



**Financial Statements  
with Independent Auditors' Reports**

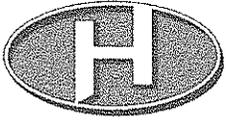
**June 30, 2011 and 2010**



**Eastern Oklahoma State College**  
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**June 30, 2011 and 2010**

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**Independent Auditors' Report  
on Financial Statements**

Regents of the College of Oklahoma  
Eastern Oklahoma State College  
Wilburton, Oklahoma

We have audited the accompanying statements of net assets of Eastern Oklahoma State College (the College) as of June 30, 2011 and 2010, and the related statements of revenues, expenses, and changes in net assets and statements of cash flows for the years then ended. These financial statements are the responsibility of the College's management. Our responsibility is to express an opinion on these financial statements based on our audits. Eastern Oklahoma State College Foundation (the Foundation), a not-for-profit Oklahoma corporation organized to support the College, is a component unit of the College as defined by GASB Statement No. 39, *Determining Whether Certain Organizations are Component Units*. The financial statements referred to above do not include the financial statements of the Foundation. Rather, a complete set of financial statements of the Foundation are presented separately. We also audited the financial statements of the Foundation, and our opinion as it relates to our audit of those financial statements is included in that separate set of financial statements.

We conducted our audits in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States of America. Those standards require that we plan and perform the audits to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes consideration of internal control over financial reporting as a basis for designing audit procedures that are appropriate in the circumstances but not for the purpose of expressing an opinion on the effectiveness of the College's internal control over financial reporting. Accordingly, we express no such opinion. An audit also includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used, and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits and the report of other auditors provide a reasonable basis for our opinion.

4500 S. Garnett, Ste. 800  
Tulsa, OK 74146

TEL: 918.492.3388

FAX: 918.492.4443

[www.SBAdvisors.com](http://www.SBAdvisors.com)

In our opinion, based on our audits and the report of other auditors, the financial statements referred to above present fairly, in all material respects, the financial position of the College and the separately presented component unit as of June 30, 2011 and 2010, and the changes in its net assets and cash flows for the years then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued our report dated September 16, 2011, on our consideration of the College's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements, and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting and compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

Management's discussion and analysis is not a required part of the basic financial statements but is supplementary information required by the Governmental Accounting Standards Board. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the supplementary information. However, we did not audit the information and express no opinion on it.

*Hibler & Company, PC*

Tulsa, Oklahoma  
September 16, 2011





## **Management's Discussion and Analysis of Significant Factors Affecting the Institution's Financial Statements**

This discussion and analysis of Eastern Oklahoma State College's (College) financial statements provides an overview of the College's financial performance during the fiscal year ended June 30, 2011, with comparison to the previous year. Since the management's discussion and analysis is designed to focus on current activities, resulting change and current known facts, please read it in conjunction with the College's basic financial statements and the footnotes.

### **Using This Report**

In June 1999, GASB released Statement No. 34 *Basic Financial Statements and Management's Discussion and Analysis for State and Local Governments*. Changes in Statement No. 34 require a comprehensive look at the entity as a whole, capitalization of assets, and recording depreciation. In November 1999, GASB issued Statement No. 35 *Basic Financial Statements and Management's Discussion and Analysis for Public Colleges and Universities*, which applies these standards to public colleges and universities. The State of Oklahoma elected to adopt all applicable standards to State governments for the fiscal year ended June 30, 2001. To comply with the State's decision, the College adopted these standards as well.

The College adopted GASB Statement No. 39, *Determining Whether Certain Organizations Are Component Units* in the Fiscal year 2005. This Statement requires public institutions with fund-raising foundations or other affiliated organizations to include them as component units in the institution's financial statements, under certain circumstances. As a result, the College has concluded the Eastern Oklahoma State College Development Foundation is a component unit of the College and, accordingly, has included the Foundation's financial statements in this report. Refer to those financial statements for appropriate interpretation and analysis since management neither prepares nor oversees those financial results.

The purpose of the Statement of Net Assets for the College is to report the financial position of the College at a point in time, the report date. The Statement of Net Assets reports assets, liabilities, and net assets in a single column, separating current and noncurrent assets and current and noncurrent liabilities. Net assets report investments in fixed assets net of accumulated depreciation, restricted net assets by restrictive covenants and the balance of net assets are reported as unrestricted net assets.

A primary purpose of the Statement of Revenues, Expenses, and Changes in Net Assets is to show whether the College is better or worse off as a result of the year's activities. When revenues exceed expenses, the result is an increase in net assets. The Statement of Cash Flows presents the sources and uses of cash and cash equivalents and a reconciliation of these flows to net operating revenues.

The College follows the accrual method of accounting, reporting revenues and expenses as they occur rather than when cash is received or expended. The College engaged a firm in fiscal year 2001 to inventory and value all fixed assets. That evaluation serves as a basis for the cost and accumulated depreciation for fixed assets reported in the financial statements prior to the current year. The College records the cost of fixed assets when purchased and the disposal when assets are disposed of. Depreciation is recorded on all depreciable assets on a straight-line basis and according to the guidelines established by the College for depreciable lives. (See Note 1 for more information on these guidelines.)

## Financial Highlights

The College's net assets at June 30, 2011 and 2010 were \$13,325,619 and \$11,372,810, respectively, an increase of \$1,952,809, or 17%.

Operating revenues increased 6%, from \$8.3 million to \$8.8 million for fiscal year 2011. Tuition and fee revenues, a major component of operating revenues, which includes only tuition and fees paid directly by students decrease \$217,219 for fiscal year 2011. The tuition and mandatory fees increased \$5.19 per credit hour. Tuition and fee revenue includes only tuition and fees paid directly by the student or third parties, and do not include tuition and fees paid by financial aid. Tuition and fees paid by other than the student or third parties are reported as revenue from the source that paid those fees. Total student credit hours billed increased from 42,472 to 44,790. In addition, Federal, state and private grants and contracts revenue increased by approximately \$79,000, or 2.6% for fiscal year 2011. Other operating revenues increased by \$1,481,243, or 113%; other revenue sources include royalties, grant indirect cost revenue earned, loan fund interest earned, fines, finance charges, and sales from educational departments.

Operating expenses increased 2%, from \$20.5 million to \$20.8 million for fiscal year 2011. Compensation, a major component of operating expenses, decreased 1.0%, from \$10.8 million to \$10.7 million. Contractual Services expenses increased \$73,933, or 6% from the prior year. Supplies and materials expense decreased 16%, from \$2.4 million to \$2 million. Other Operating Expenses increased 26%, from \$1.0 million to \$1.7 million due to the increase grant expenditures.

Non-operating revenues consist primarily of state appropriations and ARRA funds, which had of a slight decrease for the current year. Our non-operating Federal and State grants (Financial Aid Grants) increased 19%, from \$5.1 million to \$6.1 million. On-behalf payments by the State for retirement matching increased by \$41,000 resulting from increased payroll costs. Investment Income and Interest Expense also netted an increase to revenue this year of \$418,274 mainly due to the OCIA bond restructuring (see Capital Financing and Note 5).

## Financial Analysis of the College as a Whole

### Statement of Net Assets

	2011	2010
<b>Assets:</b>		
Current assets	\$ 6,505,842	\$ 4,803,096
Capital assets, net	20,167,619	19,667,659
Other assets	1,607,270	377,932
<b>Total assets</b>	<b>28,280,731</b>	<b>24,848,687</b>
<b>Liabilities</b>		
Current liabilities	1,491,729	1,481,244
Noncurrent liabilities	13,463,383	11,994,633
<b>Total liabilities</b>	<b>14,955,112</b>	<b>13,475,877</b>
<b>Net assets</b>		
Invested in capital assets, net of debt	7,537,782	7,230,849
Restricted – expendable	333,447	335,757
Unrestricted	5,454,390	3,806,203
<b>Total net assets</b>	<b>\$ 13,325,619</b>	<b>\$ 11,372,810</b>

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

Graphic illustrations follow that report elements of the Statement of Revenues, Expenses, and Changes in Net Assets including Operating Revenues by source, Operating Expenses by natural classifications, and Non-operating Revenues. Previous year amounts are also reported for comparative purposes. See the financial highlights section previously reported in this analysis and the financial statements for additional analysis of these figures.

