

NORTHEASTERN STATE UNIVERSITY

June 30, 2011

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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 statements of net assets of Northeastern State University (the "University"), a component unit of the State of Oklahoma, as of and for the years ended June 30, 2011 and 2010, and the related statements of revenues, expenses and changes in net assets and cash flows for the years then ended. These financial statements are the responsibility of the University's management. Our responsibility is to express an opinion on these financial statements based on our audits. We 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 other auditors, whose report thereon has been furnished to us, and our opinion, insofar as it relates to the amounts included for the Foundation, is based solely on the report of the other auditor.

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

In our opinion, based on our audits and the report of the other auditor, the financial statements referred to above present fairly, in all material respects, the respective financial position of Northeastern State University and its discretely presented component unit, Northeastern State University Foundation, Inc., as of June 30, 2011 and 2010, 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 31, 2011, 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, as listed in the Table of Contents, 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 31, 2011

Management's Discussion and Analysis (Unaudited)
Northeastern State University
June 30, 2011

Introductory Synopsis

As the slow economic recovery of the global recession continued during fiscal year 2011, Northeastern State University (the "University") continued to leverage resources to improve programming, develop leadership opportunities, create learning opportunities and encourage creativity and critical thinking.

Use of technology to meet campus needs was emphasized during 2011. A program providing iPads to students in developmental math and writing courses was started to encourage creativity and learning. Opportunities for faculty and staff to collaborate, communicate, and develop were provided through enhanced Blackboard functionality. Administratively, the campus worked toward implementation of a campuswide ERP software solution that provides online enrollment, personal access to student financial account information, course management, faculty rosters and grades, and much greater flexibility for students, faculty and staff.

Significant capital projects included completion of renovation of the Fine Arts Building and construction of the Second Century Plaza on the Tahlequah campus, construction of a fitness trail on the Broken Arrow campus, and renovation of the Muskogee campus to facilitate Connors State College offering courses on that campus. Work was started on building and equipping a new server room to support the institution's technology infrastructure, on redesigning the drive and parking area central to the Tahlequah campus, and on construction of the Wadley Reading Lab in Bagley Hall.



Overview of Financial Statements and Financial Analysis

The financial statements of Northeastern State University are presented for the fiscal year ended June 30, 2011, with comparative data from 2010. 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 University foundation are included in this presentation under the heading *Component Unit*. Financial analysis data is presented within this discussion for fiscal years 2009 through 2011.

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. These financial statements are prepared in accordance with Governmental Accounting Standards Board (GASB) principles and focus on the University as a whole.

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. 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. Unrestricted assets are available to the University for any lawful purpose.

Statement of Net Assets

(Thousands of Dollars)

	2011	June 30 2010	2009
Assets:			
Current assets	51,794	52,922	43,777
Capital assets, net	149,842	147,094	148,522
Other assets	32,218	31,780	34,412
Total Assets	233,854	231,796	226,711
Liabilities:			
Current liabilities	8,265	8,791	8,554
Noncurrent liabilities	63,368	63,375	62,658
Total Liabilities	71,633	72,166	71,212
Net Assets:			
Invested in capital assets, net of debt	96,238	94,681	93,880
Restricted, expendable	26,711	24,069	29,556
Unrestricted	39,272	40,880	32,063
Total Net Assets	162,221	159,630	155,499

Total assets of the University increased \$2.0 million during fiscal year 2011 and \$5.1 million during fiscal year 2010, for a combined increase over the two year period of \$7.1 million.

Current assets decreased \$1.1 million during fiscal year 2011 and increased \$9.1 million during fiscal year 2010. This is a net increase of \$8.0 million over the two year period. Almost all of this increase is attributable to unrestricted cash on hand, which increased \$10.3 million during fiscal year 2010 as a result of an intentional effort to conserve resources to address economic difficulties anticipated as a result of the ongoing recession, the anticipated loss of funding from decreased appropriations from the state, and the loss of ARRA federal funds expected in fiscal years 2011 and 2012. As expected, these economic factors led to a reduction in unrestricted cash on hand during fiscal year 2011 of \$1.7 million. The net increase in unrestricted cash on hand for the two year period is \$8.6 million. Further reductions in this reserve are anticipated for fiscal year 2012.

Other assets decreased \$2.6 million during fiscal year 2010 and increased \$.4 million during fiscal year 2011, for a two year reduction in other assets of \$2.2 million. This is primarily due to depletion of funds available to the University through the Oklahoma Capital Improvement Authority (OCIA) bond funds allocated to the University by the Oklahoma State Regents for Higher Education, which had been recorded as an amount receivable to the University.



Capital assets are reflected net of depreciation. Net capital assets decreased \$1.4 million during fiscal year 2010, and increased \$2.8 million during fiscal year 2011, for a net increase of \$1.4 million over the two year period. The chart below provides further information. Significant capital projects funded during fiscal year 2011 included completion of renovations to the Fine Arts building, construction of the Second Century Plaza, implementation of a campus wide software system, and a new server room and equipment to support the institution’s technology structure.

Capital Assets	2011	2010
Additions: Buildings	\$5.3 million	\$3.1 million
Construction in Progress	\$.6 million	\$2.4 million
Equipment	\$6.6 million	\$1.3 million
Land and Infrastructure	\$.2 million	\$.0 million
Library Materials	\$.6 million	\$.7 million
Deduction: Depreciation	(\$10.5 million)	(\$8.9 million)
Net Fiscal Year Change	\$2.8 million	(\$1.4 million)

Liabilities include both current liabilities such as accounts payable and noncurrent liabilities, such as bond and lease obligations. Total liabilities increased \$1 million during fiscal year 2010 as the University incurred additional indebtedness to fund the purchase of enterprise wide operating software. During the 2011 fiscal year, total liabilities decreased \$.5 million as bonded indebtedness was reduced \$1 million and lease obligations increased. The net increase for the two year period was \$.5 million.

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. Public institutions will normally not have an excess of operating revenues over operating expenses as state appropriations are considered non-operating revenues under generally accepted accounting principles.

Statement of Revenues, Expenses, and Changes in Net Assets

(Thousands of Dollars)

	Fiscal Year Ended June 30		
	2011	2010	2009
Operating revenues	41,997	38,918	43,880
Employee compensation and benefits	(64,996)	(61,141)	(60,611)
Depreciation expense	(10,491)	(8,858)	(8,524)
Other operating expense	(32,584)	(32,337)	(32,821)
Operating Income (Loss)	(66,074)	(63,418)	(58,076)
Federal, state and local grants	24,909	22,629	17,333
State appropriations	37,121	37,013	39,983
State appropriations ARRA funds	2,593	2,983	0
On behalf payments, gifts, investments and interest exp.	2,262	1,364	1,717
Capital gifts	180	339	497
State appropriations for capital purposes	1,600	3,221	2,996
Change in Net Assets	2,591	4,131	4,450
Net Assets, beginning of year	159,630	155,499	151,049
Net Assets, end of year	162,221	159,630	155,499

Operating revenue includes tuition and fees, state and federal grants and contracts, and revenue generated by auxiliary units. Total operating revenue decreased \$5 million in fiscal year 2010, then



increased \$3.1 million in fiscal year 2011, resulting in a net decrease of \$1.9 million for the two year period. The largest portion of the decrease in 2010 is a result of outsourcing the University Bookstore. The increase in operating revenue in 2011 is primarily the result of an increase in tuition and fee rates which generated an additional \$1.7 million, and award of additional non-student aid related grants of \$.6 million.

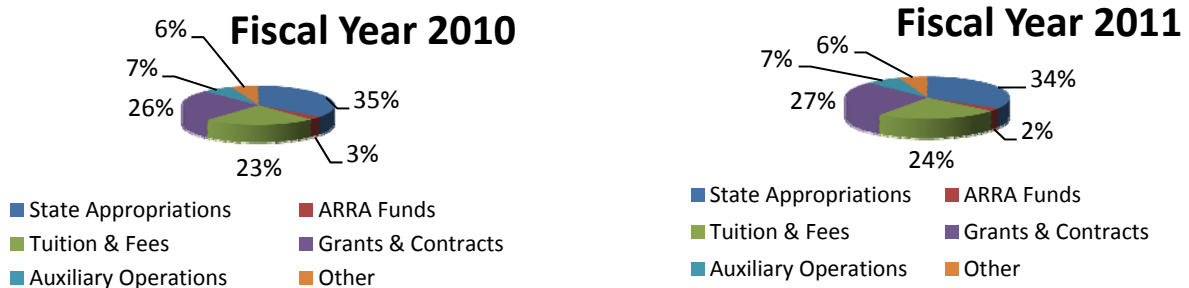
Operating expenses include employee compensation, student scholarships, depreciation, and other necessary supplies and service expenses. While there were no across the board increases in employee compensation during either fiscal year, employee stipends were distributed and benefit costs increased. This resulted in an increase in compensation expenses for fiscal year 2010 of \$.5 million. During 2011

employee compensation expenses rose \$3.8 million as a number of empty faculty and staff positions were filled to meet increased enrollment demands. During this same two year period, other operating expenses for necessary supplies and service expenses dropped \$.2 million. This is attributable to a concerted effort to control and reduce expenses during an economic period of inflation.

