

**NORTHEASTERN  
STATE UNIVERSITY**

**June 30, 2009**

NORTHEASTERN STATE UNIVERSITY

June 30, 2009

AUDITED FINANCIAL STATEMENTS

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Independent Auditors' Report

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

We have audited the accompanying statement of net assets of Northeastern State University (the "University"), a component unit of the State of Oklahoma, as of and for the year ended June 30, 2009, and the related statements of revenues, expenses and changes in net assets and cash flows for the year 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 audit. The financial statements of the University as of and for the year ended June 30, 2008 were audited by other auditors whose report, dated October 27, 2008, expressed an unqualified opinion on those financial statements. We did not audit the financial statements of the University's discretely presented component unit, the Northeastern State University Foundation, Inc. (the "University Foundation"). Those financial statements were audited by another auditor, whose reports thereon have been furnished to us, and in our opinion, insofar as they relate to the amounts included for the Foundation, are based on the report of the other auditor.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. The financial statements of the University 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 the significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, based on our audit and the report of the other auditor, the financial statements referred to above present fairly, in all material respects, the respective financial position of Northeastern State University and its discretely presented component unit, Northeastern State University Foundation, Inc. , as of June 30, 2009, and the respective changes in net assets and, where applicable, its cash flows thereof for the year 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, 2009 on our consideration of the University's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and is important 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.

Cole & Reed P.C.

Oklahoma City, Oklahoma  
October 28, 2009

**Managements' Discussion and Analysis (Unaudited)**  
**Northeastern State University**  
**June 30, 2009**

*Introductory Synopsis*

Change has been the hallmark for fiscal year 2009 across the globe, in the United States, and at Northeastern State University. During this first year of the presidency of Dr. Don Betz, NSU commemorated its Centennial Celebration while charting a course to reinvigorate our campuses in Tahlequah, Broken Arrow and Muskogee with an increased dedication to our fundamental purposes of education, creation of new knowledge, outreach and service.



Northeastern State University fulfilled its educational mission by graduating 1,813 students. In an effort to increase enrollment, and ultimately the number of graduates, NSU has signed articulation agreements through our "Smart Choice" program with Tulsa Community College, Eastern Oklahoma State College, and Connors State College which allow students to make a seamless transition from earning an associate's degree to attaining a four-year degree in the NSU program of their choice. We will expand the SmartChoice program to Northeastern Oklahoma A & M College and Carl Albert State College during the coming year.

Also related to increasing enrollment, resources have been invested in the international studies program to recruit a diverse student population. A communication campaign was launched during the spring semester to address questions raised by prospects about what to expect in college. A branding review is underway to define what makes Northeastern a unique educational choice for new and returning students.

Academically, new programs in Clinical Lab Science and Cherokee Cultural Studies were approved. Connors State College is currently teaching specified courses at NSU-Muskogee with plans to include their entire Muskogee operation in the future. Our international program continues to grow, with three visiting scholars on the Tahlequah campus scheduled so far this year.

In July 2009, the Center for Admissions and Student Enrollment (CASE) building was dedicated. This renovation breathed new life into the 60 year-old Industrial Arts building. The auditorium, ballroom and food service facilities at the Broken Arrow campus were also completed in August 2009. The new Tahlequah campus entry and the Centennial Plaza are almost complete. Structural repairs addressing deferred maintenance issues have been completed for the Education building and are well underway for the Business and Technology building. Similar work for the Fine Arts building is planned for fiscal year 2010.

**Managements' Discussion and Analysis (Unaudited)--Continued**  
**Northeastern State University**  
**June 30, 2009**

*Overview of Financial Statements and Financial Analysis*

The financial statements of Northeastern State University are presented for the fiscal year ended June 30, 2009, with comparative data from 2008. These statements include the financial activity of the Cherokee County Educational Facilities Foundation, which is a component unit and the Northeastern State University Educational Foundation, which is a discretely presented component unit of the university. The most recent financial statements of the NSU foundation are included in this presentation under the heading *Component Unit*. Financial analysis data is presented for fiscal years 2005 through 2009.



Management's discussion and analysis is designed to focus on current activities, resulting changes, and current known facts. It should be read in conjunction with the University's financial statements and footnotes.

*Statement of Net Assets*

The Statement of Net Assets presents current and non-current assets and liabilities, and net assets (assets minus liabilities) as of the end of the fiscal year. The purpose of the Statement of Net Assets is to present a fiscal snapshot of the university.



Net assets are divided into three major categories. The first, Investment in Capital Assets, Net of Debt, provides the institution's equity in property, plant, and equipment. The second category, Restricted Net Assets, typically has two major components: nonexpendable and expendable. Northeastern has no nonexpendable restricted net assets. Expendable restricted net assets are available for expenditure by the university, but must be spent for purposes as determined by donors and/or external entities that have placed time or purpose restrictions on the use of the assets. The final category is Unrestricted Net Assets. Unrestricted assets are available to the university for any lawful purpose.

**Managements' Discussion and Analysis (Unaudited)--Continued**  
**Northeastern State University**  
**June 30, 2009**

*Statement of Net Assets--Continued*

**Statement of Net Assets**  
(Thousands of Dollars)

	2009	2008	June 30, 2007	2006	2005
<b>ASSETS</b>					
Current assets	\$ 43,777	\$ 39,849	\$ 33,044	\$ 33,696	\$ 30,232
Capital assets, net	148,522	143,537	134,726	121,192	84,302
Other assets	34,413	41,699	51,174	52,220	36,847
<b>TOTAL ASSETS</b>	<u>\$ 226,712</u>	<u>\$ 225,085</u>	<u>\$ 218,944</u>	<u>\$ 207,108</u>	<u>\$ 151,381</u>
<b>LIABILITIES</b>					
Current liabilities	\$ 8,555	\$ 9,622	\$ 8,539	\$ 8,470	\$ 8,003
Noncurrent liabilities	62,658	64,414	66,667	69,055	47,546
<b>TOTAL LIABILITIES</b>	<u>\$ 71,213</u>	<u>\$ 74,036</u>	<u>\$ 75,206</u>	<u>\$ 77,525</u>	<u>\$ 55,549</u>
<b>NET ASSETS</b>					
Invested in capital assets, net of debt	\$ 102,083	\$ 104,997	\$ 110,147	\$ 82,705	\$ 65,821
Restricted, expendable	21,353	17,795	11,755	34,480	12,116
Unrestricted	32,063	28,257	21,836	12,398	17,895
<b>TOTAL NET ASSETS</b>	<u>\$ 155,499</u>	<u>\$ 151,049</u>	<u>\$ 143,738</u>	<u>\$ 129,583</u>	<u>\$ 95,832</u>

Total assets of the university increased \$1.6 million and total liabilities decreased \$2.8 million, resulting in an overall increase in total net assets of \$4.45 million.

The total assets increase of \$1.6 million is a net figure resulting from an increase in current assets of \$3.9 million, an increase in net capital assets of \$5.0 million, and a decrease in other assets of \$7.3 million. The increase in current assets includes an increase in unrestricted cash on hand of \$3.5 million. This increase in reserves was an intentional effort to provide resources to address difficulties created by the economic recession, accomplished through position and salary management and through purchasing controls. The increase in current assets also includes an increase in accounts receivable and a decrease in inventories resulting from contracting our Bookstore to a third party vendor. While the inventory was sold prior to June 30, the cash generated from that sale was still outstanding at that date. The receivable related to the Bookstore inventory is \$1.3 million.



**Managements' Discussion and Analysis (Unaudited)--Continued**  
**Northeastern State University**  
**June 30, 2009**

*Statement of Net Assets--Continued*

Capital assets are reflected net of depreciation. During FY09, additions to capital assets totaled \$13.5 million. Depreciation recognized was \$8.5 million, resulting in a net increase in capital assets of \$5.0 million. Major renovation work was completed on the south Leoser dormitory, the Food Court, the Education Building, and the enrollment management center on the Tahlequah campus. On the Broken Arrow campus, the auditorium and food service facilities were completed. Also during the year, major renovations were started on the Business and Technology building and the Fine Arts building. Other assets decreased \$7.3 million as restricted cash and the Oklahoma Capital Improvement Authority (OCIA) receivable were used for these capital projects.

Total liabilities decreased \$2.8 million. This change reflects payments against bond and lease obligations of \$2.2 million, offset by increases in deferred revenue and accrued compensated absences and decreased accounts payable. There were no additions to long term debt during fiscal year 2009.

**Managements' Discussion and Analysis (Unaudited)--Continued**  
**Northeastern State University**  
**June 30, 2009**

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

The Statement of Revenues, Expenses, and Changes in Net Assets is used to display the sources and uses of funds of the university during the fiscal year. This information must be viewed over a period of time to determine if the goals of the institution are being met.

**Statement of Revenues, Expenses, and Changes in Net Assets**  
(Thousands of Dollars)

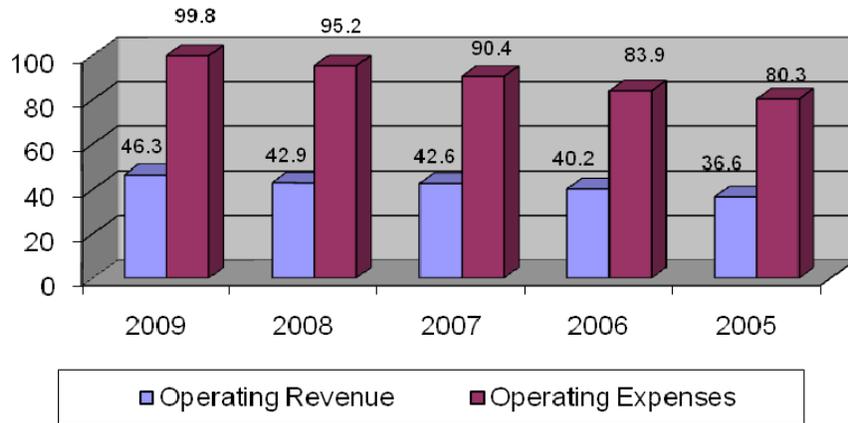
	Fiscal Year Ended June 30				
	2009	2008	2007	2006	2005
OPERATING REVENUES	\$ 46,299	\$ 42,872	\$ 42,585	\$ 40,201	\$ 36,576
Employee compensation and benefits	(60,611)	(58,920)	(55,811)	(52,409)	(49,744)
Depreciation expense	(8,524)	(7,325)	(5,653)	(4,887)	(4,778)
Other operating expense	(30,700)	(28,956)	(28,954)	(26,633)	(25,749)
OPERATING INCOME (LOSS)	(53,536)	(52,329)	(47,833)	(43,728)	(43,695)
Federal, state and local grants	12,793	11,822	12,066	12,094	12,876
State appropriations	39,983	39,871	38,029	34,298	32,229
On behalf payments, gifts, investments and interest exp.	1,717	3,902	4,443	2,852	2,496
Capital gifts	497	909	4,917	26,471	2,469
State appropriations for capital purposes	2,996	3,136	2,533	1,764	1,067
CHANGE IN NET ASSETS	4,450	7,311	14,155	33,751	7,442
Net liabilities of facilities foundation	-	-	-	-	(58)
NET ASSETS, BEGINNING OF YEAR	151,049	143,738	129,583	95,832	87,074
NET ASSETS, END OF YEAR	\$ 155,499	\$ 151,049	\$ 143,738	\$ 129,583	\$ 94,458

One of the important measures of an institution's fiscal stability is how operating revenues compare to operating expenses. While public institutions will normally not have an excess of operating revenues over operating expenses (state appropriations are considered non-operating revenues under generally accepted accounting principles), it is important to understand the relationship of revenues to expenses over time. The chart below illustrates that in each of the last five years, operating expenses for the university have increased more than operating revenues. Since 2005, operating revenue has increased \$9.7 million, while operating expenses have increased \$19.6 million, a difference of \$9.9 million. During this same time, state appropriations for both operating and capital purposes increased \$9.7 million.

**Managements' Discussion and Analysis (Unaudited)--Continued  
 Northeastern State University  
 June 30, 2009**

*Statement of Revenues, Expenses, and Changes in Net Assets--Continued*

**Operating Revenue vs. Operating Expenses  
 (Millions of Dollars)**



Operating revenue includes tuition and fees, non-student aid related grants and contracts, and revenue generated by auxiliary units. Of the \$9.7 million increase over the last five years, \$6.9 million was generated through tuition and fees and \$1.8 million was from auxiliary units.

Operating expenses include employee compensation, student scholarships, depreciation, and other necessary supplies and service expenses. Of the \$19.6 million five year increase, \$10.9 million is related to employee compensation and benefits, \$3.9 million is related to additional expenditures for supplies and materials, and \$4.1 million is increased depreciation.

For the one year of fiscal 2009, operating expense increased \$4.6 million. During this one year, NSU increased employee compensation \$1.7 million, depreciation \$1.2 million, and other operating expenses \$.8 million.

The following is a comparative graphical representation of the sources of NSU's revenue.