### Operating Revenues

Source of Revenue	Fiscal Year 2011	Fiscal Year 2010	Net Change
Tuition and fees	\$ 2,348,115	\$ 2,565,334	\$ (217,219)
Federal grants and contracts	\$ 3,081,492	\$ 3,002,760	\$ 78,732
State grants and contracts	\$ 1,269,835	\$ 1,676,637	\$ (406,802)
Sales and services of Auxiliary Activities	\$ 820,617	\$ 1,257,753	\$ (455,136)
Other operating revenues	\$ 1,361,549	\$ (119,694)	\$ 1,481,243

## Operating Expenses by Natural Classifications

Classification	Fiscal Year 2011	Fiscal Year 2010	Net Change
Compensation	\$ 10,766,935	\$ 10,844,454	\$ (77,519)
Contractual services	\$ 1,349,497	\$ 1,275,564	\$ 73,933
Supplies and materials	\$ 2,083,096	\$ 2,473,079	\$ (389,983)
Communication	\$ 125,454	\$ 131,994	\$ (6,540)
Depreciation	\$ 1,016,878	\$ 1,048,080	\$ 31,202
Utilities	\$ 575,463	\$ 548,849	\$ 26,614
Scholarships and fellowships	\$ 3,190,598	\$ 3,151,381	\$ 39,217
Other operating expense	\$ 1,759,881	\$ 1,034,630	\$ 725,251

## Non-operating Revenues (Expenses)

Revenues (Expenses)	Fiscal Year 2011	Fiscal Year 2009	Net Change
State appropriations	\$ 6,476,026	\$ 6,416,109	\$ 59,917
State Payments - ARRA	\$ 459,678	\$ 528,847	\$ (69,169)
Federal and state grants	\$ 6,138,164	\$ 5,153,887	\$ 984,277
On-behalf Teachers' Retirement System Contributions	\$ 438,500	\$ 397,500	\$ 41,000
Investment income	\$ 74,159	\$ 60,913	\$ 13,246
Interest expense	\$ (188,423)	\$ (593,451)	\$ 405,028

### Statement of Cash Flows

Cash at June 30, 2011 was \$5,774,278 compared to \$4,076,387 at June 30, 2010, an increase of \$1,697,891 as explained below.

Cash used in operating activities decreased \$218,799 from \$10,722,425 to \$10,503,626, for the years ended June 30, 2010 and 2011, respectively. Inflows of cash included receipts from tuition and fees, grants and contracts, and auxiliary enterprise sales. Outflows of cash consisted of payments to employees and suppliers. This decrease in cash used in operating activities was the result of an increase in cash received in other receipts of 1 million combined with a decrease in payments made to employees of 3.5 million.

Cash provided by non-capital financing activities consisted primarily of state appropriations which increased \$58,917.

Cash provided from capital and related financing activities, which includes receipts for the purchase of capital assets offset by the purchase of capital assets or payment of principal and interest, increased \$781,875.

Cash provided by investing activities decreased by \$13,246, due to a decreased in the interest rate earned by our investments.

### **Capital Assets**

In recent years, the College has made significant investments in capital assets. As of June 30, 2011, the College had a net book value of fixed assets of \$20,167,619 compared to \$19,667,659 the previous year-end, an increase of \$499,960. Investment for the current year included \$841,578 in construction and major repair of buildings and infrastructure and \$675,260 for the purchase of equipment, livestock, and library books. Depreciation recorded for 2011 and 2010, was \$1,016,878 and \$1,040,811 respectively.

### **Capital Financing**

The College has secured financing for capital expenditures through four separate processes. . The College has issued two Revenue Bond Series. The "Student Facilities Revenue Bonds, Series 1997" were issued to remodel and improve the student union and a residence hall. During 2004, the "Oklahoma Development Finance Authority Eastern Oklahoma State College-Capital Improvement Projects, Series 2004" were issued to construct a second classroom building at the McAlester Campus. The remaining principal due on these two bonds at June 30, 2011 was \$2,275,000. Interest rates on these bonds range from 2.4% to 10%. Funds used to repay these bonds come from revenues pledged including a student facility fee assessed to students on a per credit hour basis, currently \$8.15 per hour, supplemented by net revenues of certain auxiliary enterprises if necessary, and a pledge of Section 13 Offset funds for the 2004 bond repayment. For the years ended June 30, 2011 and 2010, the net revenue from pledged sources before debt service payments was \$275,686 and \$260,304. Required payments for the years ended June 30, 2011 and 2010 amounted to \$185,000 and \$175,000 of principal, plus \$116,475 and \$124,195 of interest, respectively.

The College has two capital lease obligations through the OCIA to finance capital expenditures -- under the 1999 series and the 2006 series. Proceeds from the 1999 series debt were used to finance an addition to the library/administration building, while the 2006 series was used to fund construction of the new Student Center, construction of various ADA /infrastructure projects and to purchase a new integrated campus-wide ERP software system. The Oklahoma State Legislature appropriates revenues each year to fund the amount of principal and interest due for that year. The College is required to pay any principal and interest due and not appropriated by the legislature because of a lack of funding. The capital lease obligations at June 30, 2011 for the 1999 series were \$528,233 and the 2006 series were \$7,446,588 extending through the period ending 2031. For the years ended June 30, 2011 and 2010, the Oklahoma State Regents for Higher Education made on-behalf payments of \$81,911 and \$709,285 for the total principal and interest due for the year. Accordingly, the College did not make any payments this year.

At this time the College has three Equipment Master Lease/Purchase agreements with the ODFA (Oklahoma Development Finance Authority, an agency of the State of Oklahoma). The College obtained funds through a Master Lease/Purchase agreement with the ODFA in 2005 for the purpose of financing \$2,951,180 in equipment related to the conservation of energy on the campus. At June 30, 2011, the remaining principal obligation was \$2,309,167 and interest obligation was \$779,784, due through 2025. The College obtained additional funding through Master Lease/Purchase agreements with ODFA in fiscal year 2011. The 2010A Master Lease/Purchase was for the purpose of financing \$400,000 to remodel the College's Apartments. The 2011A Equipment Master Lease/Purchase was for the purpose acquiring certain equipment items. The College obtained a portion of these funds for the purpose of financing \$550,000 to remodel two classroom buildings on campus and \$50,000 to purchase dorm furnishings. At

June 30, 2011, the remaining principal obligation was \$991,083 and interest obligation was \$283,654, due through 2026.

The College has three Lease/Purchase agreements. The College obtained funds through a Lease/Purchase agreement with Vision Bank in 2010 for the purpose of financing \$74,200 to obtain a 1999 Blue Bird LTC40 47 Passenger Coach. At June 30, 2011, the remaining principal obligation was \$56,947 and interest obligation was \$7,371, due through 2015. During the fiscal year 2011, the College entered into lease purchase agreements with Government Capital Corporation. Government Capital later assigned its rights to Security State Bank of Wewoka. These agreements were entered into to provide lease purchase financing in the amount of \$45,000 for a street sweeper and in the amount of \$249,583 for computer hardware and software. At June 30, 2011, the remaining principal obligation was \$296,778 and interest obligation was \$32,420, due through 2015.

### **Net Assets**

Investment in capital assets increased \$306,933 in 2011, to a balance of \$7.5 million. This increase is primarily comprised of \$499,959 in additional capital assets, net of related debt, reduced by \$1,016,879 in depreciation. This year this increase is also affected by the restructuring of the 2005 OCIA bonds and related Bond Issue Cost of \$588,857 and the increase in Receivable from ODFA of \$630,514.

Restricted net assets decreased by \$2,310 for the year ended June 30, 2011. These net assets are comprised of cash and cash equivalents with restrictions for debt service funds.

Unrestricted net assets include net assets other than restricted assets and capital assets. Unrestricted net assets increased by \$1.6 million to \$5.4 million at June 30, 2011.

### **Net Assets**

Net Assets	Fiscal Year 2011	Fiscal Year 2010	Net Change
Invested in capital assets, net	\$ 7,537,782	\$ 7,230,849	\$ 306,933
Restricted for loans	\$ -	\$ -	\$ 0
Restricted for capital projects	\$ -	\$ -	\$ 0
Restricted for debt service	\$ 333,447	\$ 335,757	\$ (2,310)
Unrestricted	\$ 5,454,390	\$ 3,806,203	\$ 1,648,187

### **Economic Outlook**

During fiscal year 2003, the College, as well as most state agencies of Oklahoma, began receiving reductions in state appropriations. During fiscal years 2003 through 2005, the College's reductions in state appropriations amounted to approximately \$983,000. The declining trend reversed with the beginning of 2006, as the College received 1.4 million increase in state appropriations over the next four years (2006 through 2009). In 2010 after numerous monthly reductions the College's final state appropriation amount including Federal ARRA Stimulus Funds was reduced by \$83,255. In 2011 the College's final state appropriation when combined with Federal ARRA stimulus was decreased by \$9,252. Tuition and fee increases were approximately 5% per credit hour in both fiscal years 2006 and

2007, 7.8% in 2008, 9.9% in 2009, 0% in 2010, and 5.5% in 2011, helped to offset this net decrease in state appropriations and the dramatic increase of mandatory expenses over the past several fiscal years.

