

# NORTHEASTERN STATE UNIVERSITY

June 30, 2013

NORTHEASTERN STATE UNIVERSITY

June 30, 2013

AUDITED FINANCIAL STATEMENTS

Independent Auditors' Report .....	1
Management's Discussion and Analysis .....	3
Statement of Net Position .....	10
Statement of Revenues, Expenses and Changes in Net Position .....	12
Statement of Cash Flows .....	13
Notes to Financial Statements .....	15

REQUIRED SUPPLEMENTARY INFORMATION

Schedule of Funding Progress for Supplemental Retirement Annuity Plan and Other Post Employment Insurance Benefits Plan-Unaudited .....	51
--	----

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 <i>Government Auditing Standards</i> .....	52
Independent Auditors' Report on Compliance for Each Major Federal Program; Report on Internal Control Over Compliance; and Report on the Schedule of Expenditures of Federal Awards Required by OMB Circular A-133 .....	54
Schedule of Expenditures of Federal Awards.....	57
Notes to Schedule of Expenditures of Federal Awards.....	58
Schedule of Findings and Questioned Costs.....	59
Summary Schedule of Prior Audit Findings.....	61

## Independent Auditors' Report

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

### **Report on the Financial Statements**

We have audited the accompanying financial statements of Northeastern State University (the "University"), a component unit of the State of Oklahoma, which comprise the statement of net position as of June 30, 2013, and the related statements of revenues, expenses, and changes in net position, and cash flows for the year then ended, and the related notes to the financial statements.

### **Management's Responsibility for the Financial Statements**

Management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

### **Auditors' Responsibility**

Our responsibility is to express an opinion on these financial statements based on our audit. 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 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 auditors. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. The financial statements of the University Foundation were audited by other auditors and were not audited in accordance with *Government Auditing Standards*.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

## **Opinion**

In our opinion, based on our audit and the report of the other auditor, the financial statements referred to above present fairly, in all material respects, the respective financial position of Northeastern State University and its discretely presented component unit, Northeastern State University Foundation, Inc., as of June 30, 2013, and the respective changes in financial position and, where applicable, cash flows thereof for the year then ended in accordance with accounting principles generally accepted in the United States of America.

## **Emphasis of Matter**

As discussed in Note A to the financial statements, in 2013 the University adopted several new accounting pronouncements issued by the Governmental Accounting Standards Board, including GASB Statements No. 63 and 65. The provisions of GASB Statement No. 65 required the University to retroactively restate its 2012 financial statements upon adoption. Our opinion is not modified with respect to this matter.

## **Other Matters**

### *Required Supplementary Information*

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis and the required supplementary information, as listed in the table of contents, be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context.

We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

## **Other Reporting Required by Government Auditing Standards**

In accordance with *Government Auditing Standards*, we have also issued our report dated October 31, 2013 on our consideration of the University's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the University's internal control over financial reporting and compliance.

Cole & Reed P.C.

Oklahoma City, Oklahoma  
October 31, 2013

Management's Discussion and Analysis (Unaudited)  
Northeastern State University  
June 30, 2013

*Introductory Synopsis*

During fiscal year 2013, Northeastern State University renewed its commitment to positively impact individual lives and the economic development of the region and the state by helping individuals achieve their educational aspirations, by developing leadership opportunities, and by implementing new academic programs to meet changing demands.

As a part of this recommitment, NSU's President Dr. Steve Turner led the development of a plan which identifies enrollment and retention goals which will significantly increase the number of graduating students through strategic efforts over the course of the next ten years. This plan, named NSU Destination 2023, is a ten-year road map of distinction through degree completion and establishes a series of goals, identifies responsible leadership, and defines measures of progress.

A number of initiatives related to NSU Destination 2023 were undertaken during fiscal year 2013. Recognizing a need to improve student advising services, NSU adopted a university-wide academic advising model. This resulted in the creation of ten new full-time advisor positions. These individuals focus solely upon assisting students to select and enroll in the proper courses to ensure a seamless and positive experience in achieving their academic goals. In making this change, NSU's faculty are relieved of advising responsibilities, giving them more time to interact with students as mentors and as teachers.



NSU's academic colleges are working with regional industries to identify new or innovative academic degrees required for economic growth. In an effort to address occupational needs within the area, NSU's College of Science and Health Professions has continued to expand programs offered related to the health care industry. A new program in Occupational Therapy has been developed, with first enrollment to begin in January 2014. To support this program and other health profession students, NSU has invested in additional laboratories and equipment.

Capital projects completed during fiscal year 2013 were intended to enhance the student experience. These include an expansion to the university Market Café, construction of the Cappi Wadley Reading Center, and maintenance projects within the residence halls. Other capital projects started but not completed by year end include a remodel to the Tahlequah campus Library, construction of the NSU Events Center, and initial design work toward an expansion of the university Fitness Center.

*Overview of Financial Statements and Financial Analysis*

The financial statements of Northeastern State University are presented for the fiscal year ended June 30, 2013. These statements include the financial activity of the Cherokee County Educational Facilities Foundation and the Center for Regional and International Partnerships, Inc., which are component units,

and the Northeastern State University Educational Foundation, which is a discretely presented component unit of the university. The most recent financial statements of the NSU Foundation are included in this presentation under the heading *Component Unit*. Financial analysis data is presented within this discussion for fiscal years 2012 and 2013.

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 NSU as a whole.

### *Statement of Net Position*

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

Net position is divided into three major categories. The first, Net Investment in Capital Assets, provides the institution’s equity in property, plant, and equipment. Expendable restricted net position includes resources that are available for expenditure by the university, but must be spent for purposes as determined by donors and/or external entities. Unrestricted net position includes resources that are available to the university for any lawful purpose.

## **Statement of Net Position**

(Thousands of Dollars)

	<b>2013</b>	<b>2012</b>
		(restated)
<b>Assets:</b>		
Current assets	54,617	48,333
Capital assets, net	155,444	148,684
Other assets	26,562	39,906
<b>Total Assets</b>	<b>236,623</b>	<b>236,923</b>
<b>Deferred Outflows of Resources:</b>		
Deferred charge on OCIA lease restructure	<b>574</b>	<b>861</b>
<b>Liabilities:</b>		
Current liabilities	12,662	10,158
Noncurrent liabilities	63,557	66,683
<b>Total Liabilities</b>	<b>76,219</b>	<b>76,841</b>
<b>Net Position:</b>		
Net investment in capital assets	99,249	94,966
Restricted, expendable	20,966	33,298
Unrestricted	40,763	32,679
<b>Total Net Position</b>	<b>160,978</b>	<b>160,943</b>

Total net position of the University held constant, increasing only \$35 thousand during fiscal year 2013.

Current assets increased \$6.3 million during fiscal year 2013. Of this amount, current unrestricted cash and cash equivalents increased \$7.7 million while current restricted cash and cash equivalents declined \$1 million and accounts receivables declined \$.6 million. During the same period, the balance in noncurrent restricted cash and cash equivalents, which is a part of other assets in this schedule, decreased \$14.6 million. This decrease is the result of expending cash on hand at June 30, 2012 that was restricted for capital projects, including the construction of the NSU Event Center. The net change in both current and noncurrent cash and cash equivalents is a decrease of \$7.9 million.

Offsetting the expenditure of cash within other assets is an increase in the prepaid pension asset of \$1.8 million. Prepaid pension increased because of supplemental payments made to reduce NSU's liabilities related to our retirement plans. The net change to other assets is a decrease of \$13.3 million.



Capital assets are reflected net of depreciation. Net capital assets increased \$6.8 million during fiscal year 2013. The chart below provides further information. Significant capital projects funded during fiscal year 2013 include completion of the Cappi Wadley Reading center, the Market Café renovation, and

roofing projects. While not complete, construction of the Events Center was well underway and initial work is started toward an addition to the Wellness Center.

<b>Capital Assets</b>	<b>2013</b>
Additions: Buildings	\$ 3.3 million
Construction in Progress	\$12.0 million
Equipment	\$ .8 million
Land and Infrastructure	-
Library Materials	\$ .7 million
Deduction: Depreciation	<u>(\$10.0 million)</u>
Net Fiscal Year Change	<u><u>\$ 6.8 million</u></u>

Liabilities include both current liabilities such as accounts payable and noncurrent liabilities, such as bond and lease obligations. Total liabilities decreased \$.6 million during fiscal year 2013. Current liabilities increased \$2.5 million, with \$1.2 million of this amount being in accounts payable to vendors, primarily those related to Event Center construction. The current portion of noncurrent liabilities also increased by \$.8 million as OCIA capital lease debt payments deferred through a debt restructuring by the Oklahoma State Regents in 2011 resume. Noncurrent liabilities declined \$3.1 million in fiscal year 2013 as debt service payments were made with no additional debt incurred.



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

The Statement of Revenues, Expenses, and Changes in Net Position 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 have an excess of operating expenses over operating revenues as state appropriations are considered non-operating revenues under generally accepted accounting principles.