**Managements' Discussion and Analysis (Unaudited)--Continued**  
**Northeastern State University**  
**June 30, 2009**

*Statement of Cash Flows*

The Statement of Cash Flows presents detailed information about cash receipts and disbursements of the university during the year. The statement is divided into five parts. The first shows the net cash used by the operating activities of the university. The second reflects cash flows from non-capital financing activities. The primary source of revenue for non-capital financing activities is from state appropriations. The third section is cash flows from investing activities, which shows the purchase, proceeds, and interest received from investing activities. The fourth section deals with cash flows from capital and related financing activities, which includes the acquisition and construction of capital and related items. The fifth and final section reconciles the net cash used to the operating income reflected on the Statement of Revenues, Expenses, and Changes in Net Assets.

**Statement of Cash Flows**

(Thousands of Dollars)

	Fiscal Year Ended June 30				
	2009	2008	2007	2006	2005
CASH PROVIDED (USED) BY					
OPERATING ACTIVITIES	\$ (43,114)	\$ (43,384)	\$ (40,578)	\$ (36,127)	\$ (35,727)
Noncapital financing activities	53,311	52,336	50,764	47,005	45,669
Investing activities	1,195	1,932	654	4,761	543
Capital and related financing activities	<u>(9,380)</u>	<u>(6,416)</u>	<u>(11,166)</u>	<u>(13,742)</u>	<u>(2,237)</u>
NET CHANGE IN CASH	2,012	4,468	(326)	1,897	8,248
CASH, BEGINNING OF YEAR	<u>52,071</u>	<u>47,604</u>	<u>47,930</u>	<u>46,033</u>	<u>37,785</u>
CASH, END OF YEAR	<u>\$ 54,083</u>	<u>\$ 52,072</u>	<u>\$ 47,604</u>	<u>\$ 47,930</u>	<u>\$ 46,033</u>

The net cash balance increased \$2.0 million over the course of the year. Other operating receipts increased \$4.9 million, which was offset by a decrease in proceeds from capital debt and leases of \$3.1 million, a decrease in capital appropriations and capital grants and gifts received of \$1.0 million, and a decrease in interest income received from investments of \$.9 million. Tuition and fees collections generated an additional \$2.0 million, effectively accounting for the full increase in cash retained for the year.

**Managements' Discussion and Analysis (Unaudited)--Continued**  
**Northeastern State University**  
**June 30, 2009**

*Component Units*

Northeastern State University has determined that the Cherokee County Educational Facilities Foundation Incorporated (CCEFFI) and the NSU Student Housing Limited Liability Corporation (LLC) meet the criteria for inclusion in these financial statements. The inclusion of information related to these entities does not mean that Northeastern State University has access to the resources of these entities.

The Northeastern State University Educational Foundation meets the criteria for inclusion as a discretely presented component unit of the university. The most recent financial statements of the NSU Educational Foundation are included in this presentation under the heading *Component Unit*.



*Economic Outlook*

As a result of the global economic recession during fiscal year 2009, appropriations from the state for 2010 have been held constant only through use of federal economic stimulus funds. Federal stimulus funds are expected to also be available to offset anticipated state funding shortfalls for fiscal year 2011. However, Oklahoma revenue during fiscal year 2010 has not met budgeted levels. As a result, appropriations to the university are being reduced on a monthly basis.

In an effort to provide relief to students during the financial crisis, Northeastern State University joined with all of Oklahoma's public universities and colleges by not requesting an increase in tuition and mandatory fees for fiscal year 2010. The convergence of this steadying of tuition rates, the pressures of the recession on regional employment rates, and investment in a strong marketing campaign has led to an increase in credit hour enrollment for Fall 2009 of 4.6%.

Despite the economic climate, Northeastern State University is soundly committed to learning, leading and serving. Providing access to higher education is of the highest importance. During 2009, NSU signed articulation agreements through our "Smart Choice" program with four two-year institutions. Northeastern's role as lead institution in the Adult Degree Completion program continues to provide services to non-traditional students who are committed to completion of their degree. We have invested resources to intensify our effort in international studies. We are actively engaging the residents of our service area to select NSU as their institution of choice for a four-year degree.

**Managements' Discussion and Analysis (Unaudited)--Continued**  
**Northeastern State University**  
**June 30, 2009**

*Economic Outlook--Continued*

Northeastern's financial position is still strong. Conservative financial decisions, cash reserves, increased enrollment, and appropriations from the state stabilized by ARRA funds will address the immediate pressures of the economy through 2010 and 2011. Our university, like others across the United States, is concerned with the loss of ARRA funds in 2012 and the impact on state appropriations at that time.

The leadership and vision of President Betz will continue to steer the institution toward recognizing its potential as a partner, by encouraging the NSU team to internally and externally collaborate to change lives and improve communities and by implementing programs such as "Making Place Matter", the American Association of State Colleges and Universities' stewardship model. NSU is dedicated to meeting the challenge of change by leading.



STATEMENTS OF NET ASSETS

NORTHEASTERN STATE UNIVERSITY

	University		Component Unit	
	June 30,		June 30,	
	2009	2008	2009	2008
<b>ASSETS</b>				
<b>CURRENT ASSETS</b>				
Cash and cash equivalents	\$ 30,220,845	\$ 26,730,839	\$ 534,790	\$ 328,714
Restricted cash and cash equivalents	4,935,060	4,705,711	-	-
Investments	2,066,723	2,101,185	9,486,869	12,861,092
Accounts receivable, net	4,868,716	3,340,386	666	2,350
Receivable from state agencies	401,665	335,404	-	-
Interest receivable	590,549	583,405	8,150	48,922
Inventories and other current assets	293,577	1,411,754	48,373	45,944
Current portion of notes receivable, net	400,000	640,000	-	-
<b>TOTAL CURRENT ASSETS</b>	<b>43,777,135</b>	<b>39,848,684</b>	<b>10,078,848</b>	<b>13,287,022</b>
<b>NONCURRENT ASSETS</b>				
Restricted cash and cash equivalents	18,927,384	20,634,538	-	-
Investments held by others	1,117,180	1,261,491	-	-
Receivable from state agencies	3,374,310	9,249,840	-	-
Notes receivable, net	6,223,878	5,792,498	-	-
Prepaid pension asset	2,911,035	2,937,685	-	-
Other assets	1,858,583	1,823,032	-	-
Capital assets, net	148,522,205	143,537,295	121,703	121,703
<b>TOTAL NONCURRENT ASSETS</b>	<b>182,934,575</b>	<b>185,236,379</b>	<b>121,703</b>	<b>121,703</b>
<b>TOTAL ASSETS</b>	<b>\$ 226,711,710</b>	<b>\$ 225,085,063</b>	<b>\$ 10,200,551</b>	<b>\$ 13,408,725</b>
<b>LIABILITIES</b>				
<b>CURRENT LIABILITIES</b>				
Accounts payable	\$ 2,755,001	\$ 3,597,967	\$ 232,172	\$ -
Accrued payroll	403,348	342,464	-	-
Accrued interest	196,810	203,803	-	-
Deferred revenue	1,891,674	1,569,991	-	-
Deposits held in custody for others	239,016	265,081	-	-
Current portion of non current liabilities	3,068,768	3,642,634	15,772	15,157
<b>TOTAL CURRENT LIABILITIES</b>	<b>8,554,617</b>	<b>9,621,940</b>	<b>247,944</b>	<b>15,157</b>
<b>NONCURRENT LIABILITIES</b>				
Accrued compensated absences	1,284,689	807,605	-	-
Other liabilities	-	-	36,108	37,093
Federal loan program contributions refundable	7,535,000	7,467,000	-	-
Bonds payable	24,221,693	25,161,844	-	-
Lease obligation payable to state agency	29,616,631	30,977,906	-	-
<b>TOTAL NONCURRENT LIABILITIES</b>	<b>62,658,013</b>	<b>64,414,355</b>	<b>36,108</b>	<b>37,093</b>
<b>TOTAL LIABILITIES</b>	<b>71,212,630</b>	<b>74,036,295</b>	<b>284,052</b>	<b>52,250</b>
<b>NET ASSETS</b>				
Invested in capital assets, net of debt	102,082,994	104,997,143	-	-
Restricted				
Expendable				
Scholarships, instruction and other	6,602,848	6,201,685	9,916,499	13,356,475
Loans	726,792	689,351	-	-
Capital projects	9,927,914	6,525,482	-	-
Debt service	4,095,905	4,377,731	-	-
Unrestricted	32,062,627	28,257,376	-	-
<b>TOTAL NET ASSETS</b>	<b>\$ 155,499,080</b>	<b>\$ 151,048,768</b>	<b>\$ 9,916,499</b>	<b>\$ 13,356,475</b>

See notes to financial statements.

STATEMENTS OF REVENUES, EXPENSES AND CHANGES IN NET ASSETS

NORTHEASTERN STATE UNIVERSITY

	University		Component Unit	
	Year Ended June 30, 2009	2008	Year Ended June 30, 2009	2008
<b>OPERATING REVENUES</b>				
Student tuition and fees, net of scholarship discounts and allowances of \$7,722,000 and \$7,275,000 (revenues of \$972,000 in 2009 and \$965,000 in 2008 are pledged as security on University Center Series 1996 revenue bonds, revenues of \$2,031,000 in 2009 and \$2,089,000 in 2008 are pledged as security on Science Building Series 2004 revenue bonds)	\$ 27,630,980	\$ 25,860,016	\$ -	\$ -
Federal grants and contracts	1,537,299	1,911,623	-	-
State and local grants and contracts	2,812,204	2,556,079	-	-
Bookstore operations, net of scholarship discounts and allowances of \$1,027,000 and \$1,030,000.	3,922,169	3,906,128	-	-
Housing and food service, net of scholarship discounts and allowances of \$718,000 and \$583,000	4,084,438	3,919,806	-	-
Optometry contracts and practice plan	3,645,935	2,938,999	-	-
Interest earned on loans to students	110,346	71,313	-	-
Other operating revenues	2,555,477	1,708,343	(2,374,960)	2,029,437
<b>TOTAL OPERATING REVENUES</b>	<b>46,298,848</b>	<b>42,872,307</b>	<b>(2,374,960)</b>	<b>2,029,437</b>
<b>OPERATING EXPENSES</b>				
Compensation	60,611,249	58,920,200	-	-
Contractual services	4,952,096	4,714,908	-	-
Supplies and materials	9,588,930	9,224,253	-	-
Depreciation	8,524,363	7,325,482	-	-
Utilities	3,392,294	3,155,244	-	-
Communication expense	666,841	713,577	-	-
Scholarships and fellowships	8,070,292	7,942,712	866,781	782,258
Other operating expenses	4,028,642	3,204,771	198,235	157,886
<b>TOTAL OPERATING EXPENSES</b>	<b>99,834,707</b>	<b>95,201,147</b>	<b>1,065,016</b>	<b>940,144</b>
Operating income (loss)	(53,535,859)	(52,328,840)	(3,439,976)	1,089,293
<b>NONOPERATING REVENUES (EXPENSES)</b>				
Federal grants	12,793,055	11,822,208	-	-
State appropriations	39,982,946	39,870,929	-	-
On-behalf contributions for OTRS	2,758,926	2,821,697	-	-
Gifts and contributions	535,013	642,394	-	-
Investment income	1,050,628	2,052,246	-	-
Interest expense	(2,627,282)	(1,614,897)	-	-
<b>NET NONOPERATING REVENUES</b>	<b>54,493,286</b>	<b>55,594,577</b>	<b>-</b>	<b>-</b>
Income before other revenues, expenses, gains and losses	957,427	3,265,737	(3,439,976)	1,089,293
Capital grants and gifts	496,546	909,492	-	-
State appropriations restricted for capital purposes	2,996,339	3,135,791	-	-
Change in net assets	4,450,312	7,311,020	(3,439,976)	1,089,293
<b>NET ASSETS, BEGINNING OF YEAR</b>	<b>151,048,768</b>	<b>143,737,748</b>	<b>13,356,475</b>	<b>12,267,182</b>
<b>NET ASSETS, END OF YEAR</b>	<b>\$ 155,499,080</b>	<b>\$ 151,048,768</b>	<b>\$ 9,916,499</b>	<b>\$ 13,356,475</b>

See notes to financial statements.