Given the reductions in state appropriations in fiscal 2003 through 2005, and 2010 and 2011 and the related impact on the current budget base, the College continued to develop scenarios to hold down costs while preserving the ability to deliver quality instructional programs to its students. The College anticipated a decrease in fiscal year 2012 of \$393,569 in state appropriated dollars. Until Fall 2011, the college had experienced 7 semesters of student enrollment increase. In Fall 2011, the College experienced a 3.59% decrease in student credit hours. These increases in Student credit hours up to this point have enabled the college to minimize the impact of our budget cuts on departmental budgets. The college is hopeful that Spring enrollment will rebound so that our upward trend will continue. The Economic forecast for 2013 is mixed at this time. At times the economy shows signs of turning around but then recedes. The College is also trying to safeguard its reserves so that if they are needed it will be available in the upcoming years. However, the college is continuing to look for ways to effectively allocate resources while supporting the excellent programs offered at the College, while at the same time looking for areas that expenses can be reduced with a minimal impact on student programs and services.

**Eastern Oklahoma State College**  
**Statements of Net Assets**  
**June 30, 2011 and 2010**

	<b>2011</b>	<b>2010</b>
<b>ASSETS</b>		
<b>Current Assets</b>		
Cash and cash equivalents	\$ 4,635,680	\$ 3,172,301
Restricted investments	805,151	568,329
Accounts Receivable, net of allowance for doubtful accounts of \$1,445,000 in 2011 and \$2,025,000 in 2010	599,223	610,400
Grants receivable	404,311	414,389
Inventories	52,175	37,203
Other	<u>9,302</u>	<u>474</u>
<b>Total Current Assets</b>	<u><b>6,505,842</b></u>	<u><b>4,803,096</b></u>
<b>Noncurrent Assets</b>		
Restricted investments	333,447	335,757
Bond issue costs, net	588,857	—
Receivable from ODFA/OCIA	630,514	1,809
Bond discount	54,452	40,366
Capital assets, net of accumulated depreciation	<u>20,167,619</u>	<u>19,667,659</u>
<b>Total Noncurrent Assets</b>	<u><b>21,774,889</b></u>	<u><b>20,045,591</b></u>
<b>Total Assets</b>	<u><b>28,280,731</b></u>	<u><b>24,848,687</b></u>
<b>LIABILITIES</b>		
<b>Current Liabilities</b>		
Accounts payable and accrued liabilities	426,521	390,822
Accrued interest	31,923	31,923
Accrued compensated absences	149,112	172,246
Deferred revenue	244,436	212,782
Long-term liabilities, current portion	539,685	598,243
Deposits held in custody for others	<u>100,052</u>	<u>75,228</u>
<b>Total Current Liabilities</b>	<u><b>1,491,729</b></u>	<u><b>1,481,244</b></u>
<b>Noncurrent Liabilities</b>		
Accrued compensated absences	99,408	113,892
Capital leases	11,283,975	9,605,741
Revenue Bonds	<u>2,080,000</u>	<u>2,275,000</u>
<b>Total Noncurrent Liabilities</b>	<u><b>13,463,383</b></u>	<u><b>11,994,633</b></u>
<b>Total Liabilities</b>	<u><b>14,955,112</b></u>	<u><b>13,475,877</b></u>
<b>NET ASSETS</b>		
Invested in capital assets, net of related debt	7,537,782	7,230,849
Restricted for		
Debt service	333,447	335,757
Donor restrictions		
Unrestricted	<u>5,454,390</u>	<u>3,806,203</u>
<b>Total Net Assets</b>	<u><b>\$ 13,325,619</b></u>	<u><b>\$ 11,372,810</b></u>



**Eastern Oklahoma State College**  
**Statements of Revenues, Expenses, and Changes in Net Assets**  
**Years Ended June 30, 2011 and 2010**

	<b>2011</b>	<b>2010</b>
<b>Operating Revenues</b>		
Student tuition and fees, net of scholarship allowances of \$625,576 for 2011 and \$602,847 for 2010 (revenues of \$275,686 in 2011 and \$260,304 in 2010 are pledged as security for the 1993 Student Center Revenue Bonds)	\$ 2,348,115	\$ 2,565,334
Federal grants and contracts	3,081,492	3,002,760
State grants and contracts	1,269,835	1,676,637
Sales and services of auxiliary activities	820,617	1,257,753
Other operating revenues	<u>1,361,549</u>	<u>(119,694)</u>
Total Operating Revenues	<u>8,881,608</u>	<u>8,382,790</u>
<b>Operating Expenses</b>		
Compensation	10,766,935	10,844,454
Contractual services	1,349,497	1,275,564
Supplies and materials	2,083,096	2,473,079
Communication	125,454	131,994
Depreciation	1,016,878	1,048,080
Utilities	575,463	548,849
Scholarships and fellowships	3,190,598	3,151,381
Other operating expenses	<u>1,759,881</u>	<u>1,034,630</u>
Total Operating Expenses	<u>20,867,802</u>	<u>20,508,031</u>
<b>Operating Loss</b>	<u>(11,986,194)</u>	<u>(12,125,241)</u>
<b>Nonoperating Revenues (Expenses)</b>		
State appropriations	6,476,026	6,416,109
State appropriations - ARRA	459,678	528,847
Federal and state grants	6,138,164	5,153,887
On-behalf Teachers' Retirement System contributions	438,500	397,500
Investment income	74,159	60,913
Interest expense	<u>(188,423)</u>	<u>(593,451)</u>
Net Nonoperating Revenues	<u>13,398,104</u>	<u>11,963,805</u>
<b>Loss Before Other Revenues, Expenses, Gains, and Losses</b>	<u>1,411,910</u>	<u>(161,436)</u>
<b>Other Revenues, Expenses, Gains, and Losses</b>		
On-behalf Oklahoma Capital Improvement Authority contributions	81,911	709,285
Capital appropriations	<u>458,988</u>	<u>467,266</u>
Other Revenues and Gains	<u>540,899</u>	<u>1,176,551</u>
<b>Change in Net Assets</b>	1,952,809	1,015,115
<b>Net Assets at Beginning of Year</b>	<u>11,372,810</u>	<u>10,357,694</u>
<b>Net Assets at End of Year</b>	<u>\$ 13,325,619</u>	<u>\$ 11,372,810</u>



**Eastern Oklahoma State College**  
**Statements of Cash Flows**  
**Years Ended June 30, 2011 and 2010**

	<b>2011</b>	<b>2010</b>
<b>Cash Flows from Operating Activities</b>		
Tuition and fees	\$ 2,390,946	\$ 2,494,827
Grants and contracts	4,361,405	8,592,833
Payments to employees	(9,372,975)	(12,916,892)
Payments to vendors	(10,065,168)	(10,441,100)
Auxiliary enterprise	796,389	1,257,752
Other receipts	<u>1,385,777</u>	<u>290,155</u>
Net Cash Used in Operating Activities	<u>(10,503,626)</u>	<u>(10,722,425)</u>
<b>Noncapital Financing Activities</b>		
State appropriations	6,476,026	6,416,109
State appropriations - ARRA	459,678	528,847
Federal and state grants	6,138,164	5,153,887
Federal Family Education Loan receipts	4,137,097	3,475,295
Federal Family Education Loan disbursements	(4,137,097)	(3,475,295)
Agency transactions, net	<u>24,824</u>	<u>—</u>
Net Cash Provided by Noncapital Financing Activities	<u>13,098,692</u>	<u>12,098,843</u>
<b>Capital and Related Financing Activities</b>		
Capital appropriations	458,988	467,266
Payments on bonds and lease payable	(349,586)	(520,850)
Proceeds from capital lease obligations	384,295	797,084
Interest paid on capital assets	(244,971)	797,084
Purchases of capital assets	<u>(1,220,060)</u>	<u>(932,959)</u>
Net Cash Used in Capital and Related Financing Activities	<u>(971,334)</u>	<u>(189,459)</u>
<b>Investing Activities</b>		
Interest on investments	<u>74,159</u>	<u>60,913</u>
Net Cash Provided by (Used in) Investing Activities	<u>74,159</u>	<u>60,913</u>
<b>Net Increase in Cash</b>	1,697,891	1,247,872
<b>Cash and Cash Equivalents at Beginning of Year</b>	<u>4,076,387</u>	<u>2,828,515</u>
<b>Cash and Cash Equivalents at End of Year</b>	<u>\$ 5,774,278</u>	<u>\$ 4,076,387</u>



**Eastern Oklahoma State College**  
**Statements of Cash Flows**  
**Years Ended June 30, 2011 and 2010**

(Continued)

	2011	2010
<b>Reconciliation of Operating Loss to Net Cash Used by Operating Activities</b>		
Operating loss	\$ (11,986,194)	\$ (12,125,241)
Adjustments to reconcile operating loss to net cash used in operating activities		
Depreciation expense	1,016,878	1,043,501
On-behalf Teachers' Retirement System contributions	438,500	397,500
Loss on disposal of assets	—	(2,691)
Changes in assets and liabilities		
Receivables, net	21,255	374,904
Inventory	(14,972)	(2,563)
Prepaid	(8,828)	—
Accounts payable	35,699	(823,538)
Compensated absences	(37,618)	5,854
Deferred revenues	<u>31,654</u>	<u>409,849</u>
<b>Net Cash Used in Operating Activities</b>	<u>\$ (10,503,626)</u>	<u>\$ (10,722,425)</u>
<b>Supplemental Cash Flow Information</b>		
Interest paid by OCIA	<u>\$ 31,063</u>	<u>\$ 375,288</u>
Principal paid by OCIA	<u>\$ 50,848</u>	<u>\$ 333,997</u>
<b>Reconciliation of Cash and Cash Equivalents to the Statements of Net Assets</b>		
Cash and cash equivalents	\$ 4,635,680	\$ 3,172,301
Restricted short-term investments	805,151	568,329
Restricted non-current investments	<u>333,447</u>	<u>335,757</u>
	<u>\$ 5,774,278</u>	<u>\$ 4,076,387</u>



**Eastern Oklahoma State College**  
**Notes to Financial Statements**  
**June 30, 2011 and 2010**

**Note 1: Summary of Significant Accounting Policies**

**Nature of Operations**

Eastern Oklahoma State College (the "College") is a two year college operating under the jurisdiction of the Board of Regents of Eastern Oklahoma State College, (the "Board of Regents"), and is part of the Oklahoma System of 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. 39, *Determining Whether Certain Organizations Are Component Units*, consists of the primary government, organizations for which the primary government is financially accountable, and other organizations for which the nature and significance of their relationship with the primary government are such that exclusion could cause the financial statements to be misleading or incomplete.

