMPLOYMENT BENEFITS						
Actuarial Valuation Date	Actuarial Value of Assets (a)	Actuarial Accrued Liability (AAL) (b)	Unfunded AAL (UAAL) (b-a)	Funded Ratio (a/b)	Covered Payroll (c)	UAAL as a percentage of Covered Payroll (b-a)/(c)
6/30/2008	\$ 437,000	\$ 3,399,000	\$ 2,962,000	12.86%	\$ 22,199,632	13.34%
6/30/2009	438,745	3,190,009	2,751,264	13.75%	26,584,455	10.35%
6/30/2010	849,241	3,285,792	2,436,551	25.85%	31,636,990	7.7%
6/30/2011	1,098,263	3,558,958	2,460,695	30.86%	32,608,185	7.5%
6/30/2012	1,257,525	3,701,407	2,443,882	33.97%	32,383,483	7.5%

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

OTHER SUPPLEMENTARY
INFORMATION

OTHER SUPPLEMENTARY INFORMATION-DISCRETELY PRESENTED COMPONENT UNIT
COMBINING STATEMENT OF FINANCIAL POSITION

SOUTHWESTERN OKLAHOMA STATE UNIVERSITY

December 31, 2011

(FISCAL YEAR ENDS OF COMPONENT UNITS)

	<u>University Foundation</u>	<u>Pharmacy Foundation</u>	<u>Total</u>
ASSETS			
Cash and cash equivalents	\$ 499,916	\$ 197,922	\$ 697,838
Accounts receivable	35,000	-	35,000
Pledges receivable	-	8,050	8,050
Interest receivable	22,443	12,589	35,032
Contributions receivable	158,910	-	158,910
Note receivable from related party	470,766	-	470,766
Investments	12,794,511	2,636,483	15,430,994
Loans receivable	-	2,000	2,000
Beneficial interest in perpetual trust	1,281,121	-	1,281,121
Property and equipment	787,598	-	787,598
Other assets	268,363	-	268,363
	<u>\$ 16,318,628</u>	<u>\$ 2,857,044</u>	<u>\$ 19,175,672</u>
TOTAL ASSETS			
LIABILITIES			
Accounts payable	\$ 5,259	\$ -	\$ 5,259
Payable to related party	250,536	-	250,536
Funds held for others	521,641	-	521,641
	<u>777,436</u>	<u>-</u>	<u>777,436</u>
TOTAL LIABILITIES			
NET ASSETS			
Unrestricted	(1,040,610)	1,360,544	319,934
Temporarily restricted	3,094,758	595,996	3,690,754
Permanently restricted	13,487,044	900,504	14,387,548
	<u>15,541,192</u>	<u>2,857,044</u>	<u>18,398,236</u>
TOTAL NET ASSETS			
TOTAL LIABILITIES AND NET ASSETS	<u>\$ 16,318,628</u>	<u>\$ 2,857,044</u>	<u>\$ 19,175,672</u>

See notes to financial statements.

OTHER SUPPLEMENTARY INFORMATION-DISCRETELY PRESENTED COMPONENT UNIT
COMBINING STATEMENT OF FINANCIAL POSITION

SOUTHWESTERN OKLAHOMA STATE UNIVERSITY

December 31, 2010

(FISCAL YEAR ENDS OF COMPONENT UNITS)

