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SOUTHWESTERN OKLAHOMA STATE UNIVERSITY

June 30, 2011

SOUTHWESTERN OKLAHOMA STATE UNIVERSITY

June 30, 2011

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

We conducted our audits in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General for 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 University Foundation 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 auditor provide a reasonable basis for our opinion.

In our opinion, based on our audits and the report of the other auditor, 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, Southwestern Oklahoma State University Foundation, Inc. and Southwestern Pharmacy Alumni Foundation, Inc. as of June 30, 2011 and 2010, and the respective changes in financial position and, where applicable, its cash flows thereof for the years then ended, in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued our report dated October 28, 2011, on our consideration of the University's internal control over financial reporting and 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.

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

Our audit was conducted for the purpose of forming opinions 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 supplemental information are not a required part of the basic financial statements. The combining financial statements of the University's discretely presented component units combine financial statements for the University Foundation that were audited by us, and the Pharmacy foundation that were audited by another auditor whose report thereon has been furnished to us and, based on the report of the other auditor, are fairly stated in all material respects, in relation to the basic financial statements taken as a whole.

Cole & Reed P.C.

Oklahoma City, Oklahoma
October 28, 2011

Managements' Discussion and Analysis (Unaudited)
Southwestern Oklahoma State University
June 30, 2011

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, 2011, with selected comparative information for the years ended June 30, 2010 and 2009. 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, 2011

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, 2011. Comparative data for years ending June 30, 2010 and 2009 is provided.

Schedule A
Condensed Statement of Net Assets
(In Millions)

	June 30		Increase	%	June 30	Increase	%
	2011	2010	(Decrease)	Change	2009	(Decrease)	Change
CURRENT ASSETS	\$ 25.2	\$ 23.5	\$ 1.7	7.2%	\$ 20.4	\$ 3.1	15.2%
NONCURRENT ASSETS							
Capital assets,	51.9	50.8	1.1	2.2%	46.6	4.2	9.0%
net of depreciation							
Other	17.9	5.2	12.7	244.2%	9	(3.8)	-42.2%
TOTAL ASSETS	<u>95.0</u>	<u>79.5</u>	<u>15.5</u>	<u>19.5%</u>	<u>76.0</u>	<u>3.5</u>	<u>4.6%</u>
CURRENT LIABILITIES	6.0	4.9	1.1	22.4%	4.6	0.3	6.5%
NONCURRENT LIABILITIES	33.3	20.3	13.0	64.0%	20.4	(0.1)	-0.5%
TOTAL LIABILITIES	<u>39.3</u>	<u>25.2</u>	<u>14.1</u>	<u>56.0%</u>	<u>25.0</u>	<u>0.2</u>	<u>0.8%</u>
NET ASSETS							
Invested in capital assets,	31.2	30.9	0.3	1.0%	25.8	5.1	19.8%
Restricted	6.6	4.3	2.3	53.5%	8.1	(3.8)	-46.9%
Unrestricted	17.8	19.1	(1.3)	-6.8%	17.1	2.0	11.7%
TOTAL NET ASSETS	<u>\$ 55.6</u>	<u>\$ 54.3</u>	<u>\$ 1.3</u>	<u>2.4%</u>	<u>\$ 51.0</u>	<u>\$ 3.3</u>	<u>6.5%</u>

Managements' Discussion and Analysis (Unaudited) (Continued)
Southwestern Oklahoma State University
June 30, 2011

FINANCIAL HIGHLIGHTS (Continued)

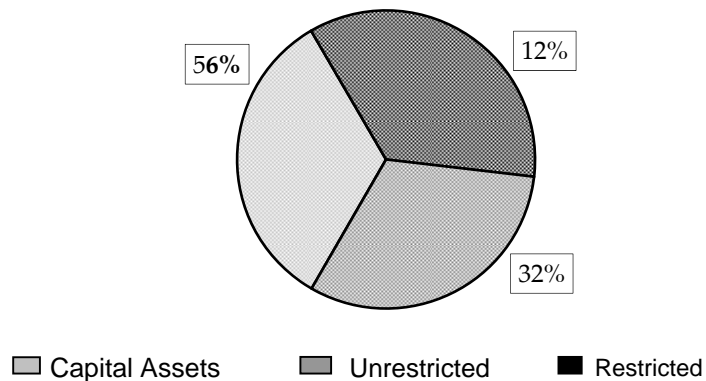
Statement of Net Assets (Continued)

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 University's net assets are evenly split between capital assets, unrestricted and restricted assets.

Analysis of Net Assets



Managements' Discussion and Analysis (Unaudited) (Continued)
Southwestern Oklahoma State University
June 30, 2011

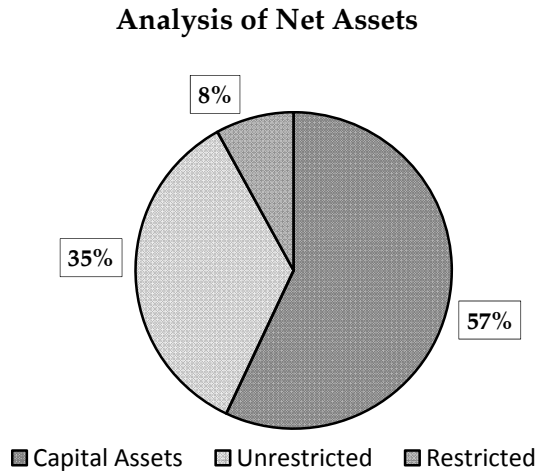
FINANCIAL HIGHLIGHTS (Continued)

Statement of Net Assets (Continued)

June 30, 2010 compared to June 30, 2009

Current assets increased by \$3,057,318. Net Capital Assets increased by \$4,228,764; projects completed during the year include the Old Science Building, Crowder Lake Buildings and campus elevators. 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.



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, 2011

FINANCIAL HIGHLIGHTS (Continued)

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

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

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

	Years Ended June 30,		
	2011	2010	2009
OPERATING REVENUES			
Student tuition and fees	\$ 15.3	\$ 13.6	\$ 12.9
Federal, state and local grants and contracts	7.9	7.2	6.5
Auxiliary	6.5	6.1	6.0
Other	0.6	0.8	0.7
TOTAL OPERATING REVENUES	30.3	27.7	26.1
OPERATING EXPENSES			
Compensation and employee benefits	43.0	41.3	40.1
Contractual services	3.7	3.4	3.4
Supplies and materials	3.6	3.7	3.7
Depreciation	3.5	3.4	3.0
Utilities	1.8	1.9	1.9
Communication expense	0.4	0.4	0.4
Scholarships and fellowships	9.9	6.6	5.8
Other operating expense	3.6	3.6	3.6
TOTAL OPERATING EXPENSES	69.5	64.3	61.9
Operating income (loss)	(39.2)	(36.6)	(35.8)
NONOPERATING REVENUES (EXPENSES)			
State appropriations	26.4	26.3	26.7
City sales tax revenue	0.4	-	-
Grant (Federal)	13.4	12.2	9.9
Investment income	0.1	0.3	0.3
Interest costs	(0.9)	(0.9)	(0.9)
NET NONOPERATING REVENUES	39.4	37.9	36.0
Income (loss) before other revenues, expenses, gains and	0.2	1.3	0.2
State appropriations restricted for capital purposes	1.1	2.0	1.9
CHANGE IN NET ASSETS	1.3	3.3	2.1
NET ASSETS, BEGINNING OF YEAR, as restated	54.3	51.0	48.9
NET ASSETS, END OF YEAR	\$ 55.6	\$ 54.3	\$ 51.0

Managements' Discussion and Analysis (Unaudited) (Continued)
Southwestern Oklahoma State University
June 30, 2011

FINANCIAL HIGHLIGHTS (Continued)

Revenues

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 an 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 non-operating 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.

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.

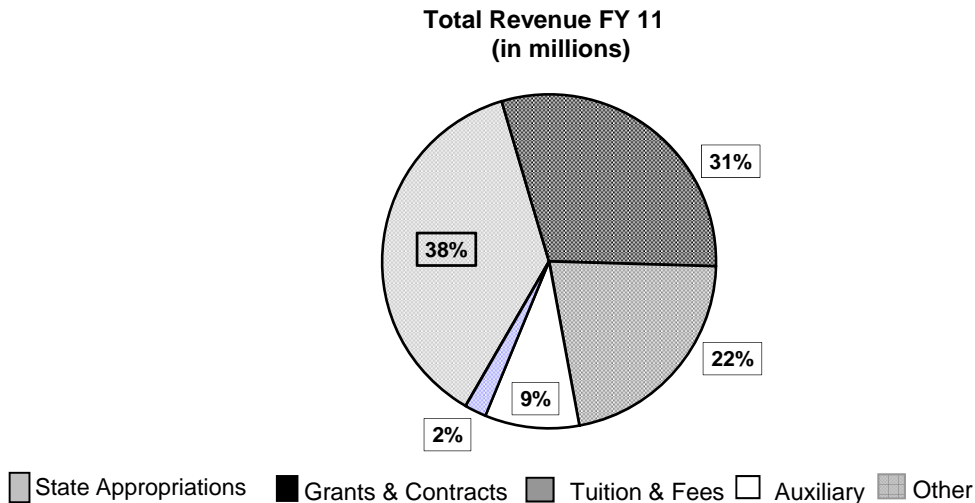
State appropriations for operations in FY 2011 were \$26.4 million compared to \$26.3 million in FY 2010. This includes \$2.1 million in Oklahoma Teachers Retirement System on-behalf contributions and \$1.6 million in state payments from the federal ARRA revenues.