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

(Thousands of Dollars)

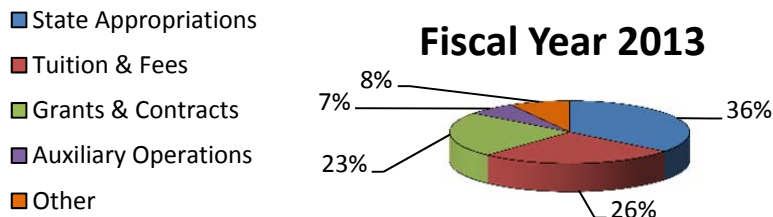
	<b>Fiscal Year Ended June 30</b>	
	<b>2013</b>	<b>2012</b>
		(restated)
Operating revenues	43,805	43,515
Employee compensation and benefits	(66,545)	(66,856)
Depreciation expense	(9,980)	(10,387)
Other operating expense	(31,272)	(31,211)
<b>Operating Income (Loss)</b>	<b>(63,992)</b>	<b>(64,939)</b>
Federal, state and local grants	21,294	23,309
State appropriations	37,075	36,594
On behalf payments, gifts, investments and interest exp.	1,976	2,269
Capital gifts	1,500	742
State appropriations for capital purposes	2,182	2,087
<b>Change in Net Position</b>	<b>35</b>	<b>62</b>
<b>Net Position, beginning of year</b>	<b>160,943</b>	<b>162,221</b>
Restatement of net position (GASB 65)	-	(1,340)
<b>Net Position, end of year</b>	<b>160,978</b>	<b>160,943</b>

Operating revenue includes tuition and fees, state and federal grants and contracts, and revenue generated by auxiliary units. Total operating revenue increased \$.3 million in fiscal year 2013. Student tuition and fee revenue held constant, increasing only \$150 thousand as a tuition increase of 5.5% was offset with a decline in enrollment. Federal and state grant revenue declines of \$1.1 million during fiscal year 2013 were offset by revenue increases in housing, optometry and other operating revenue.



The primary sources of non-operating revenue include federal and state grants related to financial aid and state appropriations. A decline in financial aid revenue during fiscal year 2013 of \$2.0 million is a reflection of a decline in enrollment. State appropriations reflect an increase of \$.5 million, which brings appropriation levels closer to that of 2011.

The following is a graphical representation of the sources of NSU's revenue. State appropriations are now 36% of total NSU revenue.



Operating expenses include employee compensation, student scholarships, depreciation, and other necessary supplies and service expenses. Total operating expenses declined \$.7 million in fiscal year 2013. Contractual service expenses dropped \$1.3 million as NSU completed the implementation of an enterprise wide operating software system. This was offset by an increase in utility expenses of \$.7 million.

Change in net position reflects net income or loss for the year. Net position at the beginning of the year has been adjusted during fiscal year 2013 to reflect an accounting change required by GASB 65, which reclassifies a previously recognized asset related to unamortized bond issuance costs to an expense. The amount of this adjustment is \$1.3 million.

### *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 Position.



## Statement of Cash Flows

(Thousands of Dollars)

	Fiscal Year Ended June 30	
	2013	2012
<b>Cash provided (used) by</b>		
Operating activities	(51,004)	(51,986)
Noncapital financing activities	58,797	60,568
Investing activities	514	617
Capital and related financing activities	(16,226)	(3,129)
<b>Net Change in Cash</b>	<b>(7,919)</b>	<b>6,070</b>
<b>Cash, beginning of year</b>	<b>69,414</b>	<b>63,344</b>
<b>Cash, end of year</b>	<b>61,495</b>	<b>69,414</b>

The net cash balance decreased \$7.9 million during fiscal year 2013. \$5.4 million in proceeds from debt issuance was on hand at June 30, 2012. This was expended along with cash from reserves during the year in the construction of the NSU Event Center and other capital projects. Total cash paid for capital assets increased \$8.0 million during this year, compared to fiscal year 2012.

### *Component Units*

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

The 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*

The national economic recovery continues slowly, with Oklahoma's financial picture improving faster than some areas of the country. Revenue from oil and natural gas production is up substantially from the previous year. However, within Oklahoma many state agencies have developed critical unmet needs through the years of the recession. As a result, the University's appropriations from the state for fiscal year 2014 increased only minimally.

As economic conditions in the state improve and job opportunities grow, enrollment numbers have weakened. Enrollment for the Fall 2013 semester is down compared to recent years. However, with the plan defined by NSU Destination 2023, implementation of new programs designed to attract new students added to initiatives to increase retention rates are expected to stabilize, then increase, enrollment.

To offset inflation and enrollment revenue losses, tuition and mandatory fee rates rose for fiscal year 2013 by 5.5%. NSU was able to hold similar rate increases for fiscal year 2014 to only 2.8%. Doing so has allowed NSU to position itself as one of the lowest cost four-year universities in the state, giving us a competitive advantage in our recruiting efforts.

The financial impact of the global recession has been felt, but Northeastern'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 provided the resources needed. The university will continue efforts to reduce costs and increase operating revenues to protect and grow critical academic programming. Through leadership and vision, University administrators will continue to encourage the NSU team to internally and externally collaborate to change lives, improve communities, and empower students.



STATEMENT OF NET POSITION

NORTHEASTERN STATE UNIVERSITY

	<u>University</u>	<u>Component Unit</u>
	<u>June 30, 2013</u>	<u>December 31, 2012</u>
ASSETS		
CURRENT ASSETS		
Cash and cash equivalents	\$ 42,429,006	\$ 367,071
Restricted cash and cash equivalents	2,806,085	-
Restricted investments	1,982,666	16,190,638
Accounts receivable, net	4,884,184	-
Receivable from state agencies	528,217	-
Interest receivable	671,083	14,969
Inventories and other current assets	290,543	59,589
Current portion of notes receivable, net	792,502	-
Net OPEB asset	<u>232,707</u>	<u>-</u>
TOTAL CURRENT ASSETS	54,616,993	16,632,267
NONCURRENT ASSETS		
Restricted cash and cash equivalents	16,260,103	-
Investments held by others	1,144,802	-
Notes receivable, net	3,431,396	-
Prepaid pension asset	5,725,421	-
Capital assets, net	<u>155,443,635</u>	<u>121,703</u>
TOTAL NONCURRENT ASSETS	<u>182,005,357</u>	<u>121,703</u>
TOTAL ASSETS	<u>\$ 236,622,350</u>	<u>\$ 16,753,970</u>
DEFERRED OUTFLOWS OF RESOURCES		
Deferred charge on OCIA lease restructure	<u>\$ 574,132</u>	<u>\$ -</u>

## STATEMENT OF NET POSITION--Continued

## NORTHEASTERN STATE UNIVERSITY

	University	Component Unit
	June 30, 2013	December 31, 2012
LIABILITIES		
CURRENT LIABILITIES		
Accounts payable	\$ 4,720,366	\$ 280
Accrued payroll	313,985	-
Accrued interest	162,776	-
Unearned revenue	2,816,464	-
Deposits held in custody for others	133,821	-
Current portion of noncurrent liabilities	4,514,480	11,680
TOTAL CURRENT LIABILITIES	<u>12,661,892</u>	<u>11,960</u>
NONCURRENT LIABILITIES		
Accrued compensated absences	1,099,703	-
Other liabilities		12,821
Federal loan program contributions refundable	8,001,000	-
Unearned capital assets	350,000	-
Bonds payable	20,116,097	-
Lease obligation payable to state agency	33,990,287	-
TOTAL NONCURRENT LIABILITIES	<u>63,557,087</u>	<u>12,821</u>
TOTAL LIABILITIES	<u>\$ 76,218,979</u>	<u>\$ 24,781</u>
NET POSITION		
Net investment in capital assets	99,248,742	-
Restricted:		
Nonexpendable, primarily for Scholarships		11,632,155
Expendable:		
Scholarships, instruction and other	5,024,816	3,342,394
Loans	729,512	-
Capital projects	11,921,403	-
Debt service	3,290,096	-
Unrestricted	40,762,934	1,754,640
TOTAL NET POSITION	<u>\$ 160,977,503</u>	<u>\$ 16,729,189</u>

See notes to financial statements.