	<u>University Foundation</u>	<u>Pharmacy Foundation</u>	<u>Total</u>
ASSETS			
Cash and cash equivalents	\$ 478,930	\$ 130,285	\$ 609,215
Pledges receivable	-	8,050	8,050
Interest receivable	9,326	10,009	19,335
Contributions receivable	323,390	-	323,390
Note receivable from related party	550,000	-	550,000
Investments	12,076,546	2,713,314	14,789,860
Loans receivable	-	350	350
Beneficial interest in perpetual trust	1,318,445	-	1,318,445
Property and equipment	820,383	-	820,383
Other assets	<u>269,618</u>	<u>-</u>	<u>269,618</u>
TOTAL ASSETS	<u>\$ 15,846,638</u>	<u>\$ 2,862,008</u>	<u>\$ 18,708,646</u>
LIABILITIES			
Accounts payable	\$ 128,316	\$ -	\$ 128,316
Funds held for others	<u>819,129</u>	<u>-</u>	<u>819,129</u>
TOTAL LIABILITIES	<u>947,445</u>	<u>-</u>	<u>947,445</u>
NET ASSETS			
Unrestricted	(797,761)	1,451,885	654,124
Temporarily restricted	3,666,306	568,929	4,235,235
Permanently restricted	<u>12,030,648</u>	<u>841,194</u>	<u>12,871,842</u>
TOTAL NET ASSETS	<u>14,899,193</u>	<u>2,862,008</u>	<u>17,761,201</u>
TOTAL LIABILITIES AND NET ASSETS	<u>\$ 15,846,638</u>	<u>\$ 2,862,008</u>	<u>\$ 18,708,646</u>

See notes to financial statements.

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

SOUTHWESTERN OKLAHOMA STATE UNIVERSITY

Year Ended December 31, 2011

(FISCAL YEAR ENDS OF COMPONENT UNITS)

	University Foundation	Pharmacy Foundation	Total
SUPPORT, REVENUES, GAINS AND OTHER ADDITIONS			
Contributions	\$ 1,815,910	\$ 167,084	\$ 1,982,994
Provision for loss on uncollectible contributions receivable	16,113	-	16,113
Program service revenue	290,538	-	290,538
Interest and dividend income	241,209	23,872	265,081
Realized gains (losses) on investments	458,646	-	458,646
Unrealized gain (loss) on investments	(1,137,293)	(10,969)	(1,148,262)
Investment income from perpetual trust	50,000	-	50,000
Loss on beneficial interest in perpetual trust	(37,324)	-	(37,324)
Rental income	70,000	-	70,000
Other income	10,639	40,988	51,627
Other investment income	-	24,605	24,605
Continuing education	-	88,589	88,589
Net assets released from restrictions	-	-	-
TOTAL SUPPORT, REVENUES, GAINS AND OTHER ADDITIONS	<u>1,778,438</u>	<u>334,169</u>	<u>2,112,607</u>
EXPENSES			
Program services for university	936,173	122,979	1,059,152
Supporting services:			
Management and general	189,632	23,593	213,225
Fundraising	10,634	-	10,634
Continuing education expenses	-	64,981	64,981
Scholarships and grants	-	98,725	98,725
School of Pharmacy	-	28,855	28,855
TOTAL EXPENSES	<u>1,136,439</u>	<u>339,133</u>	<u>1,475,572</u>
NET INCREASE (DECREASE) IN ASSETS	641,999	(4,964)	637,035
NET ASSETS, BEGINNING OF YEAR	<u>14,899,193</u>	<u>2,862,008</u>	<u>16,564,632</u>
NET ASSETS, END OF YEAR	<u>\$ 15,541,192</u>	<u>\$ 2,857,044</u>	<u>\$ 18,398,236</u>

See notes to financial statements.

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

SOUTHWESTERN OKLAHOMA STATE UNIVERSITY

Year Ended December 31, 2010

(FISCAL YEAR ENDS OF COMPONENT UNITS)