Managements' Discussion and Analysis (Unaudited) (Continued)
Southwestern Oklahoma State University
June 30, 2011

FINANCIAL HIGHLIGHTS (Continued)

Revenues (Continued)

The following graph represents sources and amounts of revenue.



June 30, 2010 compared to June 30, 2009

Student tuition and fees, net of scholarships and allowances, increased \$695,105. The student full-time equivalent (FTE) enrollment for FY2010 and FY2009 was 4,768 and 4,525, respectively. This would indicate an FTE enrollment increase of 5.4%

Operating Grants and Contracts activity is \$7.2 million, an increase of 11% from the previous year. The majority of the increase is due to an agreement between the University and the Cheyenne Arapaho Tribe to operate the Cheyenne Arapaho Tribal College on the University Campus; the Tribe contributed \$500,000 during the 2010 fiscal year to the operation of the tribal college and there were no contributions received from the tribe during 2009. Southwestern also operates five residential group homes, providing services to state adjudicated delinquent male youths. Funding of approximately \$4 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 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, 2011

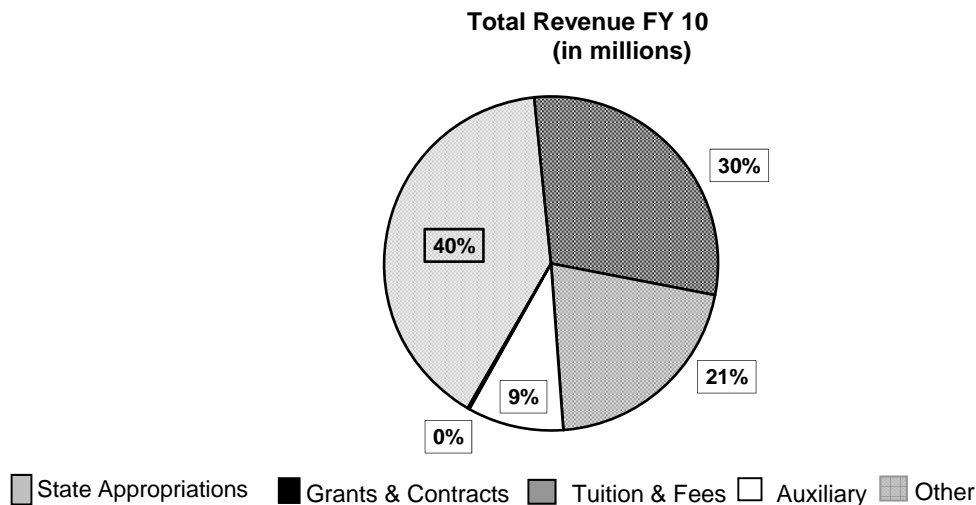
FINANCIAL HIGHLIGHTS (Continued)

Revenues (Continued)

Auxiliary operations generated total revenues of \$6.2 million in FY2010, of which \$5.1 million is from housing and food services; as compared to FY2009 revenues of \$6.0 million, of which \$5.1 million is from housing and food services

State appropriations for operations in FY 2010 were \$26.3 million compared to \$26.7 million in FY 2009. This includes \$1.8 million in Oklahoma Teachers Retirement System on-behalf contributions and \$1.85 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, 2011

FINANCIAL HIGHLIGHTS (Continued)

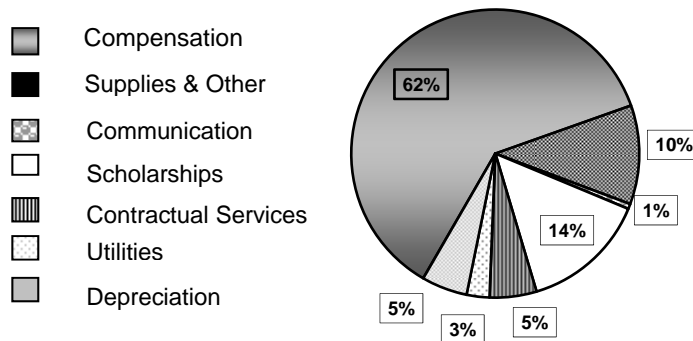
Expenses

June 30, 2011 compared to June 30, 2010

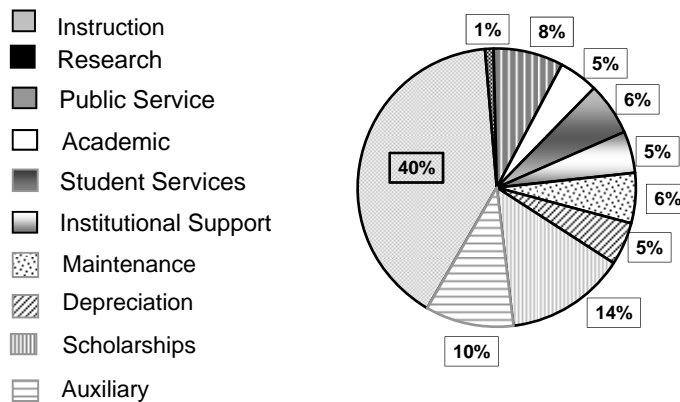
Operating expenses for the year are \$69.5 million, an increase of \$5.1 million or 8% over the previous year. This is mainly due to increased compensation and benefits costs of \$1.7 million, and scholarships and fellowships increased \$3.3 million.

The following are graphic representations of expenses during FY 11:

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



**Expenses by Functional Classification FY11
(in millions)**



Managements' Discussion and Analysis (Unaudited) (Continued)
Southwestern Oklahoma State University
June 30, 2011

FINANCIAL HIGHLIGHTS (Continued)

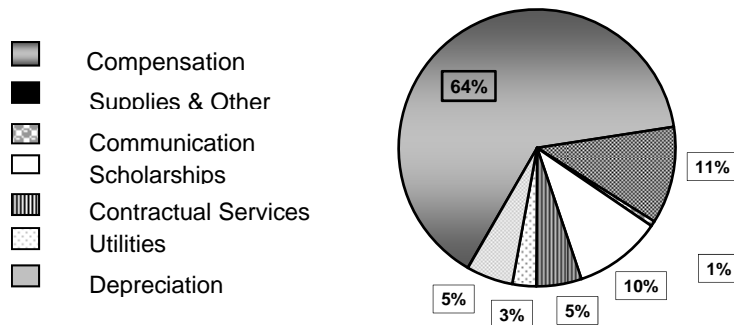
Expenses (Continued)

June 30, 2010 compared to June 30, 2009

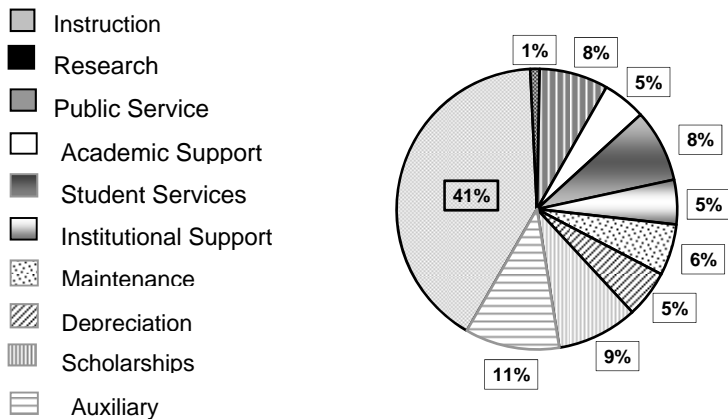
Operating expenses for the year are \$64.3 million, an increase of \$2.4 million or 3.8% over the previous year. This is mainly due to increased compensation and benefits costs of \$1.2 million, depreciation increased \$478,000 and scholarships and fellowships increased \$786,000.

The following are graphic representations of expenses during FY 10:

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



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



Managements' Discussion and Analysis (Unaudited) (Continued)
Southwestern Oklahoma State University
June 30, 2011

FINANCIAL HIGHLIGHTS (Continued)

Statement of Cash Flows

The primary purpose of the Statement of Cash Flows is to provide information about the cash receipts and 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, 2011 compared to the year ended June 30, 2010 and 2009, and is prepared from the Statement of Cash Flows.

Schedule C
Condensed Statements of Cash Flows
(In Millions)

	Years Ended June 30,		
	2011	2010	2009
CASH PROVIDED BY (USED IN):			
Operating activities	\$ (33.4)	\$ (32.3)	\$ (30.9)
Noncapital financing activities	38.1	36.7	34.6
Investing activities	(13.0)	0.3	0.3
Capital and related financing activities	9.9	(2.1)	(3.2)
NET INCREASE IN CASH	1.6	2.6	0.8
CASH, BEGINNING OF YEAR	21.4	18.8	18.0
CASH, END OF YEAR	<u>\$ 23.0</u>	<u>\$ 21.4</u>	<u>\$ 18.8</u>

Capital Assets

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.

At June 30, 2010, the University had approximately \$50.8 million invested in capital assets, net of accumulated depreciation of \$48.7 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 Old Science Building, Crowder Lake Buildings, and campus elevators which were made possible by the 2005F OCIA Bond Issue.