The College is governed by the Board of Regents of the College of Oklahoma, and is part of the State of Oklahoma Higher Education System, which is under the governance of the Oklahoma State Regents for Higher Education. The College 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.

Eastern Oklahoma State College Foundation, Inc. (the Foundation), is a legally separate, tax-exempt component unit of the College. The Foundation is organized for the purpose of receiving and administering gifts intended for the College. Although the College does not control the timing or amount of receipts from the Foundation, the majority of resources, or income thereon, which the Foundation holds and invests, is restricted to the activities of the College by the donors. Because these restricted resources held by the Foundation can only be used by, or for the benefit of, the College, the Foundation is considered a component unit of the College and its financial statements are separately presented in the College's financial statements.

The Foundation is a private nonprofit organization that reports under Financial Accounting Standards Board (FASB) standards, including FASB Statement No. 117, *Financial Reporting for Not-for-Profit Organizations*. As such, certain revenue recognition criteria and presentation features are different from GASB revenue recognition criteria and presentation features. No modifications have been made to the Foundation's financial information in the College's financial reporting entity for these differences.



**Eastern Oklahoma State College**  
**Notes to Financial Statements**  
**June 30, 2011 and 2010**

**Note 1: Summary of Significant Accounting Policies** (Continued)

**Financial Statement Presentation**

The College's financial statements are presented in accordance with the requirements of GASB Statement No. 34, *Basic Financial Statements 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 Statement No. 34 and GASB Statement No. 35, the College is required to present a statement of net assets classified between current and noncurrent assets and liabilities; a statement of revenues, expenses, and changes in net assets with separate presentation for operating and nonoperating revenues and expenses; and a statement of cash flows using the direct method.

**Basis of Accounting**

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

The College has the option to apply all FASB pronouncements issued after November 30, 1989, unless FASB conflicts with GASB. The College has elected to not apply FASB pronouncements issued after the applicable date.

**Cash Equivalents**

For purposes of the statements of cash flows, the College considers all highly liquid investments with an original maturity of three months or less to be cash equivalents. Funds invested through the state treasurer are considered cash equivalents.

**Deposits and Investments**

The College accounts for its investments at fair value in accordance with GASB Statement No. 31, *Accounting and Financial Reporting for Certain Investments and for External Investment Pools*. Changes in unrealized gain (loss) on the carrying value of investments are reported as a component of investment income in the statements of revenues, expenses, and changes in net assets. In accordance with GASB Statement No. 40, *Deposit and Investment Risk Disclosures and Amendment of GASB Statement No. 3*, the College has disclosed its deposit and investment policies related to the risks identified in GASB Statement No. 40.



**Eastern Oklahoma State College**  
**Notes to Financial Statements**  
**June 30, 2011 and 2010**

**Note 1: Summary of Significant Accounting Policies** (Continued)

**Accounts Receivable**

Accounts receivable consist 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, state, and local governments or private sources, in connection with reimbursement of allowable expenditures made pursuant to the College's grants and contracts. Accounts receivable are recorded net of estimated uncollectible amounts. The College determines its allowance by considering a number of factors, including the length of time accounts receivable are past due, the College's previous loss history, and the condition of the general economy and the industry as a whole. The College writes off specific accounts receivable when they become uncollectible, and payments subsequently received on such receivables are credited to the allowance for doubtful accounts.

**Noncurrent Cash and Investments**

Cash and investments that are externally restricted to make debt service payments, maintain sinking or reserve funds, make long-term student loans, or to purchase capital or other noncurrent assets are classified as noncurrent assets in the statements of net assets.

**Deferred Revenues**

Deferred revenues include amounts received for tuition and fees and certain auxiliary activities prior to the end of the fiscal year but related to the subsequent accounting period. Deferred revenues also include amounts received from grant and contract sponsors that have not yet been earned.

**Capital Assets**

Capital assets are recorded at cost on the date of acquisition or fair value if acquired by gift. Livestock is stated at estimated fair value. For equipment, the College's capitalization policy includes all items with a unit cost of \$500 or more, and an estimated useful life of greater than one year. Renovations to buildings, infrastructure and land improvements which 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 life of each asset.



**Eastern Oklahoma State College**  
**Notes to Financial Statements**  
**June 30, 2011 and 2010**

**Note 1: Summary of Significant Accounting Policies (Continued)**

**Capital Assets** (Continued)

The following estimated useful lives are utilized by the College:

Land improvements	20 years
Buildings	45 years
Furniture, fixtures and equipment	5-20 years
Infrastructure	30-50 years
Library materials	15 years

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

**Noncurrent Liabilities**

Noncurrent liabilities include (1) principal amounts of revenue bonds payable and capital lease obligations with contractual maturities greater than one year and (2) estimated amounts for accrued compensated absences that will not be paid within the next fiscal year.

**Net Assets**

The College's net assets are classified as follows:

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

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

*Restricted Net Assets – Nonexpendable:* Nonexpendable restricted net assets consist of endowment and similar type funds in which donors or other outside sources have stipulated, as a condition of the gift instrument, that the principal is to be maintained inviolate and in perpetuity, and invested for the purpose of producing present and future income, which may either be expended or added to principal.



**Eastern Oklahoma State College**  
**Notes to Financial Statements**  
**June 30, 2011 and 2010**

**Note 1: Summary of Significant Accounting Policies** (Continued)

**Net Assets** (Continued)

*Unrestricted Net Assets:* Unrestricted net assets represent resources derived from student tuition and fees, state appropriations, and sales and services of educational departments and auxiliary enterprises. These resources are used for transactions relating to the educational and general operations of the College, 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 College's policy is to first apply the expense towards restricted resources, and then towards unrestricted resources.

**Classification of Revenues**

The College 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 educational departments and of auxiliary enterprises, and (3) certain federal, state, and nongovernmental grants and contracts.

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

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



**Eastern Oklahoma State College**  
**Notes to Financial Statements**  
**June 30, 2011 and 2010**

**Note 1: Summary of Significant Accounting Policies** (Continued)

**Income Taxes**

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

**Use of Estimates**

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect certain reported amounts and disclosures; accordingly, actual results could differ from those estimates.

**Subsequent Events**

Subsequent events have been evaluated through September 16, 2011, which is the date the financial statements were issued.

**Reclassifications**

Certain reclassifications have been made to the 2010 financial statements to conform to the presentation used in 2011.

**Note 2: Deposits and Investments**

**Custodial Credit Risk – Deposits**

Custodial credit risk is the risk that in the event of a bank failure, the government's deposits may not be returned to it. The College's deposit policy for custodial credit risk is described as follows:

Oklahoma Statutes require the State Treasurer to ensure that all state funds either be insured by Federal Deposit Insurance, collateralized by securities held by the cognizant Federal Reserve Bank, or invested in U.S. government obligations. The College's deposits with the State Treasurer are pooled with the funds of other state agencies and then, in accordance with statutory limitations, placed in financial institutions or invested as the State Treasurer may determine, in the State's name.

The College requires that balances on deposit with financial institutions, including trustees related to the College's bond indenture and capital lease agreements, be insured by Federal Deposit Insurance or collateralized by securities held by the cognizant Federal Reserve Bank, or invested in U.S. Government obligations, in the College's name.

At June 30, 2011 and 2010, the carrying amount of the College's deposits was \$4,635,680 and \$3,172,301, respectively. These amounts consisted of deposits with the State Treasurer \$4,604,755 and \$3,731,630 at June 30, 2011 and 2010, respectively.