	University Foundation	Pharmacy Foundation	Total
SUPPORT, REVENUES, GAINS AND OTHER ADDITIONS			
Contributions	\$ 813,070	\$ 71,670	\$ 884,740
Provision for loss on uncollectible contributions receivable	74,549	-	74,549
Program service revenue	286,265	-	286,265
Interest and dividend income	228,374	39,130	267,504
Realized gains (losses) on investments	787,856	-	787,856
Unrealized gain on investments	114,302	93,049	207,351
Investment income from perpetual trust	46,000	-	46,000
Loss on beneficial interest in perpetual trust	(10,471)	-	(10,471)
Rental income	70,000	-	70,000
Other income	35,463	40,051	75,514
Other investment income	-	22,879	22,879
Continuing education	-	88,349	88,349
Net assets released from restrictions	-	-	-
TOTAL SUPPORT, REVENUES, GAINS AND OTHER ADDITIONS	<u>2,445,408</u>	<u>355,128</u>	<u>2,800,536</u>
EXPENSES			
Program services for university	1,010,644	120,051	1,130,695
Supporting services:			
Management and general	175,255	29,884	205,139
Fundraising	102,936	-	102,936
Continuing education expenses	-	55,448	55,448
Scholarships and grants	-	71,775	71,775
School of Pharmacy	-	37,974	37,974
TOTAL EXPENSES	<u>1,288,835</u>	<u>315,132</u>	<u>1,603,967</u>
NET INCREASE IN ASSETS	1,156,573	39,996	1,196,569
NET ASSETS, BEGINNING OF YEAR	<u>13,742,620</u>	<u>2,822,012</u>	<u>16,564,632</u>
NET ASSETS, END OF YEAR	<u>\$ 14,899,193</u>	<u>\$ 2,862,008</u>	<u>\$ 17,761,201</u>

See notes to financial statements.

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

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

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

We have audited the financial statements of Southwestern Oklahoma State University (the "University"), a component unit of the State of Oklahoma, as of and for the year ended June 30, 2012, and have issued our report thereon dated November 1, 2012. Our report includes 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 in *Government Auditing Standards*, issued by the Comptroller General of the United States. Other auditors audited the financial statements of the Southwestern Pharmacy Alumni Foundation, Inc. (the "Pharmacy Foundation"), a discretely presented component unit of the University, as described in our report on the University's financial statements. The financial statements of the Southwestern Oklahoma State University Foundation, Inc. and the Pharmacy Foundation were not audited in accordance with *Government Auditing Standards*.

Internal Control Over Financial Reporting

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

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

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

Compliance and Other Matters

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

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

Cole & Reed P.C.

Oklahoma City, Oklahoma
November 1, 2012

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

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") with the types of compliance requirements described in the U.S. Office of Management and Budget (OMB) Circular A-133 *Compliance Supplement* that could have a direct and material effect on each of its major federal programs for the year ended June 30, 2012. 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 compliance of Southwestern Oklahoma State University 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 noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about the University's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion. 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, 2012.

Internal Control Over Compliance

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

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

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

Schedule of Expenditures of Federal Awards

We have audited the basic financial statements of the University as of and for the year ended June 30, 2012, and have issued our report thereon dated November 1, 2012. Our audit was performed for the purpose of forming an opinion on the basic financial statements taken as a whole. The accompanying schedule of expenditures of federal awards is presented for purposes of additional analysis, as required by the U.S. Office of Management and Budget Circular A-133, *Audits of States, Local Government, and Non-Profit Organizations*, and is not a required part of the basic financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the financial statements. The information has been subjected to the auditing procedures applied in the audit of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements or to the financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the information is fairly stated in all material respects in relation to the basic financial statements as a whole.

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

Cole & Reed P.C.