STATEMENTS OF CASH FLOWS

NORTHEASTERN STATE UNIVERSITY

	Year Ended June 30,	
	2009	2008
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>		
Tuition and fees	\$ 27,726,026	\$ 25,701,174
Grants and contracts	4,549,394	7,097,767
Other operating receipts	14,191,086	9,318,840
Payments to employees for salaries and benefits	(57,974,726)	(56,378,295)
Payments to suppliers	(31,397,704)	(28,598,377)
Loans made to students	(820,586)	(1,335,162)
Collection of student loans	612,315	809,772
NET CASH USED IN OPERATING ACTIVITIES	<u>(43,114,195)</u>	<u>(43,384,281)</u>
<b>CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES</b>		
State appropriations	39,982,946	39,870,929
Nonoperating grants	12,793,055	11,822,208
Other student financial assistance received	34,194,593	32,453,970
Other student financial assistance payments	(34,194,593)	(32,453,970)
Gifts for other than capital purposes	535,013	642,394
NET CASH PROVIDED BY NONCAPITAL FINANCING ACTIVITIES	<u>53,311,014</u>	<u>52,335,531</u>
<b>CASH FLOWS FROM INVESTING ACTIVITIES</b>		
Proceeds from sales of investments	2,726,589	-
Purchase of investments	(2,692,171)	(133,388)
Interest income received	1,160,611	2,065,471
NET CASH PROVIDED BY INVESTING ACTIVITIES	<u>1,195,029</u>	<u>1,932,083</u>
<b>CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES</b>		
Cash paid for capital assets	(13,397,077)	(13,649,939)
Capital appropriations received	1,217,063	1,348,532
Capital grants and gifts received	-	909,492
Interest paid on capital debt and leases	(1,547,250)	(2,470,061)
Proceeds from capital debt and leases	5,875,530	9,001,024
Principal payments on capital debt and leases	(1,527,913)	(1,554,887)
NET CASH USED IN CAPITAL AND RELATED FINANCING ACTIVITIES	<u>(9,379,647)</u>	<u>(6,415,839)</u>
NET INCREASE IN CASH EQUIVALENTS	2,012,201	4,467,494
CASH AND CASH EQUIVALENTS, BEGINNING OF YEAR	<u>52,071,088</u>	<u>47,603,594</u>
CASH AND CASH EQUIVALENTS, END OF YEAR	<u>\$ 54,083,289</u>	<u>\$ 52,071,088</u>

See notes to financial statements.

STATEMENTS OF CASH FLOWS--Continued

NORTHEASTERN STATE UNIVERSITY

	Year Ended June 30,	
	2009	2008
RECONCILIATION OF OPERATING LOSS TO NET CASH USED IN OPERATING ACTIVITIES		
Operating loss	\$ (53,535,859)	\$ (52,328,840)
Adjustments to reconcile operating loss to net cash used by operating activities		
Depreciation	8,524,363	7,325,482
On-behalf contributions to teachers' retirement system	2,758,926	2,821,697
Changes in assets and liabilities		
Accounts receivable	(1,528,330)	(722,688)
Inventories	1,118,177	(318,629)
Loans receivable	(191,380)	(500,332)
Prepaid pension and other assets	(47,934)	(353,700)
Accounts payable and accrued expenses	(550,631)	460,404
Accrued payroll	60,884	(271,970)
Deferred revenue	321,683	11,221
Federal loan program contributions refundable	68,000	144,000
Compensated absences	(112,094)	349,074
NET CASH USED IN OPERATING ACTIVITIES	\$ (43,114,195)	\$ (43,384,281)
NONCASH INVESTING, NONCAPITAL FINANCING AND CAPITAL AND RELATED FINANCING ACTIVITIES		
Interest on capital debt paid by State Agency on behalf of the University	\$ 1,110,968	\$ 1,107,064
Principal on capital debt paid by State Agency on behalf of the University	\$ 668,308	\$ 680,195
Non-cash capital grants and gifts	\$ 496,546	\$ -
RECONCILIATION OF CASH AND CASH EQUIVALENTS TO STATEMENTS OF NET ASSETS		
Current assets		
Cash and cash equivalents	30,220,845	26,730,839
Restricted cash and cash equivalents	4,935,060	4,705,711
Noncurrent assets		
Restricted cash and cash equivalents	18,927,384	20,634,538
TOTAL CASH AND CASH EQUIVALENTS	\$ 54,083,289	\$ 52,071,088

See notes to financial statements.

## NOTES TO FINANCIAL STATEMENTS

### NORTHEASTERN STATE UNIVERSITY

June 30, 2009

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

Nature of Organization: Northeastern 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* includes the accounts and funds of the University and its component unit, Cherokee County Educational Facilities Foundation, Inc. (the "Facilities Foundation"). The Facilities Foundation is a non-profit organization created for the purpose of providing affordable housing for students of the University. The Facilities Foundation is governed by a Board of Directors comprised primarily of management of the University. Accordingly, the Facilities Foundation has been reported as a blended component unit in the financial statements. Separate financial statements of the Facilities Foundation have been prepared and can be obtained by contacting the University. 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: The University was required to implement GASB Statement No. 39 in 2004. Northeastern State University Foundation, Inc. (the "University Foundation") is a component unit of the University under GASB 39 that should be discretely presented with the financial statements of the University. The University Foundation has a fiscal year ending December 31. The University is the beneficiary of the Foundation. The Foundation is a separate legal entity with its own Board of Trustees. The Foundation is administered to provide benefit to the University. The University Foundation uses all contributions, grants and other revenues to aid the University in charitable, benevolent, religious, educational, scientific and literary purposes.

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

NORTHEASTERN STATE UNIVERSITY

June 30, 2009

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.

Changes in Accounting Principles: During the year ended June 30, 2008, the University adopted the provisions of Governmental Accounting Standards Board (GASB) Statement No. 45, *Accounting and Financial Reporting By Employers for Postemployment Benefits Other than Pensions*. Statement No. 45 establishes standards for the measurement, recognition and display of Other Postemployment Benefits (OPEB) expenses and related liabilities (assets), note disclosures and, if applicable, required supplementary information (RSI) in the financial statements of the University.

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.

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

NOTES TO FINANCIAL STATEMENTS--Continued

NORTHEASTERN STATE UNIVERSITY

June 30, 2009

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

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 grants 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.

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. Depreciation expense includes amortization of assets held under capital lease obligations.

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, and (3) other liabilities including the federal portion of the Perkins Loan Program, that will not be paid within the next fiscal year.

NOTES TO FINANCIAL STATEMENTS--Continued

NORTHEASTERN STATE UNIVERSITY

June 30, 2009

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

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

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

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

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

When an expense is incurred that can be paid using either restricted or unrestricted resources, the University's policy is to first apply the expense towards restricted resources, and then 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 the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

NOTES TO FINANCIAL STATEMENTS--Continued

NORTHEASTERN STATE UNIVERSITY

June 30, 2009

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

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 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 Fund Accounting*, and GASB No. 34, such as state appropriations, certain governmental and other pass-through grants, and investment income.

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

Change in Accounting Policy: In 2009, certain federal student financial aid revenues were reclassified from operating revenues to nonoperating revenue based on the University's administrative involvement in the programs and because the grants are nonexchange transactions. The reclassifications were also made to the 2008 financial statements to conform with the 2009 presentation. This change in accounting policy was a result of an amendment to the GASB Staff *"Comprehensive Implementation Guide, Chapter 7: Basic Financial Statements and Management's Discussion and Analysis"*.

Reclassification of Financial Statement Presentation: Certain reclassifications have been made to the 2008 financial statements to conform with the 2009 financial statement presentation. Such reclassifications have had no effect on changes in net assets as previously reported.

NOTES TO FINANCIAL STATEMENTS--Continued

NORTHEASTERN STATE UNIVERSITY

June 30, 2009

NOTE B--DEPOSITS AND INVESTMENTS

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

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

At June 30, 2009 and 2008, the carrying amount of all University deposits with the OST and other financial institutions were \$54,083,289 and \$52,071,088, respectively. These amounts consisted of deposits with the OST (\$53,728,998 and \$51,577,533), deposits with financial institutions (\$333,401 and \$469,115) and change funds (\$20,890 and \$24,440). Of funds on deposit with the OST, amounts invested in *OK INVEST* total \$25,477,396 in 2009 and \$27,040,545 in 2008.

NOTES TO FINANCIAL STATEMENTS--Continued

NORTHEASTERN STATE UNIVERSITY

June 30, 2009

NOTE B--DEPOSITS AND INVESTMENTS--Continued

Deposits--Continued: For financial reporting purposes, deposits with the OST that are invested in *OK INVEST* are classified as cash equivalents. The distribution of deposits in *OK INVEST* are as follows at June 30, 2009:

<u>OK INVEST Portfolio</u>	<u>Cost</u>	<u>Market Value</u>
U.S. Agency securities	\$ 11,212,809	\$ 11,548,812
Money market mutual funds	2,008,759	2,008,759
Certificates of deposit	1,623,769	1,623,769
Tri-party repurchase agreements	1,990,049	1,990,049
Mortgage backed agency securities	5,777,074	5,847,096
Municipal bonds	409,704	413,061
Foreign bonds	48,538	48,538
U.S. Treasury Obligations	<u>2,406,694</u>	<u>2,490,791</u>
TOTAL	<u>\$ 25,477,396</u>	<u>\$ 25,970,875</u>

Agencies and funds that are considered to be part of the State's reporting entity in the State's Comprehensive Annual Financial Report are allowed to participate in *OK INVEST*. Oklahoma statutes and the OST establish the primary objectives and guidelines governing the investment of funds in *OK INVEST*. Safety, liquidity, and return on investment are the objectives which establish the framework for the day to day *OK INVEST* management with an emphasis on safety of the capital and the probable income to be derived and meeting the State and its funds' and agencies' daily cash flow requirements. Guidelines in the Investment Policy address credit quality requirements, diversification percentages and specify the types and maturities of allowable investments, and the specifics regarding these policies can be found on the OST website at <http://www.treasurer.state.ok.us/>. The State Treasurer, at his discretion, may further limit or restrict such investments on a day to day basis. *OK INVEST* includes a substantial investment in securities with an overnight maturity as well as in U.S. government securities with a maturity of up to three years. *OK INVEST* maintains an overall weighted average maturity of less than two years. Participants in *OK INVEST* maintain an interest in its underlying investments and, accordingly, may be exposed to certain risks. As stated in the OST information statement, the main risks are interest rate risk, credit/default risk, liquidity risk, and U.S. government securities risk.

NOTES TO FINANCIAL STATEMENTS--Continued

NORTHEASTERN STATE UNIVERSITY

June 30, 2009

NOTE B--DEPOSITS AND INVESTMENTS--Continued

Deposits--Continued: *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. *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, 2009 and 2008, none of the University's investments were subject to custodial credit risk.

NOTES TO FINANCIAL STATEMENTS--Continued

NORTHEASTERN STATE UNIVERSITY

June 30, 2009

NOTE B--DEPOSITS AND INVESTMENTS--Continued

Investments--Continued: At June 30, 2009 and 2008, the University had investments in money market funds totaling \$344,796 and \$344,796, respectively, related to the OFDA Lease program. These funds had a fair market value of \$344,796 at June 30, 2009 and 2008. The money market funds had an average credit rating of AAAM at June 30, 2009 according to Standard and Poor's.

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

At June 30, 2009 and 2008, the University had investments consisting of money market funds in restricted bond funds totaling \$2,066,723 and \$2,101,185.

Investments held by others: At June 30, 2009 and 2008, the University had investments held by others totaling \$1,117,180 and \$1,261,491, respectively. The investments included investments held at the Oklahoma Development Finance Authority (ODFA) for the University of \$344,796 and \$344,796 for June 30, 2009 and 2008, respectively. The investments also included investments held at the Oklahoma State Regents for Higher Education for the University of \$772,384 and \$916,695 at June 30, 2009 and 2008, respectively.

NOTES TO FINANCIAL STATEMENTS--Continued

NORTHEASTERN STATE UNIVERSITY

June 30, 2009

NOTE C--ACCOUNTS RECEIVABLE

Accounts receivable consisted of the following at June 30:

	<u>2009</u>	<u>2008</u>
Student tuition and fees	\$ 1,631,139	\$ 1,404,502
Auxiliary enterprises and other operating activities	2,857,333	1,236,534
Federal, state, and private grants and contracts	657,939	857,830
Cancelled Perkins loans	<u>561,359</u>	<u>491,848</u>
	5,707,770	3,990,714
Less allowance for doubtful accounts	<u>(839,054)</u>	<u>(650,328)</u>
Net accounts receivable	<u>\$ 4,868,716</u>	<u>\$ 3,340,386</u>

The receivable from state agencies consists of receivables from OCIA and ODFA for the lease financing of capital projects and a receivable from state regents. The receivables from OCIA and ODFA were \$3,374,310 in 2009 and \$9,249,826 in 2008. The long-term debt portion of this transaction is included in Note F. The receivable from state regents is \$401,665 in 2009 and \$335,404 in 2008 that represents endowment revenue earned by the university that is vested at the state regents.

NOTE D--NOTES RECEIVABLE

Student loans made through the Federal Perkins Loan Program (the "Program") comprise substantially all of the loans receivable at June 30, 2009 and 2008. Under this program, the federal government provides funds for approximately 75% of the total contribution for student loans with the University providing the balance. Under certain conditions such loans can be forgiven at annual rates of 10% to 30% of the original balance up to maximums of 50% to 100% of the original loan. The federal government reimburses the University for the amounts forgiven. Amounts refundable to the U.S. Government upon cessation of the Program of \$7,535,000 and \$7,467,000 at June 30, 2009 and 2008, respectively, are reflected in the accompanying statements of net assets as noncurrent liabilities.