Managements' Discussion and Analysis (Unaudited) (Continued)
Southwestern Oklahoma State University
June 30, 2011

FINANCIAL HIGHLIGHTS (Continued)

Capital Assets (Continued)

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

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

	2011	2010	2009
Land	\$ 1.1	\$ 1.1	\$ 1.0
Construction in Progress	3.7	4.8	3.0
Infrastructure	0.4	0.4	0.3
Land Improvements	0.6	0.7	0.1
Buildings	42.5	40.3	38.6
Furniture, fixtures and equipment	2.0	1.9	2.0
Library materials	1.6	1.6	1.6
Totals	<u>\$ 51.9</u>	<u>\$ 50.8</u>	<u>\$ 46.6</u>

Debt

At June 30, 2011 the University had approximately \$34.1 million in debt outstanding compared to \$19.6 and \$20.5 outstanding at June 30, 2010 and 2009. The table below summarizes these amounts by type.

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

	2011	2010	2009
OCIA Lease Obligations	\$ 11.7	\$ 10.5	\$ 10.9
ODFA Lease Obligations	16.6	3.0	3.1
Revenue Bonds Payable	5.8	6.1	6.5
	<u>\$ 34.1</u>	<u>\$ 19.6</u>	<u>\$ 20.5</u>

Managements' Discussion and Analysis (Unaudited) (Continued)
Southwestern Oklahoma State University
June 30, 2011

FINANCIAL HIGHLIGHTS (Continued)

Debt (Continued)

The \$5.8 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.

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, 2011 and 2010, lease principal and interest payments were made on behalf of the University totaling \$18,307 and \$36,742, 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.

Managements' Discussion and Analysis (Unaudited) (Continued)
Southwestern Oklahoma State University
June 30, 2011

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.

ECONOMIC OUTLOOK

SWOSU recorded another positive financial performance in FY11 based primarily on increased revenues from a growing enrollment. We believe that with stable enrollment and prudent use of our reserves, we will be able to maintain our current level of operations in the near future.

However, we remain concerned about the level of state appropriated support. We realize that after several years of general budget cuts to all state agencies in Oklahoma the competition for additional appropriated funds will be intense. The uncertain nature of this base funding is a major challenge to moving the university forward and to maintaining our current level of services.

STATEMENTS OF NET ASSETS

SOUTHWESTERN OKLAHOMA STATE UNIVERSITY

		University	
		June 30	
		2011	2010
ASSETS			
CURRENT ASSETS			
Cash and cash equivalents		\$ 22,824,371	\$ 21,129,142
Restricted cash and cash equivalents		174,055	284,812
Accounts receivable, net		2,018,434	1,921,450
Interest receivable		7,470	10,674
Inventories		160,723	133,873
	TOTAL CURRENT ASSETS	25,185,053	23,479,951
NONCURRENT ASSETS			
Receivable from state agencies		-	906,974
Investments		204,871	193,983
Investments held by others		13,126,143	-
Notes receivable, net of allowance for uncollectible loans		146,387	109,369
Prepaid pension asset		3,392,776	3,698,715
Other post employment benefits		143,206	145,026
Deferred cost on OCIA lease restructure		645,923	-
Other assets		226,521	121,361
Capital assets, net of accumulated depreciation		51,882,343	50,823,331
	TOTAL NONCURRENT ASSETS	69,768,170	55,998,759
	TOTAL ASSETS	\$ 94,953,223	\$ 79,478,710
LIABILITIES			
CURRENT LIABILITIES			
Accounts payable		\$ 1,574,781	\$ 1,883,545
Accrued payroll		473,409	373,164
Accrued interest payable		138,438	98,450
Deferred revenue		485,282	517,617
Deposits held in custody for others		280,451	277,535
Current portion of non current liabilities		3,071,511	1,793,414
	TOTAL CURRENT LIABILITIES	6,023,872	4,943,725
NONCURRENT LIABILITIES			
Accrued compensated absences		539,922	675,322
Note payable		408,326	598,000
Bonds payable		5,480,000	5,825,000
Bond premium (net of amortization)		306,444	289,847
Lease obligations payable to state agency		26,567,015	12,845,121
	TOTAL NONCURRENT LIABILITIES	33,301,707	20,233,290
	TOTAL LIABILITIES	39,325,579	25,177,015
NET ASSETS			
Invested in capital assets, net of related debt		31,240,016	30,934,285
Restricted			
Expendable			
Scholarships, instruction and other		88,297	823,267
Capital projects		6,539,388	3,538,729
Unrestricted		17,759,943	19,005,414
	TOTAL NET ASSETS	\$ 55,627,644	\$ 54,301,695

See notes to financial statements.

DISCRETELY PRESENTED COMPONENT UNITS
COMBINED STATEMENTS OF FINANCIAL POSITION

SOUTHWESTERN OKLAHOMA STATE UNIVERSITY

December 31, 2010 and 2009
(FISCAL YEAR ENDS OF COMPONENT UNITS)

	<u>2010</u>	<u>2009</u>
ASSETS		
Cash and cash equivalents	\$ 609,215	\$ 642,991
Accounts receivable	-	5,833
Pledges receivable	8,050	16,480
Interest receivable	19,335	20,858
Contributions receivable	323,390	320,672
Note receivable from related party	550,000	-
Investments	14,789,860	14,120,488
Loans receivable	350	500
Beneficial interest in perpetual trust	1,318,445	1,328,916
Property and equipment	820,383	860,051
Other assets	<u>269,618</u>	<u>250,618</u>
TOTAL ASSETS	<u>\$ 18,708,646</u>	<u>\$ 17,567,407</u>
LIABILITIES		
Accounts payable	128,316	185,958
Funds held for others	<u>819,129</u>	<u>816,817</u>
TOTAL LIABILITIES	<u>947,445</u>	<u>1,002,775</u>
NET ASSETS		
Unrestricted	654,124	428,025
Temporarily restricted	4,235,235	3,891,625
Permanently restricted	<u>12,871,842</u>	<u>12,244,982</u>
TOTAL NET ASSETS	<u>17,761,201</u>	<u>16,564,632</u>
TOTAL LIABILITIES AND NET ASSETS	<u>\$ 18,708,646</u>	<u>\$ 17,567,407</u>

See notes to financial statements.

STATEMENTS OF REVENUES, EXPENSES AND CHANGES IN NET ASSETS

SOUTHWESTERN OKLAHOMA STATE UNIVERSITY

	University	
	Years Ended June 30	
	2011	2010
OPERATING REVENUES		
Student tuition and fees, net of scholarship discounts and allowances of \$10,702,701 and \$9,993,778.	\$ 15,322,077	\$ 13,619,363
Federal grants and contracts	2,103,120	1,506,461
State and local grants and contracts	5,805,453	5,718,620
Housing and food service	5,559,252	5,142,612
Other auxiliary operations	919,607	1,009,620
Interest earned on loans to students	20,145	14,685
Other operating revenues	566,161	752,251
TOTAL OPERATING REVENUES	30,295,815	27,763,612
OPERATING EXPENSES		
Compensation and employee benefits	43,019,858	41,307,151
Contractual services	3,650,124	3,434,293
Supplies and materials	3,560,026	3,709,765
Depreciation	3,500,361	3,455,652
Utilities	1,787,851	1,887,481
Communication expense	421,635	428,563
Scholarships and fellowships	9,952,701	6,605,985
Other operating expenses	3,615,189	3,552,904
TOTAL OPERATING EXPENSES	69,507,745	64,381,794
OPERATING INCOME (LOSS)	(39,211,930)	(36,618,182)
NONOPERATING REVENUES (EXPENSES)		
State appropriations	22,652,433	22,694,048
State payments from federal ARRA revenues	1,608,443	1,850,469
On-behalf contributions for OTRS	2,123,319	1,804,484
City sales tax revenue	369,262	-
Federal grants and contracts	9,407,459	8,060,102
State and local grants and contracts	4,035,556	4,146,326
Investment income	143,658	255,902
Interest expense	(931,768)	(912,559)
NET NONOPERATING REVENUES	39,408,362	37,898,772
Income before other revenues, expenses, gains and losses	196,432	1,280,590
Capital grants and gifts	4,175	3,023
State appropriations restricted for capital purposes	1,107,035	1,101,914
OCIA on-behalf appropriations	18,307	943,259
CHANGE IN NET ASSETS	1,325,949	3,328,786
NET ASSETS, BEGINNING OF YEAR	54,301,695	50,972,909
NET ASSETS, END OF YEAR	\$ 55,627,644	\$ 54,301,695

See notes to financial statements.

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

SOUTHWESTERN OKLAHOMA STATE UNIVERSITY

December 31, 2010 and 2009
(FISCAL YEAR ENDS OF COMPONENT UNITS)

	<u>2010</u>	<u>2009</u>
SUPPORT, REVENUES, GAINS AND OTHER ADDITIONS		
Contributions	\$ 884,740	\$ 979,785
Provision for loss on uncollectible contributions receivable	74,549	(63,280)
Program service revenue	286,265	73,984
Interest and dividend income	267,504	226,101
Realized gains (losses) on investments	787,856	(2,670,155)
Unrealized gain on investments	207,351	4,792,561
Investment income from perpetual trust	46,000	70,000
Loss on beneficial interest in perpetual trust	(10,471)	(72,690)
Rental income	70,000	70,000
Other income	75,514	57,058
Other investment income	22,879	17,083
Continuing education	<u>88,349</u>	<u>94,759</u>
TOTAL SUPPORT, REVENUES, GAINS AND OTHER ADDITIONS	2,800,536	3,575,206
EXPENSES		
Program services for university	1,130,695	990,387
Supporting services:		
Management and general	205,139	127,515
Fundraising	102,936	125,613
Continuing education expenses	55,448	69,485
Scholarships and Grants	71,775	73,025
School of Pharmacy	<u>37,974</u>	<u>34,901</u>
TOTAL EXPENSES	<u>1,603,967</u>	<u>1,420,926</u>
NET INCREASE IN ASSETS	1,196,569	2,154,280
NET ASSETS, BEGINNING OF YEAR	<u>16,564,632</u>	<u>14,410,352</u>
NET ASSETS, END OF YEAR	<u>\$ 17,761,201</u>	<u>\$ 16,564,632</u>

See notes to financial statements.