STATEMENT OF REVENUES, EXPENSES AND CHANGES IN NET POSITION

NORTHEASTERN STATE UNIVERSITY

	University	Component Unit
	Year Ended June 30 2013	Year Ended December 31 2012
<b>OPERATING REVENUES</b>		
Student tuition and fees, net of scholarship discounts and allowances of \$14,602,000 (revenues of \$924,039 are pledged as security on University Center Series 1996 revenue bonds, and revenues of \$1,929,392 are pledged as security on Science Building Series 2004 revenue bonds)	\$ 28,986,005	\$ -
Federal and state grants and contracts	4,360,340	-
Housing and food service, net of scholarship discounts and allowances of \$1,334,000	3,031,283	-
Optometry contracts and practice plan	4,263,781	-
Interest earned on loans to students	112,017	-
Gifts and contributions	-	1,424,360
Investment income	-	1,810,735
Other operating revenues	3,051,536	23,652
<b>TOTAL OPERATING REVENUES</b>	<b>43,804,962</b>	<b>3,258,747</b>
<b>OPERATING EXPENSES</b>		
Compensation	66,544,935	-
Contractual services	3,121,619	-
Supplies and materials	3,785,161	-
Depreciation	9,979,544	-
Utilities	4,426,407	-
Communication expense	384,116	-
Scholarships and fellowships	12,844,079	1,347,349
Other operating expenses	6,711,531	163,269
<b>TOTAL OPERATING EXPENSES</b>	<b>107,797,392</b>	<b>1,510,618</b>
<b>OPERATING INCOME (LOSS)</b>	<b>(63,992,430)</b>	<b>1,748,129</b>
<b>NONOPERATING REVENUES (EXPENSES)</b>		
Federal and state grants and contracts	21,294,913	-
State appropriations	37,074,938	-
On-behalf contributions for OTRS	3,004,423	-
Gifts and contributions	679,452	-
Investment income	533,780	-
Interest expense	(2,241,977)	-
<b>NET NONOPERATING REVENUES</b>	<b>60,345,529</b>	<b>-</b>
Income before other revenues, expenses, gains and losses	(3,646,901)	1,748,129
Capital grants and gifts	1,500,000	-
State appropriations restricted for capital purposes	2,181,630	-
<b>CHANGE IN NET POSITION</b>	<b>34,729</b>	<b>1,748,129</b>
<b>NET POSITION AT BEGINNING OF YEAR</b>	<b>162,272,706</b>	<b>14,981,060</b>
Adjustment to net position for adoption of new accounting principle	(1,329,932)	-
<b>NET POSITION AT BEGINNING OF YEAR - Restated</b>	<b>160,942,774</b>	<b>14,981,060</b>
<b>NET POSITION AT END OF YEAR</b>	<b>\$ 160,977,503</b>	<b>\$ 16,729,189</b>

See notes to financial statements.

STATEMENT OF CASH FLOWS

NORTHEASTERN STATE UNIVERSITY

Year Ended June 30, 2013

CASH FLOWS FROM OPERATING ACTIVITIES

Tuition and fees	\$ 28,515,618
Grants and contracts	4,990,049
Other operating receipts	11,537,813
Payments to employees for salaries and benefits	(65,538,431)
Payments to suppliers	(31,074,472)
Loans made to students	(459,439)
Collection of student loans	<u>1,025,014</u>
NET CASH USED IN OPERATING ACTIVITIES	(51,003,848)

CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES

State appropriations	37,074,938
Nonoperating grants, primarily student financial assistance	21,294,913
Direct loan receipts	36,815,472
Direct loan payments	(36,815,472)
Gifts for other than capital purposes	<u>427,141</u>
NET CASH PROVIDED BY NONCAPITAL FINANCING ACTIVITIES	58,796,992

CASH FLOWS FROM INVESTING ACTIVITIES

Proceeds from sales of investments	2,276,833
Purchase of investments	(2,263,993)
Investment income received	<u>500,732</u>
NET CASH PROVIDED BY INVESTING ACTIVITIES	513,572

CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES

Cash paid for capital assets	(15,443,855)
Capital appropriations received	1,722,269
Capital gifts and grants received	1,500,000
Interest paid on capital debt and leases	(1,622,220)
Principal payments on capital debt and leases	<u>(2,381,917)</u>
NET CASH USED IN CAPITAL AND RELATED FINANCING ACTIVITIES	<u>(16,225,723)</u>

NET DECREASE IN CASH EQUIVALENTS (7,919,007)

CASH AND CASH EQUIVALENTS, BEGINNING OF YEAR 69,414,201

CASH AND CASH EQUIVALENTS, END OF YEAR \$ 61,495,194

See notes to financial statements.

STATEMENT OF CASH FLOWS--Continued

NORTHEASTERN STATE UNIVERSITY

Year Ended June 30, 2013

RECONCILIATION OF OPERATING LOSS TO  
NET CASH USED IN OPERATING ACTIVITIES

Operating loss	\$ (63,992,430)
Adjustments to reconcile operating loss to net cash used by operating activities:	
Depreciation	9,979,544
Loss on the disposal of fixed assets	56,936
On-behalf contributions to teachers' retirement system	3,004,423
Changes in assets and liabilities:	
Accounts receivable	661,010
Inventories	(28,049)
Loans receivable	565,575
Prepaid pension and other assets	(2,155,859)
Accounts payable and accrued expenses	79,555
Accrued payroll	111,106
Deferred revenue	577,507
Federal loan program contributions refundable	90,000
Compensated absences	<u>46,834</u>
NET CASH USED IN OPERATING ACTIVITIES	<u>\$ (51,003,848)</u>

NONCASH INVESTING, NONCAPITAL FINANCING  
AND CAPITAL AND RELATED FINANCING ACTIVITIES

Interest on capital debt paid by OCIA on behalf of the University	<u>\$ 346,799</u>
Principal on capital debt paid by OCIA on behalf of the University	<u>\$ 112,562</u>
Non-cash capital grants and gifts	<u>\$ 252,311</u>

RECONCILIATION OF CASH AND CASH  
EQUIVALENTS TO STATEMENTS OF NET ASSETS

Current assets:	
Cash and cash equivalents	\$ 42,429,006
Restricted cash and cash equivalents	2,806,085
Noncurrent assets:	
Restricted cash and cash equivalents	<u>16,260,103</u>
TOTAL CASH AND CASH EQUIVALENTS	<u>\$ 61,495,194</u>

See notes to financial statements.



## NOTES TO FINANCIAL STATEMENTS

### NORTHEASTERN STATE UNIVERSITY

June 30, 2013

#### 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*, and as amended by GASB Statement No. 61, *The Financial Reporting Entity: Omnibus*, includes the accounts and funds of the University and its component units, Cherokee County Educational Facilities Foundation, Inc. ("CCEFFI"), and the Center for Regional and International Partnerships, Inc. ("CRIPS").

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 CRIPS was formed September 8, 2011 as a nonprofit corporation to engage in economic development activities within the region on behalf of the University, and in accordance with the Oklahoma State Regents for Higher Education's mandates under *Making Place Matter*. The primary focus of CRIPS is to impact job creation and capital infusion into the rural, high unemployment economies of the region. CRIPS is governed by a board of directors comprised primarily of management of the University. In addition, university employees and facilities are used for virtually all activities of the Center. Accordingly, CRIPS has been reported as a blended component unit in the financial statements

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: 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.

NOTES TO FINANCIAL STATEMENTS--Continued

NORTHEASTERN STATE UNIVERSITY

June 30, 2013

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

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 position classified between current and noncurrent assets and liabilities and deferred outflows and inflows of resources; a statement of revenues, expenses and changes in net position, with separate presentation for operating and nonoperating revenues and expenses; and a statement of cash flows using the direct method.

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

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 position.

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 position.

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, 2013

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.

Unearned Revenue: Unearned 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. Amounts received from grant and contract sponsors that have not yet been earned, unless due to timing requirements, will be considered deferred revenue. Grant and contract sponsor amounts received but not recognized due to timing requirements will be reported as a deferred inflow of resources.

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 position, and as a component of compensation and benefit expense in the statements of revenues, expenses and changes in net position.

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 Position: The University's net position is classified as follows:

Net investment in capital assets: The net investment in capital assets component of net position consists of capital assets, net of accumulated depreciation, reduced by the outstanding balances of bonds, notes, or other borrowings that are attributable to the acquisition, construction, or improvement of those assets. Deferred outflows of resources and deferred inflows of resources that are attributable to the acquisition, construction, or improvement of those assets or related debt are also included in this component of net position. To the extent debt has been incurred but not yet expended for capital assets, such amounts are not included as a component of net investment in capital assets.

NOTES TO FINANCIAL STATEMENTS--Continued

NORTHEASTERN STATE UNIVERSITY

June 30, 2013

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

Net Position--Continued:

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

Unrestricted net position: Unrestricted net position represents 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, 2013

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 position. 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.

Deferred Outflows of Resources: Deferred outflows are the consumption of net position by the University that are applicable to a future reporting period. At June 30, 2013, the University's deferred outflows of resources were comprised of deferred charges on OCIA lease restructurings. These deferred outflows of resources are recognized as a component of interest expense over the remaining life of the old debt or the life of the new debt, whichever is shorter.

Deferred Inflows of Resources: Deferred inflows are the acquisition of net position by the University that are applicable to a future reporting period. At June 30, 2013, the University has no deferred inflows of resources.