NOTES TO FINANCIAL STATEMENTS--Continued

NORTHEASTERN STATE UNIVERSITY

June 30, 2009

NOTE D--NOTES RECEIVABLE--Continued

As the University determines loans are uncollectible and not eligible for reimbursement by the federal government, the loans are written off and assigned to the U.S. Department of Education. The allowance for uncollectible loans only applies to University funded loans and the University portions of federal student loans, as the University is not obligated to fund the federal portion of uncollected student loans. The University has provided an allowance for uncollectible loans that, in management's opinion, is sufficient to absorb loans that will ultimately be written off.

At June 30, loans receivable consisted of the following:

	<u>2009</u>	<u>2008</u>
Perkins loans receivable	\$ 6,850,088	\$ 6,643,262
Other loans receivable	2,890	1,445
Total loans receivable	<u>6,852,978</u>	<u>6,644,707</u>
Less allowance for uncollectible loans	<u>(229,100)</u>	<u>(212,209)</u>
Net loans receivable	<u>\$ 6,623,878</u>	<u>\$ 6,432,498</u>

NOTES TO FINANCIAL STATEMENTS--Continued

NORTHEASTERN STATE UNIVERSITY

June 30, 2009

NOTE E--CAPITAL ASSETS

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

	Balance June 30, 2008	Additions	Transfers	Retirements/ Adjustments	Balance June 30, 2009
Capital assets not being depreciated					
Land	\$ 6,367,835	\$ 300,463	\$ -	\$ -	\$ 6,668,298
Construction in progress	10,991,497	1,245,218	(8,524,424)	-	3,712,291
Total assets not being depreciated	<u>\$ 17,359,332</u>	<u>\$ 1,545,681</u>	<u>\$ (8,524,424)</u>	<u>\$ -</u>	<u>\$ 10,380,589</u>
Other capital assets					
Non-major infrastructure networks	\$ 7,444,801	\$ -	\$ -	\$ -	\$ 7,444,801
Buildings and improvements	145,989,176	8,924,007	8,524,424	-	163,437,607
Furniture, fixtures and equipment	19,394,793	2,194,043	-	(90,605)	21,498,231
Library materials	11,964,105	845,542	-	(313,655)	12,495,992
Total other capital assets	184,792,875	11,963,592	8,524,424	(404,260)	204,876,631
Less accumulated depreciation for					-
Non-major infrastructure networks	1,105,851	324,522	-	-	1,430,373
Buildings and improvements	35,901,288	5,236,976	-	-	41,138,264
Furniture, fixtures and equipment	14,112,792	2,067,112	-	(90,605)	16,089,299
Library materials	7,494,981	895,753	-	(313,655)	8,077,079
Total accumulated depreciation	58,614,912	8,524,363	-	(404,260)	66,735,015
Other capital assets, net	<u>\$ 126,177,963</u>	<u>\$ 20,487,955</u>	<u>\$ 8,524,424</u>	<u>\$ (808,520)</u>	<u>\$ 154,381,822</u>
Capital asset summary:					
Capital assets not being depreciated	\$ 17,359,332	\$ 1,545,681	\$ (8,524,424)	\$ -	\$ 10,380,589
Other capital assets, at cost	184,792,875	11,963,592	8,524,424	(404,260)	204,876,631
Total cost of capital assets	202,152,207	13,509,273	-	(404,260)	215,257,220
Less accumulated depreciation	58,614,912	8,524,363	-	(404,260)	66,735,015
Capital assets, net	<u>\$ 143,537,295</u>	<u>\$ 4,984,910</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 148,522,205</u>

At June 30, 2009, the cost and related accumulated depreciation of assets held under capital lease obligations and included in the above amounts were \$33,001,555, and \$5,509,316 respectively.

NOTES TO FINANCIAL STATEMENTS--Continued

NORTHEASTERN STATE UNIVERSITY

June 30, 2009

NOTE E--CAPITAL ASSETS--Continued

Following are the changes in capital assets for the year ended June 30, 2008:

	Balance June 30, 2007	Additions	Transfers	Retirements/ Adjustments	Balance June 30, 2008
Capital assets not being depreciated					
Land	\$ 6,206,118	\$ 161,717	\$ -	\$ -	\$ 6,367,835
Construction in progress	10,047,696	8,985,007	(8,041,206)	-	10,991,497
Total assets not being depreciated	<u>\$ 16,253,814</u>	<u>\$ 9,146,724</u>	<u>\$ (8,041,206)</u>	<u>\$ -</u>	<u>\$ 17,359,332</u>
Other capital assets					
Non-major infrastructure networks	\$ 7,278,144	\$ 116,252	\$ -	\$ 50,405	\$ 7,444,801
Buildings and improvements	136,724,647	4,411,341	5,441,506	(588,318)	145,989,176
Furniture, fixtures and equipment	16,330,330	1,476,515	2,599,700	(1,011,752)	19,394,793
Library materials	11,654,397	1,094,956	-	(785,248)	11,964,105
Total other capital assets	171,987,518	7,099,064	8,041,206	(2,334,913)	184,792,875
Less accumulated depreciation for					
Non-major infrastructure networks	753,175	324,953	-	27,723	1,105,851
Buildings and improvements	31,908,292	4,453,532	-	(460,536)	35,901,288
Furniture, fixtures and equipment	13,461,416	1,659,604	-	(1,008,228)	14,112,792
Library materials	7,392,836	887,393	-	(785,248)	7,494,981
Total accumulated depreciation	<u>53,515,719</u>	<u>7,325,482</u>	<u>-</u>	<u>(2,226,289)</u>	<u>58,614,912</u>
Other capital assets, net	<u>\$ 118,471,799</u>	<u>\$ (226,418)</u>	<u>\$ 8,041,206</u>	<u>\$ (108,624)</u>	<u>\$ 126,177,963</u>
Capital asset summary:					
Capital assets not being depreciated	\$ 16,253,814	\$ 9,146,724	\$ (8,041,206)	\$ -	\$ 17,359,332
Other capital assets, at cost	171,987,518	7,099,064	8,041,206	(2,334,913)	184,792,875
Total cost of capital assets	188,241,332	16,245,788	-	(2,334,913)	202,152,207
Less accumulated depreciation	<u>53,515,719</u>	<u>7,325,482</u>	<u>-</u>	<u>(2,226,289)</u>	<u>58,614,912</u>
Capital assets, net	<u>\$ 134,725,613</u>	<u>\$ 8,920,306</u>	<u>\$ -</u>	<u>\$ (108,624)</u>	<u>\$ 143,537,295</u>

At June 30, 2008, the cost and related accumulated depreciation of assets held under capital lease obligations and included in the above amounts were \$21,276,453 and \$3,626,867, respectively.

NOTES TO FINANCIAL STATEMENTS--Continued

NORTHEASTERN STATE UNIVERSITY

June 30, 2009

NOTE F--LONG-TERM LIABILITIES

Long-term liability activity for the year ended June 30, 2009 was as follows:

	Balance <u>June 30, 2008</u>	<u>Additions</u>	<u>Reductions</u>	Balance <u>June 30, 2009</u>	Amounts due within <u>one year</u>
Bonds payable					
Revenue bonds payable	\$ 26,205,000	\$ -	\$ (915,000)	\$ 25,290,000	\$ 945,000
Less issuance discounts	<u>(128,156)</u>	<u>4,849</u>	<u>-</u>	<u>(123,307)</u>	<u>-</u>
Total bonds payable	26,076,844	4,849	(915,000)	\$ 25,166,693	945,000
Capital lease obligations					
ODFA Master Lease	8,825,663	-	(612,913)	8,212,750	635,330
OCIA lease obligation	22,800,069	-	(668,308)	22,131,761	697,153
Premium on OCIA lease obligation	<u>633,395</u>	<u>-</u>	<u>(28,792)</u>	<u>604,603</u>	<u>-</u>
Total capital leases	32,259,127	-	(1,310,013)	30,949,114	1,332,483
Other liabilities					
Unearned capital assets	65,950	-	(65,950)	-	-
Federal loan program contributions	7,467,000	68,000	-	7,535,000	-
Accrued compensated absences	<u>2,188,068</u>	<u>690,053</u>	<u>(802,147)</u>	<u>2,075,974</u>	<u>791,285</u>
Total other liabilities	<u>9,721,018</u>	<u>758,053</u>	<u>(868,097)</u>	<u>9,610,974</u>	<u>791,285</u>
Total long-term liabilities	<u>\$ 68,056,989</u>	<u>\$ 762,902</u>	<u>\$ (3,093,110)</u>	<u>\$ 65,726,781</u>	<u>\$ 3,068,768</u>

NOTES TO FINANCIAL STATEMENTS--Continued

NORTHEASTERN STATE UNIVERSITY

June 30, 2009

NOTE F--LONG-TERM LIABILITIES--Continued

Long-term liability activity for the year ended June 30, 2008 was as follows:

	Balance June 30, 2007	Additions	Reductions	Balance June 30, 2008	Amounts due within one year
Bonds payable					
Revenue bonds payable	\$ 27,155,000	\$ -	\$ (950,000)	\$ 26,205,000	\$ 915,000
Less issuance discounts	(133,008)	4,852	-	(128,156)	-
Total bonds payable	27,021,992	4,852	(950,000)	\$ 26,076,844	915,000
Capital lease obligations					
ODFA Master Lease	9,430,550	-	(604,887)	8,825,663	612,913
OCIA lease obligation	23,450,961	-	(650,892)	22,800,069	668,308
Premium on OCIA lease obligation	662,698	-	(29,303)	633,395	-
Total capital leases	33,544,209	-	(1,285,082)	32,259,127	1,281,221
Other liabilities					
Unearned capital assets	131,899	-	(65,949)	65,950	65,950
Federal loan program contributions	7,323,000	144,000	-	7,467,000	-
Accrued compensated absences	1,838,994	1,479,472	(1,130,398)	2,188,068	1,380,463
Total other liabilities	9,293,893	1,623,472	(1,196,347)	9,721,018	1,446,413
Total long-term liabilities	\$ 69,860,094	\$ 1,628,324	\$ (3,431,429)	\$ 68,056,989	\$ 3,642,634

Revenue Bonds Payable

*Board of Regents of Oklahoma Colleges University Center Revenue Bonds Series 1996*

On March 1, 1996, the Board of Regents of Oklahoma Colleges issued the University Center Revenue Bonds Series 1996 (the "Bonds") for \$6,250,000 to be used for renovating and constructing an addition to the existing University Center on the main campus of the University. The Bonds are due in annual principal installments through March 2021, plus semiannual interest at rates from 4.25% to 10%. The Bonds are callable for redemption at the option of the University's management in whole or in part on any interest payment date of the principal amount and accrued interest to date plus a specified premium for each \$5,000 of Bonds redeemed prior to maturity. The Bonds are secured by the gross receipts from a specific student fee and all monies in funds and accounts held by the trustee bank are available for debt service payments. The University has obtained insurance coverage that covers the debt service fund requirements of the Bonds.

NOTES TO FINANCIAL STATEMENTS--Continued

NORTHEASTERN STATE UNIVERSITY

June 30, 2009

NOTE F--LONG-TERM LIABILITIES--Continued

Revenue Bonds Payable--Continued

*Board of Regents of Oklahoma Colleges University Center Revenue Bonds Series 1996--Continued*

At June 30, 2009, future aggregate maturities of principal and interest requirements on the Bonds payable are as follows:

	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
Year Ending June 30:			
2010	\$ 245,000	\$ 200,900	\$ 445,900
2011	260,000	188,895	448,895
2012	270,000	175,895	445,895
2013	285,000	162,125	447,125
2014	300,000	147,590	447,590
2015-2019	1,745,000	491,852	2,236,852
2020-2021	830,000	64,633	894,633
	<u>\$ 3,935,000</u>	<u>\$ 1,431,890</u>	<u>\$ 5,366,890</u>

*Board of Regents of Oklahoma Colleges Northeastern State University Revenue Bonds Series 2004*

On April 1, 2004, the Board of Regents of Oklahoma Colleges issued Northeastern State University Revenue Bonds Series 2004 (the "Bonds") for \$10,000,000 to be used for constructing, furnishing and equipping a new science building on the main campus of the University. The Bonds are due in annual principal installments through April 2024, plus semiannual interest at rates from 2% to 4.30%. The Bonds are callable for redemption at the option of the University's management in whole or in part on any interest payment date of the principal amount and accrued interest to date plus a specified premium for each \$5,000 of Bonds redeemed prior to maturity. The Bonds are secured by the gross receipts from a portion of two specific student fees and all monies in funds and accounts held by the trustee bank are available for debt service payments. The University has obtained insurance coverage that covers the debt service fund requirements of the Bonds.