STATEMENTS OF CASH FLOWS

SOUTHWESTERN OKLAHOMA STATE UNIVERSITY

	Years Ended June 30,	
	2011	2010
CASH FLOWS FROM OPERATING ACTIVITIES		
Tuition and fees	\$ 15,256,840	\$ 13,508,328
Grants and contracts	7,899,328	6,811,850
Housing and food service receipts	6,990,183	6,897,244
Interest on loans to students	20,145	14,685
Payments to employees for salaries and benefits	(40,538,694)	(39,410,944)
Payments to suppliers	(23,017,058)	(20,129,315)
Loans issued to students and employees	(37,018)	(23,783)
NET CASH USED IN OPERATING ACTIVITIES	(33,426,274)	(32,331,935)
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES		
State appropriations	22,652,433	22,694,048
State payments from federal ARRA revenues	1,608,443	1,850,469
Grants and contracts	13,443,015	12,206,428
City sales tax received	369,262	-
Direct Loan and FFEL receipts	20,528,476	20,506,512
Direct Loan and FFEL payments	(20,528,476)	(20,506,512)
NET CASH PROVIDED BY NONCAPITAL FINANCING ACTIVITIES	38,073,153	36,750,945
CASH FLOWS FROM INVESTING ACTIVITIES		
Purchase of investments	(13,137,031)	-
Interest income received	146,862	251,492
NET CASH PROVIDED BY (USED IN) INVESTING ACTIVITIES	(12,990,169)	251,492
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES		
Cash paid for capital assets	(4,987,038)	(6,100,897)
Capital appropriations received	1,107,035	1,101,914
Repayment of capital debt and leases	(4,662,831)	(524,666)
Proceeds from capital debt and leases	19,444,391	3,779,144
Interest paid on capital debt and leases	(973,795)	(381,941)
NET CASH PROVIDED BY (USED IN) CAPITAL AND RELATED FINANCING ACTIVITIES	9,927,762	(2,126,446)
NET INCREASE IN CASH AND CASH EQUIVALENTS	1,584,472	2,544,056
CASH AND CASH EQUIVALENTS, BEGINNING OF YEAR	21,413,954	18,869,898
CASH AND CASH EQUIVALENTS, END OF YEAR	\$ 22,998,426	\$ 21,413,954

See notes to financial statements.

STATEMENTS OF CASH FLOWS--Continued

SOUTHWESTERN OKLAHOMA STATE UNIVERSITY

	Years Ended June 30,	
	2011	2010
RECONCILIATION OF OPERATING LOSS TO NET CASH USED IN OPERATING ACTIVITIES		
Operating loss	\$ (39,211,930)	\$ (36,618,182)
Adjustments to reconcile operating loss to net cash used by operating activities		
Depreciation expense	3,500,361	3,455,652
On-behalf contributions to teachers' retirement system	2,123,319	1,804,484
Changes in assets and liabilities		
Accounts receivable	(96,984)	(531,058)
Inventories	(26,850)	10,952
Prepaid pension asset	305,939	248,169
Accounts payable and accrued expenses	99,383	(791,419)
Deferred revenue	(32,335)	(447)
Compensated absences	(50,159)	113,697
Loans to students and employees	(37,018)	(23,783)
NET CASH USED IN OPERATING ACTIVITIES	<u>\$ (33,426,274)</u>	<u>\$ (32,331,935)</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>\$ 6,548</u>	<u>\$ 534,615</u>
Principal on capital debt paid by State Agency on behalf of the University	<u>\$ 11,759</u>	<u>\$ 408,644</u>
Deferred cost on OCIA lease restructure	<u>\$ 1,105,533</u>	<u>\$ -</u>
RECONCILIATION OF CASH AND CASH EQUIVALENTS TO STATEMENTS OF NET ASSETS		
Current assets		
Cash and cash equivalents	22,824,371	21,129,142
Restricted cash and cash equivalents	<u>174,055</u>	<u>284,812</u>
TOTAL CASH AND CASH EQUIVALENTS	<u>\$ 22,998,426</u>	<u>\$ 21,413,954</u>

See notes to financial statements.

NOTES TO FINANCIAL STATEMENTS

SOUTHWESTERN OKLAHOMA STATE UNIVERSITY

June 30, 2011

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, 2011

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, 2011

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

Capital Assets: Capital assets are recorded at cost at the date of acquisition, or fair market value at the date of donation in the case of gifts. For equipment, the University's capitalization policy includes all items with a unit cost of \$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, 2011

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, 2011

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

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

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 2010 financial statements to conform with the 2011 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, 2011

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, 2011 and 2010, the carrying amount of all University deposits with the OST and other financial institutions were \$22,998,426 and \$21,413,954, respectively. These amounts consisted of deposits with the OST (\$22,930,725 and \$21,346,229), deposits with financial institutions (\$34,930 and \$34,924) and change funds (\$32,771 and \$32,801). Of funds on deposit with the OST, amounts invested in *OK INVEST* total \$5,437,558 in 2011 (market value of \$5,564,089) and \$6,743,326 in 2010 (market value of \$6,911,979).

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, 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>

NOTES TO FINANCIAL STATEMENTS--Continued

SOUTHWESTERN OKLAHOMA STATE UNIVERSITY

June 30, 2011

NOTE B--DEPOSITS AND INVESTMENTS--Continued

Deposits--Continued:

OK INVEST Portfolio	June 30, 2010	
	Cost	Market Value
U.S. Agency securities	\$ 2,583,769	\$ 2,627,150
Certificates of deposit	383,550	383,550
Money market mutual funds	590,249	590,249
Tri-party repurchase agreements	432,458	432,458
Mortgage backed agency securities	2,385,645	2,489,300
Municipal Bonds	145,293	155,786
Foreign bonds	27,029	26,727
U.S. treasury obligations	195,333	206,759
TOTAL	<u>\$ 6,743,326</u>	<u>\$ 6,911,979</u>

Agencies and funds that are considered to be part of the State's reporting entity in the State's Comprehensive Annual Financial Report are allowed to participate in OK INVEST. Oklahoma statutes and the OST establish the primary objectives and guidelines governing the investment of funds in *OK INVEST*. Safety, liquidity, and return on investment are the objectives which establish the framework for the day to day *OK INVEST* management with an emphasis on safety of the capital and the probable income to be derived and meeting the State and its funds' and agencies' daily cash flow requirements.

Guidelines in the Investment Policy address credit quality requirements, diversification percentages and specify the types and maturities of allowable investments, and the specifics regarding these policies can be found on the OST website at <http://www.treasurer.state.ok.us/>. The State Treasurer, at his discretion, may further limit or restrict such investments on a day to day basis. *OK INVEST* includes 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, 2011

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, 2011

NOTE B--DEPOSITS AND INVESTMENTS--Continued

Deposits--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, 2011 and 2010, none of the University's investments were subject to custodial credit risk.

At June 30, 2011 and 2010, the University had investments in funds totaling \$13,126,143 and \$0, respectively, related to the ODFA Lease program. These funds had a fair market value of \$13,126,143 and \$0 at June 30, 2010 and 2009. These funds are carried as investments held by others in the University's statement of net assets. The funds are not subject to maturity dates and are due on demand.

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, 2011

NOTE C--ACCOUNTS RECEIVABLE

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

	<u>2011</u>	<u>2010</u>
Student tuition and fees	\$ 1,103,833	\$ 1,034,127
Auxiliary enterprises and other operating activities	851,668	724,760
Federal, state, and private grants and contracts	<u>1,009,053</u>	<u>999,808</u>
	2,964,554	2,758,695
Less: allowance for doubtful accounts	<u>(946,120)</u>	<u>(837,245)</u>
Net accounts receivable	<u><u>\$ 2,018,434</u></u>	<u><u>\$ 1,921,450</u></u>

NOTE D--NOTES RECEIVABLE

The loans receivable balance at June 30, 2011 and 2010, 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, 2011 and 2010, loans receivable consisted of the following:

	<u>2011</u>	<u>2010</u>
Loans receivable	\$ 252,660	\$ 197,250
Less allowance for uncollectible loans	<u>(106,273)</u>	<u>(87,881)</u>
Net notes receivable	<u><u>\$ 146,387</u></u>	<u><u>\$ 109,369</u></u>

NOTES TO FINANCIAL STATEMENTS--Continued

SOUTHWESTERN OKLAHOMA STATE UNIVERSITY

June 30, 2011

NOTE E--CAPITAL ASSETS

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

	Balance June 30, 2010	Additions	Transfers	Retirements/ Adjustments	Balance June 30, 2011
Capital assets not being depreciated					
Land	\$ 1,084,452	\$ -	\$ -	\$ -	\$ 1,084,452
Construction in progress	4,790,697	2,758,083	(3,883,641)	-	3,665,139
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	15,104,900	607,800	-	(308,089)	15,404,611
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	(13,480,168)	(645,994)	-	308,089	(13,818,073)
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	93,696,794	1,801,290	3,883,641	(367,641)	99,014,084
Total cost of capital assets	99,571,943	4,559,373	-	(367,641)	103,763,675
Less accumulated depreciation	(48,748,612)	(3,500,361)	-	367,641	(51,881,332)
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 \$10,173,577 and \$2,739,679, respectively.