New Accounting Pronouncements Adopted in Fiscal Year 2013: The University adopted several new accounting pronouncements during the year ended June 30, 2013 as follows:

- *Statement No. 60, Accounting and Financial Reporting for Service Concession Arrangements.*  
GASB No. 60 addresses issues related to service concession arrangements (SCAs), which are a type of public-private or public-public partnership. This Statement applies only to those arrangements in which specific criteria determining whether a transferor has control over the facility are met. The University will only be required to adopt the provisions of GASB No. 60 if it enters into an SCA, and it currently has not entered into any such arrangements.
- *Statement No. 61, The Financial Reporting Entity: Omnibus - An Amendment of GASB Statements No. 14 and No. 34.*  
GASB No. 61 modifies certain requirements for inclusion of component units in the financial reporting entity. 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 adoption of GASB No. 61 did not have a significant impact on the University's financial statement presentation.

NOTES TO FINANCIAL STATEMENTS--Continued

NORTHEASTERN STATE UNIVERSITY

June 30, 2013

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

New Accounting Pronouncements Adopted in Fiscal Year 2013--Continued:

- *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 adoption of GASB No. 62 did not have an impact on the University's financial position, or changes in financial position or cash flows, or its financial statement presentation.

- *Statement No. 63, Financial Reporting of Deferred Outflows of Resources, Deferred Inflows of Resources, and Net Position.*

GASB No. 63 provides financial reporting guidance for deferred outflows of resources and deferred inflows of resources. Previous financial reporting standards do not include guidance for reporting those financial statement elements, which are distinct from assets and liabilities. Adoption of this statement has required the University to make changes in its financial statement presentation, and required certain financial statement elements previously reported as assets to be reported as deferred outflows of resources.

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

GASB Statement No. 65 establishes accounting and financial reporting standards that reclassify, as deferred outflows of resources or deferred inflows of resources, certain items that were previously reported as assets and liabilities and recognizes, as outflows of resources (expenses) or inflows of resources (revenues), certain items that were previously recognized as assets and liabilities. The University has chosen to early adopt GASB Statement No. 65 in 2013. As a result of the adoption of GASB Statement No. 65, the University's net position as of July 1, 2012 decreased by \$1,329,932.

NOTES TO FINANCIAL STATEMENTS--Continued

NORTHEASTERN STATE UNIVERSITY

June 30, 2013

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

New Accounting Pronouncements Issued Not Yet Adopted: The GASB has also issued several new accounting pronouncements which will be effective to the University in subsequent years. A description of the new accounting pronouncements, the fiscal year in which they are effective, and the University's consideration of the impact of these pronouncements are described below:

*Fiscal Year Ended June 30, 2014*

- *Statement No. 70, Accounting and Financial Reporting for Nonexchange Financial Guarantees.*

GASB No. 70 requires a government that extends a nonexchange financial guarantee to recognize a liability when qualitative factors and historical data, if any, indicate that it is more likely than not that the government will be required to make a payment on the guarantee. The government is required to report the guaranteed obligation until it is legally released as an obligor, and when it is legally released, it should recognize revenue as a result of this release. The provisions of this Statement are effective for reporting periods beginning after June 15, 2013. Earlier application is encouraged. Except for certain disclosure requirements which may be applied prospectively, the provisions of this Statement are required to be applied retroactively. The University has not yet evaluated the effects that GASB No. 70 will have on its financial statements.

*Fiscal Year Ended June 30, 2015*

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

GASB No. 68 establishes standards for measuring and recognizing liabilities, deferred outflows of resources, deferred inflows of resources, and pension expenses. GASB No. 68 also details the recognition and disclosure requirements for employers with liabilities to a defined benefit pension plan and for employers whose employees are provided with defined contribution pensions. Defined benefit pensions are further classified by GASB No. 68 as single employer plans, agent employer plans and cost-sharing plans, and recognition and disclosure requirements are addressed for each classification. GASB No. 68 was issued in June 2012, and implementation guidance is expected to be issued in November 2013. Although the University has not yet quantified the impact that GASB No. 68 will have on its financial statements, it believes that adoption will result in a significant decrease in its net position.

- *Statement No. 69, Government Combinations and Disposals of Government Operations.*

GASB No. 69 was issued in January 2013 and establishes accounting and financial reporting standards related to government combinations and disposals of government operations. Government combinations can include a variety of transactions, including mergers, acquisitions and transfers of operations. A disposal of a government's operations results in the removal of specific activities of a government. The requirements of this Statement are effective for government combinations and disposals of government operations occurring in financial reporting periods beginning after December 15, 2013, and should be applied on a prospective basis. Earlier application is encouraged.

NOTES TO FINANCIAL STATEMENTS--Continued

NORTHEASTERN STATE UNIVERSITY

June 30, 2013

NOTE B--DEPOSITS AND INVESTMENTS

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

Some deposits with the OST are placed in the OST's internal investment pool *OK INVEST*. *OK INVEST* pools the resources of all state funds and agencies and invests them in (a) U.S. treasury securities which are explicitly backed by the full faith and credit of the U.S. government; (b) U.S. agency securities which carry an implicit guarantee of the full faith and credit of the U.S. government; (c) money market mutual funds which participate 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, 2013, the carrying amount of all University deposits with the OST and other financial institutions were \$61,495,194. These amounts consisted of deposits with the OST (\$60,379,485) and deposits with financial institutions (\$1,097,369) and change funds (\$18,340). Of funds on deposit with the OST, amounts invested in *OK INVEST* total \$36,587,969 at June 30, 2013.



NOTES TO FINANCIAL STATEMENTS--Continued

NORTHEASTERN STATE UNIVERSITY

June 30, 2013

NOTE B--DEPOSITS AND INVESTMENTS--Continued

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

<u>OK INVEST Portfolio</u>	<u>Cost</u>	<u>Market Value</u>
U.S. agency securities	\$ 14,382,107	\$ 14,321,303
Money market mutual funds	3,433,297	3,433,297
Certificates of deposit	934,660	934,660
Mortgage backed agency securities	15,721,985	15,799,169
Municipal bonds	616,386	682,297
Foreign bonds	289,000	288,827
Commercial Paper	769,015	769,015
U.S. Treasury obligations	441,519	538,800
TOTAL	<u>\$ 36,587,969</u>	<u>\$ 36,767,368</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, 2013

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, 2013, none of the University's investments were subject to custodial credit risk.

At June 30, 2013, 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, 2013. The money market funds had an average credit rating of AAAm at June 30, 2013 according to Standard and Poor's.

NOTES TO FINANCIAL STATEMENTS--Continued

NORTHEASTERN STATE UNIVERSITY

June 30, 2013

NOTE B--DEPOSITS AND INVESTMENTS--Continued

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, 2013, the University had investments consisting of money market funds in restricted bond funds totaling \$1,982,666.

Investments held by others: At June 30, 2013, the University had investments held by others totaling \$1,144,802. The investments included investments held at the Oklahoma Development Finance Authority (ODFA) for the University of \$344,796 for June 30, 2013. The investments also included investments held at the Oklahoma State Regents for Higher Education for the University of \$800,006 at June 30, 2013.

NOTE C--ACCOUNTS RECEIVABLE

Accounts receivable consisted of the following at June 30, 2013:

Student tuition and fees	\$ 3,291,333
Auxiliary enterprises and other operating activities	1,322,763
Federal, state, and private grants and contracts	775,084
Cancelled Perkins loans	<u>1,595,558</u>
	6,984,738
Less: allowance for doubtful accounts	<u>(2,100,554)</u>
Net accounts receivable	<u>\$ 4,884,184</u>

The receivable from state agencies consists of a receivable from the Oklahoma State Regents for Higher Education (OSRHE). The receivable is \$528,217 in 2013 that represents endowment revenue earned by the University that is invested at OSRHE.

NOTES TO FINANCIAL STATEMENTS--Continued

NORTHEASTERN STATE UNIVERSITY

June 30, 2013

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, 2013 and 2012. 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 \$8,001,000 at June 30, 2013, are reflected in the accompanying statements of net position 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, 2013 loans receivable consisted of the following:

Perkins loans receivable	\$ 4,447,387
Less: allowance for uncollectible loans	<u>(223,489)</u>
Net loans receivable	<u>\$ 4,223,898</u>

NOTES TO FINANCIAL STATEMENTS--Continued

NORTHEASTERN STATE UNIVERSITY

June 30, 2013

NOTE E--CAPITAL ASSETS

Following are the changes in capital assets for the year ended June 30, 2013:

	Balance June 30, 2012	Additions	Transfers	Retirements/ Adjustments	Balance June 30, 2013
Capital assets not being depreciated					
Land	\$ 6,940,494	\$ -	\$ -	\$ (499)	\$ 6,939,995
Construction in progress	5,153,378	11,981,954	(3,082,740)	-	14,052,592
Total assets not being depreciated	<u>\$ 12,093,872</u>	<u>\$ 11,981,954</u>	<u>\$ (3,082,740)</u>	<u>\$ (499)</u>	<u>\$ 20,992,587</u>
Other capital assets					
Non-major infrastructure networks	\$ 7,542,125	\$ -	\$ -	\$ -	\$ 7,542,125
Buildings and improvements	180,554,902	3,262,398	3,082,740	-	186,900,040
Furniture, fixtures and equipment	25,807,964	861,362	-	(5,508,543)	21,160,783
Library materials	12,876,446	690,304	-	(487,173)	13,079,577
Total other capital assets	226,781,437	4,814,064	3,082,740	(5,995,716)	228,682,525
Less: accumulated depreciation for					
Non-major infrastructure networks	2,412,635	328,805	-	-	2,741,440
Buildings and improvements	58,563,989	6,354,683	-	-	64,918,672
Furniture, fixtures and equipment	19,751,527	2,469,416	-	(5,452,104)	16,768,839
Library materials	9,463,059	826,640	-	(487,173)	9,802,526
Total accumulated depreciation	<u>90,191,210</u>	<u>9,979,544</u>	<u>-</u>	<u>(5,939,277)</u>	<u>94,231,477</u>
Other capital assets, net	<u>\$ 136,590,227</u>	<u>\$ (5,165,480)</u>	<u>\$ 3,082,740</u>	<u>\$ (56,439)</u>	<u>\$ 134,451,048</u>
Capital asset summary:					
Capital assets not being depreciated	\$ 12,093,872	\$ 11,981,954	\$ (3,082,740)	\$ (499)	\$ 20,992,587
Other capital assets, at cost	226,781,437	4,814,064	3,082,740	(5,995,716)	228,682,525
Total cost of capital assets	238,875,309	16,796,018	-	(5,996,215)	249,675,112
Less: accumulated depreciation	<u>90,191,210</u>	<u>9,979,544</u>	<u>-</u>	<u>(5,939,277)</u>	<u>94,231,477</u>
Capital assets, net	<u>\$ 148,684,099</u>	<u>\$ 6,816,474</u>	<u>\$ -</u>	<u>\$ (56,938)</u>	<u>\$ 155,443,635</u>

At June 30, 2013, the cost and related accumulated depreciation of assets held under capital lease obligations and included in the above amounts were \$46,418,825 and \$15,170,930 respectively.

NOTES TO FINANCIAL STATEMENTS--Continued

NORTHEASTERN STATE UNIVERSITY

June 30, 2013

NOTE F--LONG-TERM LIABILITIES

Long-term liability activity for the year ended June 30, 2013 was as follows:

	Balance June 30, 2012	Additions	Reductions	Balance June 30, 2013	Amounts due within one year
Bonds payable					
Revenue bonds payable	\$ 22,360,000	\$ -	\$ (1,050,000)	\$ 21,310,000	\$ 1,090,000
Less issuance discounts	(108,754)	4,851	-	(103,903)	-
Total bonds payable	22,251,246	4,851	(1,050,000)	\$ 21,206,097	1,090,000
Capital lease obligations					
ODFA Master Lease	14,140,751	-	(1,331,917)	12,808,834	1,223,751
Premium on ODFA lease obligation	45,714	-	(9,143)	36,571	-
OCIA lease obligation	23,234,973	-	(112,562)	23,122,411	753,778
Total capital leases	37,421,438	-	(1,453,622)	35,967,816	1,977,529
Other liabilities					
Unearned capital assets	400,000	-	-	400,000	50,000
Federal loan program contributions	7,911,000	90,000	-	8,001,000	-
Accrued compensated absences	2,449,820	1,417,580	(1,370,746)	2,496,654	1,396,951
Total other liabilities	10,760,820	1,507,580	(1,370,746)	10,897,654	1,446,951
Total long-term liabilities	\$ 70,433,504	\$ 1,512,431	\$ (3,874,368)	\$ 68,071,567	\$ 4,514,480

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 portion of two specific student fees (i.e., facility and technology 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, 2013

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, 2013, future aggregate maturities of principal and interest requirements on the Bonds payable are as follows:

Year Ending June 30:	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2014	\$ 300,000	\$ 147,590	\$ 447,590
2015	315,000	132,290	447,290
2016	330,000	116,225	446,225
2017	350,000	99,395	449,395
2018	365,000	81,370	446,370
2019-2021	<u>1,215,000</u>	<u>127,205</u>	<u>1,342,205</u>
	<u>\$ 2,875,000</u>	<u>\$ 704,075</u>	<u>\$ 3,579,075</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 (i.e., facility and technology 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.

At June 30, 2013, future aggregate maturities of principal and interest requirements on the Bonds payable are as follows:

Year Ending June 30:	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2014	\$ 470,000	\$ 248,104	\$ 718,104
2015	490,000	232,124	722,124
2016	505,000	214,974	719,974
2017	525,000	196,667	721,667
2018	545,000	176,980	721,980
2019-2023	3,055,000	541,210	3,596,210
2024	<u>690,000</u>	<u>29,670</u>	<u>719,670</u>
	<u>\$ 6,280,000</u>	<u>\$ 1,639,729</u>	<u>\$ 7,919,729</u>

NOTES TO FINANCIAL STATEMENTS--Continued

NORTHEASTERN STATE UNIVERSITY

June 30, 2013

NOTE F--LONG-TERM LIABILITIES--Continued

Revenue Bonds Payable--Continued:

*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 were 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.

At June 30, 2013, 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:			
2014	\$ 320,000	\$ 611,910	\$ 931,910
2015	335,000	597,523	932,523
2016	350,000	581,683	931,683
2017	365,000	565,148	930,148
2018	380,000	547,920	927,920
2019-2023	2,205,000	2,435,536	4,640,536
2024-2028	2,825,000	1,796,171	4,621,171
2029-2033	3,640,000	952,875	4,592,875
2034-2035	1,735,000	92,269	1,827,269
	<u>\$ 12,155,000</u>	<u>\$ 8,181,035</u>	<u>\$ 20,336,035</u>



NOTES TO FINANCIAL STATEMENTS--Continued

NORTHEASTERN STATE UNIVERSITY

June 30, 2013

NOTE F--LONG-TERM LIABILITIES--Continued

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, 2013, 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.

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 year ended June 30, 2013, OCIA made lease principal and interest payments totaling \$159,026 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 position.

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.

NOTES TO FINANCIAL STATEMENTS--Continued

NORTHEASTERN STATE UNIVERSITY

June 30, 2013

NOTE F--LONG-TERM LIABILITIES--Continued

Capital Lease Obligations--Continued:

*Oklahoma Capital Improvement Authority Leases--Continued*

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 outflow of resources 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.

Through June 30, 2013, 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. During the year ended June 30, 2013, OCIA made lease principal and interest payments totaling \$300,335 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 position.

*Oklahoma Development Finance Authority Master Lease Program*

*Series 2003B, 2003C and 2004A*

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 position.

NOTES TO FINANCIAL STATEMENTS--Continued

NORTHEASTERN STATE UNIVERSITY

June 30, 2013

NOTE F--LONG-TERM LIABILITIES--Continued

Capital Lease Obligations--Continued:

*Oklahoma Development Finance Authority Master Lease Program--Continued*

*Series 2003B, 2003C and 2004A*

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 payments 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, 2013, the University has drawn down the entire balance for expenditures incurred in connection with specified projects.

At June 30, 2013, trust accounts with balances totaling \$344,796 are included with Investments held by others in the University's statement of net position. 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.

*Series 2010A*

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, 2013, the University has spent all net proceeds in connection with specified projects.

*Series 2011*

The ODFA issued the ODFA Master Real Property Lease Revenue Bonds, Series 2011 in the University's fiscal year that ended June 30, 2012. 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 \$5,990,000 to fund the constructions of a new Multi-Purpose Events Center.

NOTES TO FINANCIAL STATEMENTS--Continued

NORTHEASTERN STATE UNIVERSITY

June 30, 2013

NOTE F--LONG-TERM LIABILITIES--Continued

Capital Lease Obligations--Continued:

*Oklahoma Development Finance Authority Master Lease Program--Continued*

*Series 2011--Continued*

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 this lease. The final payment on the lease is May 15, 2031. After payment of bond closing costs, the net proceeds were \$6,000,000 to the project fund. Through June 30, 2013, the University has spent \$5,245,702 of the net proceeds in connection with the specified project.

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

Year Ending June 30:	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2014	\$ 1,977,529	\$ 1,529,944	\$ 3,507,473
2015	3,033,995	1,447,760	4,481,755
2016	3,131,971	1,346,891	4,478,862
2017	3,364,429	1,292,117	4,656,546
2018	3,072,942	1,152,149	4,225,091
2019-2023	7,277,693	4,311,607	11,589,300
2024-2028	8,390,990	2,591,045	10,982,035
2029-2031	5,681,696	560,750	6,242,446
	<u>\$ 35,931,245</u>	<u>\$ 14,232,263</u>	<u>\$ 50,163,508</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 2013 was \$50,000.

NOTES TO FINANCIAL STATEMENTS--Continued

NORTHEASTERN STATE UNIVERSITY

June 30, 2013

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 by state statute to contribute a fixed percentage of annual compensation on behalf of active members. The employer contribution rate, as determined by state statute, was 8.55% for 2013, 2012, and 2011, and was applied to annual compensation.