**Eastern Oklahoma State College**  
**Notes to Financial Statements**  
**June 30, 2011 and 2010**

**Note 2: Deposits and Investments (Continued)**

The College's deposits with the state treasurer are pooled with the funds of other state agencies and then, in accordance with statutory limitations, placed in banks or invested as the treasurer may determine, in the State's name. Some deposits with the OST are placed in the OST's internal investment pool *OK INVEST*. *OK INVEST* pools the resources of all state funds and agencies and invests them in (a) U.S. treasury securities which are explicitly backed by the full faith and credit of the U.S. government; (b) U.S. agency securities which carry an implicit guarantee of the full faith and credit of the U.S. government; (c) money market mutual funds which participates in investments, either directly or indirectly, in securities issued by the U.S. treasury and/or agency and repurchase agreements relating to such securities; and (d) investments related to tri-party repurchase agreements which are collateralized at 102% and, whereby, the collateral is held by a third party in the name of the OST. Of the funds on deposit with the OST, amounts invested in *OK INVEST* total \$2,821,418 in 2011.

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* is as follows:

<i>OK INVEST</i> Portfolio	Cost	Market Value
U.S. Agency securities	\$ 1,030,480	\$ 1,038,742
Certificates of deposit	133,219	133,219
Money market mutual fund	310,200	310,200
Tri-party repurchase agreements	190,392	190,392
Mortgage Backed Agency Securities	1,023,472	1,068,673
Foreign Bonds	10,490	10,490
Municipal Bonds	56,237	60,899
Commercial Paper	26,222	26,225
U. S. Treasury Obligations	40,706	48,232
Totals	\$ 2,821,418	\$ 2,887,072

**Interest Rate Risk**

The College does not have a formal policy that limits investment maturities as a means of managing its exposure to fair value losses arising from increasing interest rates.

**Credit Risk**

All United States government obligations are held by the Federal Reserve Bank in the name of the College. Title 70, Section 4306, of the Oklahoma statutes directs, authorizes, and empowers the College's Board of Regents to hold, invest, or sell donor-restricted endowments in a manner which is consistent with the terms of the gift as stipulated by the donor and with the provision of any applicable laws.



**Eastern Oklahoma State College**  
**Notes to Financial Statements**  
**June 30, 2011 and 2010**

**Note 2: Deposits and Investments** (Continued)

**Concentration of Credit Risk**

The College places no limit on the amount the College may invest in any one issuer. However, the majority of the investments are in mutual funds and investments guaranteed by the U.S. Government.

**Note 3: Accounts Receivable, Net**

Accounts receivable consisted of the following at June 30:

	<b>2011</b>	<b>2010</b>
Student tuition and fees	\$ 2,380,028	\$ 2,561,412
Auxiliary enterprises and other operating activities	<u>0</u>	<u>0</u>
	2,380,028	2,561,412
Less allowance for doubtful accounts	<u>(1,780,805)</u>	<u>(1,951,012)</u>
	<u>\$ 599,223</u>	<u>\$ 610,400</u>

The College also has \$630,514 and \$1,809 of receivables restricted for capital projects as of June 30, 2011 and 2010, respectively, which relate to capital lease contracts for ongoing and planned capital projects at the College. These receivable balances are classified as noncurrent assets in the statements of net assets as they are restricted for long-term purposes.

**Note 4: Loans Receivable**

Student loans made through the Federal Perkins Loan Program (the Program) comprise all of the loans receivable at June 30, 2011. There were no federal or institutional contributions to the Program during 2011. The Program provides for cancellation of a note at rates of 15% to 30% per year up to a maximum of 100% if the participant complies with certain provisions. The federal government reimburses the College's loan funds for amounts cancelled under these provisions.

As the College 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 College has provided an allowance for uncollectible loans, which in management's opinion, is sufficient to absorb loans which will ultimately be written off. The allowance for uncollectible loans was \$109,397 and \$109,397 at June 30, 2011 and 2010, respectively.



**Eastern Oklahoma State College**  
**Notes to Financial Statements**  
**June 30, 2011 and 2010**

**Note 5: Capital Assets, Net**

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

	Balance June 30, 2010	Additions	Transfers	Retirements	Balance June 30, 2011
Capital assets not being depreciated					
Land	\$ 1,238,008	\$ —	\$ —	\$ —	\$ 1,238,008
Livestock	195,850	10,150	—	—	206,000
Construction in progress	—	454,405	—	—	454,405
Total capital assets not being depreciated	<u>\$ 1,433,858</u>	<u>\$ 464,555</u>	<u>\$ —</u>	<u>\$ —</u>	<u>\$ 1,898,413</u>
Other capital assets					
Land improvements	\$ 1,597,627	\$ 42,383	\$ —	\$ —	\$ 1,640,010
Building and facilities	22,374,711	323,442	—	—	22,698,153
Equipment and vehicles	8,148,328	649,835	—	—	8,798,163
Library materials	949,360	15,275	—	—	964,635
Infrastructure	686,437	21,348	—	—	707,785
Total other capital assets	<u>\$ 33,756,463</u>	<u>\$ 1,052,283</u>	<u>\$ —</u>	<u>\$ —</u>	<u>\$ 34,808,746</u>
Less accumulated depreciation for					
Land improvements	\$ (1,506,784)	\$ (6,893)	\$ —	\$ —	\$ (1,513,677)
Building and facilities	(6,083,711)	(357,176)	—	—	(6,440,887)
Equipment and vehicles	(6,399,359)	(640,693)	—	—	(7,040,052)
Library materials	(858,449)	(10,091)	—	—	(868,540)
Infrastructure	(674,359)	(2,025)	—	—	(676,384)
Total accumulated depreciation	<u>(15,522,662)</u>	<u>(1,016,878)</u>	<u>—</u>	<u>—</u>	<u>(16,539,540)</u>
Other capital assets, net	<u>\$ 18,233,801</u>	<u>\$ 35,405</u>	<u>\$ —</u>	<u>\$ —</u>	<u>\$ 18,269,206</u>
Total Capital Assets, net	<u>\$ 19,667,659</u>	<u>\$ 499,960</u>	<u>\$ —</u>	<u>\$ —</u>	<u>\$ 20,167,619</u>

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

	Balance June 30, 2009	Additions	Transfers	Retirements	Balance June 30, 2010
Capital assets not being depreciated					
Land	\$ 1,238,008	\$ —	\$ —	\$ —	\$ 1,238,008
Livestock	237,800	—	—	(41,950)	195,850
Construction in progress	6,843,585	—	(6,843,585)	—	—
Total capital assets not being depreciated	<u>\$ 8,319,393</u>	<u>\$ —</u>	<u>\$ (6,843,585)</u>	<u>\$ (41,950)</u>	<u>\$ 1,433,858</u>
Other capital assets					
Land improvements	\$ 1,532,032	\$ 65,595	\$ —	\$ —	\$ 1,597,627
Building and facilities	15,146,980	384,146	6,843,585	—	22,374,711
Equipment and vehicles	7,636,538	511,790	—	—	8,148,328
Library materials	937,803	11,557	—	—	949,360
Infrastructure	684,615	1,822	—	—	686,437
Total other capital assets	<u>\$ 25,937,968</u>	<u>\$ 974,910</u>	<u>\$ 6,843,585</u>	<u>\$ —</u>	<u>\$ 33,756,463</u>
Less accumulated depreciation for					
Land improvements	\$ (1,502,591)	\$ (4,193)	\$ —	\$ —	\$ (1,506,784)
Building and facilities	(5,731,605)	(352,106)	—	—	(6,083,711)
Equipment and vehicles	(5,719,233)	(680,126)	—	—	(6,399,359)
Library materials	(848,867)	(9,582)	—	—	(858,449)
Infrastructure	(672,286)	(2,073)	—	—	(674,359)
Total accumulated depreciation	<u>(14,474,582)</u>	<u>(1,048,080)</u>	<u>—</u>	<u>—</u>	<u>(15,522,662)</u>
Other capital assets, net	<u>\$ 11,463,386</u>	<u>\$ (73,170)</u>	<u>\$ 6,843,585</u>	<u>\$ —</u>	<u>\$ 18,233,801</u>
Total Capital Assets, net	<u>\$ 19,782,779</u>	<u>\$ (73,170)</u>	<u>\$ —</u>	<u>\$ (41,950)</u>	<u>\$ 19,667,659</u>



**Eastern Oklahoma State College**  
**Notes to Financial Statements**  
**June 30, 2011 and 2010**

**Note 5: Capital Assets, Net (Continued)**

At June 30, 2011 and 2010, the cost of assets held under capital lease obligations and included in capital assets was \$13,832,510 and \$13,041,761, respectively. Costs incurred during construction of long-lived assets are recorded as construction in progress and are not depreciated until placed in service.