NOTES TO FINANCIAL STATEMENTS--Continued

SOUTHWESTERN OKLAHOMA STATE UNIVERSITY

June 30, 2011

NOTE E--CAPITAL ASSETS--Continued

Following are the changes in capital assets for the year ended June 30, 2009:

	Balance June 30, 2009	Additions	Transfers	Retirements/ Adjustments	Balance June 30, 2010
Capital assets not being depreciated					
Land	\$ 1,039,452	\$ 45,000	\$ -	\$ -	\$ 1,084,452
Construction in progress	2,954,001	4,871,610	(3,034,914)	-	4,790,697
Total assets not being depreciated	<u>\$ 3,993,453</u>	<u>\$4,916,610</u>	<u>\$ (3,034,914)</u>	<u>\$ -</u>	<u>\$ 5,875,149</u>
Other capital assets					
Non-major infrastructure networks	\$ 1,007,127	\$ 131,173	\$ -	\$ -	\$ 1,138,300
Land improvements	938,641	623,000	-	-	1,561,641
Buildings	61,270,268	493,295	3,034,914	-	64,798,477
Furniture, fixtures and equipment	10,239,972	853,504	-	-	11,093,476
Library materials	14,571,485	666,834	-	(133,419)	15,104,900
Total other capital assets	88,027,493	2,767,806	3,034,914	(133,419)	93,696,794
Less accumulated depreciation for:					
Non-major infrastructure networks	(675,138)	(70,902)	-	-	(746,040)
Land improvements	(834,519)	(41,150)	-	-	(875,669)
Buildings	(22,665,115)	(1,869,762)	-	-	(24,534,877)
Furniture, fixtures and equipment	(8,288,090)	(823,768)	-	-	(9,111,858)
Library materials	(12,963,517)	(650,070)	-	133,419	(13,480,168)
Total accumulated depreciation	(45,426,379)	(3,455,652)	-	133,419	(48,748,612)
Other capital assets, net	<u>\$ 42,601,114</u>	<u>\$ (687,846)</u>	<u>\$ 3,034,914</u>	<u>\$ -</u>	<u>\$ 44,948,182</u>
Capital assets summary:					
Capital assets not being depreciated	\$ 3,993,453	\$4,916,610	\$ (3,034,914)	\$ -	\$ 5,875,149
Other capital assets, at cost	88,027,493	2,767,806	3,034,914	(133,419)	93,696,794
Total cost of capital assets	92,020,946	7,684,416	-	(133,419)	99,571,943
Less accumulated depreciation	(45,426,379)	(3,455,652)	-	133,419	(48,748,612)
Capital assets, net	<u>\$ 46,594,567</u>	<u>\$4,228,764</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 50,823,331</u>

At June 30, 2010, the cost and related accumulated depreciation of assets held under capital lease obligations were \$4,747,429 and \$2,347,429, 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, 2011

NOTE F--LONG-TERM LIABILITIES

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

	Balance June 30, 2010	Additions	Reductions	Balance June 30, 2011	Amounts due within one year
Bonds 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
Revenue bonds payable	6,160,000	-	(335,000)	5,825,000	345,000
Total bonds and capital leases	<u>19,599,199</u>	<u>19,183,340</u>	<u>(4,674,590)</u>	<u>34,107,949</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>\$ 21,736,857</u>	<u>\$ 20,037,985</u>	<u>\$ (5,708,068)</u>	<u>\$ 36,066,774</u>	<u>\$ 3,071,511</u>

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

	Balance June 30, 2009	Additions	Reductions	Balance June 30, 2010	Amounts due within one year
Bonds and Capital Leases					
OCIA lease obligations	\$ 10,982,344	\$ -	\$ (408,644)	\$ 10,573,700	\$ 365,078
ODFA master lease obligations	3,065,165	-	(199,666)	2,865,499	229,000
Revenue bonds payable	6,485,000	-	(325,000)	6,160,000	335,000
Total bonds and capital leases	<u>20,532,509</u>	<u>-</u>	<u>(933,310)</u>	<u>19,599,199</u>	<u>929,078</u>
Other liabilities					
Note payable	-	623,000	-	623,000	25,000
Accrued compensated absences	1,400,961	766,134	(652,437)	1,514,658	839,336
Accrued other post employment benefits	55,050	-	(55,050)	-	-
Total other liabilities	<u>1,456,011</u>	<u>1,389,134</u>	<u>(707,487)</u>	<u>2,137,658</u>	<u>864,336</u>
Total long-term liabilities	<u>\$ 21,988,520</u>	<u>\$ 1,389,134</u>	<u>\$ (1,640,797)</u>	<u>\$ 21,736,857</u>	<u>\$ 1,793,414</u>

NOTES TO FINANCIAL STATEMENTS--Continued

SOUTHWESTERN OKLAHOMA STATE UNIVERSITY

June 30, 2011

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, 2000 Series A, B and C. Of the total bond indebtedness, the State Regents for Higher Education allocated \$1,200,000 to the University. Concurrently with the allocation, the University entered into four individual lease agreements with OCIA, representing the four individual projects being funded by the OCIA bonds. The lease agreement provides for the University to make specified monthly payments to OCIA over the respective terms of the 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, 2011 and 2010, the outstanding balance of the 2000 Series A, B and C lease obligations was \$120,345 and \$132,104, 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, 2011 and 2010, the outstanding balance of this capital lease obligation was \$7,475,584 and \$10,441,597, respectively.

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, 2011

NOTE F--LONG-TERM LIABILITIES--Continued

Capital Lease Obligations--Continued

Oklahoma Capital Improvement Authority Lease Obligations--Continued

During the year ended June 30, 2011, amortization of the deferred charge was \$184,256. 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.

The University has recorded a lease obligation payable to OCIA for the total amount of the allotment, less the repayments made during the fiscal year. The University has also recorded an asset for its pro-rata share of the bond issuance costs, and is amortizing that asset over the term of the lease agreement. At June 30, 2011 and 2010, the unamortized bond issuance costs totaled \$226,521 and \$121,361, respectively.

During the years ended June 30, 2011 and 2010, OCIA made lease principal and interest payments totaling \$18,307 and \$943,259, 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 \$178,000 and \$233,000 at June 30, 2011 and 2010, respectively.

NOTES TO FINANCIAL STATEMENTS--Continued

SOUTHWESTERN OKLAHOMA STATE UNIVERSITY

June 30, 2011

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, 2011 and 2010, the remaining lease obligation payable totals \$36,666 and \$76,666, 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, 2011 and 2010 is \$680,000 and \$740,000, 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 \$1,741,416 and \$1,815,832 at June 30, 2011 and 2010, respectively.

NOTES TO FINANCIAL STATEMENTS--Continued

SOUTHWESTERN OKLAHOMA STATE UNIVERSITY

June 30, 2011

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 \$1,911,417 at June 30, 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 \$12,068,182 at June 30, 2011.

Investments held by others consist of the following funds under the ODFA program at June 30, 2011 and 2010:

	2011	2010
Debt service reserve fund	\$ 13,126,143	\$ -
Total assets held by others	<u>\$ 13,126,143</u>	<u>\$ -</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, 2011

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>
2012	\$ 1,715,934	\$ 785,100	\$ 2,501,034
2013	1,554,512	1,177,878	2,732,390
2014	1,512,816	1,119,628	2,632,444
2015	2,193,274	1,056,363	3,249,637
2016	2,160,965	947,702	3,108,667
2017-2021	8,409,634	3,542,641	11,952,275
2022-2026	6,152,746	2,104,975	8,257,721
2027-2031	4,583,068	615,728	5,198,796
	<u>\$ 28,282,949</u>	<u>\$ 11,350,015</u>	<u>\$ 39,632,964</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, 2011

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>
2012	\$ 345,000	\$ 252,416	\$ 597,416
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
2017-2021	2,305,000	666,106	2,971,106
2022-2025	<u>1,650,000</u>	<u>121,788</u>	<u>1,771,788</u>
	<u>\$ 5,825,000</u>	<u>\$ 1,900,115</u>	<u>\$ 7,725,115</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, 2011

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 7.05% for the first six months of fiscal year 2008 and at January 1, 2008 the contribution rate changed to 7.55%. The contribution rate remained 7.55% until January 1, 2009, when it increased to 8.05%. On January 1, 2010, the employer contribution rate increased again to 8.55%, where it remained through June 30, 2011. This rate is applied to annual compensation, and is determined by state statute.

Employees' contributions are also determined by state statute. For all employees, the contribution rate was 7% of covered salaries and fringe benefits in 2011, 2010 and 2009. 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, 2011, 2010 and 2009, were \$2,341,454, \$2,274,116 and \$2,154,859 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, 2011

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 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, 2011 and 2010, the total amounts contributed to the OTRS by the State of Oklahoma on behalf of the University were \$2,123,319 and \$1,804,484, 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, 2011, 2010 and 2009.