Employees' contributions are also determined by state statute. For all employees, the contribution rate was 7% of covered salaries and fringe benefits in 2013, 2012, and 2011. For compensation in excess of \$25,000, the employee's contributions are paid directly by the University to the OTRS.

The University's contributions to the OTRS for the years ended June 30, 2013, 2012, and 2011, were approximately \$5,626,000, \$5,314,000, and \$5,351,000, 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.

NOTES TO FINANCIAL STATEMENTS--Continued

NORTHEASTERN STATE UNIVERSITY

June 30, 2013

NOTE G--RETIREMENT PLANS--Continued

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

Funding Policy--Continued: The State of Oklahoma is also required to contribute to the OTRS on behalf of the participating employers. For 2013, 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 year ended June 30, 2013, the total amounts contributed to the OTRS by the State of Oklahoma on behalf of the University were approximately \$3,004,000. These on behalf payments have been recorded as both revenues and expenses in the statements of revenues, expenses and changes in net position.

*Supplemental Retirement Annuity (SRA)*

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

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

NOTES TO FINANCIAL STATEMENTS--Continued

NORTHEASTERN STATE UNIVERSITY

June 30, 2013

NOTE G--RETIREMENT PLANS--Continued

*Supplemental Retirement Annuity (SRA)--Continued*

Annual Pension Cost and Net Pension Obligation (Asset): Annual pension cost and net pension obligation (asset) of the SRA for 2013 is as follows:

Annual required contribution	\$ 839,912
Interest on net pension obligation	(313,681)
Adjustment to annual required contribution	<u>399,364</u>
Annual pension cost	925,595
Contribution made	<u>(2,730,000)</u>
Increase (decrease) in net pension obligation	(1,804,405)
Net pension obligation at beginning of year	<u>(3,921,016)</u>
Net pension obligation (asset) at end of year	<u>\$ (5,725,421)</u>

The annual required contributions for 2013 was determined as part of an actuarial valuation on June 30, 2013, using the projected unit credit actuarial cost method. The actuarial assumptions included (a) a discount rate of 6.5% per year to determine the present value of future benefit payments; (b) retirement at age 63; (c) a 6.5% rate of return on investments; and (d) projected salary increases of 2.5% 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.

Trend Information:

Year Ended June 30	Annual Pension Cost (APC)	Percentage of APC Contributed	Net Pension Obligation (Asset)
2013	\$ 925,595	295.00%	\$ (5,725,421)
2012	\$ 864,256	101.36%	\$ (3,921,016)
2011	\$ 815,877	128.52%	\$ (3,909,272)

Funded Status and Funding Progress: The funded status of the plan as of June 30 was as follows:

Actuarial accrued liability (AAL)	\$ 15,658,094
Actuarial value of plan assets	<u>8,418,182</u>
Unfunded actuarial accrued liability (UAAL)	<u>\$ 7,239,912</u>
Funded ratio (actuarial value of plan assets/AAL)	53.8%
Covered payroll (active plan members)	5,553,958
UAAL as a percentage of covered payroll	130.4%

NOTES TO FINANCIAL STATEMENTS--Continued

NORTHEASTERN STATE UNIVERSITY

June 30, 2013

NOTE G--RETIREMENT PLANS--Continued

*Supplemental Retirement Annuity (SRA)--Continued*

Funded Status and Funding Progress--Continued: The schedule of funding progress, presented as required supplementary information following the notes to the financial statements, presents multi-year trend information, as available, about whether the actuarial value of plan assets are increasing or decreasing over time relative to the actuarial accrued liability for benefits.

*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, 2013, 2012, and 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, 2013, there were 618 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 \$555,012 and represents 1.45% (percent) of covered payroll.



NOTES TO FINANCIAL STATEMENTS--Continued

NORTHEASTERN STATE UNIVERSITY

June 30, 2013

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 2013 is as follows:

Annual required contribution	\$ 555,012
Interest on net OPEB obligation	8,312
Adjustment to annual required contribution	<u>(9,573)</u>
Annual OPEB cost	553,751
Contribution made	<u>(905,205)</u>
Decrease in net OPEB obligation	(351,454)
Net OPEB obligation (asset) at beginning of year	<u>118,747</u>
Net OPEB obligation (asset) at end of year	<u><u>\$ (232,707)</u></u>

Projections of benefits for financial reporting purposes are based on the substantive plan and include the types of benefits provided at the time of each valuation. The actuarial methods and assumptions used include techniques that are designed to reduce short-term volatility in actuarial accrued liabilities and the actuarial value of assets, consistent with the long-term perspective of the calculations.

For the June 30, 2013 actuarial valuation, the projected unit credit cost method was used. The actuarial assumptions included the following:

- investment rate of return of 7%
- annual healthcare cost inflationary increase of 9.5%
- projected salary increases for first year of service to fifteen or more years of service of 6% to 4.25%

Trend Information:

Fiscal Year Ended	Annual OPEB Cost	Annual OPEB Cost Contributed	Net OPEB Obligation (Asset)
2013	\$ 553,751	163%	\$ (232,707)
2012	\$ 531,991	44%	\$ 118,747
2011	\$ 519,180	93%	\$ (178,455)

NOTES TO FINANCIAL STATEMENTS--Continued

NORTHEASTERN STATE UNIVERSITY

June 30, 2013

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:

Actuarial accrued liability (AAL)	\$ 4,849,064
Actuarial value of plan assets	<u>1,686,819</u>
Unfunded actuarial accrued liability (UAAL)	<u>\$ 3,162,245</u>
Funded ratio (actuarial value of plan assets/AAL)	34.8%
Covered payroll (active plan members)	\$ 38,198,474
UAAL as a percentage of covered payroll	8.3%

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.

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 \$1,274,000 during the year ended June 30, 2013, 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 position. 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 \$17,338,000 at June 30, 2013.

NOTES TO FINANCIAL STATEMENTS--Continued

NORTHEASTERN STATE UNIVERSITY

June 30, 2013

NOTE I--FUNDS HELD IN TRUST BY OTHERS--Continued

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 \$1,927,000 at June 30, 2013, 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 \$528,000 at June 30, 2013, have been reflected as assets in the statements of net position. In connection with the program, private contributions totaling approximately \$1,672,000 as of June 30, 2013, are being held by the University Foundation for the benefit of the University. Additional private contributions of approximately \$525,000 as of June 30, 2013, 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 \$200,000 for the year ended June 30, 2013.

NOTE K--COMMITMENTS AND CONTINGENCIES

The University had outstanding commitments under construction contracts of approximately \$4,707,529 at June 30, 2013.

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, 2012 approximately \$36,815,000 of Direct Loan funds were disbursed 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, 2013, will not have material adverse impact to the University.

NOTES TO FINANCIAL STATEMENTS--Continued

NORTHEASTERN STATE UNIVERSITY

June 30, 2013

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.

The University, along with other state agencies and political subdivisions, participates in the State of Oklahoma Risk Management Program and CompSource Oklahoma (formerly 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, 2013

NOTE M--CONDENSED COMBINING FINANCIAL INFORMATION

As noted in the reporting entity section above, the University's financial statements contain two blended component units, CCEFFI and CRIPS. CCEFFI also meets the definition of a segment under the provisions of GASB Statement No. 34. Condensed combining financial information of the University, CCEFFI, and CRIPS is presented below (in thousands):

Condensed Statements of Net Position (000's)

	June 30, 2013				
	<u>University</u>	<u>CCEFFI</u>	<u>CRIPS</u>	<u>Eliminations</u>	<u>Total</u>
<b>ASSETS</b>					
Current assets	\$ 52,665	\$ 2,336	\$ 4	\$ (388)	\$ 54,617
Capital assets, net	147,405	8,039	-	-	155,444
Other assets	<u>26,562</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>26,562</u>
TOTAL ASSETS	<u>\$ 226,632</u>	<u>\$ 10,375</u>	<u>\$ 4</u>	<u>\$ (388)</u>	<u>\$ 236,623</u>
<b>DEFERRED OUTFLOWS OF RESOURCES</b>					
	<u>\$ 574</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 574</u>
<b>LIABILITIES</b>					
Current liabilities	\$ 12,635	\$ 415	\$ -	\$ (388)	\$ 12,662
Non-current liabilities	<u>51,438</u>	<u>12,119</u>	<u>-</u>	<u>-</u>	<u>63,557</u>
TOTAL LIABILITIES	<u>\$ 64,073</u>	<u>\$ 12,534</u>	<u>\$ -</u>	<u>\$ (388)</u>	<u>\$ 76,219</u>
<b>NET POSITION</b>					
Net investment in capital assets	\$ 103,261	\$ (4,012)	\$ -	\$ -	\$ 99,249
Restricted-expendable	19,150	1,816	-	-	20,966
Unrestricted	<u>40,722</u>	<u>37</u>	<u>4</u>	<u>-</u>	<u>40,763</u>
TOTAL NET POSITION	<u>\$ 163,133</u>	<u>\$ (2,159)</u>	<u>\$ 4</u>	<u>\$ -</u>	<u>\$ 160,978</u>