**Note 6: Long-term Liabilities**

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

	June 30, 2010	Additions	Reductions	June 30, 2011	Due Within One Year
Bonds and capital lease obligations, net of bond premium or discount					
Revenue bond payable	\$ 2,460,000	\$ —	\$ (185,000)	\$ 2,275,000	\$ 195,000
OCIA capital lease obligations	7,510,200	706,629	(242,144)	7,974,685	53,457
ODFA master lease revenue bonds	2,434,583	1,013,000	(147,333)	3,300,250	201,334
Other capital leases	74,200	296,778	(17,253)	353,725	89,894
Total bonds and capital lease	<u>12,478,983</u>	<u>2,016,407</u>	<u>(591,730)</u>	<u>13,903,660</u>	<u>539,685</u>
Other liabilities					
Accrued compensated absences	286,138	127,849	(165,467)	248,520	149,112
Total other liabilities	<u>286,138</u>	<u>127,849</u>	<u>(165,467)</u>	<u>248,520</u>	<u>149,112</u>
Total long-term liabilities	<u>\$ 12,765,121</u>	<u>\$ 2,144,256</u>	<u>\$ (757,197)</u>	<u>\$ 14,152,180</u>	<u>\$ 688,797</u>

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

	June 30, 2009	Additions	Reductions	June 30, 2010	Due Within One Year
Bonds and capital lease obligations, net of bond premium or discount					
Revenue bond payable	\$ 2,635,000	\$ —	\$ (175,000)	\$ 2,460,000	\$ 185,000
OCIA capital lease obligations	7,854,158	—	(343,958)	7,510,200	273,710
ODFA master lease revenue bonds	2,554,999	—	(120,416)	2,434,583	125,417
Other capital lease	—	74,200	—	74,200	14,116
Total bonds and capital lease	<u>13,044,157</u>	<u>74,200</u>	<u>(639,374)</u>	<u>12,478,983</u>	<u>598,243</u>
Other liabilities					
Accrued compensated absences	280,284	169,640	(163,786)	286,138	172,246
Total other liabilities	<u>280,284</u>	<u>169,640</u>	<u>(163,786)</u>	<u>286,138</u>	<u>172,246</u>
Total long-term liabilities	<u>\$ 13,324,441</u>	<u>\$ 243,840</u>	<u>\$ (803,160)</u>	<u>\$ 12,765,121</u>	<u>\$ 770,489</u>



**Eastern Oklahoma State College**  
**Notes to Financial Statements**  
**June 30, 2011 and 2010**

**Note 6: Long-term Liabilities (Continued)**

**Student Facilities Revenue Bonds**

The Board of Regents authorized the College to issue the Student Facilities Revenue Bonds, Series 1997 (the "Series 1997 Bonds") dated December 1, 1997, in the amounts of \$1,600,000. The Series 1997 Bonds mature May 1 of each year beginning June 1, 1997 through June 1, 2017, in annual amounts varying from \$40,000 to \$130,000, interest rates ranging from 5.05% to 10%. The remaining balance outstanding was \$685,000 and \$775,000 at June 30, 2011 and 2010, respectively. The Series 1997 Bonds are payable from pledged revenues derived from a student union fee and other ancillary services, and the reserve account held by the bond trustees. The College paid \$90,000 and \$85,000 in principle and \$46,900 and \$51,830 in related interest on these bonds during 2011 and 2010, respectively.

The Board of Regents authorized the College to issue the Student Facilities Revenue Bonds, Series 2004 (the "Series 2004 Bonds") dated May 1, 2004, in the amounts of \$2,200,000. The Series 2004 Bonds mature June 1 of each year beginning June 1, 2005 through June 1, 2024, in annual amounts varying from \$85,000 to \$160,000, interest rates ranging from 2.40% to 4.45%. The remaining balance outstanding was \$1,590,000 and \$1,685,000 at June 30, 2011 and 2010, respectively. The Series 1997 Bonds are payable from pledged revenues derived from a student union fee and other ancillary services, and the reserve account held by the bond trustees. The College paid \$95,000 and \$90,000 in principle and \$69,575 and \$72,365 in related interest on these bonds during 2011 and 2010, respectively.

The schedule of maturities of the bonds is as follows:

<u>Years Ending June 30,</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2012	195,000	108,075	303,075
2013	217,000	98,800	315,800
2014	217,000	87,963	304,963
2015	222,000	77,026	299,026
2016	227,000	65,584	292,584
2017-2021	742,000	191,482	933,482
2022-2024	455,000	41,163	496,163
	<u>\$ 2,275,000</u>	<u>\$ 670,093</u>	<u>\$ 2,945,093</u>

The trust agreements for the Revenue Bonds Series provide that bond proceeds and pledged revenues be used to establish various bond sinking funds and reserve funds (see Note 2).

**Oklahoma Capital Improvement Authority Lease Obligations**

In September 1999, the Oklahoma Capital Improvement Authority (OCIA) issued its OCIA Bond Issues, 1999 Series A, B, and C. Of the total bond indebtedness, the State Regents for Higher Education allocated \$1,000,000 to the College. Concurrently with the allocation, the College entered into an individual lease agreement with OCIA, representing the project being funded by the OCIA bonds.



**Eastern Oklahoma State College**  
**Notes to Financial Statements**  
**June 30, 2011 and 2010**

**Note 6: Long-term Liabilities** (Continued)

**Oklahoma Capital Improvement Authority Lease Obligations** (Continued)

The College's property under the 1999 Series capital lease is summarized as follows:

	Building	Equipment	Total
Cost	\$ 793,068	\$ 1,206	\$ 1,000,000
Less: accumulated depreciation	214,550	1,206	(215,756)
	\$ 578,518	\$ -	\$ 784,244

In November 2005, the Oklahoma Capital Improvement Authority (OCIA) issued its OCIA Bond Issues, 2005 Series F and G. Of the total bond indebtedness, the State Regents for Higher Education allocated \$7,671,000 to the College. Concurrently with the allocation, the College entered into an individual lease agreement with OCIA, representing the project being funded by the OCIA bonds.

In August 2010 the College's 2005 Series F lease agreement with the Oklahoma Capital Improvement Authority (OCIA) was restructured through a partial refunding of OCIA's 2005F bond debt. OCIA issued two new bonds, Series 2010A and 2010B. The College'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 College'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 charge or cost on restructuring. The College has recorded a charge of \$706,629 on restructuring as a deferred cost that will be amortized over a period of 6 years. This restructuring resulted in an aggregate debt service difference for principal and interest between the original lease agreement and the restructured lease agreement of \$706,29 also approximates the economic cost of the lease restructuring.

The College's assets under the 2006 series capital lease are summarized as follows:

Student Center & ADA & Technology Upgrades & Equipment	\$ 9,058,431
Capital lease proceeds held by OCIA	0
Less: Accumulated Depreciation	(864,978)
	\$ 8,411,506

During the years ended June 30, 2011 and 2010, OCIA made lease principal and interest payments totaling \$81,911 and \$709,285 respectively, on behalf of the College. These payments have been recorded as on-behalf OCIA contributions in the statements of revenues, expenses, and changes in net assets.



**Eastern Oklahoma State College**  
**Notes to Financial Statements**  
**June 30, 2011 and 2010**

**Note 6: Long-term Liabilities** (Continued)

**Oklahoma Capital Improvement Authority Lease Obligations** (Continued)

Future minimum lease payments under the College's obligation to the OCIA are as follows:

<u>Years Ending June 30,</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2012	53,457	113,178	166,635
2013	56,223	124,841	181,064
2014	301,215	375,835	677,050
2015	729,031	361,041	1,090,072
2016	753,273	337,848	1,091,121
2017-2021	2,300,279	1,165,865	3,466,144
2022-2026	1,478,497	836,091	2,314,588
2027-2031	<u>2,302,846</u>	<u>354,696</u>	<u>2,657,542</u>
	<u>\$ 7,974,820</u>	<u>\$ 3,669,395</u>	<u>\$ 11,644,215</u>

The OCIA Series 2005 bonds were issued at a premium. The College's pro rata portion of the premium was \$239,030. During 2010, the College recognized \$9,959 of amortization, leaving a balance of the unamortized bond premium of \$191,296. During 2011, the unamortized bond premium was eliminated. The unamortized bond premium for 2010 is included in the OCIA capital lease obligation in the accompanying financial statements.

During the year ending June 30, 2011, the College recognized \$117,771 of amortization on the deferred cost of lease restructuring on the OCIA Series 2005F lease obligation, leaving a balance of the unamortized deferred costs of \$588,857. The unamortized deferred cost is included in the OCIA capital lease obligation in the accompanying financial statements.

**Oklahoma Development Finance Authority Master Lease**

In May 2005, the College entered into a 20 year lease agreement with the Oklahoma Development Finance Authority (ODFA) and the State Regents as beneficiary of a portion of the proceeds from the Oklahoma Development Finance Authority State Regents for Higher Education Master Lease Revenue Bonds, Series 2005A. The College financed \$3,005,000 to upgrade the College's energy management systems.

The lease agreement with ODFA provides for monthly payments to ODFA ranging from \$17,862 to \$19,330 for 20 years through May 15, 2025, or until the ODFA bonds and related interest are paid. The monthly lease payments were expected to be funded through energy savings realized from the project. During 2011 and 2010, there was \$125,417 and \$120,417 respectively, in principal paid on the lease and \$97,429 and \$101,238 respectively, in related interest paid.