Supplemental Retirement Annuity (SRA)

Plan Description

The University's SRA plan is a single employer, defined benefit pension plan administered by the University's Board of Regents. The SRA was established by the University's Board of Regents to provide supplemental retirement and death benefits to University employees who were hired prior to July 1, 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, 2011

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 Obligation (Asset)

Annual pension cost and net pension obligation (asset) of the SRA for 2011 and 2010 are as follows:

	2011	2010
Annual required contribution	\$ 225,114	\$ 161,921
Interest on net pension obligation	(295,897)	(315,751)
Adjustment to annual required contribution	376,722	401,999
Annual pension cost	305,939	248,169
Contribution made	-	-
Increase in net pension obligation	305,939	248,169
Net pension obligation (asset) at beginning of year	(3,698,715)	(3,946,884)
Net pension obligation (asset) at end of year	<u>\$ (3,392,776)</u>	<u>\$ (3,698,715)</u>

The annual required contribution for 2011 and 2010 was determined as part of an actuarial valuation on June 30, 2011 and 2010, using the projected unit credit actuarial cost method. The actuarial assumptions included (a) a discount rate of 8% per year to determine the present value of future benefit payments; (b) retirement 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, 2011

NOTE G--RETIREMENT PLANS--Continued

Supplemental Retirement Annuity (SRA)--Continued

Trend Information

Year Ended June 30	Annual Pension Cost (APC)	Percentage of APC Contributed	Net Pension Obligation (Asset)
2011	\$ 305,939	0.0%	\$ (3,392,776)
2010	\$ 248,169	0.0%	\$ (3,698,715)
2009	\$ 214,781	0.0%	\$ (3,946,884)

Funded Status and Funding Progress

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

	2011	2010
Actuarial accrued liability (AAL)	\$ 6,735,124	\$ 6,701,903
Actuarial value of plan assets	4,559,275	4,907,022
Unfunded actuarial accrued liability (UAAL)	<u>\$ 2,175,849</u>	<u>\$ 1,794,881</u>
Funded ratio (actuarial value of plan assets/AAL)	67.7%	73.2%
Covered payroll (active plan members)	\$ 6,130,039	\$ 6,742,780
UAAL as a percentage of covered payroll	35.5%	26.6%

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. The insurance benefits for current retirees are accounted for on a cash basis so that premium payments are made from current operational funds. For the years ended June 30, 2011 and 2010, the University's contributions for retired employees' health insurance premiums totaled approximately \$201,264 and \$173,656, respectively, and life insurance premiums totaled approximately \$14,407 and \$13,768, respectively.

NOTES TO FINANCIAL STATEMENTS--Continued

SOUTHWESTERN OKLAHOMA STATE UNIVERSITY

June 30, 2011

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, 2011, there were 618 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, 2011 and 2010, the ARC is \$345,374 and \$356,750, and respectively; represents 1.06% and 1.13%, respectively, of covered payroll.

NOTES TO FINANCIAL STATEMENTS--Continued

SOUTHWESTERN OKLAHOMA STATE UNIVERSITY

June 30, 2011

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 2011 and 2010 are as follows:

	2011	2010
Annual required contribution	\$ 345,374	\$ 356,750
Interest on net OPEB obligation	13,086	15,196
Adjustment to annual required contribution	(15,065)	17,495
Annual OPEB cost	343,395	389,441
Contribution made	(341,575)	(589,517)
Increase (Decrease) in net OPEB obligation	1,820	(200,076)
Net OPEB obligation (asset) at beginning of year	(145,026)	55,050
Net OPEB obligation (asset) at end of year	<u>\$ (143,206)</u>	<u>\$ (145,026)</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:

Fiscal Year Ended	Annual OPEB Cost	Annual OPEB Cost Contributed	Net OPEB Obligation (Asset)
2011	\$ 343,395	99%	\$ (143,206)
2010	\$ 389,441	165%	\$ (145,026)
2009	\$ 380,093	86%	\$ 55,050

NOTES TO FINANCIAL STATEMENTS--Continued

SOUTHWESTERN OKLAHOMA STATE UNIVERSITY

June 30, 2011

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:

	2011	2010
Actuarial accrued liability (AAL)	\$ 3,558,958	\$ 3,285,792
Actuarial value of plan assets	1,098,263	849,241
Unfunded actuarial accrued liability (UAAL)	<u>\$ 2,460,695</u>	<u>\$ 2,436,551</u>
Funded ratio (actuarial value of plan assets/AAL)	30.9%	25.8%
Covered payroll (active plan members)	\$ 32,608,185	\$ 31,636,990
UAAL as a percentage of covered payroll	7.5%	7.7%

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, 2011 actuarial valuation, the projected unit credit cost method was used. The actuarial assumptions included a 7% investment rate of return and an annual healthcare cost inflationary increase of 8.5%.

NOTES TO FINANCIAL STATEMENTS--Continued

SOUTHWESTERN OKLAHOMA STATE UNIVERSITY

June 30, 2011

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 \$971,515 and \$963,950 during the years ended June 30, 2011 and 2010, respectively, which is restricted to the construction or acquisition of buildings, equipment, or other capital items. These amounts are recorded as capital gifts and grants 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 \$15,982,397 and \$13,492,719 at June 30, 2011 and 2010, 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 \$2,697,200 and \$1,456,081 at June 30, 2011 and 2010, respectively, and is invested by the Oklahoma State Regents on behalf of the University. The University is entitled to receive an annual distribution of earnings on these funds; however, since legal title of the match amount is retained by the Oklahoma State Regents, such funds have not been reflected in the accompanying financial statements. With regards to institutional funds, investments totaling \$204,871 and \$193,983 at June 30, 2011 and 2010, respectively, are included in the financial statements of the University.

NOTES TO FINANCIAL STATEMENTS--Continued

SOUTHWESTERN OKLAHOMA STATE UNIVERSITY

June 30, 2011

NOTE J--COMMITMENTS AND CONTINGENCIES

The University conducts certain programs pursuant to various grants and contracts that are subject to audit by federal and state agencies. 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, 2011

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	
		2011	2010
ASSETS			
Current assets	\$	746,770	\$ 749,655
Capital assets		7,059,508	7,233,208
Other assets		92,470	100,070
	TOTAL ASSETS	7,898,748	8,082,933
LIABILITIES			
Current liabilities		86,299	89,950
Long-term liabilities		5,825,000	6,160,000
	TOTAL LIABILITIES	5,911,299	6,249,950
NET ASSETS			
Unrestricted		-	-
Restricted for debt services		746,770	749,655
Invested in capital assets, net of debt		1,240,679	1,083,328
	TOTAL NET ASSETS	\$ 1,987,449	\$ 1,832,983

NOTES TO FINANCIAL STATEMENTS--Continued

SOUTHWESTERN OKLAHOMA STATE UNIVERSITY

June 30, 2011

NOTE L--SEGMENT REPORTING--Continued

Condensed Statement of Revenues, Expenses and Changes in Net Assets		
	Years Ended June 30	
	2011	2010
Operating Revenue	\$ 1,000,193	\$ 984,089
Depreciation expense	(173,700)	(173,700)
Other operating expenses	(7,600)	(7,600)
NET OPERATING REVENUES	818,893	802,789
NONOPERATING INCOME (EXPENSE)		
Investment income	-	-
NET NONOPERATING REVENUES	-	-
Transfers	(664,427)	(659,578)
CHANGE IN NET ASSETS	154,466	143,211
NET ASSETS, BEGINNING OF PERIOD	1,832,983	1,689,772
NET ASSETS, END OF PERIOD	\$ 1,987,449	\$ 1,832,983

Condensed Statement of Cash Flows		
	June 30	
	2011	2010
Net cash flows provided by operating activities	\$ 345,000	\$ 325,000
Net cash flows provided by capital and related financing activities	-	-
Net cash flows provided by investing activities	(345,000)	(325,000)
NET INCREASE (DECREASE) IN CASH	-	-
CASH, BEGINNING OF PERIOD	-	-
CASH, END OF PERIOD	\$ -	\$ -

NOTES TO FINANCIAL STATEMENTS--Continued

SOUTHWESTERN OKLAHOMA STATE UNIVERSITY

June 30, 2011

NOTE M--ACCOUNTING STANDARDS ISSUED NOT YET ADOPTED

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

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

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

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

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

NOTES TO FINANCIAL STATEMENTS--Continued

SOUTHWESTERN OKLAHOMA STATE UNIVERSITY

June 30, 2011

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 leaser 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, 2011.

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 \$494,326 and \$623,000 at June 30, 2011 and 2010, respectively.

NOTES TO FINANCIAL STATEMENTS--Continued

SOUTHWESTERN OKLAHOMA STATE UNIVERSITY

June 30, 2011

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 2010 or 2009.

The FASB continues to clarify and enhance disclosures related to Topic 820 and as a result, the Foundation has implemented the following:

- For the year ended December 31, 2009, the Foundation implemented *Fair Value Measurements and Disclosures (Topic 820): Investments in Certain Entities That Calculate Net Asset Value per Share (or Its Equivalent)* which provides amendments to and expands disclosures for the fair value measurement of investments in certain entities that calculate net asset value per share (or its equivalent). Adoption of this new guidance did not have any impact on the Foundation's financial statements because all of the Foundation's investments that calculate net asset value per share have a readily determinable fair value.

NOTES TO FINANCIAL STATEMENTS--Continued

SOUTHWESTERN OKLAHOMA STATE UNIVERSITY

June 30, 2011

NOTE O--DISCRETE COMPONENT UNITS--Continued

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

FAIR VALUE MEASUREMENTS--Continued

- For the year ended December 31, 2010, 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. 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.

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.

Other assets: The asset is carried at cost and consists 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.