Between 2009 and 2011 total operating revenues of the University decreased \$1.9 million. Revenue from the state through appropriations and ARRA funding decreased \$1.7 million. Operating expenses of the University increased \$6.1 million. Federal, state and local grant awards, which increased \$7.6 million, offset a significant portion of this budgetary stress. Much of this increase in grant revenue was generated by changes in the PELL grant program.

Fiscal year 2011 is the last year the state will have ARRA funds to supplement their appropriation to the University. ARRA funds provided \$2.6 million in 2011 and almost \$3 million in 2010, for a total of \$5.6 million.

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



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		
	2011	2010	2009
Cash provided (used) by			
Operating activities	(52,748)	(51,010)	(47,655)
Noncapital financing activities	65,365	63,165	57,851
Investing activities	855	1,090	1,195
Capital and related financing activities	(15,077)	(2,379)	(9,380)
Net Change in Cash	(1,605)	10,866	2,011
Cash, beginning of year	64,949	54,083	52,072
Cash, end of year	63,344	64,949	54,083

The net cash balance increased \$10.8 million during fiscal year 2010 and decreased \$1.6 million during 2011. During fiscal year 2010, NSU decreased expenditures on capital assets by \$2.9 million in an intentional effort to conserve resources for the future. Also during 2010, \$3 million in capital asset funds were generated through additional debt to be used for the purchase of the SunGard Banner software system in fiscal year 2011. During 2010 non-operating grants, such as PELL Grants and OHLAP increased \$5.2 million.

Component Units

The University has determined that the Cherokee County Educational Facilities Foundation Incorporated (CCEFFI) and its single-member limited liability company, the NSU Student Housing LLC, meet the criteria for inclusion in these financial statements as a blended component unit. The inclusion of information related to these entities does not mean that the University has access to the resources of these entities.

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

Economic Outlook

Appropriations from the state for 2010 and 2011 were held constant only through use of federal economic stimulus funds. Federal stimulus funds are no longer available to offset anticipated state funding shortfalls. Oklahoma's revenue during the early months of fiscal year 2012 has met or exceeded budgeted levels and is strengthening. However, the state economy is not expected to recover to pre-2009 levels in the near future. As a result, the University is not anticipating an increase in state appropriations for fiscal year 2013.



As economic conditions in the state start to improve, enrollment growth begins to weaken. The growth experienced in 2009 and 2010 by the University has slowed. The Fall 2011 full time equivalency enrollment numbers reflect a decline in enrollment when compared to Fall 2010 of 3.1%, or 233 FTE. However, implementation of new programs designed to attract non-traditional, international, and degree completion students added to initiatives to increase retention rates are expected to increase enrollment quickly.

Like other universities in the region, the University has attempted to keep tuition rates as low as possible. There was no increase in tuition during fiscal year 2010. Tuition rates increased 4% for fiscal year 2011, and 4.7% for fiscal year 2012. The University will continue to work to keep tuition rates low, however without additional revenue from state appropriations, increases may be required to offset inflation and other expense requirements.

Despite the economic climate, the University is soundly committed to learning, leading and serving. The University continues to develop collaborative, non-traditional opportunities to provide access to higher education. Creation of the College of Extended Learning was approved for the Broken Arrow campus for implementation during the Fall 2011 semester. The College of Extended Learning provides full time working adults the opportunity to complete their degrees through accelerated, hybrid course offerings. The number of courses and programs available to students through this program is small, but is expected to grow rapidly.

Work continues to extend access to University courses beyond the reaches of northeastern Oklahoma through expansion of the University's international programs and through efforts to develop other collaborative opportunities. New agreements with international entities to locate language immersion programs on the University's campuses are in place.

The University's financial position is still strong. Conservative financial decisions which increased cash reserves in anticipation of the immediate pressures of reduced state appropriations and a slow economic recovery have provided the resources to weather the current storm. The University will continue efforts to reduce costs and increase operating revenues to protect and grow critical academic programming. Through leadership and vision, University leaders will continue to encourage the University team to internally and externally collaborate to change lives, improve communities, and empower students to be socially responsible, global citizens. The University is dedicated to meeting the challenge of change by leading.



STATEMENTS OF NET ASSETS

NORTHEASTERN STATE UNIVERSITY

	University		Component Unit	
	June 30,		June 30,	
	2011	2010	2011	2010
ASSETS				
CURRENT ASSETS				
Cash and cash equivalents	\$ 38,797,480	\$ 40,481,029	\$ 416,350	\$ 1,042,061
Restricted cash and cash equivalents	4,852,239	4,853,875	-	-
Investments	1,904,243	1,964,020	14,614,646	11,970,478
Accounts receivable, net	4,151,016	3,704,569	-	767
Receivable from state agencies	455,397	465,244	-	-
Interest receivable	648,920	615,923	6,540	6,651
Inventories and other current assets	284,530	277,625	54,208	50,881
Current portion of notes receivable, net	700,000	560,000	-	-
TOTAL CURRENT ASSETS	51,793,825	52,922,285	15,091,744	13,070,838
NONCURRENT ASSETS				
Restricted cash and cash equivalents	19,694,352	19,614,830	-	-
Investments held by others	1,200,377	1,203,275	-	-
Receivable from state agencies	-	73,578	-	-
Notes receivable, net	4,749,000	5,595,164	-	-
Deferred charge on OCIA lease restructure	1,147,264	-	-	-
Prepaid pension asset	3,909,272	3,676,622	-	-
Other assets	1,517,723	1,616,795	-	-
Capital assets, net	149,841,886	147,094,146	121,703	121,703
TOTAL NONCURRENT ASSETS	182,059,874	178,874,410	121,703	121,703
TOTAL ASSETS	\$ 233,853,699	\$ 231,796,695	\$ 15,213,447	\$ 13,192,541
LIABILITIES				
CURRENT LIABILITIES				
Accounts payable	\$ 1,803,524	\$ 2,082,121	\$ 200	\$ 305
Accrued payroll	358,000	452,079	-	-
Accrued interest	188,180	142,650	-	-
Deferred revenue	2,364,324	2,152,388	-	-
Deposits held in custody for others	223,372	243,389	-	-
Current portion of noncurrent liabilities	3,328,101	3,718,437	13,495	12,915
TOTAL CURRENT LIABILITIES	8,265,501	8,791,064	13,695	13,220
NONCURRENT LIABILITIES				
Accrued compensated absences	1,291,458	1,195,001	-	-
Other liabilities	-	-	29,762	33,099
Federal loan program contributions refundable	7,779,000	7,653,000	-	-
Unearned capital assets	400,000	450,000	-	-
Bonds payable	22,246,395	23,251,544	-	-
Lease obligation payable to state agency	31,650,831	30,825,390	-	-
TOTAL NONCURRENT LIABILITIES	63,367,684	63,374,935	29,762	33,099
TOTAL LIABILITIES	71,633,185	72,165,999	43,457	46,319
NET ASSETS				
Invested in capital assets, net of debt	96,237,920	94,681,322	-	-
Restricted				
Nonexpendable, primarily for Scholarships	-	-	11,029,566	10,683,560
Expendable				
Scholarships, instruction and other	6,661,265	6,527,909	2,632,847	1,527,875
Loans	732,623	730,364	-	-
Capital projects	10,949,269	6,194,838	-	-
Debt service	8,367,697	10,615,873	-	-
Unrestricted	39,271,740	40,880,390	1,507,577	934,787
TOTAL NET ASSETS	\$ 162,220,514	\$ 159,630,696	\$ 15,169,990	\$ 13,146,222

See notes to financial statements.

STATEMENTS OF REVENUES, EXPENSES AND CHANGES IN NET ASSETS

NORTHEASTERN STATE UNIVERSITY

	University		Component Unit	
	Year Ended June 30, 2011	2010	Year Ended June 30, 2011	2010
OPERATING REVENUES				
Student tuition and fees, net of scholarship discounts and allowances of \$15,486,000 and \$13,303,000 (revenues of \$1,398,000 in 2011 and \$1,362,000 in 2010 are pledged as security on University Center Series 1996 revenue bonds, revenues of \$1,896,000 in 2011 and \$1,847,000 in 2010 are pledged as security on Science Building Series 2004 revenue bonds)	\$ 26,605,740	\$ 24,925,653	\$ -	\$ -
Federal and state grants and contracts	5,433,204	4,796,007	-	-
Bookstore operations, net of scholarship discounts and allowances of \$0 and \$5,000	-	10,061	-	-
Housing and food service, net of scholarship discounts and allowances of \$1,699,000 and \$1,207,000	4,066,534	3,780,098	-	-
Optometry contracts and practice plan	3,636,605	3,255,030	-	-
Interest earned on loans to students	123,296	131,671	-	-
Other operating revenues	2,131,346	2,019,856	41,672	39,212
TOTAL OPERATING REVENUES	41,996,725	38,918,376	41,672	39,212
OPERATING EXPENSES				
Compensation	64,995,821	61,141,660	-	-
Contractual services	5,224,368	5,930,730	-	-
Supplies and materials	4,474,039	4,066,450	-	-
Depreciation	10,491,196	8,857,917	-	-
Utilities	3,560,910	3,321,840	-	-
Communication expense	465,080	577,743	-	-
Scholarships and fellowships	14,309,290	14,439,360	1,114,685	1,113,706
Other operating expenses	4,549,885	4,000,883	223,745	199,934
TOTAL OPERATING EXPENSES	108,070,589	102,336,583	1,338,430	1,313,640
Operating loss	(66,073,864)	(63,418,207)	(1,296,758)	(1,274,428)
NONOPERATING REVENUES (EXPENSES)				
Federal and state grants and contracts	24,908,588	22,628,666	-	-
State appropriations	37,121,286	37,013,412	-	-
State payments from federal ARRA revenues	2,593,189	2,983,391	-	-
On-behalf contributions for OTRS	2,614,050	2,259,693	-	-
Gifts and contributions	741,580	539,263	1,691,932	2,048,545
Investment income	772,107	1,130,592	1,628,594	2,455,606
Interest expense	(1,866,750)	(2,565,311)	-	-
NET NONOPERATING REVENUES	66,884,050	63,989,706	3,320,526	4,504,151
Income before other revenues, expenses, gains and losses	810,186	571,499	2,023,768	3,229,723
Capital grants and gifts	179,663	339,340	-	-
State appropriations restricted for capital purposes	1,599,969	3,220,777	-	-
Change in net assets	2,589,818	4,131,616	2,023,768	3,229,723
NET ASSETS, BEGINNING OF YEAR	159,630,696	155,499,080	13,146,222	9,916,499
NET ASSETS, END OF YEAR	\$ 162,220,514	\$ 159,630,696	\$ 15,169,990	\$ 13,146,222

See notes to financial statements.