NOTES TO FINANCIAL STATEMENTS--Continued

NORTHEASTERN STATE UNIVERSITY

June 30, 2013

NOTE M--CONDENSED COMBINING FINANCIAL INFORMATION--Continued

Condensed Statements of Revenues,  
Expenses and Changes in Net Position (000's)

	June 30, 2013				
	<u>University</u>	<u>CCEFFI</u>	<u>CRIPS</u>	<u>Eliminations</u>	<u>Total</u>
Operating Revenues					
Student tuition and fees, net	\$ 28,986	\$ -	\$ -	\$ -	\$ 28,986
Grants and contracts	4,360	-	-	-	4,360
Other	9,186	1,273	-	-	10,459
Total Operating Revenues	42,532	1,273	-	-	43,805
Operating Expenses					
Compensation and benefits	66,463	82	-	-	66,545
Depreciation	9,711	269	-	-	9,980
Other	31,029	243	-	-	31,272
Total Operating Expenses	107,203	594	-	-	107,797
Operating Income (Loss)	(64,671)	679	-	-	(63,992)
Nonoperating Revenues (Expenses)					
State appropriations	37,075	-	-	-	37,075
Grants and contributions	21,974	-	-	-	21,974
Interest expense	(1,613)	(629)	-	-	(2,242)
Other	3,537	1	-	-	3,538
Net Nonoperating Revenues	60,973	(628)	-	-	60,345
Capital and Other Restricted					
Appropriations	2,182	-	-	-	2,182
Other	1,500	-	-	-	1,500
Change in Net Position	(16)	51	-	-	35
Net Position at Beginning of Year (Restated)	163,149	(2,210)	4	-	160,943
Net Position at End of Year	<u>\$ 163,133</u>	<u>\$ (2,159)</u>	<u>\$ 4</u>	<u>\$ -</u>	<u>\$ 160,978</u>

NOTES TO FINANCIAL STATEMENTS--Continued

NORTHEASTERN STATE UNIVERSITY

June 30, 2013

NOTE M--CONDENSED COMBINING FINANCIAL INFORMATION--Continued

Condensed Statements of Cash Flows (000's)

	June 30, 2013				
	<u>University</u>	<u>CCEFFI</u>	<u>CRIPS</u>	<u>Eliminations</u>	<u>Total</u>
Net Cash Provided (Used) By					
Operating activities	\$ (51,978)	\$ 974	\$ -	\$ -	\$ (51,004)
Noncapital financing activities	58,797	-	-	-	58,797
Capital and related financing activities	(15,292)	(934)	-	-	(16,226)
Investing activities	<u>514</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>514</u>
Net Increase (Decrease)	(7,959)	40	-	-	(7,919)
Beginning cash and cash equivalents	<u>67,183</u>	<u>2,227</u>	<u>4</u>	<u>-</u>	<u>69,414</u>
Ending cash and cash equivalents	<u>\$ 59,224</u>	<u>\$ 2,267</u>	<u>\$ 4</u>	<u>\$ -</u>	<u>\$ 61,495</u>

NOTES TO FINANCIAL STATEMENTS--Continued

NORTHEASTERN STATE UNIVERSITY

June 30, 2013

NOTE N--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.

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.



NOTES TO FINANCIAL STATEMENTS--Continued

NORTHEASTERN STATE UNIVERSITY

June 30, 2013

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

*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, 2012:

Description	12/31/2012	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
Cash & Cash				
Equivalents	\$ 180,487	\$ -	\$ 180,487	\$ -
Marketable Securities	-	-	-	-
Available-for-sale Securities	<u>16,010,151</u>	<u>16,010,151</u>	<u>-</u>	<u>-</u>
Total	<u>\$ 16,190,638</u>	<u>\$ 16,010,151</u>	<u>\$ 180,487</u>	<u>\$ -</u>

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

The Foundation's overall investment objective is "Growth and income". The intent of the objective is to provide both current income and future growth to accommodate the Foundation's spending policy plus normal inflation; thereby, preserving the constant dollar value and purchasing power of the Foundation for future generations. Investment performance is judged over a three to five year time frame. The goal of each asset class is to achieve the total return of its benchmark while maintaining a risk level less than that of the benchmark. The overall goal for the Foundation is to achieve a 5% annual real rate of return after inflation.

NOTES TO FINANCIAL STATEMENTS--Continued

NORTHEASTERN STATE UNIVERSITY

June 30, 2013

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

*INVESTMENTS--Continued*

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. The alternative investment portion is expected to constitute no more than 15% 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 statements 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 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.

The following schedule summarizes the investment return and its classification in the statement of activities for the year ended December 31, 2012:

Description	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Interest & Dividends	\$ 102,811	\$ 9,043	\$ 187,684	\$ 299,538
Realized gain (loss)	49,799	107,427	316,155	473,381
Unrealized gain (loss)	58,498	979,318	-	1,037,816
Total investment return	<u>\$ 211,108</u>	<u>\$ 1,095,788</u>	<u>\$ 503,839</u>	<u>\$ 1,810,735</u>

The Foundation makes available for spending each year 5% of the average of five 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, the value 30 months before the beginning of the year, the value 42 months before the beginning of the year and the value 54 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 rata basis.

NOTES TO FINANCIAL STATEMENTS--Continued

NORTHEASTERN STATE UNIVERSITY

June 30, 2013

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

*ENDOWMENT DISCLOSURES*

The NSU Foundation's endowment consists of 209 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 position associated with endowment funds are classified and reported based on the existence or absence of donor-imposed restrictions.

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 position (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 position composition by type of fund as of December 31, 2012

Description	Unrestricted	Temporarily Restricted	Permenently Restricted	Total
Donor-restricted endowment funds	\$ -	\$ 730,582	\$11,586,224	\$12,316,806
Board-designated endowment funds	901,540	-	-	901,540
Total funds invested	<u>\$ 901,540</u>	<u>\$ 730,582</u>	<u>\$11,586,224</u>	<u>\$13,218,346</u>

NOTES TO FINANCIAL STATEMENTS--Continued

NORTHEASTERN STATE UNIVERSITY

June 30, 2013

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

*ENDOWMENT DISCLOSURES--Continued*

Change in endowment net position for the year ended December 31, 2012:

	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Permanently Restricted</u>	<u>Total</u>
Endowment net assets, beginning of year	\$ 815,372	\$ (313,205)	\$ 11,284,771	11,786,938
Investment return:				
Investment income	19,703	12,334	256,571	288,608
Investment fees	(4,657)	(3,291)	(68,887)	(76,835)
Net realized and unrealized loss on investments	<u>108,297</u>	<u>15,146</u>	<u>1,387,753</u>	<u>1,511,196</u>
Total investment return	123,343	24,189	1,575,437	1,722,969
Contributions	100	14,858	237,032	251,990
Appropriation of endowment assets for expenditures	(37,275)	(30,280)	(459,410)	(526,965)
Transfer to move investment appreciation (depreciation)	-	1,071,599	(1,071,599)	-
Transfer to add/remove board or donor designated endowment funds	<u>-</u>	<u>(36,579)</u>	<u>19,992</u>	<u>(16,587)</u>
Endowment net assets, end of year	<u>\$ 901,540</u>	<u>\$ 730,582</u>	<u>\$ 11,586,223</u>	<u>\$13,218,346</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, using the total of endowment funds, there was no deficiency of this nature at December 31, 2012.

*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 5% of market value averaged over the last five years. 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, 2013

**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%
6/30/2012	\$ 6,567,402	\$ 13,614,545	\$ 7,047,143	48.2%	\$ 5,954,050	118.4%
6/30/2013	\$ 8,418,182	\$ 15,658,094	\$ 7,239,912	53.8%	\$ 5,553,958	130.4%

**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)
6/30/2009	\$ 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%
6/30/2012	\$ 1,052,704	\$ 5,261,437	\$ 4,208,733	20.0%	\$ 38,570,427	10.9%
6/30/2013	\$ 1,686,819	\$ 4,849,064	\$ 3,162,245	34.8%	\$ 38,198,474	8.3%

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

The actuarial valuation for the Supplemental Retirement Annuity Plan as of June 30, 2013, reflects changes in actuarial assumptions used to more accurately reflect management's expectation of the actuarial accrued liability based upon current economic conditions. See Note G for a description of assumptions used.

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, which comprise the statement of net position as of June 30, 2013, and the related statements of revenues, expenses, and changes in net position and cash flows for the year then ended, and the related notes to the financial statements, and have issued our report thereon dated October 31, 2013. We conducted our audit in accordance with the 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. Our report includes a reference to other auditors who audited the financial statements of the Northeastern State University Foundation, Inc. (the "Foundation"), the University's discretely presented component unit, as described in our report on the University's financial statements. The financial statements of the Foundation were not audited in accordance with *Government Auditing Standards* and accordingly this report does not include reporting on internal control over financial reporting or instances of reportable noncompliance associated with the Foundation.