**Eastern Oklahoma State College**  
**Notes to Financial Statements**  
**June 30, 2011 and 2010**

**Note 6: Long-term Liabilities** (Continued)

**Oklahoma Development Finance Authority Master Lease** (Continued)

The College's assets under the master lease are summarized as follows:

Building improvements at cost	\$ 2,983,330
Less: accumulated depreciation	<u>(372,858)</u>
Building improvements, net	2,610,472
Master lease issuance cost, net of accumulated amortization	<u>37,674</u>
	<u>\$ 2,648,146</u>

In September 2010, the College entered into a 15 year lease agreement with the Oklahoma Development Finance Authority (ODFA) and the State Regents as beneficiary of a portion of the proceeds from the Oklahoma Development Finance Authority State Regents for Higher Education Real Property Master Lease Revenue Bonds, Series 2010A. The College financed \$401,000 to build apartments on the College's campus.

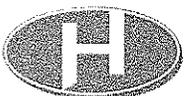
The lease agreement with ODFA provides for monthly payments to ODFA ranging from \$2,793 to \$3,177 for 15 years through May 15, 2025, or until the ODFA bonds and related interest are paid. The monthly lease payments are funded through additional apartment rent realized after the project was completed. During 2011, there was \$17,917 respectively, in principal paid on the lease and \$8,669 in related interest paid.

The College's assets under the master lease are summarized as follows:

Student Apartment Remodeling CIP	\$ 373,395
Master Lease Proceeds held by trustee	<u>26,605</u>
	400,000
Master lease issuance cost, net of accumulated amortization	<u>949</u>
	<u>\$ 400,949</u>

In May 2011, the College entered into a 15-year lease agreement with the Oklahoma Development Finance Authority (ODFA) and the State Regents as a beneficiary of a portion of the proceeds from the Oklahoma Development Finance Authority State Regents for Higher Education Master Lease Revenue Bonds, Series 2011A. The College received a net amount of \$550,000 of the proceeds for improvements to the College's equipment.

In May 2011, the College entered into a 3 year lease agreement with the Oklahoma Development Finance Authority (ODFA) and the State Regents as beneficiary of a portion of the proceeds from the Oklahoma Development Finance Authority Oklahoma State Regents for Higher Education Master Equipment Lease Revenue Bonds, Series 2011A. The College financed \$50,000, for furniture in the College's dorm.



**Eastern Oklahoma State College**  
**Notes to Financial Statements**  
**June 30, 2011 and 2010**

**Note 6: Long-term Liabilities** (Continued)

**Oklahoma Development Finance Authority Master Lease** (Continued)

Through June 30, 2011, the College has remaining \$630,514 to be drawn from its total allotment for expenditures incurred in connection with these projects. The expenditures have been capitalized as investments in capital assets in accordance with College policy. The College has recorded a lease obligation payable to ODFA for the total amount of the allotment, less repayment made.

Lease payments made by the College are forwarded to the trustee bank by the State Regents for future principal and interest payments on the Master Lease bonds. The ODFA deposits the lease payments into an interest-bearing sinking fund and may use the interest earnings to reduce the College's future lease payments. The College paid \$141,333 and \$120,417 in principal, and \$108,054 and \$101,238 in related interest on these bonds during 2011 and 2010, respectively.

The College has also recorded an asset for its pro rata share of the bond issuance costs, and is amortizing that asset over the term of the lease agreement. At June 30, 2011 and 2010, the unamortized bond issuance costs totaled \$2,809 and \$2,691, respectively.

The schedule of maturities of the bonds is as follows:

<u>Years Ending June 30,</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2012	\$ 201,333	\$ 126,143	\$ 327,476
2013	205,250	119,626	324,876
2014	207,250	112,780	320,030
2015	199,833	105,732	305,565
2016	209,500	99,009	308,509
2017 – 2021	1,157,334	374,791	1,532,125
2022 – 2026	<u>1,119,750</u>	<u>125,357</u>	<u>1,245,107</u>
	<u>\$ 3,300,250</u>	<u>\$ 1,063,438</u>	<u>\$ 4,363,688</u>

**Notes Payable**

During 2010, the College entered into a lease purchase agreement with Government Capital Corporation in the amount of \$74,200. Government Capital Corporation later assigned its rights to Vision Bank. This agreement was entered into to provide lease purchase financing for a 1999 Blue Bird LTC40 47 Passenger Coach. The College uses this Bus to transport its students to and from college sponsored activities. The lease agreement provides for yearly payments to Vision Bank of \$16,864 for 5 years through September 15, 2014. Other than the \$10,000 down payment on the bus, no other payments were due during 2010.



**Eastern Oklahoma State College**  
**Notes to Financial Statements**  
**June 30, 2011 and 2010**

**Note 6: Long-term Liabilities** (Continued)

**Notes Payable** (Continued)

The College's assets under the capital lease are summarized as follows:

Equipment at cost	\$ 84,200
Less: accumulated depreciation	<u>(25,054)</u>
	<u>\$ 59,146</u>

During 2011, the College entered into a lease purchase agreement with Government Capital Corporation in the amount of \$47,195. Government Capital Corporation later assigned its rights to Security State Bank of Wewoka. This agreement was entered into to provide lease purchase financing for a street sweeper. The College uses this street sweep to clean and maintain campus streets and parking lots. The lease agreement provides for yearly payments to Security State Bank of \$17,410 for 3 years through September 24, 2013. Other than the \$10,000 down payment on the street sweeper, no other payments were due during 2011.

The College's assets under the capital lease are summarized as follows:

Equipment at cost	\$ 55,000
Less: accumulated depreciation	<u>(4,583)</u>
	50,417
Lease Purchase issuance cost, net of accumulated amortization	<u>1,646</u>
	<u>\$ 52,063</u>

During 2011, the College entered into a lease purchase agreement with Government Capital Corporation in the amount of \$249,583. Government Capital Corporation later assigned its rights to Security State Bank of Wewoka. This agreement was entered into to provide lease purchase financing for computer hardware and software. The College uses this to upgrade our computer network, which has allowed us to expand our online class capabilities. The lease agreement provides for yearly payments to Security State Bank of \$69,242 for 4 years through October 15, 2014.

The College's assets under the capital lease are summarized as follows:

Equipment at cost	\$ 217,144
Lease Purchase Proceeds held by trustee	<u>29,939</u>
	247,083
Less: accumulated depreciation	<u>(30,948)</u>
Lease Purchase issuance cost, net of accumulated amortization	<u>2,250</u>
	<u>\$ 218,385</u>



**Eastern Oklahoma State College**  
**Notes to Financial Statements**  
**June 30, 2011 and 2010**

**Note 6: Long-term Liabilities** (Continued)

**Notes Payable**

The scheduled principal and interest payments related to the lease are as follows:

<u>Years Ending June 30,</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2012	\$ 89,895	\$ 13,621	\$ 103,516
2013	90,205	13,310	103,516
2014	94,717	8,799	103,516
2015	<u>78,908</u>	<u>4,061</u>	<u>82,969</u>
	<u>\$ 353,725</u>	<u>\$ 39,791</u>	<u>\$ 393,516</u>

**Note 7: Retirement Programs**

Substantially all of the College's academic and nonacademic personnel are covered by the Oklahoma Teachers' Retirement System (the OTRS), which is a State of Oklahoma public employee retirement system. Certain eligible employees also participate in the Supplemental Retirement Plan, a single-employer defined benefit plan. The College does not maintain the accounting records, hold the investments for, or administer the OTRS plan.

**Oklahoma Teachers' Retirement System**

Plan Description

The College contributes to the OTRS, a cost-sharing multiple-employer defined-benefit pension plan sponsored by the State of Oklahoma. The OTRS provides defined retirement benefits based on members' final compensation, age, and term of service. In addition, the retirement program provides for benefits upon disability and to survivors upon the death of eligible members. The benefit provisions are established and may be amended by the legislature of the State of Oklahoma. Title 70 of the Oklahoma statutes, Sections 17-101 through 17-116.9, as amended, assigns the authority for management and operation of the plan to the Board of Trustees of the OTRS. The OTRS issues a publicly available financial report that includes financial statements and supplementary information for the OTRS. That annual report may be obtained by writing to the OTRS, P.O. Box 53524, Oklahoma City, Oklahoma 73152, by calling (405) 521-2387, or at the OTRS web site at [www.trs.state.ok.us](http://www.trs.state.ok.us).