STATEMENTS OF CASH FLOWS

NORTHEASTERN STATE UNIVERSITY

	Year Ended June 30,	
	<u>2011</u>	<u>2010</u>
CASH FLOWS FROM OPERATING ACTIVITIES		
Tuition and fees	\$ 25,941,693	\$ 25,136,863
Grants and contracts	5,289,848	4,957,446
Other operating receipts	10,487,456	10,216,856
Payments to employees for salaries and benefits	(62,453,251)	(59,337,476)
Payments to suppliers	(32,715,650)	(32,446,859)
Loans made to students	(260,306)	(375,115)
Collection of student loans	962,570	838,674
NET CASH USED IN OPERATING ACTIVITIES	<u>(52,747,640)</u>	<u>(51,009,611)</u>
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES		
State appropriations	37,121,286	37,013,412
State payments from federal ARRA revenues	2,593,189	2,983,391
Nonoperating grants, primarily student financial assistance	24,908,588	22,628,666
Direct loan/FFEL receipts	37,661,880	43,336,358
Direct loan/FFEL payments	(37,661,880)	(43,336,358)
Gifts for other than capital purposes	741,580	539,263
NET CASH PROVIDED BY NONCAPITAL FINANCING ACTIVITIES	<u>65,364,643</u>	<u>63,164,732</u>
CASH FLOWS FROM INVESTING ACTIVITIES		
Proceeds from sales of investments	2,650,008	2,476,294
Purchase of investments	(2,590,231)	(2,372,705)
Investment income received	795,072	986,730
NET CASH PROVIDED BY INVESTING ACTIVITIES	<u>854,849</u>	<u>1,090,319</u>
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES		
Cash paid for capital assets	(13,090,527)	(6,947,776)
Capital appropriations received	1,440,775	1,441,673
Interest paid on capital debt and leases	(1,481,754)	(1,497,461)
Proceeds from capital debt and leases	73,578	6,236,732
Principal payments on capital debt and leases	(2,019,587)	(1,612,163)
NET CASH USED IN CAPITAL AND RELATED FINANCING ACTIVITIES	<u>(15,077,515)</u>	<u>(2,378,995)</u>
NET INCREASE (DECREASE) IN CASH EQUIVALENTS	(1,605,663)	10,866,445
CASH AND CASH EQUIVALENTS, BEGINNING OF YEAR	<u>64,949,734</u>	<u>54,083,289</u>
CASH AND CASH EQUIVALENTS, END OF YEAR	<u>\$ 63,344,071</u>	<u>\$ 64,949,734</u>

See notes to financial statements.

STATEMENTS OF CASH FLOWS--Continued

NORTHEASTERN STATE UNIVERSITY

	Year Ended June 30,	
	<u>2011</u>	<u>2010</u>
RECONCILIATION OF OPERATING LOSS TO NET CASH USED IN OPERATING ACTIVITIES		
Operating loss	\$ (66,073,864)	\$ (63,418,207)
Adjustments to reconcile operating loss to net cash used by operating activities		
Depreciation	10,491,196	8,857,917
On-behalf contributions to teachers' retirement system	2,614,050	2,259,693
Changes in assets and liabilities		
Accounts receivable	(446,447)	1,132,075
Inventories	(6,905)	15,952
Loans receivable	662,947	468,714
Prepaid pension and other assets	(133,578)	(523,799)
Accounts payable and accrued expenses	(317,362)	(311,249)
Accrued payroll	(94,079)	48,731
Deferred revenue	211,936	260,714
Federal loan program contributions refundable	126,000	118,000
Compensated absences	<u>218,466</u>	<u>81,848</u>
NET CASH USED IN OPERATING ACTIVITIES	<u>\$ (52,747,640)</u>	<u>\$ (51,009,611)</u>
NONCASH INVESTING, NONCAPITAL FINANCING AND CAPITAL AND RELATED FINANCING ACTIVITIES		
Interest on capital debt paid by OCIA on behalf of the University	<u>\$ 56,940</u>	<u>\$ 1,081,950</u>
Principal on capital debt paid by OCIA on behalf of the University	<u>\$ 102,254</u>	<u>\$ 697,154</u>
Deferred cost on OCIA lease restructure	<u>\$ 1,434,081</u>	<u>\$ -</u>
Non-cash capital grants and gifts	<u>\$ 179,663</u>	<u>\$ 339,340</u>
RECONCILIATION OF CASH AND CASH EQUIVALENTS TO STATEMENTS OF NET ASSETS		
Current assets		
Cash and cash equivalents	\$ 38,797,480	\$ 40,481,029
Restricted cash and cash equivalents	4,852,239	4,853,875
Noncurrent assets		
Restricted cash and cash equivalents	<u>19,694,352</u>	<u>19,614,830</u>
TOTAL CASH AND CASH EQUIVALENTS	<u>\$ 63,344,071</u>	<u>\$ 64,949,734</u>

See notes to financial statements.

NOTES TO FINANCIAL STATEMENTS

NORTHEASTERN STATE UNIVERSITY

June 30, 2011

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. ("CCEFFI"). CCEFFI is a non-profit organization created for the purpose of providing affordable housing for students of the University through its single member limited liability company, the NSU Student Housing LLC. CCEFFI is governed by a Board of Directors comprised primarily of management of the University. Accordingly, CCEFFI has been reported as a blended component unit in the financial statements. Separate financial statements of CCEFFI 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 University Foundation. The Foundation is a separate legal entity with its own Board of Trustees. The University 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, 2011

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

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

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

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

Investments: The University accounts for its investments at fair value in accordance with GASB Statement No. 31, *Accounting and Financial Reporting for Certain Investments and for External Investment Pools*. Changes in unrealized gain (loss) on the carrying value of investments are reported as a component of investment income in the statements of revenues, expenses and changes in net assets.

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.

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.

NOTES TO FINANCIAL STATEMENTS--Continued

NORTHEASTERN STATE UNIVERSITY

June 30, 2011

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

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

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

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.

NOTES TO FINANCIAL STATEMENTS--Continued

NORTHEASTERN STATE UNIVERSITY

June 30, 2011

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

Net Assets--Continued:

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.

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.

NOTES TO FINANCIAL STATEMENTS--Continued

NORTHEASTERN STATE UNIVERSITY

June 30, 2011

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

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

Reclassification of Financial Statement Presentation: Certain reclassifications have been made to the 2010 financial statements to conform with the 2011 financial statement presentation. Such reclassifications have had no effect on changes in net assets as previously reported.

NOTE B--DEPOSITS AND INVESTMENTS

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

NOTES TO FINANCIAL STATEMENTS--Continued

NORTHEASTERN STATE UNIVERSITY

June 30, 2011

NOTE B--DEPOSITS AND INVESTMENTS--Continued

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

Deposits with financial institutions primarily consist of money market funds that invest in U.S. Treasury bills, notes and securities backed by the full faith and credit of the U.S. Government, some of which may be subject to repurchase agreements. Repurchase agreements are collateralized with securities backed by the full faith and credit of the U.S. Government at 102% of maturity value.

At June 30, 2011 and 2010, the carrying amount of all University deposits with the OST and other financial institutions were \$63,344,071 and \$64,949,734, respectively. These amounts consisted of deposits with the OST (\$62,984,288 and \$61,592,789), deposits with financial institutions (\$340,043 and \$3,337,205) and change funds (\$19,740 and \$19,740). Of funds on deposit with the OST, amounts invested in *OK INVEST* total \$26,792,965 in 2011 and \$25,631,885 in 2010.