NOTES TO FINANCIAL STATEMENTS--Continued

NORTHEASTERN STATE UNIVERSITY

June 30, 2009

NOTE F--LONG-TERM LIABILITIES--Continued

Revenue Bonds Payable--Continued

*Board of Regents of Oklahoma Colleges Northeastern State University Revenue Bonds Series 2004--Continued*

At June 30, 2009, future aggregate maturities of principal and interest requirements on the Bonds payable are as follows:

	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
Year Ending June 30:			
2010	\$ 420,000	\$ 298,991	\$ 718,991
2011	430,000	288,281	718,281
2012	445,000	276,241	721,241
2013	455,000	262,891	717,891
2014	470,000	248,104	718,104
2015-2019	2,630,000	976,743	3,606,743
2020-2024	<u>3,180,000</u>	<u>414,882</u>	<u>3,594,882</u>
	<u>\$ 8,030,000</u>	<u>\$ 2,766,133</u>	<u>\$ 10,796,133</u>

*Cherokee County Economic Development Authority 2003 Series A tax-exempt and Series B taxable Revenue Bonds*

On December 1, 2003, the Cherokee County Economic Development Authority issued the Series A tax-exempt Revenue Bonds (the tax-exempt Bonds) for \$13,595,000 and Series B taxable Revenue Bonds (the taxable Bonds) for \$600,000 to be used for constructing a student housing facility for the University. The tax-exempt Bonds are due in annual principal installments through December 2034, plus semiannual interest at rates from 3% to 5.25%. The taxable Bonds are due in annual principal installments through December 2007, plus semiannual interest at a rate of 4.10%. The tax-exempt Bonds and the taxable Bonds are secured by the gross receipts from rents. All monies in funds and accounts held by the trustee bank are available for debt service payments. The Facilities Foundation has obtained insurance coverage that covers the debt service fund requirements of the Bonds.

NOTES TO FINANCIAL STATEMENTS--Continued

NORTHEASTERN STATE UNIVERSITY

June 30, 2009

NOTE F--LONG-TERM LIABILITIES--Continued

*Cherokee County Economic Development Authority 2003 Series A tax-exempt and Series B taxable Revenue Bonds--Continued*

At June 30, 2009, future aggregate maturities of principal and interest requirements on the Bonds payable are as follows:

Year Ending June 30:	Principal	Interest	Total
2010	\$ 280,000	\$ 656,538	\$ 936,538
2011	285,000	647,000	932,000
2012	295,000	636,481	931,481
2013	310,000	624,750	934,750
2014	320,000	611,910	931,910
2015-2019	1,830,000	2,822,156	4,652,156
2020-2024	2,315,000	2,322,256	4,637,256
2025-2029	2,970,000	1,644,563	4,614,563
2030-2034	3,830,000	756,787	4,586,787
2035	890,000	23,362	913,362
	\$ 13,325,000	\$ 10,745,803	\$ 24,070,803

Capital Lease Obligations

*Oklahoma Capital Improvement Authority Leases*

In September 1999, the Oklahoma Capital Improvement Authority (OCIA) issued its OCIA Bond Issues, 1999 Series A, B and C. Of the total bond indebtedness, the State Regents for Higher Education allocated \$2,000,000 to the University. Concurrently with the allocation, the University entered into a lease agreement with OCIA, which includes the two projects being funded by the OCIA bonds. The lease agreement provides for the University to make specified monthly payments to OCIA over the terms of the agreements, both of which are for 20 years. The proceeds of the bonds and subsequent leases are to provide for capital improvements at the University.

Through June 30, 2009, the University has drawn down the total of \$2,000,000 for expenditures incurred in connection with specified projects. These expenses have been capitalized as investment in fixed assets in accordance with University policy. The University has recorded a lease obligation payable to OCIA for the total amount of the allotment, less repayments made on the University's behalf during the 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.

NOTES TO FINANCIAL STATEMENTS--Continued

NORTHEASTERN STATE UNIVERSITY

June 30, 2009

NOTE F--LONG-TERM LIABILITIES--Continued

Capital Lease Obligations--Continued

*Oklahoma Capital Improvement Authority Leases--Continued*

During the years ended June 30, 2009 and 2008, OCIA made lease principal and interest payments totaling \$159,195 and \$166,799, respectively, on behalf of the University. These on-behalf payments have been recorded as restricted state appropriations in the University's statements of revenues, expenses and changes in net assets.

In November 2005, the Oklahoma Capital Improvement Authority (OCIA) issued its OCIA Bond Issues, 2005 Series F and G. Of the total bond indebtedness, the Oklahoma State Regents for Higher Education allocated the University \$22,876,760 and \$96,640 for the Series 2005F and 2005G, respectively. Concurrently with the allocation, the University entered into a lease agreement with OCIA for those amounts. The lease agreement provides for the University to make specified monthly payments to OCIA over the terms of the agreements. The proceeds of the bonds and subsequent leases are to provide for capital improvements at the University.

Through June 30, 2009, the University has drawn down \$21,875,023, for expenditures incurred in connection with specified projects. These expenses have been capitalized as investment in fixed assets in accordance with University policy. The University has recorded a lease obligation payable to OCIA for the total amount of the allotment, less repayments made on the University's behalf during the 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.

During the years ended June 30, 2009 and 2008, OCIA made lease principal and interest payments totaling \$1,620,081 and \$1,591,157, respectively, on behalf of the University. These on-behalf payments have been recorded as restricted state appropriations in the University's statements of revenues, expenses and change in net assets.

*Oklahoma Development Finance Authority Master Lease Program*

The Oklahoma Development Finance Authority (ODFA) issued the ODFA Master Lease Revenue Bonds, Series 2003B, 2003C, and 2004A (Bonds) in the University's fiscal year that ended June 30, 2004. The Bonds were issued to fund capital improvements at several state colleges and universities in Oklahoma. ODFA allocated the Bonds' proceeds to colleges and universities in the form of financing leases. Northeastern State University's portion of this allocation was \$1,650,000, \$2,226,000 and \$7,445,000 for the 2003B Bonds, 2003C Bonds and 2004A Bonds, respectively. The University has recorded capital improvements funded by the lease and the resulting capital lease obligation in its statement of net assets.

NOTES TO FINANCIAL STATEMENTS--Continued

NORTHEASTERN STATE UNIVERSITY

June 30, 2009

NOTE F--LONG-TERM LIABILITIES--Continued

Capital Lease Obligations--Continued

*Oklahoma Development Finance Authority Master Lease Program*

The lease agreement calls for monthly payments to ODFA in an amount that equals debt service requirements on the portion of the bonds used to finance the lease. The final payment on the leases are June 18, 2018, December 1, 2013 and June 1, 2024, respectively.

After payment of bond closing costs, the net proceeds were \$10,850,000. Through June 30, 2009, the University has drawn down 10,839,843 for expenditures incurred in connection with specified projects, leaving remaining proceeds of \$10,157, which are a receivable to the University.

At June 30, 2009, trust accounts with balances totaling \$344,796 are included with Investments held by others in the University's statement of net assets. These are amounts held out of the lease proceeds and placed in reserve funds to be held for the University's benefit. These funds will be released to the University at the end of the lease, after being adjusted for any used to repay the lease, accrued interest and administrative fees.

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

	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
Year Ending June 30:			
2010	\$ 1,332,483	\$ 1,425,406	\$ 2,757,889
2011	1,347,950	1,373,087	2,721,037
2012	1,400,976	1,318,741	2,719,717
2013	1,456,213	1,261,190	2,717,403
2014	1,362,054	1,198,093	2,560,147
2015-2019	7,319,398	5,039,879	12,359,277
2020-2024	7,768,848	3,253,385	11,022,233
2025-2029	6,789,350	1,436,084	8,225,434
2030	1,567,239	77,832	1,645,071
	<u>\$ 30,344,511</u>	<u>\$ 16,383,697</u>	<u>\$ 46,728,208</u>

## NOTES TO FINANCIAL STATEMENTS--Continued

### NORTHEASTERN STATE UNIVERSITY

June 30, 2009

#### NOTE F--LONG-TERM LIABILITIES--Continued

##### Unearned Capital Assets

In January 2000, the University entered into a management agreement with an unrelated third party (the "Contractor"). In connection with the agreement, the Contractor agreed to provide the University \$650,000 for equipment and renovation of the University's food service facilities. The equipment and related capital assets are owned by the University; however, if the agreement is terminated prior to completion (10 years), the University must reimburse the Contractor for the unamortized portion of the capital assets, and is amortizing it over the 10 year term of the agreement. The unamortized portion of this unearned capital asset was \$-0- and \$65,949 at June 30, 2009 and 2008, respectively.

#### 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, which is a State of Oklahoma public employees retirement system, the Supplemental Retirement Annuity (SRA), a single employer defined benefit pension plan available to employees hired prior to July 1, 1995, and a defined contribution 403(b) plan. The University does not maintain the accounting records, hold the investments for, or administer these plans.

##### *Oklahoma Teachers' Retirement System (OTRS)*

##### Plan Description

The University contributes to the Oklahoma Teachers' Retirement System (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 116.9, as amended, assigns the authority for management and operations of the Plan to the Board of Trustees of OTRS. OTRS is not required to provide for a cost of living adjustment. 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.

NOTES TO FINANCIAL STATEMENTS--Continued

NORTHEASTERN STATE UNIVERSITY

June 30, 2009

NOTE G--RETIREMENT PLANS--Continued

*Oklahoma Teachers' Retirement System (OTRS)--Continued*

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 fiscal year 2007 and was 7.05% for the first six months of fiscal year 2008. On January 1, 2008 the contribution rate changed to 7.55%. On January 1, 2009 the contribution rate changed to 8.05%. 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 2009, 2008 and 2007, respectively. For compensation in excess of \$25,000, the employee's contributions are paid directly by the University to the OTRS.

The University's contributions to the OTRS for the years ended June 30, 2009, 2008 and 2007, were approximately \$4,760,000, \$4,357,000, and \$4,039,000, respectively, equal to the required contributions for each year. These contributions included the University's statutory contribution and the share of the employee's contribution paid directly by the University.

The State of Oklahoma is also required to contribute to the OTRS on behalf of the participating employers. For 2009 and 2008, the State of Oklahoma contribution 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 the OTRS for the year by the applicable percentage of taxes collected during the year. For the years ended June 30, 2009 and 2008, the total amounts contributed to the OTRS by the State of Oklahoma on behalf of the University were approximately \$2,759,000 and \$2,822,000, respectively. These on behalf payments have been recorded as both revenues and expenses in the statements of revenues, expenses and changes in net assets.

NOTES TO FINANCIAL STATEMENTS--Continued

NORTHEASTERN STATE UNIVERSITY

June 30, 2009

NOTE G--RETIREMENT PLANS--Continued

*Supplemental Retirement Annuity (SRA)*

Plan Description

The University's SRA plan is a single employer, defined benefit pension plan administered by the University's Board of Regents. The SRA was established by the University's Board of Regents to provide supplemental retirement and death benefits to University employees who were hired prior to July 1, 1987, or to those eligible employees' beneficiaries. Effective December 1, 2002, the SRA was amended to provide supplemental retirement and death benefits to University employees who were hired between July 1, 1987 and June 30, 1995. Effective October 1, 2003, the SRA plan was changed to eliminate the TIAA offset in the benefit calculation. The authority to amend the SRA's benefit provisions rests with the University's Board of Regents. The SRA does not issue a stand-alone financial report nor is it included in the financial report of another entity.

Funding Policy

The authority to establish and amend eligible employees' and employer contribution obligations to the SRA rests with the University's Board of Regents. Eligible employees are not required to make contributions to the SRA. The University is required to contribute to the SRA an actuarially determined amount on an annual basis. Under a policy adopted in December 2002, the Plan must achieve 80% funding of the pension benefit obligation by December 1, 2022.

Annual Pension Cost and Net Pension Obligation (Asset)

Annual pension cost and net pension obligation (asset) of the SRA for 2009 and 2008 are as follows:

	2009	2008
Annual required contribution	\$ 677,690	\$ 652,281
Interest on net pension obligation	(235,015)	(230,470)
Adjustment to annual required contribution	299,210	293,424
Annual pension cost	741,885	715,235
Contribution made	(715,235)	(772,041)
Increase (decrease) in net pension obligation	26,650	(56,806)
Net pension obligation at beginning of year	(2,937,685)	(2,880,879)
Net pension obligation (asset) at end of year	\$ (2,911,035)	\$ (2,937,685)

NOTES TO FINANCIAL STATEMENTS--Continued

NORTHEASTERN STATE UNIVERSITY

June 30, 2009

NOTE G--RETIREMENT PLANS--Continued

*Supplemental Retirement Annuity (SRA)--Continued*

Annual Pension Cost and Net Pension Obligation (Asset)--Continued

The annual required contributions for 2009 and 2008 were determined as part of an actuarial valuation on June 30, 2009 and 2008, using the projected unit credit actuarial cost method. The actuarial assumptions included (a) a discount rate of 8% per year to determine the present value of future benefit payments; (b) retirement at age 65; (c) an 8% rate of return on investments; and (d) projected salary increases of 3.5% per year. The value of the SRA assets is based on the TIAA-CREF group annuity account asset value. The unfunded actuarial accrued liability is being amortized over fifteen years as a level dollar amount on a closed basis.