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 and 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, 2011

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, 2011

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, 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
Domestic 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>

NOTES TO FINANCIAL STATEMENTS--Continued

SOUTHWESTERN OKLAHOMA STATE UNIVERSITY

June 30, 2011

NOTE O--DISCRETE COMPONENT UNITS--Continued

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

FAIR VALUE MEASUREMENTS--Continued

	As of December 31, 2009			
	Level 1	Level 2	Level 3	Total
ASSETS				
Investments				
Cash and cash equivalent funds	\$ 922,110	\$ -	\$ -	\$ 922,110
Certificates of deposit	-	810,341	-	810,341
Common and preferred stock				
Domestic	4,076,765	-	-	4,076,765
International	1,829,597	-	-	1,829,597
Equity mutual funds	175,723	-	-	175,723
Fixed income mutual funds	2,759,186	-	-	2,759,186
Annuity contract	-	-	160,217	160,217
Structured investments -				
unsecured notes	-	1,021,330	-	1,021,330
Total investments	9,763,381	1,831,671	160,217	11,755,269
Beneficial interest in perpetual trust	-	-	1,328,916	1,328,916
Total assets carried at fair value	<u>\$ 9,763,381</u>	<u>\$ 1,831,671</u>	<u>\$ 1,489,133</u>	<u>\$ 13,084,185</u>
LIABILITIES				
Funds held for others	\$ -	\$ 816,817	\$ -	\$ 816,817
Total liabilities carried at fair value	<u>\$ -</u>	<u>\$ 816,817</u>	<u>\$ -</u>	<u>\$ 816,817</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 2010 or 2009.

NOTES TO FINANCIAL STATEMENTS--Continued

SOUTHWESTERN OKLAHOMA STATE UNIVERSITY

June 30, 2011

NOTE O--DISCRETE COMPONENT UNITS--Continued

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

FAIR VALUE MEASUREMENTS--Continued

	Beneficial Interest in Perpetual Trust	Annuity Contract
Balance at January 1, 2009	\$ 1,401,606	\$ 142,340
Gain on beneficial interest in perpetual trust	(72,690)	-
Unrealized loss on investments	-	17,877
Balance at December 31, 2009	1,328,916	160,217
Loss on beneficial interest in perpetual trust	(10,471)	-
Unrealized gain on investments	-	19,442
Balance at December 31, 2010	<u>\$ 1,318,445</u>	<u>\$ 179,659</u>

	Beneficial Interest in Perpetual Trust	Annuity Contract
Balance at January 1, 2009	\$ 1,401,606	\$ 142,340
Gain on beneficial interest in perpetual trust	(72,690)	-
Unrealized loss on investments	-	17,877
Balance at December 31, 2009	1,328,916	160,217
Loss on beneficial interest in perpetual trust	(10,471)	-
Unrealized gain on investments	-	19,442
Balance at December 31, 2010	<u>\$ 1,318,445</u>	<u>\$ 179,659</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 170 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, 2011

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, 2011

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 classification of investment income, including realized and unrealized gains or losses, is based on the specific donor-restriction of each fund. Realized and unrealized losses are only classified as permanently restricted if specifically stated in the Foundation's agreement with the donor. 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, 2011

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, 2011

NOTE O--DISCRETE COMPONENT UNITS--Continued

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

ENDOWMENT DISCLOSURES--Continued

Endowment net asset composition as of December 31, 2009 is as follows:

	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Permanently Restricted</u>	<u>Total</u>
Donor-restricted				
endowment funds	\$ (1,096,418)	\$ 1,979,298	\$ 10,096,144	\$ 10,979,024
Board-designated				
endowment funds	<u>1,100,771</u>	<u>-</u>	<u>-</u>	<u>1,100,771</u>
Total endowment funds	<u>\$ 4,353</u>	<u>\$ 1,979,298</u>	<u>\$ 10,096,144</u>	<u>\$ 12,079,795</u>

Changes in endowment net assets during 2009 are as follows:

	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Permanently Restricted</u>	<u>Total</u>
Endowment net assets,				
beginning of year as restated	\$ (1,616,020)	\$ 946,886	\$ 10,537,922	\$ 9,868,788
Investment return				
Interest and dividends	3,190	138,680	9,839	151,709
Net realized and				
unrealized gains (losses)	<u>1,602,402</u>	<u>1,033,448</u>	<u>(659,129)</u>	<u>1,976,721</u>
Total investment return	<u>1,605,592</u>	<u>1,172,128</u>	<u>(649,290)</u>	<u>2,128,430</u>
Contributions	-	4,104	264,408	268,512
Provision for losses on				
uncollectible pledges	<u>-</u>	<u>-</u>	<u>(58,752)</u>	<u>(58,752)</u>
Net contribution revenue	-	4,104	205,656	209,760
Other income	14,781	-	1,856	16,637
Appropriation of endowment				
assets for expenditure	<u>-</u>	<u>(143,820)</u>	<u>-</u>	<u>(143,820)</u>
Endowment net assets,				
end of year	<u>\$ 4,353</u>	<u>\$ 1,979,298</u>	<u>\$ 10,096,144</u>	<u>\$ 12,079,795</u>

NOTES TO FINANCIAL STATEMENTS--Continued

SOUTHWESTERN OKLAHOMA STATE UNIVERSITY

June 30, 2011

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 \$726,925 and \$1,096,418 at December 31, 2010 and 2009, 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. Earnings of 5% are posted annually to all funds based on the average balance of each fund.

NOTES TO FINANCIAL STATEMENTS--Continued

SOUTHWESTERN OKLAHOMA STATE UNIVERSITY

June 30, 2011

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, 2010		
	Cost	Unrealized Gain or Loss	Fair Value
Mutual funds	\$ 833,131	\$ 69,183	\$ 902,314
Certificates of deposit	1,811,000	-	1,811,000
	<u>\$ 2,644,131</u>	<u>\$ 69,183</u>	<u>\$ 2,713,314</u>

	December 31, 2009		
	Cost	Unrealized Gain or Loss	Fair Value
Mutual funds	\$ 908,348	\$ (96,987)	\$ 811,361
GNMA securities	4	-	4
Certificates of deposit	1,553,854	-	1,553,854
	<u>\$ 2,462,206</u>	<u>\$ (96,987)</u>	<u>\$ 2,365,219</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, 2010. 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, 2010.

	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>\$ 47,057</u>	<u>\$ (6,312)</u>	<u>\$ 47,057</u>	<u>\$ (6,312)</u>

NOTES TO FINANCIAL STATEMENTS--Continued

SOUTHWESTERN OKLAHOMA STATE UNIVERSITY

June 30, 2011

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, 2011

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, 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>
<u>December 31, 2009</u>			
Mutual funds - equity related	\$ 811,361	\$ 811,361	\$ -
GNMA securities	4	4	-
Certificates of deposit - UBS	695,010	-	695,010
Certificates of deposit - Local	858,844	-	858,844
Total	<u>\$ 2,365,219</u>	<u>\$ 811,365</u>	<u>\$ 1,553,854</u>

ENDOWMENT

The Foundation's endowment consists of approximately 55 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, 2011

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, 2011

SCHEDULE OF FUNDING PROGRESS FOR SUPPLEMENTARY RETIREMENT ANNUITY PLAN

Actuarial Valuation Date	Actuarial Value of Assets (a)	Actuarial Accrued Liability (AAL) (b)	Unfunded AAL (UAAL) (b-a)	Funded Ratio (a/b)	Covered Payroll (c)	UAAL as a percentage of Covered Payroll (b-a)/(c)
6/30/2006	\$ 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%

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%

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

OTHER SUPPLEMENTAL INFORMATION

OTHER SUPPLEMENTAL INFORMATION-DISCRETELY PRESENTED COMPONENT UNITS
COMBINING STATEMENT OF FINANCIAL POSITION

SOUTHWESTERN OKLAHOMA STATE UNIVERSITY

December 31, 2010

(FISCAL YEAR ENDS OF COMPONENT UNITS)

	University Foundation	Pharmacy Foundation	Total
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	269,618	-	269,618
			-
TOTAL ASSETS	\$ 15,846,638	\$ 2,862,008	\$ 18,708,646
LIABILITIES			
Accounts payable	\$ 128,316	\$ -	\$ 128,316
Funds held for others	819,129	-	819,129
TOTAL LIABILITIES	947,445	-	947,445
NET ASSETS			
Unrestricted	(797,761)	1,451,885	654,124
Temporarily restricted	3,666,306	568,929	4,235,235
Permanently restricted	12,030,648	841,194	12,871,842
TOTAL NET ASSETS	14,899,193	2,862,008	17,761,201
TOTAL LIABILITIES AND NET ASSETS	\$ 15,846,638	\$ 2,862,008	\$ 18,708,646

See notes to financial statements.