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, 2011		
<u>OK INVEST Portfolio</u>	<u>Cost</u>	<u>Market Value</u>
U.S. agency securities	\$ 9,785,727	\$ 9,864,183
Money market mutual funds	2,945,740	2,945,740
Certificates of deposit	1,265,089	1,265,089
Tri-party repurchase agreements	1,808,017	1,808,017
Mortgage backed agency securities	9,719,170	10,148,415
Municipal bonds	534,038	578,310
Foreign bonds	99,615	99,615
Commercial Paper	249,012	249,036
U.S. Treasury obligations	386,557	458,026
TOTAL	<u>\$ 26,792,965</u>	<u>\$ 27,416,431</u>

NOTES TO FINANCIAL STATEMENTS--Continued

NORTHEASTERN STATE UNIVERSITY

June 30, 2011

NOTE B--DEPOSITS AND INVESTMENTS--Continued

Deposits--Continued:

	At June 30, 2010	
<u>OK INVEST Portfolio</u>	<u>Cost</u>	<u>Market Value</u>
U.S. agency securities	\$ 9,821,097	\$ 9,985,995
Money market mutual funds	2,243,579	2,243,579
Certificates of deposit	1,457,902	1,457,902
Tri-party repurchase agreements	1,643,806	1,643,806
Mortgage backed agency securities	9,068,015	9,462,015
Municipal bonds	552,269	592,155
Foreign bonds	102,738	101,589
U.S. Treasury obligations	742,479	785,906
TOTAL	<u>\$ 25,631,885</u>	<u>\$ 26,272,947</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 ten years. *OK INVEST* maintains an overall weighted average maturity of no more than four years. Participants in *OK INVEST* maintain an interest in its underlying investments and, accordingly, may be exposed to certain risks. As stated in the OST information statement, the main risks are interest rate risk, credit/default risk, liquidity risk, and U.S. government securities risk.

NOTES TO FINANCIAL STATEMENTS--Continued

NORTHEASTERN STATE UNIVERSITY

June 30, 2011

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

NOTES TO FINANCIAL STATEMENTS--Continued

NORTHEASTERN STATE UNIVERSITY

June 30, 2011

NOTE B--DEPOSITS AND INVESTMENTS--Continued

Investments--Continued: At June 30, 2011 and 2010, the University had investments in money market funds totaling \$344,796, related to the OFDA Lease program. These funds also had a fair market value of \$344,796 at June 30, 2011 and 2010. The money market funds had an average credit rating of AAAM at June 30, 2011 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, 2011 and 2010, the University had investments consisting of money market funds in restricted bond funds totaling \$1,904,243 and \$1,964,020.

Investments held by others: At June 30, 2011 and 2010, the University had investments held by others totaling \$1,200,377 and \$1,203,275, respectively. The investments included investments held at the Oklahoma Development Finance Authority (ODFA) for the University of \$344,796 for June 30, 2011 and 2010. The investments also included investments held at the Oklahoma State Regents for Higher Education for the University of \$855,581 and \$858,479 at June 30, 2011 and 2010, respectively.

NOTE C--ACCOUNTS RECEIVABLE

Accounts receivable consisted of the following at June 30:

	2011	2010
Student tuition and fees	\$ 2,556,626	\$ 1,680,643
Auxiliary enterprises and other operating activities	1,908,416	1,147,506
Federal, state, and private grants and contracts	639,856	496,500
Cancelled Perkins loans	1,104,432	851,442
	<u>6,209,330</u>	<u>4,176,091</u>
Less allowance for doubtful accounts	(2,058,314)	(471,522)
Net accounts receivable	<u>\$ 4,151,016</u>	<u>\$ 3,704,569</u>

NOTES TO FINANCIAL STATEMENTS--Continued

NORTHEASTERN STATE UNIVERSITY

June 30, 2011

NOTE C--ACCOUNTS RECEIVABLE--Continued

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 for Higher Education. The receivables from OCIA and ODFA were \$ 0 in 2011 and \$73,578 in 2010. The long-term debt portion of this transaction is discussed in Note F. The receivable from State Regents is \$455,397 in 2011 and \$465,244 in 2010 that represents endowment revenue earned by the University that is invested 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, 2011 and 2010. 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 \$7,779,000 and \$7,653,000 at June 30, 2011 and 2010, respectively, are reflected in the accompanying statements of net assets as noncurrent liabilities.

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:

	2011	2010
Perkins loans receivable	\$ 5,683,289	\$ 6,388,504
Other loans receivable	<u>2,509</u>	<u>915</u>
Total loans receivable	5,685,798	6,389,419
Less allowance for uncollectible loans	<u>(236,798)</u>	<u>(234,255)</u>
Net loans receivable	<u>\$ 5,449,000</u>	<u>\$ 6,155,164</u>

NOTES TO FINANCIAL STATEMENTS--Continued

NORTHEASTERN STATE UNIVERSITY

June 30, 2011

NOTE E--CAPITAL ASSETS

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

	Balance June 30, 2010	Additions	Transfers	Retirements/ Adjustments	Balance June 30, 2011
Capital assets not being depreciated					
Land	\$ 6,668,298	\$ 78,503	\$ -	\$ -	\$ 6,746,801
Construction in progress	3,727,336	643,807	(3,705,109)	-	666,034
Total assets not being depreciated	<u>\$ 10,395,634</u>	<u>\$ 722,310</u>	<u>\$ (3,705,109)</u>	<u>\$ -</u>	<u>\$ 7,412,835</u>
Other capital assets					
Non-major infrastructure networks	\$ 7,444,801	\$ 97,324	\$ -	\$ -	\$ 7,542,125
Buildings and improvements	168,901,853	5,281,411	3,705,109	-	177,888,373
Furniture, fixtures and equipment	21,692,470	6,598,425	-	(3,881,687)	24,409,208
Library materials	12,540,146	552,070	-	(597,512)	12,494,704
Total other capital assets	210,579,270	12,529,230	3,705,109	(4,479,199)	222,334,410
Less accumulated depreciation for					
Non-major infrastructure networks	1,754,587	328,858	-	-	2,083,445
Buildings and improvements	46,630,927	5,941,989	-	-	52,572,916
Furniture, fixtures and equipment	17,142,680	3,269,703	-	(3,869,083)	16,543,300
Library materials	8,352,564	950,646	-	(597,512)	8,705,698
Total accumulated depreciation	73,880,758	10,491,196	-	(4,466,595)	79,905,359
Other capital assets, net	<u>\$ 136,698,512</u>	<u>\$ 2,038,034</u>	<u>\$ 3,705,109</u>	<u>\$ (12,604)</u>	<u>\$ 142,429,051</u>
Capital asset summary:					
Capital assets not being depreciated	\$ 10,395,634	\$ 722,310	\$ (3,705,109)	\$ -	\$ 7,412,835
Other capital assets, at cost	210,579,270	12,529,230	3,705,109	(4,479,199)	222,334,410
Total cost of capital assets	220,974,904	13,251,540	-	(4,479,199)	229,747,245
Less accumulated depreciation	73,880,758	10,491,196	-	(4,466,595)	79,905,359
Capital assets, net	<u>\$ 147,094,146</u>	<u>\$ 2,760,344</u>	<u>\$ -</u>	<u>\$ (12,604)</u>	<u>\$ 149,841,886</u>

At June 30, 2011, the cost and related accumulated depreciation of assets held under capital lease obligations and included in the above amounts were \$40,418,232 and \$10,306,166 respectively.

NOTES TO FINANCIAL STATEMENTS--Continued

NORTHEASTERN STATE UNIVERSITY

June 30, 2011

NOTE E--CAPITAL ASSETS--Continued

Following are the changes in capital assets for the year ended June 30, 2010:

	Balance June 30, 2009	Additions	Transfers	Retirements/ Adjustments	Balance June 30, 2010
Capital assets not being depreciated					
Land	\$ 6,668,298	\$ -	\$ -	\$ -	\$ 6,668,298
Construction in progress	3,712,291	2,355,756	(2,340,711)	-	3,727,336
Total assets not being depreciated	<u>\$ 10,380,589</u>	<u>\$ 2,355,756</u>	<u>\$ (2,340,711)</u>	<u>\$ -</u>	<u>\$ 10,395,634</u>
Other capital assets					
Non-major infrastructure networks	\$ 7,444,801	\$ -	\$ -	\$ -	\$ 7,444,801
Buildings and improvements	163,437,607	3,123,535	2,340,711	-	168,901,853
Furniture, fixtures and equipment	21,498,231	1,290,935	-	(1,096,696)	21,692,470
Library materials	12,495,992	664,108	-	(619,954)	12,540,146
Total other capital assets	204,876,631	5,078,578	2,340,711	(1,716,650)	210,579,270
Less accumulated depreciation for					
Non-major infrastructure networks	1,430,373	324,214	-	-	1,754,587
Buildings and improvements	41,138,264	5,492,663	-	-	46,630,927
Furniture, fixtures and equipment	16,089,299	2,145,601	-	(1,092,220)	17,142,680
Library materials	8,077,079	895,439	-	(619,954)	8,352,564
Total accumulated depreciation	66,735,015	8,857,917	-	(1,712,174)	73,880,758
Other capital assets, net	<u>\$ 138,141,616</u>	<u>\$ (3,779,339)</u>	<u>\$ 2,340,711</u>	<u>\$ (4,476)</u>	<u>\$ 136,698,512</u>
Capital asset summary:					
Capital assets not being depreciated	\$ 10,380,589	\$ 2,355,756	\$ (2,340,711)	\$ -	\$ 10,395,634
Other capital assets, at cost	204,876,631	5,078,578	2,340,711	(1,716,650)	210,579,270
Total cost of capital assets	215,257,220	7,434,334	-	(1,716,650)	220,974,904
Less accumulated depreciation	66,735,015	8,857,917	-	(1,712,174)	73,880,758
Capital assets, net	<u>\$ 148,522,205</u>	<u>\$ (1,423,583)</u>	<u>\$ -</u>	<u>\$ (4,476)</u>	<u>\$ 147,094,146</u>

At June 30, 2010, the cost and related accumulated depreciation of assets held under capital lease obligations and included in the above amounts were \$37,418,232, and \$7,607,741 respectively.