Trend Information

Year Ended June 30	Annual Pension Cost (APC)	Percentage of APC Contributed	Net Pension Obligation (Asset)
2009	\$ 741,885	96.41%	\$ (2,911,035)
2008	\$ 715,255	107.90%	\$ (2,937,685)
2007	\$ 772,041	179.60%	\$ (2,880,879)

Funded Status and Funding Progress

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

	2009	2008
Actuarial accrued liability (AAL)	\$ 12,187,143	\$ 11,705,482
Actuarial value of plan assets	5,561,460	5,817,014
Unfunded actuarial accrued liability (UAAL)	<u>\$ 6,625,683</u>	<u>\$ 5,888,468</u>
Funded ratio (actuarial value of plan assets/AAL)	45.6%	49.7%
Covered payroll (active plan members)	\$ 7,641,581	\$ 9,150,403
UAAL as a percentage of covered payroll	86.7%	64.4%

## NOTES TO FINANCIAL STATEMENTS--Continued

### NORTHEASTERN STATE UNIVERSITY

June 30, 2009

#### NOTE G--RETIREMENT PLANS--Continued

##### *Defined Contribution Plan*

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, 2009, 2008 and 2007.

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

##### 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 University's 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 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, 2009, there were 974 active participants in the plan. The retirement insurance program was adopted by the Board of Regents 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 postemployment healthcare plan, and was 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.

NOTES TO FINANCIAL STATEMENTS--Continued

NORTHEASTERN STATE UNIVERSITY

June 30, 2009

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

Funding Policy

The contribution requirements of the University are established and may be amended by the Regional University System of Oklahoma Board of Regents. 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. The current ARC is \$484,990 and represents 1.3% (percent) of covered payroll.

Annual Cost and Net Obligation (Asset)

Annual OPEB cost and net OPEB obligation (asset) of the plan for 2009 and 2008 are as follows:

	<u>2009</u>	<u>2008</u>
Annual required contribution	\$ 484,990	\$ 584,000
Interest on net OPEB obligation	-	-
Adjustment to annual required contribution	-	-
Annual OPEB cost	<u>484,990</u>	<u>584,000</u>
Contribution made	<u>(582,834)</u>	<u>(880,894)</u>
Decrease (Increase) in net OPEB obligation (asset)	(97,844)	(296,894)
Net OPEB obligation (asset) at beginning of year	<u>(296,894)</u>	-
Net OPEB obligation (asset) at end of year	<u><u>\$ (394,738)</u></u>	<u><u>\$ (296,894)</u></u>

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, 2009 actuarial valuation, the entry age actuarial cost method was used. The actuarial assumptions included a 7.0% investment rate of return and an annual healthcare cost inflationary increase of 9.5%

NOTES TO FINANCIAL STATEMENTS--Continued

NORTHEASTERN STATE UNIVERSITY

June 30, 2009

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

Trend Information

GASB 45 was not implemented until FY 2008; therefore, only two years of trend information is available.

Fiscal Year Ended	Annual OPEB Cost	Annual OPEB Cost Contributed	Net OPEB Obligation (Asset)
2009	\$ 484,990	120%	\$ (394,738)
2008	\$ 584,000	151%	\$ (296,894)

Funded Status and Funding Progress

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

	2009	2008
Actuarial accrued liability (AAL)	\$ 4,105,148	\$ 4,454,000
Actuarial value of plan assets	876,629	584,139
Unfunded actuarial accrued liability (UAAL)	<u>\$ 3,228,519</u>	<u>\$ 3,869,861</u>
Funded ratio (actuarial value of plan assets/AAL)	21.4%	13.1%
Covered payroll (active plan members)	\$ 36,577,901	\$ 35,406,509
UAAL as a percentage of covered payroll	8.8%	10.9%

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.

## NOTES TO FINANCIAL STATEMENTS--Continued

### NORTHEASTERN STATE UNIVERSITY

June 30, 2009

#### 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 Northeastern State University's "New College Fund". The University received approximately \$739,000 and \$675,000 during the years ended June 30, 2009 and 2008, respectively which is restricted to the construction or acquisition of buildings, equipment, or other capital items. These amounts are recorded as state appropriations for capital purposes in the statement of revenues, expenses and changes in net assets. State law prohibits the distribution of any corpus of these funds to the beneficiaries. The total trust reserve for Northeastern State University, held in trust by the commissioners of Land Office, was approximately \$12,374,000 and \$13,931,000 at June 30, 2009 and 2008, 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 amount, plus any retained accumulated earnings, totaled approximately \$1,220,000 and \$1,581,000 at June 30, 2009 and 2008, respectively, and is invested by the Oklahoma State Regents on behalf of the University. The University is entitled to receive an annual distribution of 5% of the market value at year end on these funds. As legal title of the State Regents matching endowment funds is retained by the Oklahoma State Regents, only the funds available for distribution, approximately \$402,000 and \$335,000 at June 30, 2009 and 2008, respectively, have been reflected as assets in the statements of net assets. In connection with the program, private contributions totaling \$873,000 and \$919,000 as of June 30, 2009 and 2008, respectively, are being held by the Northeastern State University Foundation for the benefit of the University. Additional private contributions of approximately \$488,000 and \$631,000 as of June 30, 2009 and 2008, respectively, are included in the financial statements of the University.

#### NOTE J--RELATED PARTY TRANSACTIONS

The University is beneficiary of the Northeastern Oklahoma Public Facilities Authority (the "Authority"), a public trust created under Title 60, Section 176, of the Oklahoma statutes. The University received no amounts for the years ended June 30, 2009 and 2008.

NOTES TO FINANCIAL STATEMENTS--Continued

NORTHEASTERN STATE UNIVERSITY

June 30, 2009

NOTE K--COMMITMENTS AND CONTINGENCIES

The University had outstanding commitments under construction contracts of approximately \$4,880,000 at June 30, 2009.

The University participates in a number of federally assisted grant and contract programs. These programs are subject to financial and compliance audits by the grantor or their representatives. Such audits could lead to requests for reimbursements to the grantor agency for expenditures disallowed under terms of the grant. The amount of expenditures that may be disallowed by the granting agencies cannot be determined at this time, although it is believed by the University that the amount, if any, would not be significant.

The University participants in the Federal Family Education Loan Program (the "FFEL" program), which includes the Federal Stafford Loan Program and Federal Parents Loan for Undergraduate Students programs. The FFEL Program does not require the University to draw down cash; however, the University is required to perform certain administrative functions under the FFEL Program. Failure to perform such functions may require the University to reimburse the loan guarantee agencies. For the years ended June 30, 2009 and 2008, approximately \$34,195,000 and \$32,454,000, respectively, of FFEL Program loans were provided to University students.

During the ordinary course of business, the University may be subjected to various lawsuits and civil action claims. Management believes that resolution of any such matters pending at June 30, 2009, will not have material adverse impact to the University.

NOTE L--RISK MANAGEMENT

The University is exposed to various risks of loss from torts; theft of, damage to, and destruction of assets; business interruptions; 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.

NOTES TO FINANCIAL STATEMENTS--Continued

NORTHEASTERN STATE UNIVERSITY

June 30, 2009

NOTE L--RISK MANAGEMENT--Continued

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

NORTHEASTERN STATE UNIVERSITY

June 30, 2009

NOTE M--SEGMENT INFORMATION

The following financial information represents an identifiable activity for which revenue bonds are outstanding and for which segment information is to be reported, as required by GASB Statement No. 34, as amended. The bonds were issued to construct a student housing facility for the University.

Cherokee County Economic Development Authority Revenue Bonds Series 2003

CONDENSED STATEMENTS OF NET ASSETS

	June 30	
	2009	2008
<b>ASSETS</b>		
Current assets	\$ 2,538,483	\$ 2,661,761
Capital assets, net	9,268,116	9,615,387
Other assets	1,300,131	1,351,284
<b>TOTAL ASSETS</b>	<u>13,106,730</u>	<u>13,628,432</u>
<b>LIABILITIES</b>		
Current liabilities, including current portion of long-term debt	418,377	514,256
Long-term liabilities	13,309,406	13,584,557
<b>TOTAL LIABILITIES</b>	<u>13,727,783</u>	<u>14,098,813</u>
<b>NET ASSETS</b>		
Unrestricted	493,174	550,843
Restricted for debt services	1,176,283	1,211,088
Restricted for capital projects	342,936	267,861
Invested in capital assets, net of debt	(2,633,446)	(2,500,173)
<b>TOTAL NET ASSETS</b>	<u>\$ (621,053)</u>	<u>\$ (470,381)</u>

NOTES TO FINANCIAL STATEMENTS--Continued

NORTHEASTERN STATE UNIVERSITY

June 30, 2009

NOTE M--SEGMENT INFORMATION--Continued

CONDENSED STATEMENTS OF REVENUES, EXPENSES AND CHANGES IN NET ASSETS

	June 30	
	<u>2009</u>	<u>2008</u>
OPERATING INCOME		
Operating Revenues	\$ 1,167,942	\$ 1,664,896
Depreciation expense	(347,271)	(347,271)
Other operating expenses	<u>(353,385)</u>	<u>(355,666)</u>
NET OPERATING INCOME	467,286	961,959
NONOPERATING INCOME (EXPENSES)		
Investment income	51,354	166,343
Interest expense and trustee fee	<u>(669,312)</u>	<u>(680,147)</u>
NET INCOME BEFORE OTHER REVENUES (EXPENSES)	(150,672)	448,155
Transfers	<u>-</u>	<u>-</u>
CHANGE IN NET ASSETS	(150,672)	448,155
NET ASSETS, BEGINNING OF PERIOD	<u>(470,381)</u>	<u>(918,536)</u>
NET ASSETS, END OF PERIOD	<u>\$ (621,053)</u>	<u>\$ (470,381)</u>

CONDENSED STATEMENTS OF CASH FLOWS

	June 30	
	<u>2009</u>	<u>2008</u>
Net cash flows provided by operating activities	\$ 759,354	\$ 1,043,824
Net cash flows used in capital and related financing activities	(935,139)	(995,998)
Net cash flows provided by investing activities	<u>65,513</u>	<u>155,334</u>
NET INCREASE IN CASH	(110,272)	203,160
CASH, BEGINNING OF PERIOD	<u>2,562,243</u>	<u>2,359,083</u>
CASH, END OF PERIOD	<u>\$ 2,451,971</u>	<u>\$ 2,562,243</u>

NOTES TO FINANCIAL STATEMENTS--Continued

NORTHEASTERN STATE UNIVERSITY

June 30, 2009

NOTE N--ACCOUNTING STANDARDS ISSUED NOT YET ADOPTED

In 2007, GASB issued Statement No. 51, *Accounting and Financial Reporting for Intangible Assets*. GASB No. 51 establishes standards of accounting and financial reporting for intangible assets and requires that all intangible assets not specifically excluded by its scope provisions be classified as capital assets. Accordingly, existing authoritative guidance related to the accounting and financial reporting for capital assets should be applied to these intangible assets, as applicable. This Statement also establishes guidance specific to intangible assets related to amortization. The requirements of this Statement are effective for financial statements for periods beginning after June 15, 2009 and generally are required to be applied retroactively. Management has not yet determined the effect this Statement will have on the University's financial condition or results of operations.

In 2008, GASB issued Statement No. 53, *Accounting and Financial Reporting for Derivative Instruments*. GASB No. 53 addresses the recognition, measurement, and disclosure of information regarding derivative instruments entered into by state and local governments. A key provision in this Statement is that derivative instruments covered in its scope, with the exception of synthetic guaranteed investment contracts (SGICs) that are fully benefit-responsive, are reported at fair value. The requirements of this Statement are effective for financial statements for periods beginning after June 15, 2009. Earlier application is encouraged. Management is evaluating the effect this Statement will have on the University's financial condition or results of operations.

NOTE O--NORTHEASTERN STATE UNIVERSITY, FOUNDATION, INC.

NOTE 1--SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Organization and Nature of Activities: The Northeastern State University Foundation, Inc. (the "Foundation") is a not-for-profit corporation organized under the Oklahoma General Corporation Act. The Foundation is formed exclusively for charitable, benevolent, religious, educational, scientific and literary purposes. The Foundation was created and is administered and operated exclusively for the benefit of Northeastern State University, insofar as the same shall be in the aid of charitable, benevolent, religious, educational, scientific and literary purposes, as in the judgment of the board of trustees shall be in furtherance of the public welfare and done to promote the well-being of mankind. All grants, payments and other distributions by the foundation are made at such time and in such manner and amounts as the Board of Trustees in its absolute discretion deem to be proper. The Foundation is exempt from Federal income tax as an organization described in Section 501 (c)(3) of the Internal Revenue Code.