OTHER SUPPLEMENTAL INFORMATION-DISCRETELY PRESENTED COMPONENT UNITS
COMBINING STATEMENT OF FINANCIAL POSITION

SOUTHWESTERN OKLAHOMA STATE UNIVERSITY

December 31, 2009

(FISCAL YEAR ENDS OF COMPONENT UNITS)

	University Foundation	Pharmacy Foundation	Total
ASSETS			
Cash and cash equivalents	\$ 198,635	\$ 444,356	\$ 642,991
Pledges receivable	5,833	-	5,833
Interest receivable	-	16,480	16,480
Contributions receivable	6,265	14,593	20,858
Investments	320,672	-	320,672
Loans receivable	11,755,269	2,365,219	14,120,488
Beneficial interest in perpetual trust	-	500	500
Property and equipment	1,328,916	-	1,328,916
Other assets	860,051	-	860,051
	<u>250,618</u>	<u>-</u>	<u>250,618</u>
TOTAL ASSETS	<u>\$ 14,726,259</u>	<u>\$ 2,841,148</u>	<u>\$ 17,567,407</u>
LIABILITIES			
Accounts payable			
Funds held for others	\$ 166,822	\$ 19,136	\$ 185,958
TOTAL LIABILITIES	<u>816,817</u>	<u>-</u>	<u>816,817</u>
	<u>983,639</u>	<u>19,136</u>	<u>1,002,775</u>
NET ASSETS			
Unrestricted	(1,040,850)	1,468,875	428,025
Temporarily restricted	3,358,410	533,215	3,891,625
Permanently restricted	11,425,060	819,922	12,244,982
TOTAL NET ASSETS	<u>13,742,620</u>	<u>2,822,012</u>	<u>16,564,632</u>
TOTAL LIABILITIES AND NET ASSETS	<u>\$ 14,726,259</u>	<u>\$ 2,841,148</u>	<u>\$ 17,567,407</u>

See notes to financial statements.

OTHER SUPPLEMENTAL 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	2,445,408	355,128	2,800,536
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	1,288,835	315,132	1,603,967
NET INCREASE IN ASSETS	1,156,573	39,996	1,196,569
NET ASSETS, BEGINNING OF YEAR	13,742,620	2,822,012	16,564,632
NET ASSETS, END OF YEAR	\$ 14,899,193	\$ 2,862,008	\$ 17,761,201

See notes to financial statements.

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

SOUTHWESTERN OKLAHOMA STATE UNIVERSITY

Year Ended December 31, 2009

(FISCAL YEAR ENDS OF COMPONENT UNITS)

	University Foundation	Pharmacy Foundation	Total
SUPPORT, REVENUES, GAINS AND OTHER ADDITIONS			
Contributions	\$ 889,753	\$ 90,032	\$ 979,785
Provision for loss on uncollectible contributions receivable	(63,280)	-	(63,280)
Program service revenue	73,984	-	73,984
Interest and dividend income	165,345	60,756	226,101
Realized gains (losses) on investments	(2,670,155)	-	(2,670,155)
Unrealized gain on investments	4,646,876	145,685	4,792,561
Investment income from perpetual trust	70,000	-	70,000
Loss on beneficial interest in perpetual trust	(72,690)	-	(72,690)
Rental income	70,000	-	70,000
Other income	28,148	28,910	57,058
Other investment income	-	17,083	17,083
Continuing education	-	94,759	94,759
Net assets released from restrictions	-	-	-
TOTAL SUPPORT, REVENUES, GAINS AND OTHER ADDITIONS	3,137,981	437,225	3,575,206
EXPENSES			
Program services for university	874,447	115,940	990,387
Supporting services:			
Management and general	103,596	23,919	127,515
Fundraising	125,613	-	125,613
Continuing education expenses	-	69,485	69,485
Scholarships and Grants	-	73,025	73,025
School of Pharmacy	-	34,901	34,901
TOTAL EXPENSES	1,103,656	317,270	1,420,926
NET INCREASE IN ASSETS	2,034,325	119,955	2,154,280
NET ASSETS, BEGINNING OF YEAR	11,708,295	2,702,057	14,410,352
NET ASSETS, END OF YEAR	\$ 13,742,620	\$ 2,822,012	\$ 16,564,632

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, 2011, and have issued our report thereon dated October 28, 2011. Our report was modified to include a reference to other auditors. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits in *Government Auditing Standards*, issued by the Comptroller General of the United States. We also audited the financial statements of the University's discretely presented component unit, Southwestern Oklahoma State University Foundation, Inc. (the "University Foundation"). Other auditors audited the financial statements of the University's discretely presented component unit, Southwestern Pharmacy Alumni Foundation, Inc. (the "Pharmacy Foundation") as described in our report on the University's financial statements. The financial statements of the University Foundation and Pharmacy Foundation were not audited in accordance with *Government Auditing Standards*.

Internal Control Over Financial Reporting

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

A *deficiency in internal control* exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect 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, and other matters, 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 use of the Board of Regents, management and federal awarding agencies and pass-through entities and is not intended to be and should not be used by anyone other than these specified parties.

Cole & Reed P.C.

Oklahoma City, Oklahoma
October 28, 2011

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 Southwestern Oklahoma State University's (the "University") compliance with the types of compliance requirements described in the U.S. Office of Management and Budget (OMB) *Circular A-133 Compliance Supplement* that could have a direct and material effect on each of its major federal programs for the year ended June 30, 2011. The University's major federal programs are identified in the summary of auditors' results section of the accompanying schedule of findings and questioned costs. Compliance with the requirements of laws, regulations, contracts, and grants applicable to each of its major federal programs is the responsibility of the University's management. Our responsibility is to express an opinion on the 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, 2011.

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, 2011, and have issued our report thereon dated October 28, 2011. Our audit was performed for the purpose of forming an opinion on the basic financial statements taken as a whole. The accompanying schedule of expenditures of federal awards is presented for purposes of additional analysis as required by OMB Circular A-133 and is not a required part of the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, is fairly stated, in all material respects, in relation to the basic financial statements taken as a whole.

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

Cole & Reed P.C.

Oklahoma City, Oklahoma
October 28, 2011

SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS

SOUTHWESTERN OKLAHOMA STATE UNIVERSITY

Year Ended June 30, 2011

<u>Federal Grantor/Pass-through Grantor/Program Title</u>	<u>Federal CFDA Number</u>	<u>Expenditures</u>
U.S. Department of Education		
Student Financial Aid Cluster		
Federal Pell Grant Program	84.063	\$ 8,671,254
Federal Supplemental Education Opportunity Grants	84.007	77,850
Federal Workstudy Program	84.033	199,428
Federal Direct Student Loan Program	84.268	20,528,476
Academic Competitiveness Grants	84.375	281,516
National Science and Mathematics Access to Retain Talent	84.376	133,840
<i>Total Student Financial Aid Cluster</i>		<u>29,892,364</u>
Other Programs		
TRIO Upward Bound	84.047	352,145
KESAM	84.367	188,265
Mathematics and Science Partnerships	84.366	11,232
Harmonizing Pharmacy Clinical Competency	84.116	20,408
Technology Upgrade	84.215	221,180
State Fiscal Stabilization Fund - Recovery Act	84.394 ARRA	1,608,443
Total U.S. Department of Education		<u>32,294,037</u>
U.S. Department of Health and Human Services		
Development Disabilities		
CWPEP	93.658	20,718
National Institute of Health	93.389	222,486
Total U.S. Department of Health and Human Services		<u>243,204</u>
Small Business Administration		
Passed through Southeastern Oklahoma State University		
Small Business Development Center	59.037	214,451
National Science Foundation		
RUI: Modulation of Synaptic Vesicle Exocytosis in C. elegans	47.074	177,857
Louis Stokes Alliance for Minority Participation in Science, Mathematics, Engineering, and Technology	47.076	15,493
A Density Functional Theory Study	47.076	4,835
Total National Science Foundation		<u>198,185</u>
National Aeronautics and Space Administration		
NASA/Fellowship/Career workforce	43.001	93,164

SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS--Continued

SOUTHWESTERN OKLAHOMA STATE UNIVERSITY

Year Ended June 30, 2011

<u>Federal Grantor/Pass-through Grantor/Program Title</u>	<u>Federal CFDA Number</u>	<u>Expenditures</u>
U.S. Department of Interior		
Bureau of Indian Affairs	15.114	22,831
U.S. Department of Commerce		
Manufacturing Extension Partnership	11.611	42,432
Economic Development Technical Assistance	11.303	98,574
Total U.S. Department of Commerce		<u>141,006</u>
U.S. Department of Agriculture		
Upward Bound Child Nutrition Program	10.559	8,725
National School Lunch Program	10.555	152,528
Total U.S. Department of Agriculture		<u>161,253</u>
U.S. Department of Labor		
Western OK Business and Com	17.261	80,119
U.S. Department of Justice		
Bullet Proof Vests	16.607	1,014
RUSO-Violence Protection Program	16.525	55,414
		<u>56,428</u>
 TOTAL EXPENDITURES OF FEDERAL AWARDS		 <u>\$ 33,504,678</u>

See notes to schedule of expenditures of federal awards.

NOTES TO SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS

SOUTHWESTERN OKLAHOMA STATE UNIVERSITY

June 30, 2011

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, 2011, 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, 2011

Section I--Summary of Auditors' Results

Financial statements

Type of auditors' report issued:

Unqualified

Internal control over financial reporting:

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

Noncompliance material to financial statements noted?

☐ yes ☒ no

Federal Awards

Internal control over major programs:

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

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

Unqualified

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

☐ yes ☒ no

Identification of major programs:

<u>Program / Cluster</u>	<u>CFDA Number</u>
Student Financial Aid Cluster	*
State Fiscal Stabilization Fund - Recovery Act	84.394 ARRA

* 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, 2011

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

None to report for the June 30, 2011 period.

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

None to report for the June 30, 2011 period.

SUMMARY SCHEDULE OF PRIOR AUDIT FINDINGS

SOUTHWESTERN OKLAHOMA STATE UNIVERSITY

June 30, 2011

No matters were reportable.