NOTES TO FINANCIAL STATEMENTS--Continued

NORTHEASTERN STATE UNIVERSITY

June 30, 2011

NOTE F--LONG-TERM LIABILITIES

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

	Balance June 30, 2010	Additions	Reductions	Balance June 30, 2011	Amounts due within one year
Bonds payable					
Revenue bonds payable	\$ 24,345,000	\$ -	\$ (975,000)	\$ 23,370,000	\$ 1,010,000
Less issuance discounts	(118,456)	-	4,851	(113,605)	-
Total bonds payable	24,226,544	-	(970,149)	\$ 23,256,395	1,010,000
Capital lease obligations					
ODFA Master Lease	10,481,587	-	(1,044,587)	9,437,000	1,075,999
Premium on ODFA lease obligation	64,000	-	(9,143)	54,857	-
OCIA lease obligation	21,434,607	7,708,816	(5,801,178)	23,342,245	107,272
Premium on OCIA lease obligation	575,812	-	(575,812)	-	-
Total capital leases	32,556,006	7,708,816	(7,430,720)	32,834,102	1,183,271
Other liabilities					
Unearned capital assets	500,000	-	(50,000)	450,000	50,000
Federal loan program contributions	7,653,000	205,000	(79,000)	7,779,000	-
Accrued compensated absences	2,157,822	1,212,009	(993,543)	2,376,288	1,084,830
Total other liabilities	10,310,822	1,417,009	(1,122,543)	10,605,288	1,134,830
Total long-term liabilities	<u>\$ 67,093,372</u>	<u>\$ 9,125,825</u>	<u>\$ (9,523,412)</u>	<u>\$ 66,695,785</u>	<u>\$ 3,328,101</u>

NOTES TO FINANCIAL STATEMENTS--Continued

NORTHEASTERN STATE UNIVERSITY

June 30, 2011

NOTE F--LONG-TERM LIABILITIES--Continued

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

	Balance June 30, 2009	Additions	Reductions	Balance June 30, 2010	Amounts due within one year
Bonds payable					
Revenue bonds payable	\$ 25,290,000	\$ -	\$ (945,000)	\$ 24,345,000	\$ 975,000
Less issuance discounts	(123,307)	4,851	-	(118,456)	-
Total bonds payable	25,166,693	4,851	(945,000)	\$ 24,226,544	975,000
Capital lease obligations					
ODFA Master Lease	8,212,750	2,936,000	(667,163)	10,481,587	1,044,587
Premium on ODFA lease obligation	-	64,000	-	64,000	-
OCIA lease obligation	22,131,761	-	(697,154)	21,434,607	686,029
Premium on OCIA lease obligation	604,603	-	(28,791)	575,812	-
Total capital leases	30,949,114	3,000,000	(1,393,108)	32,556,006	1,730,616
Other liabilities					
Unearned capital assets	-	500,000	-	500,000	50,000
Federal loan program contributions	7,535,000	267,000	(149,000)	7,653,000	-
Accrued compensated absences	2,075,974	987,755	(905,907)	2,157,822	962,821
Total other liabilities	9,610,974	1,754,755	(1,054,907)	10,310,822	1,012,821
Total long-term liabilities	\$ 65,726,781	\$ 4,759,606	\$ (3,393,015)	\$ 67,093,372	\$ 3,718,437

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, 2011

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, 2011, 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:			
2012	\$ 270,000	\$ 175,895	\$ 445,895
2013	285,000	162,125	447,125
2014	300,000	147,590	447,590
2015	315,000	132,290	447,290
2016	330,000	116,225	446,225
2017-2021	<u>1,930,000</u>	<u>307,970</u>	<u>2,237,970</u>
	<u>\$ 3,430,000</u>	<u>\$ 1,042,095</u>	<u>\$ 4,472,095</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, 2011

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, 2011, 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:			
2012	\$ 445,000	\$ 276,241	\$ 721,241
2013	455,000	262,891	717,891
2014	470,000	248,104	718,104
2015	490,000	232,124	722,124
2016	505,000	214,974	719,974
2017-2021	2,830,000	772,747	3,602,747
2022-2024	1,985,000	171,780	2,156,780
	<u>\$ 7,180,000</u>	<u>\$ 2,178,861</u>	<u>\$ 9,358,861</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, 2011

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, 2011, future aggregate maturities of principal and interest requirements on the Bonds payable are as follows:

Year Ending June 30:	Principal	Interest	Total
2012	\$ 295,000	\$ 636,481	\$ 931,481
2013	310,000	624,750	934,750
2014	320,000	611,910	931,910
2015	335,000	597,523	932,523
2016	350,000	581,683	931,683
2017-2021	2,005,000	2,641,291	4,646,291
2022-2026	2,555,000	2,074,404	4,629,404
2027-2031	3,285,000	1,316,306	4,601,306
2032-2036	3,305,000	357,918	3,662,918
	\$ 12,760,000	\$ 9,442,266	\$ 22,202,266

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, 2011, 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, 2011

NOTE F--LONG-TERM LIABILITIES--Continued

Capital Lease Obligations--Continued

Oklahoma Capital Improvement Authority Leases--Continued

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

During the years ended June 30, 2011 and 2010, OCIA made lease principal and interest payments totaling \$159,194 and \$159,206, 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, 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.

In August 2010, the University's 2005F lease agreement with the OCIA was restructured through a partial refunding of OCIA's 2005F bond debt. OCIA issued two new bonds, Series 2010A and 2010B. The University's lease agreements with OCIA secure the OCIA bond debt and any future debt that might be issued to refund earlier bond issues. OCIA issued this new debt to provide budgetary relief for fiscal years 2011 and 2012 by extending and restructuring debt service. Consequently, the University's lease agreement with OCIA automatically restructured to secure the new bond issues. This lease restructuring has extended certain principal payments into the future, resulting in a cost for restructuring. The University has recorded a deferred charge of \$1,434,081 on restructuring as a deferred cost that will be amortized over a period of six years. The restructuring resulted in an aggregate debt service difference for principal and interest between the original lease agreement and the restructured lease agreement of \$277,387, which also approximates the economic cost of the lease restructuring.

NOTES TO FINANCIAL STATEMENTS--Continued

NORTHEASTERN STATE UNIVERSITY

June 30, 2011

NOTE F--LONG-TERM LIABILITIES--Continued

Capital Lease Obligations--Continued

Oklahoma Capital Improvement Authority Leases--Continued

Through June 30, 2011, the University has drawn down the total balance of \$22,973,400, 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, 2011 and 2010, OCIA made lease principal and interest payments totaling \$-0- and \$1,619,898, 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. The 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.

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, 2011, the University has drawn down the entire balance for expenditures incurred in connection with specified projects.

At June 30, 2011, 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.

NOTES TO FINANCIAL STATEMENTS--Continued

NORTHEASTERN STATE UNIVERSITY

June 30, 2011

NOTE F--LONG-TERM LIABILITIES--Continued

Capital Lease Obligations--Continued

Oklahoma Development Finance Authority Master Lease Program--Continued

The ODFA issued the ODFA Master Lease Revenue Bonds, Series 2010A in the University's fiscal year that ended June 30, 2010. 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 \$3,000,000.

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 is June 1, 2017.

After payment of bond closing costs, the net proceeds were \$3,000,000. Through June 30, 2011, the University has spent all net proceeds in connection with specified projects.

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:			
2012	\$ 1,183,271	\$ 687,861	\$ 1,871,132
2013	1,224,896	689,195	1,914,091
2014	1,751,029	1,307,802	3,058,831
2015	2,801,411	1,232,413	4,033,824
2016	2,892,388	1,138,521	4,030,909
2017-2021	9,723,480	4,253,150	13,976,630
2022-2026	6,075,250	2,730,450	8,805,700
2027-2031	7,127,520	1,097,817	8,225,337
	<u>\$ 32,779,245</u>	<u>\$ 13,137,209</u>	<u>\$ 45,916,454</u>

Unearned Capital Assets

In April 2010, 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 \$500,000 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 annual amortization for fiscal year 2011 was \$50,000.

NOTES TO FINANCIAL STATEMENTS--Continued

NORTHEASTERN STATE UNIVERSITY

June 30, 2011

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.

Funding Policy

The University is required to contribute a fixed percentage of annual compensation on behalf of active members. The employer contribution rate was 7.55% for the first six months of fiscal year 2009 and on January 1, 2009 the contribution rate changed to 8.55%. On January 1, 2010 the contribution rate changed to 8.55%. This rate is applied to annual compensation, and is determined by state statute.

Employees' contributions are also determined by state statute. For all employees, the contribution rate was 7% of covered salaries and fringe benefits in 2011, 2010 and 2009. For compensation in excess of \$25,000, the employee's contributions are paid directly by the University to the OTRS.