NOTES TO FINANCIAL STATEMENTS--Continued

NORTHEASTERN STATE UNIVERSITY

June 30, 2009

NOTE O--NORTHEASTERN STATE UNIVERSITY, FOUNDATION, INC.--Continued

NOTE 1--SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES--Continued

Organization and Nature of Activities--Continued: The NSU Foundation, Inc. is a component unit of NSU for financial statement reporting purposes only, in accordance with generally accepted accounting principles for not-for-profit organizations. As a 501(c)(3) organization, the NSU Foundation, Inc. is a legally separate entity, governed by an independent volunteer Board of Trustees, dedicated to the support of NSU. Therefore, the NSU Foundation is not otherwise a component unit of NSU.

Basis of Accounting: The consolidated financial statements of the Foundation have been prepared on the accrual basis of accounting and, accordingly, reflect all significant receivables, payables, and other assets and liabilities.

Basis of Presentation: Financial statement presentation follows the recommendations of the Financial Accounting Standards Board in its Statements of Financial Accounting Standards ("SFAS") No. 116, *Accounting for Contributions Received and Contributions Made*, and No. 117, *Financial Statements of Not-for-Profit Organizations*.

Under SFAS No. 116 and No. 117, the Organization is required to report information regarding its financial position and activities according to three classes of net assets as follows:

Unrestricted net assets: Net assets that are not subject to donor-imposed stipulations.

Temporarily restricted net assets: Net assets subject to donor-imposed stipulations that may or will be met, either by actions of the Organization and/or the passage of time. When a restriction expires, temporarily restricted net assets are reclassified to unrestricted net assets.

Permanently restricted net assets: Net assets subject to donor-imposed stipulations that they be maintained permanently by the Organization. The donors of these assets permit the Organization to use all or part of the income earned on any related investments for general or specific purposes.

NOTES TO FINANCIAL STATEMENTS--Continued

NORTHEASTERN STATE UNIVERSITY

June 30, 2009

NOTE O--NORTHEASTERN STATE UNIVERSITY, FOUNDATION, INC.--Continued

NOTE 1--SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES--Continued

Public Support and Revenue: Annual campaign contributions are generally available for unrestricted use in the related campaign year unless specifically restricted by the donor. Unconditional promises to give, if any, are recorded as received. However, as a matter of policy, the governing board considers all pledges as unconditional intentions to give, unenforceable as to collectability in law and by policy. The majority of intentions to give are received from alumni, faculty and people from the community and surrounding counties.

Grants and other contributions of cash and other assets are reported as temporarily restricted support if they are received with donor stipulations that limit the use of the donated assets. When a donor restriction expires, that is, when a stipulated time restriction ends or purpose restriction is accomplished, temporarily restricted net assets are reclassified to unrestricted net assets and reported in the statement of activities as net assets released from restrictions.

Endowment contributions and investments are permanently restricted by the donor. Investment earnings available for distribution are recorded in restricted net assets.

Contributions of donated non-cash assets are recorded at their fair values in the period received. Contributions of donated services that create or enhance non-financial assets or that require specialized skills, are provided by individuals possessing those skills, and would typically need to be purchased if not provided by donation, are recorded at their fair values in the period received.

Fair Value Measurements: On January 1, 2008, the Foundation adopted Statement of Financial Accounting Standards No. 157, *Fair Value Measurements* ("FAS 157") with respect to financial assets and liabilities. FAS 157 defines fair value, establishes a framework for measuring fair value and expands disclosures about fair value measurements. Fair value under SFAS 157 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.

NOTES TO FINANCIAL STATEMENTS--Continued

NORTHEASTERN STATE UNIVERSITY

June 30, 2009

NOTE O--NORTHEASTERN STATE UNIVERSITY, FOUNDATION, INC.--Continued

NOTE 1--SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES--Continued

Fair Value Measurements--Continued: FAS 157 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 and therefore, currently subject to FAS 157 include investments and beneficial interest in assets, if any, held be others (see Note 13).

Estimates: The preparation of financial statements in conformity with U.S. generally accepted accounting principles requires the use of management's estimates.

Cash and Cash Equivalents: The Foundation considers all highly liquid investments with a maturity of three months or less when purchased to be cash equivalents. Cash and cash equivalents for purposes of the statements of cash flows include permanently restricted cash and cash equivalents.

Investments: Investments are composed of stocks, bonds and mutual funds investing in debt and equity securities are carried at fair value.

Depreciation and Amortization: Furniture and equipment, if any, would be depreciated, over estimated useful life of five to ten years using a straight-line years of acquisition and disposal. At December 31, 2008, accumulated depreciation totaled \$0.

NOTES TO FINANCIAL STATEMENTS--Continued

NORTHEASTERN STATE UNIVERSITY

June 30, 2009

NOTE O--NORTHEASTERN STATE UNIVERSITY, FOUNDATION, INC.--Continued

NOTE 2--MARKETABLE SECURITIES

Marketable securities as of December 31, 2008 are summarized as follows:

Permanently Restricted:	<u>Cost</u>	<u>Fair Value</u>	<u>Carrying Value</u>
Pooled Investment Funds	\$ 11,268,680	\$ 9,486,869	\$ 9,486,869

The following schedule summarizes the investment return and its classification in the statement of activities for the year ended December 31, 2008:

	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Permanently Restricted</u>	<u>Total</u>
Interest and dividends	\$ 91,699	\$ 13,675	\$ 142,008	\$ 247,382
Realized gain (loss)	1,278	25,597	(250,673)	(223,798)
Unrealized gain (loss)	-	-	(3,661,796)	(3,661,796)
Total investment return	<u>\$ 92,977</u>	<u>\$ 39,272</u>	<u>\$ (3,770,461)</u>	<u>\$ (3,638,212)</u>

NOTE 3--INVENTORY

The NSU Foundation, Inc. does not maintain an inventory balance.

NOTE 4--FURNITURE

All furniture and fixtures are the property of NSU.

NOTES TO FINANCIAL STATEMENTS--Continued

NORTHEASTERN STATE UNIVERSITY

June 30, 2009

NOTE O--NORTHEASTERN STATE UNIVERSITY, FOUNDATION, INC.--Continued

NOTE 5--TEMPORARILY RESTRICTED NET ASSETS

Temporarily restricted net assets are available for the following purposes:

Temporarily Restricted Net Assets:

	<u>2008</u>
The portion of perpetual endowment funds subject to time restriction under SPMIFA:	
Without purpose restrictions	\$ -
With purpose restrictions:	
Capital Projects	-
Scholarships & Programs	568,787
Endowment Depreciation	<u>(1,911,029)</u>
Total endowment funds classified as temporarily restricted net assets	<u>(1,342,242)</u>
Contributions received with donor restricted purposes:	
Capital Projects	207,288
Scholarships & Programs	<u>1,134,954</u>
Total Contributions held for donor restricted purposes	<u>1,342,242</u>
<b>TOTAL TEMPORARILY RESTRICTED NET ASSETS</b>	<u><u>\$ -</u></u>

Net assets were released from donor restrictions by incurring expenses satisfying the purpose or time restrictions specified by donors as follows:

Purpose or restriction accomplished:	
General Endowment	\$ 9,698
NSU Alumni Association Fund	<u>2,000</u>
Total released	<u><u>\$ 11,698</u></u>

NOTES TO FINANCIAL STATEMENTS--Continued

NORTHEASTERN STATE UNIVERSITY

June 30, 2009

NOTE O--NORTHEASTERN STATE UNIVERSITY, FOUNDATION, INC.--Continued

NOTE 6--PERMANENTLY RESTRICTED NET ASSETS

Net assets were permanently restricted for the following purposes at December 31, 2008:

	<u>2008</u>
The portion of perpetual endowment funds that is required to be retained permanently either by explicit donor stipulation or by SPMIFA:	
Scholarships & Programs	\$ 9,813,975
Capital Projects	<u>75,236</u>
Total endowment funds classified as permanently restricted net assets	<u>9,889,211</u>
Permanently Restricted Net Assets, Non-Cash:	
Cash Surrender Value-Life Insurance	27,376
Land	<u>9,000</u>
Total Permanently Restricted Net Assets, Non-Cash	<u>36,376</u>
TOTAL PERMANENTLY RESTRICTED NET ASSETS	<u>\$ 9,925,587</u>

NOTE 7--DONATED FACILITIES

The Foundation's office space is donated by NSU in the Alumni Center. The space is shared with the Development office at an estimated annual rental FMV of \$8,400.

NOTE 8--EMPLOYEE BENEFIT PLAN

The Foundation staff are employees of NSU and are shared employees of the Development office. Therefore, there is no expense of accrued liability for employee benefit plans.

NOTE 9--DONATED SERVICES

The Foundation receives a significant amount of donated services from unpaid volunteers and shared employees who assist in the office and in fund raising and special projects. Therefore, \$65,100 has been recognized in the statement of activities because the criteria for recognition under SFAS No. 116 has been satisfied.

NOTES TO FINANCIAL STATEMENTS--Continued

NORTHEASTERN STATE UNIVERSITY

June 30, 2009

NOTE O--NORTHEASTERN STATE UNIVERSITY, FOUNDATION, INC.--Continued

NOTE 10--FAIR VALUE OF FINANCIAL INSTRUMENTS

Fair value of financial instruments: The estimated fair value of the Foundation's financial instruments, none of which are for trading purposes, are as follows:

	<u>Carrying amount</u>	<u>Fair Value</u>
Financial assets:		
Cash and cash equivalents	\$ 508,713	\$ 508,713
Investments	-	-
Endowment investments:		
Cash and cash equivalents	26,077	26,077
Investments	9,486,869	9,486,869
Financial liabilities:		
Note payable	-	-

NOTE 11--FUNCTIONAL ALLOCATION OF EXPENSES

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

NOTE 12--ENDOWMENT DISCLOSURES

The NSU Foundation's endowment consists of 207 individual donor-restricted funds which are managed and controlled by the NSU Foundation and were established for scholarships, programs, or capital projects. As required by GAAP, net assets associated with endowment funds are classified and reported based on the existence or absence of donor-imposed restrictions. All of the endowment funds held by the NSU Foundation are managed and controlled by the Organization in accordance with the following policies.

NOTES TO FINANCIAL STATEMENTS--Continued

NORTHEASTERN STATE UNIVERSITY

June 30, 2009

NOTE O--NORTHEASTERN STATE UNIVERSITY, FOUNDATION, INC.--Continued

NOTE 12--ENDOWMENT DISCLOSURES--Continued

**Interpretation of Relevant Law**

The Board of Trustees of the NSU Foundation, Inc. has interpreted the State Prudent Management of Institutional Funds Act ("SPMIFA") as requiring the 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 NSU 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. In accordance with SPMIFA, the NSU Foundation considers the following factors in making a determination to appropriate or accumulate donor-restricted endowment funds.

- (1) The duration and preservation of the fund
- (2) The purposes of the organization and the donor-restricted endowment fund
- (3) General economic conditions
- (4) The possible effect of inflation and deflation
- (5) The expected total return from income and the appreciation of investments
- (6) Other resources of the organization
- (7) The investment policies of the organization

Endowment net asset composition by type of fund as of December 31, 2008:

	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Permanently Restricted</u>	<u>Total</u>
Donor-restricted endowment funds	\$ -	\$ (1,342,242)	\$ 9,889,211	\$ 8,546,969
Board-restricted endowment funds	(691,366)	-	-	(691,366)
Total Funds Invested	<u>\$ (691,366)</u>	<u>\$ (1,342,242)</u>	<u>\$ 9,889,211</u>	<u>\$ 7,855,603</u>

NOTES TO FINANCIAL STATEMENTS--Continued

NORTHEASTERN STATE UNIVERSITY

June 30, 2009

NOTE O--NORTHEASTERN STATE UNIVERSITY, FOUNDATION, INC.--Continued

NOTE 12--ENDOWMENT DISCLOSURES--Continued

Change in endowment net assets for the year ended December 31, 2008:

	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Permanently Restricted</u>	<u>Total</u>
Endowment net assets, beginning of year	\$ -	\$ 1,113,514	\$ 11,230,894	\$ 12,344,408
Investment return:				
Investment income	-	19,479	205,019	224,498
Investment fees	-	(5,805)	(63,010)	(68,815)
Net realized and unrealized loss on investments	-	25,597	(3,912,469)	(3,886,872)
Total investment return	-	39,271	(3,770,460)	(3,731,189)
Contributions	-	13,578	424,613	438,191
Appropriation of endowment assets for expenditure	-	-	(1,195,807)	(1,195,807)
Transfer to move investment appreciation (depreciation)	(1,295,429)	(2,143,034)	3,438,463	-
Transfer to remove board- designated endowment funds	604,063	(365,571)	(238,492)	-
Endowment net assets, end of year	<u>\$ (691,366)</u>	<u>\$ (1,342,242)</u>	<u>\$ 9,889,211</u>	<u>\$ 7,855,603</u>

**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 SPMIFA requires the NSU Foundation to retain as a fund of perpetual duration. In accordance with GAAP, deficiencies of this nature that are reported in unrestricted net assets were \$1,295,430 and at December 31, 2008. These deficiencies resulted from unfavorable market fluctuations.