Oklahoma City, Oklahoma
November 1, 2012

SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS

SOUTHWESTERN OKLAHOMA STATE UNIVERSITY

Year Ended June 30, 2012

Federal Grantor/Pass-through Grantor/Program Title	Federal CFDA Number	Expenditures
U.S. Department of Education		
Student Financial Aid Cluster		
Federal Pell Grant Program	84.063	\$ 7,598,592
Federal Supplemental Education Opportunity Grants	84.007	65,181
Federal Workstudy Program	84.033	195,709
Federal Direct Student Loan Program	84.268	20,625,591
Academic Competitiveness Grants	84.375	4,994
National Science and Mathematics Access to Retain Talent	84.376	149
<i>Total Student Financial Aid Cluster</i>		<u>28,490,216</u>
Other Programs		
TRIO Upward Bound	84.047	319,664
KESAM	84.367	172,058
Mathematics and Science Partnerships	84.366	12,370
Harmonizing Pharmacy Clinical Competency	84.116	2,258
Technology Upgrade	84.215	128,327
Total U.S. Department of Education		<u>29,124,893</u>
U.S. Department of Health and Human Services		
Development Disabilities		
CWPEP	93.658	17,673
National Institute of Health	93.389	166,271
Total U.S. Department of Health and Human Services		<u>183,944</u>
Small Business Administration		
Passed through Southeastern Oklahoma State University		
Small Business Development Center	59.037	146,881
National Endowment for the Humanities		
The Circular Movement in Cheyenne and Arapaho Culture	45.168	9,697
National Science Foundation		
RUI: Modulation of Synaptic Vesicle Exocytosis in C. elegans	47.074	130,148
Louis Stokes Alliance for Minority Participation in Science, Mathematics, Engineering, and Technology	47.076	18,276
EPSCoR	47.081	15,724
Total National Science Foundation		<u>164,148</u>
National Aeronautics and Space Administration		
NASA/Fellowship/Career workforce	43.001	83,271

SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS--Continued

SOUTHWESTERN OKLAHOMA STATE UNIVERSITY

Year Ended June 30, 2012

Federal Grantor/Pass-through Grantor/Program Title	Federal CFDA Number	Expenditures
U.S. Department of Interior Bureau of Indian Affairs	15.114	77,924
U.S. Department of Commerce Manufacturing Extension Partnership	11.611	(432)
Economic Development Technical Assistance	11.303	<u>93,576</u>
Total U.S. Department of Commerce		93,144
U.S. Department of Agriculture Upward Bound Child Nutrition Program	10.559	15,049
School Breakfast Program	10.553	60,519
National School Lunch Program	10.555	<u>120,728</u>
<i>Total Child Nutrition Cluster</i>		196,296
U.S. Department of Labor Western OK Business and Com	17.261	2,010
U.S. Department of Justice RUSO-Violence Protection Program	16.525	<u>55,037</u>
TOTAL EXPENDITURES OF FEDERAL AWARDS		<u>\$ 30,137,245</u>

See notes to schedule of expenditures of federal awards.

NOTES TO SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS

SOUTHWESTERN OKLAHOMA STATE UNIVERSITY

June 30, 2012

I. Summary of Significant Accounting Policies

The schedule of expenditures of federal awards include 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 Direct Student Loan Program

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

III. Sub-recipients

During the year ended June 30, 2012, the University provided federal awards to sub-recipients through two awards: U.S. Department of Labor award for Western Oklahoma Business and Commercialization Center and the U.S. Department of Commerce for Economic Development Administration.

SCHEDULE OF FINDINGS AND QUESTIONED COSTS

SOUTHWESTERN OKLAHOMA STATE UNIVERSITY

June 30, 2012

Section I--Summary of Auditors' Results

Financial statements

Type of auditors' report issued: *Unqualified*

Internal control over financial reporting:

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

Noncompliance material to financial statements noted? yes no

Federal Awards

Internal control over major programs:

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

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

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

Identification of major programs:

<u>Program / Cluster</u>	<u>CFDA Number</u>
Student Financial Aid Cluster	*
Child Nutrition Cluster	*

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

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

Auditee qualified as low-risk auditee? yes no

SCHEDULE OF FINDINGS AND QUESTIONED COSTS--Continued

SOUTHWESTERN OKLAHOMA STATE UNIVERSITY

June 30, 2012

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

None to report for the June 30, 2012 period.

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

None to report for the June 30, 2012 period.

SUMMARY SCHEDULE OF PRIOR AUDIT FINDINGS

SOUTHWESTERN OKLAHOMA STATE UNIVERSITY

June 30, 2012

No matters were reportable.