NOTES TO FINANCIAL STATEMENTS--Continued

NORTHEASTERN STATE UNIVERSITY

June 30, 2011

NOTE G--RETIREMENT PLANS--Continued

Oklahoma Teachers' Retirement System (OTRS)--Continued

The University's contributions to the OTRS for the years ended June 30, 2011, 2010 and 2009, were approximately \$5,351,000, \$4,924,000, and \$4,760,000, 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 2011 and 2010, the State of Oklahoma contribution was 5% of state revenues from sales and use taxes and individual income taxes, to the OTRS on behalf of participating employers. The University has estimated the amounts contributed to the OTRS by the State of Oklahoma on its behalf by multiplying the ratio of its covered salaries to total covered salaries for the OTRS for the year by the applicable percentage of taxes collected during the year. For the years ended June 30, 2011 and 2010, the total amounts contributed to the OTRS by the State of Oklahoma on behalf of the University were approximately \$2,614,000 and \$2,260,000, respectively. These on behalf payments have been recorded as both revenues and expenses in the statements of revenues, expenses and changes in net assets.

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.

NOTES TO FINANCIAL STATEMENTS--Continued

NORTHEASTERN STATE UNIVERSITY

June 30, 2011

NOTE G--RETIREMENT PLANS--Continued

Supplemental Retirement Annuity (SRA)--Continued

Funding Policy

The authority to establish and amend eligible employees' and employer contribution obligations to the SRA rests with the University's Board of Regents. Eligible employees are not required to make contributions to the SRA. The University is required to contribute to the SRA an actuarially determined amount on an annual basis. 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 2011 and 2010 are as follows:

	<u>2011</u>	<u>2010</u>
Annual required contribution	\$ 735,535	\$ 712,831
Interest on net pension obligation	(294,130)	(232,883)
Adjustment to annual required contribution	<u>374,472</u>	<u>296,495</u>
Annual pension cost	815,877	776,443
Contribution made	<u>(1,048,527)</u>	<u>(1,542,030)</u>
Increase (decrease) in net pension obligation	(232,650)	(765,587)
Net pension obligation at beginning of year	<u>(3,676,622)</u>	<u>(2,911,035)</u>
Net pension obligation (asset) at end of year	<u>\$ (3,909,272)</u>	<u>\$ (3,676,622)</u>

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

NOTES TO FINANCIAL STATEMENTS--Continued

NORTHEASTERN STATE UNIVERSITY

June 30, 2011

NOTE G--RETIREMENT PLANS--Continued

Supplemental Retirement Annuity (SRA)--Continued

Trend Information

Year Ended June 30	Annual Pension Cost (APC)	Percentage of APC Contributed	Net Pension Obligation (Asset)
2011	\$ 815,877	128.52%	\$ (3,909,272)
2010	\$ 776,443	198.60%	\$ (3,676,622)
2009	\$ 741,885	96.41%	\$ 2,911,035

Funded Status and Funding Progress

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

	2011	2010
Actuarial accrued liability (AAL)	\$ 13,085,581	\$ 13,255,507
Actuarial value of plan assets	6,553,637	6,267,059
Unfunded actuarial accrued liability (UAAL)	<u>\$ 6,531,944</u>	<u>\$ 6,988,448</u>
Funded ratio (actuarial value of plan assets/AAL)	50.1%	47.3%
Covered payroll (active plan members)	\$ 6,914,010	\$ 7,262,204
UAAL as a percentage of covered payroll	94.5%	96.2%

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, 2011, 2010, and 2009.

NOTES TO FINANCIAL STATEMENTS--Continued

NORTHEASTERN STATE UNIVERSITY

June 30, 2011

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 OTRS during that time; and elected to receive a vested benefit under the provision of the Oklahoma Teachers' Retirement System. As of June 30, 2011, there were 715 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.

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 \$519,180 and represents 1.37% (percent) of covered payroll.

NOTES TO FINANCIAL STATEMENTS--Continued

NORTHEASTERN STATE UNIVERSITY

June 30, 2011

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

Annual Cost and Net Obligation (Asset)

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

	<u>2011</u>	<u>2010</u>
Annual required contribution	\$ 519,180	\$ 482,778
Interest on net OPEB obligation	-	-
Adjustment to annual required contribution	<u>-</u>	<u>-</u>
Annual OPEB cost	519,180	482,778
Contribution made	<u>(482,396)</u>	<u>(303,279)</u>
Decrease (Increase) in net OPEB obligation (asset)	36,784	179,499
Net OPEB obligation (asset) at beginning of year	<u>(215,239)</u>	<u>(394,738)</u>
Net OPEB obligation (asset) at end of year	<u>\$ (178,455)</u>	<u>\$ (215,239)</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, 2011 actuarial valuation, the projected unit credit cost method was used. The actuarial assumptions included a 7% investment rate of return and an annual healthcare cost inflationary increase of 8.5%

Trend Information

<u>Fiscal Year Ended</u>	<u>Annual OPEB Cost</u>	<u>Annual OPEB Cost Contributed</u>	<u>Net OPEB Obligation (Asset)</u>
2011	\$ 519,180	93%	\$ (178,455)
2010	\$ 482,778	63%	\$ (215,239)
2009	\$ 484,990	120%	\$ (394,738)

NOTES TO FINANCIAL STATEMENTS--Continued

NORTHEASTERN STATE UNIVERSITY

June 30, 2011

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

Funded Status and Funding Progress

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

	<u>2011</u>	<u>2010</u>
Actuarial accrued liability (AAL)	\$ 5,099,866	\$ 4,652,409
Actuarial value of plan assets	<u>1,027,460</u>	<u>895,751</u>
Unfunded actuarial accrued liability (UAAL)	<u>\$ 4,072,406</u>	<u>\$ 3,756,658</u>
Funded ratio (actuarial value of plan assets/AAL)	20.1%	19.3%
Covered payroll (active plan members)	\$ 37,876,404	\$ 35,964,251
UAAL as a percentage of covered payroll	10.8%	10.4%

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, 2011

NOTE I--FUNDS HELD IN TRUST BY OTHERS

Beneficial Interest in State School Land Funds

The University has a beneficial interest in the "Section Thirteen Fund State Educational Institutions" and the "New College Fund" administered by the Commissioners of the Land Office as trustees for the various educational institutions entitled thereto. The University has the right to receive annually 3.7% of the distributions of income produced by "Section Thirteen Fund State Educational Institutions" assets and 100% of the distributions of income produced by the University's "New College Fund". The University received approximately \$972,000 and \$964,000 during the years ended June 30, 2011 and 2010, respectively which is restricted to the construction or acquisition of buildings, equipment, or other capital items. These amounts are recorded as 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 the University, held in trust by the commissioners of Land Office, was approximately \$15,982,000 and \$13,493,000 at June 30, 2011 and 2010, respectively.

Oklahoma State Regents Endowment Trust Fund

In connection with the Oklahoma State Regents' Endowment Program (the Endowment Program), the State of Oklahoma has matched contributions received under the program. The state match amount, plus any retained accumulated earnings, totaled approximately \$1,589,000 and \$1,438,000 at June 30, 2011 and 2010, respectively, and is invested by the Oklahoma State Regents on behalf of the University. The University is entitled to receive an annual distribution of 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 \$455,000 and \$465,000 at June 30, 2011 and 2010, respectively, have been reflected as assets in the statements of net assets. In connection with the program, private contributions totaling \$1,200,000 and \$997,000 as of June 30, 2011 and 2010, respectively, are being held by the University Foundation for the benefit of the University. Additional private contributions of approximately \$564,000 and \$574,000 as of June 30, 2011 and 2010, 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 \$213,000 and \$155,000 for the years ended June 30, 2011 and 2010, respectively.

NOTES TO FINANCIAL STATEMENTS--Continued

NORTHEASTERN STATE UNIVERSITY

June 30, 2011

NOTE K--COMMITMENTS AND CONTINGENCIES

The University had outstanding commitments under construction contracts of approximately \$199,000 at June 30, 2011.

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 began participation in the Federal Direct Loan Program on July 1, 2010. For the year ended June 30, 2011 approximately \$37,485,000 of Direct Loan funds were disbursed to University students.

Prior to FY 2011, the University participated 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, 2011 and 2010, approximately \$177,000 and \$43,336,000, 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, 2011, 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, 2011

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, 2011

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	
	2011	2010
ASSETS		
Current assets	\$ 2,331,292	\$ 2,371,370
Capital assets, net	8,576,722	8,924,796
Other assets	<u>1,197,827</u>	<u>1,248,979</u>
TOTAL ASSETS	12,105,841	12,545,145
LIABILITIES		
Current liabilities, including current portion of long-term debt	432,491	365,729
Long-term liabilities	<u>12,739,108</u>	<u>13,029,257</u>
TOTAL LIABILITIES	13,171,599	13,394,986
NET ASSETS (DEFICIT)		
Unrestricted	143,984	322,277
Restricted for debt services	1,166,793	1,162,605
Restricted for capital projects	495,311	418,044
Invested in capital assets, net of debt	<u>(2,871,846)</u>	<u>(2,752,767)</u>
TOTAL NET ASSETS (DEFICIT)	<u>\$ (1,065,758)</u>	<u>\$ (849,841)</u>