NOTES TO FINANCIAL STATEMENTS--Continued

NORTHEASTERN STATE UNIVERSITY

June 30, 2009

NOTE O--NORTHEASTERN STATE UNIVERSITY, FOUNDATION, INC.--Continued

NOTE 12--ENDOWMENT DISCLOSURES--Continued

**Return Objectives and Risk Parameters**

Investments of the Fund shall be made for the sole interest and exclusive purpose of helping meet the funding needs of the Foundation and Northeastern State University. The Fund's assets must be invested with the care, skill, and diligence then prevailing which people of prudence, discretion and intelligence exercise in the management of their own affairs, not in regard to speculation, but in regard to the permanent disposition of their own funds, considering the probably safety of capital.

The Fund's Investment Objective is "Income with Growth." The intent of the objective is to provide current income to help fund the activities of the Foundation and the University and to provide reasonable growth, in comparison to overall industry performance, in Fund assets to offset inflation and help insure the long-term success of the Foundation.

**Strategies Employed for Achieving Objectives**

Performance Expectations

Investment performance shall be judged over a three to five year time horizon, using the following benchmarks:

Equity Performance: The goal for equity investment performance shall be to exceed the Standard and Poor's 500 Common Stock Index over a three to five year period.

Fixed-Income Performance: The goal for fixed income investment performance shall be to exceed the Shearson/Lehman Intermediate Government/Corporate Bond Index over a three to five year period.

Total Return Performance:

1. Peer Comparison: The comparative goal for total fund performance is to rank in the top fifty percent (50%) of managers in a balanced fund universe.
2. Net Return: The actual return goal for total fund performance is a five percent (5%) real rate of return (after inflation).

NOTES TO FINANCIAL STATEMENTS--Continued

NORTHEASTERN STATE UNIVERSITY

June 30, 2009

NOTE O--NORTHEASTERN STATE UNIVERSITY, FOUNDATION, INC.--Continued

NOTE 12--ENDOWMENT DISCLOSURES--Continued

The Investment Committee recognizes that its desire to take relatively low risk posture may result in lower relative performance versus a balanced universe in years when stock and bond prices rise rapidly and in superior relative performance during periods of falling stock and bond prices. Consistency of investment return over time shall be more important than short term earnings.

The Board expects the Fund's asset allocation policy to reflect and be consistent with the investment objectives and risk tolerance expressed throughout this Statement. It shall be the intent of the Board in designing this policy to provide the highest probability of meeting or exceeding the Fund's return objectives while exposing the Fund's assets to the least possible risk. The following guidelines shall be used by the Manager(s) in determining the allocation of assets in the Portfolio:

The equity investments portion of the portfolio shall normally constitute a minimum of 50% and a maximum of 70% of total endowment assets. The fixed income portion (including, but not limited to, bonds, government and corporate backed, treasury bills, certificates of deposit, preferred and convertible stocks and cash equivalents) shall normally constitute a minimum of 30% and a maximum of 50% of total endowment assets.

**Spending Policy and How the Investment Objectives Relate to Spending Policy**

NSU Foundation, Inc. shall make available to be spent in each fiscal year 5% of the average of three market values of its total endowment—the value six months before the beginning of the fiscal year, the value 18 months before the beginning of the year, and the value 30 months before the beginning of the year. Individual endowments must have been placed with the NSU Foundation at least six months before the beginning of the fiscal year to be eligible to participate for that fiscal year. Eligible individual endowments shall share in the amount available to be spent on a pro rata basis.

NOTES TO FINANCIAL STATEMENTS--Continued

NORTHEASTERN STATE UNIVERSITY

June 30, 2009

NOTE O--NORTHEASTERN STATE UNIVERSITY, FOUNDATION, INC.--Continued

NOTE 13--FAIR VALUE MEASUREMENTS

The Organization has no liabilities measured at fair value on a recurring basis. Assets measured at fair value on a recurring basis are classified within the fair value hierarchy as follows:

	As of December 31, 2008			
	Level 1	Level 2	Level 3	Total
ASSETS				
Investments	9,155,258	331,612	-	9,486,870
Total assets accounted for at fair value	<u>\$9,155,258</u>	<u>\$ 331,612</u>	<u>\$ -</u>	<u>\$9,486,870</u>

Following is a description of methodologies used for instruments measured at fair value on a recurring basis:

*Investments:* When quoted prices are available in an active market, securities are classified within Level 1 of the hierarchy. Investments classified as Level 1 include cash and cash equivalents, common and preferred stocks, and mutual funds. Other investments, such as government agency, corporate bonds, and municipal securities are classified within Level 2 of the hierarchy and are independently valued by nationally recognized, third-party pricing services, and provided by the investment manager to the Organization. Certificates of deposit values are based on yield curves, interest rates, and other relevant factors. If there is no market for a similar asset, the Foundation classifies such investments as Level 3.

REQUIRED SUPPLEMENTARY INFORMATION--UNAUDITED

NORTHEASTERN STATE UNIVERSITY

June 30, 2009

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

Actuarial Valuation Date	Actuarial Value of Assets (a)	Actuarial Accrued Liability (AAL) (b)	Unfunded AAL (UAAL) (b-a)	Funded Ratio (a/b)	Covered Payroll (c)	UAAL as a percentage of Covered Payroll (b-a)/(c)
6/30/2007	\$ 5,581,829	\$ 10,863,502	\$ 5,281,673	51.4%	\$ 8,796,230	60.0%
6/30/2008	\$ 5,817,014	\$ 11,705,482	\$ 5,888,468	49.7%	\$ 9,150,403	64.4%
6/30/2009	\$ 5,561,460	\$ 12,187,143	\$ 6,625,683	45.6%	\$ 7,641,581	86.7%

**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	\$ 584,139	\$ 4,454,000	\$ 3,869,861	13.1%	\$ 35,406,509	10.9%
6/30/2009	\$ 876,629	\$ 4,105,148	\$ 3,228,519	21.4%	\$ 36,577,901	8.8%

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

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  
Northeastern State University  
Oklahoma City, Oklahoma

We have audited the financial statements of Northeastern State University (the "University"), a component unit of the State of Oklahoma, as of and for the year ended June 30, 2009, and have issued our report thereon dated October 28, 2009. Our report was modified to include a reference to other auditors. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States. Other auditors audited the financial statements of the Northeastern State University Foundation, Inc. (the "University Foundation"), the University's discretely presented component unit, as described in our report on the University's financial statements. The financial statements of the University Foundation were not audited accordance with *Government Auditing Standards*.

Internal Control Over Financial Reporting

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

A control deficiency exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect misstatements on a timely basis. A significant deficiency is a control deficiency, or combination of control deficiencies, that adversely affects the University's ability to initiate, authorize, record, process, or report financial data reliably in accordance with generally accepted accounting principles such that there is more than a remote likelihood that a misstatement of the University's financial statements that is more than inconsequential will not be prevented or detected by the University's internal control.

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

Our consideration of internal control over financial reporting was for the limited purpose described in the first paragraph of this section and would not necessarily identify all deficiencies in internal control that might be significant deficiencies or material weaknesses. 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 misstatement, we performed tests of compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our test disclosed no instances of non-compliance and other matters that are required to be reported under *Government Auditing Standards*.

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

Cole & Reed P.C.

Oklahoma City, Oklahoma  
October 28, 2009

Independent Auditors' Report on Compliance with Requirements Applicable to  
Each Major Program and 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  
Northeastern State University  
Oklahoma City, Oklahoma

Compliance

We have audited the compliance of Northeastern State University (the "University") with the types of compliance requirements described in the U.S. Office of Management and Budget (OMB) Circular A-133 Compliance Supplement that are applicable to each of its major federal programs for the year ended June 30, 2009. The University's major federal programs are identified in the summary of auditors' results section of the accompanying schedule of findings and questioned costs. Compliance with the requirements of laws, regulations, contracts, and grants applicable to each of its major federal programs is the responsibility of the University's management. Our responsibility is to express an opinion on the University's compliance based on our audit.

We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America, the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States and OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. Those standards and OMB Circular A-133 require that we plan and perform the audit to obtain reasonable assurance about whether 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, Northeastern 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, 2009.

## Internal Control Over Compliance

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

A control deficiency in an entity's internal control over compliance exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect noncompliance with a type of compliance requirement of a federal program on a timely basis. A significant deficiency is a control deficiency, or combination of control deficiencies, that adversely affects the entity's ability to administer a federal program such that there is more than a remote likelihood that noncompliance with a type of compliance requirement of a federal program that is more than inconsequential will not be prevented or detected by the entity's internal control.

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

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

## 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, 2009, and have issued our report thereon dated October 28, 2009. 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, 2009

SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS

NORTHEASTERN STATE UNIVERSITY

Year Ended June 30, 2009

Federal Grantor/Pass-Through Grantor/Program Title	CFDA Number	Pass-Through Entity Identification Number	Amount Expended
Student financial aid cluster			
U.S. Department of Education			
Federal Pell Grant Program	84.063	N/A	\$ 11,450,690
Federal Supplemental Education Opportunity Grants	84.007	N/A	329,877
Teach Grant	84.379	N/A	206,501
Federal Work Study Program	84.033	N/A	592,237
Federal Family Education Loans	84.032	N/A	34,194,593
Federal Perkins Loan Program	84.038	N/A	819,141
Academic Competitive Grant	84.375	N/A	194,412
Smart Grant	84.376	N/A	151,790
U.S. Department of Health and Human Services			
Disadvantage Student Scholar	93.925	N/A	16,333
Total student financial aid cluster			<u>47,955,574</u>
U.S. Department of Education			
TRIO program cluster			
Talent Search	84.044	N/A	218,710
Student Support Services	84.042	N/A	276,344
Total TRIO program cluster			<u>495,054</u>
National Science Foundation			
Research Day at the Capital	47.080	N/A	3,704
Alliance for Minority Participation	47.076	N/A	33,062
S-STEM for Undergraduates in Math and Science	47.076	N/A	47,813
Sure Step	47.076		945
Development Inquiry - Based Instr Skill	47.076	N/A	46,528
Total National Science Foundation			<u>132,052</u>
Small Business Administration			
Small Business Development Center	59.307	N/A	236,943
Other Federal Programs			
U.S. Department of the Interior			
American Burying Beetle	15.608	N/A	47,429
Beetle Reproductive Monitoring	15.615	N/A	44,242
U.S. Department of Justice			
Anti-gang Initiative	16.744	N/A	-
RUSO Violence Prevention Program	16.525	N/A	48,604
U.S. Department of Agriculture			
Multicultural Scholars Program	10.220	N/A	-
U.S. Department of Defense			
Stream Fish Assessment	15.608	N/A	38,698
U.S. Department of Health and Human Services -			
National Institute for Health			
Inbre Mini Grant	93.389	N/A	91,841
Inbre Summer Research Program	93.389	N/A	3,432
Inbre-Mycobacterium	93.389	N/A	99,968
Jr Investigator Iron Bind	93.389	N/A	3,002
National Endowment of the Arts			
Mid America Arts Alliance	45.025	N/A	12,815
National Endowment for the Humanities			
Oklahoma Humanities Council	45.129	N/A	2,204
Total Expenditures of Federal Awards			<u>\$ 49,211,858</u>

See notes to schedule of expenditures of federal awards.

## NOTES TO SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS

### NORTHEASTERN STATE UNIVERSITY

June 30, 2009

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

The schedule of expenditures of federal awards include the federal awards activity of Northeastern State University and is presented on the accrual basis of accounting. The information in this schedule is presented in accordance with the requirements of OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. Therefore, some amounts presented in the schedule may differ from amounts presented in, or used in the preparation of, the basic financial statements.

#### NOTE B--FEDERAL FAMILY EDUCATION LOAN

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

#### NOTE C--LOANS OUTSTANDING

The University has \$6,850,088 in Federal Perkins loans outstanding at June 30, 2009. These loan balances outstanding are not included as federal expenditures in the schedule of expenditures of federal awards. During the year ended June 30, 2009, the University issued Perkins loans totaling \$819,141.

#### NOTE D--SUB-RECIPIENTS

During the year ended June 30, 2009, the University did not provide any federal awards to subrecipients.

SCHEDULE OF FINDINGS AND QUESTIONED COSTS

NORTHEASTERN STATE UNIVERSITY

June 30, 2009

**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</u>	<u>CFDA Number</u>
Student Financial Aid Cluster	*

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

Dollar threshold used to distinguish between type A and type B programs: \$1,476,356

Auditee qualified as low-risk auditee?  yes  no

SCHEDULE OF FINDINGS AND QUESTIONED COSTS--Continued

NORTHEASTERN STATE UNIVERSITY

June 30, 2009

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

None to report for the June 30, 2009 period.

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

None to report for the June 30, 2009 period.

SUMMARY SCHEDULE OF PRIOR AUDIT FINDINGS

NORTHEASTERN STATE UNIVERSITY

June 30, 2009

No matters were reportable.