**Internal Control Over Financial Reporting**

In planning and performing our audit of the financial statements, we considered the University's internal control over financial reporting (internal control) to determine the audit procedures that are appropriate in the circumstances 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. Accordingly, we do not express an opinion on the effectiveness of the University's internal control.

*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 entity's financial statements will not be prevented, or detected and corrected on a timely basis. *A significant deficiency* is a deficiency, or combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.



Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

### **Compliance and Other Matters**

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

### **Purpose of this Report**

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the University's internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the University's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

Cole & Reed P.C.

Oklahoma City, Oklahoma  
October 31, 2013

**Independent Auditors' Report**  
**on Compliance For Each Major Federal Program;**  
**Report on Internal Control Over Compliance; and Report on the**  
**Schedule of Expenditures of Federal Awards Required by OMB Circular A-133**

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

**Report on Compliance for Each Major Federal Program**

We have audited Northeastern State University's (the "University") compliance with the types of compliance requirements described in the *OMB Circular A-133 Compliance Supplement* that could have a direct and material effect on each of the University's major federal programs for the year ended June 30, 2013. The University's major federal programs are identified in the summary of auditors' results section of the accompanying schedule of findings and questioned costs.

**Management's Responsibility**

Management is responsible for compliance with the requirements of laws, regulations, contracts, and grants applicable to its federal programs.

**Auditors' Responsibility**

Our responsibility is to express an opinion on compliance for each of the University's major federal programs based on our audit of the types of compliance requirements referred to above. 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 Government, 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 on compliance for each major federal program. However, our audit does not provide a legal determination of the University's compliance.

## **Opinion on Each Major Federal Program**

In our opinion, the University complied, in all material respects, with the types of compliance 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, 2013.

## **Report on Internal Control Over Compliance**

Management of the University is responsible for establishing and maintaining effective internal control over compliance with the types of compliance requirements referred to above. In planning and performing our audit of compliance, we considered the University's internal control over compliance with the types of requirements that could have a direct and material effect on each major federal program to determine the auditing procedures that are appropriate in the circumstances for the purpose of expressing an opinion on compliance for each major federal program and to test and report on the 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. *A significant deficiency in internal control over compliance* is a deficiency, or combination of deficiencies, in internal control over compliance with a type of compliance requirement of a federal program that is less severe than a material weakness in internal control over compliance, yet important enough to merit attention by those charged with governance.

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 material weaknesses or significant deficiencies. We did not identify any deficiencies in internal control over compliance that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

The purpose of this report on internal control over compliance is solely to describe the scope of our testing of internal control over compliance and the results of that testing based on the requirements of OMB Circular A-133. Accordingly, this report is not suitable for any other purpose.

**Report on Schedule of Expenditures of Federal Awards Required by OMB Circular A-133**

We have audited the financial statements of the University as of and for the year ended June 30, 2013, and have issued our report thereon dated October 31, 2013, which contained an unmodified opinion on the financial statements. Our audit was conducted for the purpose of forming an opinion on the financial statements as a whole. The accompanying schedule of expenditures of federal awards is presented for the purposes of additional analysis as required by OMB Circular A-133 and is not a required part of the financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the financial statements. The information has been subjected to the auditing procedures applied in the audit of the financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements or to the financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the schedule of expenditures of federal awards is fairly stated in all material respects in relation to the financial statements as a whole.

Cole & Reed P.C.

Oklahoma City, Oklahoma  
October 31, 2013

SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS

NORTHEASTERN STATE UNIVERSITY

Year Ended June 30, 2013

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	\$ 15,594,987
Federal Supplemental Education Opportunity Grants	84.007	N/A	377,074
Federal TEACH Grant	84.379	N/A	270,015
Federal Work Study	84.033	N/A	214,994
Federal Perkins Loans	84.038	N/A	4,451,059
Federal Direct Loan Program	84.268	N/A	36,815,472
Total Student Financial Aid Cluster			<u>57,723,601</u>
U.S. Department of Education			
TRIO program cluster			
Talent Search	84.044	P044A110142-349	411,965
Student Support Services	84.042	P042A100730	321,910
Total TRIO program cluster			<u>733,875</u>
National Science Foundation			
Alliance for Minority Participation	47.076	AA-5-29849-NSU	28,803
S-STEM for Undergraduates in Math and Science	47.076	728529	122,367
Sure Step	47.076	UCO-2009STEP-2-NSU	51,653
American Indian Science and Engineering	47.081	EPSCoR-2012-3	3,151
Natural Science Renovation Research Facility	47.082	CHE0963082	160,936
Genome Reconstruction - Halophila	47.081	EPSCoR-2012-6	7,730
Design CPU-GPU Cluster	47.081	EPSCoR-2012-8	8,679
Total National Science Foundation			<u>383,319</u>
National Institute for Health			
Jr. Investigator Iron Binding	93.389	RS-20121334-10	108,851
Jr. Investigator Iron Binding	93.389	RS-20131515-06	16,692
Drosophila Gene	93.859	RS20131215-08	20,697
Jr. Investigator Ischemic Stroke	93.389	RS2012134-11	104,459
Jr. Investigator Ischemic Stroke	93.389	RS20131215-07	12,076
Mcm 10 - Genome Stability	93.389	RS20121334-12	25,610
Synthesizing for Cancer Chemo	93.389	RS20121334-14	4,973
Hydroxyvitamin D	93.859	RS20131215-08	3,538
Total National Institute for Health			<u>296,896</u>
Other Federal Programs			
Small Business Administration			
Small Business Development Center	59.037	2-603001-Z-0038-C	156,463
Small Business Development Service Center	59.037	2011200001	50,957
U.S. Department of Education			
Alternative Education Development Program	84.325K	H325K100320	241,255
Title III - Student Academic Success Center	84.031A	P031A110217	389,411
Title III - Native American Serving Non-Tribal Institutions	84.382C	P382C110005	300,536
U. S. Geological Survey			
Impact of Wastewater	15.805	2012OK214B.NSU1	11,090
U.S. Department of Health and Human Services			
Child Welfare Specialist Training Program	93.648	RF-1105807-21-62495	131,010
Health Wellness Initiative	93.015	N/A	20,454
Prevention of Risky Behavior in Minority	93.004	N/A	36,165
U.S. Department of Justice			
Violence Prevention Program	16.525	2007-WA-AX-004	30,028
National Endowment for the Arts			
Project I'm Ready	45.313	RF05100074-10	237,548
Mid America Arts Alliance	45.025	46546	2,000
Ok Library Skills Initiation Project - ECU	45.313	ICN 12-040 NSU	2,865
National Endowment for the Humanities			
Oklahoma Humanities Council	45.168	Y12.072	6,000
Total Expenditures of Federal Awards			<u>\$ 60,753,473</u>

See notes to schedule of expenditures of federal awards.

## NOTES TO SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS

### NORTHEASTERN STATE UNIVERSITY

June 30, 2013

#### 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 \$4,451,059 in Federal Perkins loans outstanding at June 30, 2013. These loan balances outstanding are included as federal expenditures in the schedule of expenditures of federal awards. During the year ended June 30, 2013, the University issued Perkins loans totaling \$234,964.

#### NOTE D--SUB-RECIPIENTS

During the year ended June 30, 2012, the University did not provide any federal awards to subrecipients.

SCHEDULE OF FINDINGS AND QUESTIONED COSTS

NORTHEASTERN STATE UNIVERSITY

June 30, 2013

**Section I--Summary of Auditors' Results**

*Financial statements*

Type of auditors' report issued:

*Unmodified*

Internal control over financial reporting:

- Material weakness(es) identified? \_\_\_\_\_ yes   X   no
- Significant deficiency(ies) identified that are not considered to be material weakness(es)? \_\_\_\_\_ yes   X   none reported
- Noncompliance material to financial statements noted? \_\_\_\_\_ yes   X   no

*Federal Awards*

Internal control over major programs:

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

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

*Unmodified*

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

\_\_\_\_\_ yes   X   no

Identification of major programs:

<u>Program</u>	<u>CFDA Number</u>
Student Financial Aid Cluster	*
TRIO Program Cluster	*
Title III - Student Academic Success Center	84.031A
Title III - Native Americans Serving Non-Tribal Institutions	84.382C

\* 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?   X   yes \_\_\_\_\_ no

SCHEDULE OF FINDINGS AND QUESTIONED COSTS--Continued

NORTHEASTERN STATE UNIVERSITY

June 30, 2013

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

None to report for the June 30, 2013 period.

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

None to report for the June 30, 2013 period.



SUMMARY SCHEDULE OF PRIOR AUDIT FINDINGS

NORTHEASTERN STATE UNIVERSITY

June 30, 2013

No matters were reportable.