NOTES TO FINANCIAL STATEMENTS--Continued

NORTHEASTERN STATE UNIVERSITY

June 30, 2011

NOTE M--SEGMENT INFORMATION--Continued

CONDENSED STATEMENTS OF REVENUES, EXPENSES AND CHANGES IN NET ASSETS

	June 30	
	<u>2011</u>	<u>2010</u>
OPERATING INCOME		
Operating Revenues	\$ 1,184,415	\$ 1,155,580
Depreciation expense	(348,074)	(347,338)
Other operating expenses	<u>(406,216)</u>	<u>(383,814)</u>
NET OPERATING INCOME	430,125	424,428
NONOPERATING INCOME (EXPENSES)		
Investment income	5,009	7,383
Interest expense and trustee fee	<u>(651,051)</u>	<u>(660,599)</u>
NET LOSS BEFORE OTHER REVENUES (EXPENSES)	(215,917)	(228,788)
Transfers	<u>-</u>	<u>-</u>
CHANGE IN NET ASSETS	(215,917)	(228,788)
NET ASSETS (DEFICIT), BEGINNING OF PERIOD	<u>(849,841)</u>	<u>(621,053)</u>
NET ASSETS (DEFICIT), END OF PERIOD	<u>\$ (1,065,758)</u>	<u>\$ (849,841)</u>

CONDENSED STATEMENTS OF CASH FLOWS

	June 30	
	<u>2011</u>	<u>2010</u>
Net cash flows provided by operating activities	\$ 840,612	\$ 814,250
Net cash flows used in capital and related financing activities	(931,200)	(940,556)
Net cash flows provided by investing activities	<u>5,199</u>	<u>7,983</u>
NET DECREASE IN CASH	(85,389)	(118,323)
CASH, BEGINNING OF PERIOD	<u>2,333,648</u>	<u>2,451,971</u>
CASH, END OF PERIOD	<u>\$ 2,248,259</u>	<u>\$ 2,333,648</u>

NOTES TO FINANCIAL STATEMENTS--Continued

NORTHEASTERN STATE UNIVERSITY

June 30, 2011

NOTE N--ACCOUNTING STANDARDS ISSUED NOT YET ADOPTED

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

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

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

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

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

NOTES TO FINANCIAL STATEMENTS--Continued

NORTHEASTERN STATE UNIVERSITY

June 30, 2011

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

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

SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Fair Value Measurements: On January 1, 2008, the Foundation adopted Statement of Financial Accounting Standards No. 157, Fair Value Measurements ("SFAS 157") with respect to financial assets and liabilities. As noted above in Basis of Presentation this standard was codified effective September 15, 2009, and is now referred to as FASB ASC 820.10. This codified standard defines fair value measurement based on an exit price. An exit price, 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 as opposed to an entry price which is the transaction price that would be paid to acquire and asset or received to assume a liability. In most instances these prices are different however they can be equal. The codified standard also establishes valuation techniques which include the following:

1. Market approach - prices derived from market transactions for identical or comparable assets or liabilities,
2. Income approach - conversion of future amounts such as cash flows or earnings to a single present amount based on current market expectations about those future amounts and/or,
3. Cost approach -the amount that would currently be required to replace the service capacity of an asset.

Finally, the codified standard establishes a fair value hierarchy that prioritizes the inputs to valuation techniques used to measure fair value into three levels:

- Level 1: Quoted prices in active markets for identical assets or liabilities. These include, but are not limited to, cash and cash equivalents, common and preferred stocks, and mutual funds;
- Level 2: Inputs that are derived principally from or corroborated by observable market data. These include but are not limited to government agency issues, corporate bonds and municipal securities;
- Level 3: Inputs that are unobservable and significant to the overall fair value measurement. These include but are not limited to non-public common stocks and personally held notes receivable.

NOTES TO FINANCIAL STATEMENTS--Continued

NORTHEASTERN STATE UNIVERSITY

June 30, 2011

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

Financial assets and liabilities are carried at fair value on a recurring basis and therefore currently subject to the codified standard which include investments and beneficial interest in assets, if any, held by others.

INVESTMENTS

Investments are composed of stocks, bonds and mutual funds investing in debt and equity securities are carried at fair value. See the explanation of fair value measurements included in the Summary of Significant Accounting Policies. The Foundation uses the Market approach to determine the fair value of its assets. Using this approach, the Foundation measures the fair value of its investments at Level 1 due to the fact they have quoted prices in active markets for identical assets. The investments include publicly traded stocks and a wide variety of mutual funds as well as government securities. These would be considered cash equivalents were they not donor restricted. These investments are overseen by investment advisors. The advisors are provided with the investment policy adopted by the Board of Trustees and directed to follow that policy. Additionally, the Foundation maintains an investment committee that provides oversight with regard to the investments.

Investments consist of the following at December 31, 2010:

<u>Description</u>	<u>12/31/10</u>	<u>Quoted Prices in Active Markets for Identical Assets (Level 1)</u>	<u>Significant Other Observable Inputs (Level 2)</u>	<u>Significant Unobservable Inputs (Level 3)</u>
Cash & Cash				
Equivalents	\$ 170,105	\$ -	\$ 170,105	\$ -
Marketable Securities	15,349	15,349	-	-
Available-for-sale Securities	14,429,192	14,429,192	-	-
Total	<u>\$ 14,614,646</u>	<u>\$ 14,444,541</u>	<u>\$ 170,105</u>	<u>\$ -</u>

(The Foundation has no liabilities measured at fair value on a recurring basis.)

NOTES TO FINANCIAL STATEMENTS--Continued

NORTHEASTERN STATE UNIVERSITY

June 30, 2011

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

The Foundation's overall investment objective is "Income with Growth". Investment performance is judged over a three to five year time frame. The goal for equity investment performance is to exceed the Standard and Poor's 500 Common Stock Index over a three to five year period. The fixed income investment performance goal is to exceed the Shearson/Lehman Intermediate Government/Corporate Bond Index over a three to five year period. Total return performance goal for peer comparison is to rank in the top 50% of managers in a balanced fund universe and for net return is a 5% real rate of return after inflation.

The Foundation aims for the equity investments portion of its portfolio to constitute a minimum of 50% and a maximum of 70% of total endowment assets. The fixed income portion is expected to constitute a minimum of 30% and a maximum of 50% of total endowment assets. In order to achieve these goals, the investment committee meets with the investment advisors at least once a year. The investment advisors are required to provide periodic statement reporting transactions involving fund assets and current fund asset values. The investment committee reports on the performance and holdings of the fund once a year to the board.

The Investment Committee recognizes that its desire to take a 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 is considered more important than short term earnings.

The Foundation allocates investment return only on endowment funds. No investment return is allocated on custodial or pass through accounts. The return on investment attributable to individual endowment accounts is allocated to the account annually. An annual service fee is charged to each individual endowment account and this fee is transferred to the unrestricted General Fund. The service fee rate is as follows:

Endowment Asset Value	Annual Service Fee
\$0 to \$99,999	0.8% of endowment asset value
\$100,000 and above	0.5% of endowment asset value

Generally, income generated from investments, regardless of restrictions, is available for either general use or restricted use.

NOTES TO FINANCIAL STATEMENTS--Continued

NORTHEASTERN STATE UNIVERSITY

June 30, 2011

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

The following schedule summarizes the investment return and its classification in the statement of activities for the year ended December 31, 2010:

<u>Description</u>	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Permanently Restricted</u>	<u>Total</u>
Interest and dividends	\$ 84,593	\$ 10,530	\$ 158,062	\$ 253,185
Realized gain (loss)	557,444	(779,359)	299,201	77,286
Unrealized gain (loss)	-	1,298,123	-	1,298,123
Total investment return	<u>\$ 642,037</u>	<u>\$ 529,294</u>	<u>\$ 457,263</u>	<u>\$ 1,628,594</u>

The Foundation makes available for spending each 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 Foundation at least six months prior to the beginning of the fiscal year to be eligible to participate for that year. Eligible individual endowments share in the amount available to be spent on a pro rate basis.

Endowment Disclosures: The NSU Foundation's endowment consists of 201 individual donor-restricted funds which are managed and controlled by the NSU Foundation and are primarily 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.

NOTES TO FINANCIAL STATEMENTS--Continued

NORTHEASTERN STATE UNIVERSITY

June 30, 2011

NOTE O--NORTHEASTERN STATE UNIVERSITY, FOUNDATION, INC.--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, 2010:

	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Permanently Restricted</u>	<u>Total</u>
Donor-restricted endowment funds	\$ -	\$ 351,862	\$ 10,988,600	\$ 11,340,462
Board-designated endowment funds	<u>792,700</u>	<u>-</u>	<u>-</u>	<u>792,700</u>
Total funds invested	<u>\$ 792,700</u>	<u>\$ 351,862</u>	<u>\$ 10,988,600</u>	<u>\$ 12,133,162</u>

NOTES TO FINANCIAL STATEMENTS--Continued

NORTHEASTERN STATE UNIVERSITY

June 30, 2011

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

Change in endowment net assets for the year ended December 31, 2010:

	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Permanently Restricted</u>	<u>Total</u>
Endowment net assets, beginning of year	\$ 178,291	\$ (168,804)	\$ 10,645,055	10,654,542
Investment return:				
Investment income	16,844	11,194	217,018	245,056
Investment fees	(3,879)	(2,960)	(58,957)	(65,796)
Net realized and unrealized loss on investments	<u>23,105</u>	<u>15,445</u>	<u>1,336,859</u>	<u>1,375,409</u>
Total investment return	36,070	23,679	1,494,920	1,554,670
Contributions	23,725	21,033	666,344	711,102
Appropriation of endowment assets for expenditures	(35,195)	(29,915)	(514,830)	(579,941)
Transfer to move investment appreciation (depreciation)	534,339	503,319	(1,037,658)	-
Transfer to remove board- designated endowment funds	<u>55,471</u>	<u>2,550</u>	<u>(265,233)</u>	<u>(207,212)</u>
Endowment net assets, end of year	<u>\$ 792,701</u>	<u>\$ 351,862</u>	<u>\$ 10,988,598</u>	<u>\$ 12,133,162</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, there were no deficiencies of this nature at December 31, 2010.

Spending Policy and How the Investment Objectives Relate to Spending Policy - The Foundation has a policy of appropriating for distribution each year amounts up to, but not to exceed actual investment performance for that year. Since the Foundation has a policy of designating unrestricted funds each year for investment, it feels that this policy protects the purchasing power of the endowment. In light of current market fluctuations and the future needs of the Foundation, it evaluates the spending policy annually to ensure that it remains in accordance with the long-term objectives of the Foundation.

REQUIRED SUPPLEMENTARY
INFORMATION

REQUIRED SUPPLEMENTARY INFORMATION--UNAUDITED

NORTHEASTERN STATE UNIVERSITY

June 30, 2011

SCHEDULE OF FUNDING PROGRESS FOR SUPPLEMENTARY RETIREMENT ANNUITY PLAN

Actuarial Valuation Date	Actuarial Value of Assets (a)	Actuarial Accrued Liability (AAL) (b)	Unfunded AAL (UAAL) (b-a)	Funded Ratio (a/b)	Covered Payroll (c)	UAAL as a percentage of Covered Payroll (b-a)/(c)
6/30/2006	\$ 4,607,315	\$ 10,487,192	\$ 5,879,877	43.9%	\$ 9,389,118	62.6%
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%
6/30/2010	\$ 6,267,059	\$ 13,255,507	\$ 6,988,448	47.3%	\$ 7,262,204	96.2%
6/30/2011	\$ 6,553,637	\$ 13,085,581	\$ 6,531,944	50.1%	\$ 6,914,010	94.5%

SCHEDULE OF FUNDING PROGRESS FOR OTHER POST EMPLOYMENT INSURANCE BENEFITS 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)
6/30/2008	\$ 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%
6/30/2010	\$ 895,751	\$ 4,652,409	\$ 3,756,658	19.3%	\$ 35,964,251	10.4%
6/30/2011	\$ 1,027,460	\$ 5,099,866	\$ 4,072,406	20.1%	\$ 37,876,404	10.8%

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

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

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

Board of Regents
Regional University System of Oklahoma
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, 2011, and have issued our report thereon dated October 31, 2011. Our report was modified to include a reference to other auditors. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits 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 in accordance with *Government Auditing Standards*.

Internal Control Over Financial Reporting

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

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

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

Compliance and Other matters

As part of obtaining reasonable assurance about whether the University's financial statements are free of material 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 31, 2011

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

Board of Regents
Regional University System of Oklahoma
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 could have a direct and material effect on each of its major federal programs for the year ended June 30, 2011. The University's major federal programs are identified in the summary of auditors' results section of the accompanying schedule of findings and questioned costs. Compliance with the requirements of laws, regulations, contracts, and grants applicable to each of its major federal programs is the responsibility of the University's management. Our responsibility is to express an opinion on the 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, the University complied, in all material respects, with the requirements referred to above that could have a direct and material effect on each of its major federal programs for the year ended June 30, 2011.

Internal Control Over Compliance

The management of the 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 to determine our auditing procedures for the purpose of expressing our opinion on compliance and to test and report on internal control over compliance in accordance with OMB Circular A-133, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of the University's internal control over compliance.

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

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

Schedule of Expenditures of Federal Awards

We have audited the basic financial statements of the University as of and for the year ended June 30, 2011, and have issued our report thereon dated October 31, 2011. Our audit was performed for the purpose of forming an opinion on the basic financial statements taken as a whole. The accompanying schedule of expenditures of federal awards is presented for purposes of additional analysis as required by OMB Circular A-133 and is not a required part of the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, is fairly stated, in all material respects, in relation to the basic financial statements taken as a whole.

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

Cole & Reed P.C.

Oklahoma City, Oklahoma
October 31, 2011

SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS

NORTHEASTERN STATE UNIVERSITY

Year Ended June 30, 2011

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 Grants	84.063	N/A	\$ 19,483,213
Federal Supplemental Education Opportunity Grants	84.007	N/A	285,127
Federal TEACH Grant	84.379	N/A	327,986
Federal Work Study	84.033	N/A	566,547
Federal Family Education Loans	84.032	N/A	177,187
Federal Perkins Loans	84.038	N/A	5,683,289
Federal Academic Competitive Grants	84.375	N/A	245,868
Federal Smart Grants	84.376	N/A	279,906
Federal Direct Loan Program	84.268	N/A	37,484,693
Total Student Financial Aid Cluster			<u>64,533,816</u>
U.S. Department of Education			
TRIO program cluster			
Talent Search	84.044	P044A070099-10	229,794
Student Support Services	84.042	P042A100730	290,407
Total TRIO program cluster			<u>520,201</u>
National Science Foundation			
Alliance for Minority Participation	47.076	AA-5-29849-NSU	50,279
S-STEM for Undergraduates in Math and Science	47.076	728529	145,026
Sure Step	47.076	UCO-2009STEP-2-NSU	50,219
Total National Science Foundation			<u>245,524</u>
National Institute for Health			
American Indian Science and Engineering	93.389	P20RR016478-10	11,573
Jr. Investigator Iron Binding	93.389	RS-20101259-18	122,055
Jr. Investigator Antibiotic Resistance	93.389	RS-20101259-17	128,939
INBRE Equipment Grant	93.389	RS-20101259-21A1	74,950
INBRE Oklahoma Grant	93.389	RS20090108-A2	64,687
INBRE Developing an in vivo model	93.389	RS-20101259-20	51,397
Oklahoma IDEA Network for Biomedical Research	93.389	P20RR016478-05	3,512
Oklahoma Tobacco Research	93.389		46,520
Total National Institute for Health			<u>503,633</u>
US Department of Education - ARRA			
State Fiscal Stabilization Fund-Education State Grants	84.394 ARRA	N/A	2,593,189
Other Federal Programs			
Small Business Administration			
Small Business Development Center	59.037	0-603001-Z-0038-26	299,566
U.S. Department of Education			
Gear UP	84.334.A	N/A	102,875
Alternative Education Development Program	84.325	N/A	154,676
U.S. Department of Health and Human Services			
Child Welfare Specialist Training Program	93.648	10-05	138,270
Health Wellness Initiative	93.015	N/A	12,559
Prevention of Risky Behavior in Minority	93.004	N/A	12,559
U.S. Department of the Interior			
American Burying Beetle Survey	15.608	N/A	575
Beetle Examination	15.615	N/A	438
Little River Wildlife Refuge	15.650	F11AP00009	9,309
U.S. Department of Justice			
Violence Prevention Program	16.525	2007-WA-AX-004	41,964
National Endowment for the Arts			
Project I'm Ready	45.313	RE-05-10-0074-10	184,254
Mid America Arts Alliance	45.025	N/A	2,000
National Endowment for the Humanities			
Oklahoma Humanities Council	45.129	Y09-080 Y10-110	2,850
Total Expenditures of Federal Awards			<u>\$ 69,358,258</u>

See notes to schedule of expenditures of federal awards.

NOTES TO SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS

NORTHEASTERN STATE UNIVERSITY

June 30, 2011

NOTE A--SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

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

NOTE B--FEDERAL DIRECT LOAN PROGRAM

The University participates in the Federal Direct Loan Program (the Program), CFDA number 84.268, which includes the Federal Subsidized Direct Loan, the Federal Unsubsidized Direct Loan, the Federal Graduate Student PLUS Direct Loan and Federal Direct Loans Parents of Undergraduate Students. The Federal Direct Loan Program requires the University to draw down cash; and the University is required to perform certain administrative functions under the Program. Failure to perform such functions may require the University to reimburse the loan guarantee agencies.

NOTE C--FEDERAL PERKINS LOANS

The University has \$5,683,289 in Federal Perkins loans outstanding at June 30, 2011. These loan balances outstanding are included as federal expenditures in the schedule of expenditures of federal awards. During the year ended June 30, 2011, the University issued Perkins loans totaling \$231,355.

NOTE D--SUB-RECIPIENTS

During the year ended June 30, 2011, the University did not provide any federal awards to subrecipients.

SCHEDULE OF FINDINGS AND QUESTIONED COSTS

NORTHEASTERN STATE UNIVERSITY

June 30, 2011

Section I--Summary of Auditors' Results

Financial statements

Type of auditors' report issued:

Unqualified

Internal control over financial reporting:

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

Noncompliance material to financial statements noted?

yes no

Federal Awards

Internal control over major programs:

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

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

Unqualified

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

yes no

Identification of major programs:

<u>Program</u>	<u>CFDA Number</u>
Student Financial Aid Cluster	*
National Science Foundation	47.076
State Fiscal Stabilization Fund-Education State Grants (ARRA)	84.394 ARRA

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

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

Auditee qualified as low-risk auditee? yes no

SCHEDULE OF FINDINGS AND QUESTIONED COSTS--Continued

NORTHEASTERN STATE UNIVERSITY

June 30, 2011

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

None to report for the June 30, 2011 period.

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

None to report for the June 30, 2011 period.

SUMMARY SCHEDULE OF PRIOR AUDIT FINDINGS

NORTHEASTERN STATE UNIVERSITY

June 30, 2011

No matters were reportable.