**Eastern Oklahoma State College**  
**Notes to Financial Statements**  
**June 30, 2011 and 2010**

**Note 7: Retirement Programs (Continued)**

Funding Policy

The authority to define or amend employer contribution rates is given to the OTRS Board of Trustees by Oklahoma Statute, Title 70, Section 17-106; all other contribution rates are defined or amended by the Oklahoma State Legislature. OTRS members are required to contribute 7% of their regular annual compensation, not to exceed the member's maximum compensation level. The College is required to contribute a fixed percentage of annual compensation on behalf of active OTRS members (i.e., Employer Statutory Contribution Rate). This contribution rate for 2009 was 8.5% through December 31, 2008, but then increased to 9% in January 2009. It increased again in 2010 to 9.5% in January 2010. There was no change in fiscal year 2011. The College's contribution to OTRS for the years ended June 30, 2011 and 2010 was approximately \$1,403,624 and \$1,398,098 respectively, which equaled the required contributions for the respective year for both the Member Contribution and the Statutory fee.

Oklahoma statutes require the state of Oklahoma to contribute to OTRS a defined percentage of the natural and casing head gas tax (the dedicated tax) collected each year. The dedicated tax contribution to OTRS is used toward the College's required fixed percentage contribution. The College recognizes these on-behalf payments made to OTRS by the state of Oklahoma under the provisions of GASB Statement No. 24. These on-behalf payments do not represent a direct or indirect obligation of the College. The College's prorated share of these payments for the year ended June 2011 and 2010, was approximately \$438,500 and \$435,500 respectively, and is recognized in revenues and expenses.

**Supplemental Retirement Benefit Plan (SRB)**

Plan description

In 1995 the College, through its board of regents, entered in to an agreement to provide supplemental retirement benefits to its then president. The agreement called for the College to establish an annuity for the former president which would be paid monthly from his retirement date until death, with up to 3.5% in annual cost of living increases allowable. The annuity account was opened in 1995 with a \$154,000 first time payment, the amount projected as necessary to fund the supplemental retirement benefits over the former president's lifetime

In 2000 the former president retired and began to draw on the annuity established in 1995. In late 2009, the College was informed that the annuity account was near insolvency and that supplemental payments would be necessary to fulfill the commitment for the benefits of the former president, who is now 70 years of age. After determining it has a legal obligation to do so, the College began making supplemental payments to this account. The College paid \$30,000 to this account in the year ended June 30, 2011, and will pay approximately \$30,000 annually beginning July 1, 2011 to this account and will continue to do so over the lifetime of the former president. The College has not recorded any future obligation for these benefits in its statement of net assets.



**Eastern Oklahoma State College**  
**Notes to Financial Statements**  
**June 30, 2011 and 2010**

**Note 8: Related Party Transactions**

The Foundation is a tax-exempt organization whose objective is the betterment of the College and its related activities. The College is the ultimate beneficiary of the Foundation. The College has an agreement with the Foundation whereby the College absorbs the costs certain administrative services incurred by the Foundation. The following transactions occurred between the College and the Foundation during the years ended June 30:

	<b>2011</b>	<b>2010</b>
Scholarship funds awarded to the College	\$ <u>176,579</u>	\$ <u>164,306</u>
Payment of services to the Foundation	\$ <u>0</u>	\$ <u>0</u>

**Note 9: Commitments and Contingencies**

The College is party to litigation and claims arising in the normal course of business. In the opinion of management, liabilities, if any, resulting from such litigation and claims will not be material to the College.

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

The College participates in the Federal Family Education Loan Program (the "FFEL Program"), which includes the Federal Stafford Loan Program and Federal Parents Loan for Undergraduate Students programs. The FFEL program does not require the College to draw down cash; however, the College is required to perform certain administrative functions under the FFEL program. Failure to perform such functions may require the College to reimburse the loan guarantee agencies. For the years ended June 30, 2011 and 2010, approximately \$4,075,000 and \$2,878,000 of FFEL program loans were provided to College students.

**Note 10: Risk Management**

The College is exposed to various risks of loss from torts; theft of, damage to, and destruction of assets; business interruptions; errors and omission; employee injuries and illnesses; 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 College, along with other state agencies and political subdivisions, participates in the State of Oklahoma Risk Management Program public entity risk pool currently operating as a common risk management and insurance program for its members. The College pays annual premiums to the pool for its tort, property, and liability insurance coverage. The Oklahoma Risk Management pool's governing agreement specifies that the pool will be self-sustaining through



**Eastern Oklahoma State College**  
**Notes to Financial Statements**  
**June 30, 2011 and 2010**

**Note 10: Risk Management** (Continued)

member premiums and will reinsure through commercial carriers for claims in excess of specified stop-loss amounts.

The College 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 CompSource. 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.





**HINKLE &  
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Strategic  
Business Advisors

**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  
Eastern Oklahoma State College  
El Reno, Oklahoma

We have audited the financial statements of Eastern Oklahoma State College (the College) as of June 30, 2011, and for the year then ended, and have issued our report thereon dated September 16, 2011. We conducted our audit in accordance with generally accepted auditing standards and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States.

**Internal Control over Financial Reporting**

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

A deficiency in internal control exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect 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 financial statements will not be prevented or detected and corrected on a timely basis.

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

4500 S. Garnett, Ste. 800

Tulsa, OK 74146

TEL: 918.492.3388

FAX: 918.492.4443

[www.SBAdvisors.com](http://www.SBAdvisors.com)

**Compliance and Other Matters**

As part of obtaining reasonable assurance about whether the College'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*.

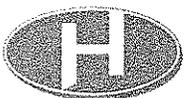
This report is intended solely for the use of the audit committee, management, and federal awarding agencies and pass-through entities and is not intended to be, and should not be, used by anyone other than these specified parties.

*Hill & Company, PC*

Tulsa, Oklahoma  
September 16, 2011



## Exhibit



**Eastern Oklahoma State College  
Development Foundation, Inc.**

**Financial Statements  
with Independent Auditors' Reports**

**June 30, 2011 and 2010**



**Eastern Oklahoma State College  
Development Foundation, Inc.  
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June 30, 2011 and 2010**

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**HINKLE &  
COMPANY**

PC  
*Strategic  
Business Advisors*

**Independent Auditors' Report  
on Financial Statements**

Board of Trustees  
Eastern Oklahoma State College Development Foundation, Inc.  
Wilburton, Oklahoma

We have audited the accompanying statement of financial position of Eastern Oklahoma State College Development Foundation, Inc. (the Foundation) a component unit of Eastern Oklahoma State College as of June 30, 2011 and 2010, and the related statements of activities, cash flows, and functional expenses for the years then ended. These financial statements are the responsibility of the Foundation's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the Foundation as of June 30, 2011 and 2010, and the changes in its net assets and its cash flows for the year then ended in conformity with accounting principles generally accepted in the United States of America.

*Hinkle & Company, PC*

Tulsa, Oklahoma  
September 30, 2011

4500 S. Garnett, Ste. 800

Tulsa, OK 74146

TEL: 918.492.3388

FAX: 918.492.4443

[www.SBAdvisors.com](http://www.SBAdvisors.com)

**Eastern Oklahoma State College  
Development Foundation, Inc.  
Statements of Financial Position  
June 30, 2011 and 2010**

	<b>2011</b>	<b>2010</b>
<b>Assets</b>		
Cash and cash equivalents	\$ 311,624	\$ 477,381
Accounts receivable	77,012	1,539
Investments	<u>2,824,780</u>	<u>2,424,332</u>
<b>Total Assets</b>	<b><u>\$ 3,213,416</u></b>	<b><u>\$ 2,903,252</u></b>
<b>Liabilities</b>		
Accounts Payable	<u>—</u>	<u>—</u>
<b>Total Liabilities</b>	<b><u>—</u></b>	<b><u>—</u></b>
<b>Net Assets</b>		
Unrestricted	62,400	30,565
Temporarily restricted	1,271,226	1,020,188
Permanently restricted	<u>1,879,790</u>	<u>1,852,499</u>
<b>Total Net Assets</b>	<b><u>3,213,416</u></b>	<b><u>2,903,252</u></b>
<b>Total Liabilities and Net Assets</b>	<b><u>\$ 3,213,416</u></b>	<b><u>\$ 2,903,252</u></b>



**Eastern Oklahoma State College  
Development Foundation, Inc.  
Statements of Activities  
Years Ended June 30, 2011 and 2010**

	2011			Total
	Unrestricted	Temporarily Restricted	Permanently Restricted	
<b>Revenues, Gains, and Other Support</b>				
Contributions	\$ 2,930	\$ 204,867	\$ 27,291	\$ 235,088
In-kind contributions	60,000	—	—	60,000
Investment income	125,373	280,522	—	405,895
Other income	8,618	78,960	—	87,578
Net assets released from restrictions	<u>313,311</u>	<u>(313,311)</u>	<u>—</u>	<u>—</u>
Total Revenues, Gains, and Other Support	<u>510,232</u>	<u>251,038</u>	<u>27,291</u>	<u>788,561</u>
<b>Expenses</b>				
Programs				
Scholarships, awards, and programs	146,106	—	—	146,106
Supporting services				
Management and general	<u>332,291</u>	<u>—</u>	<u>—</u>	<u>332,291</u>
Total Expenses	<u>478,397</u>	<u>—</u>	<u>—</u>	<u>478,397</u>
<b>Change in Net Assets</b>	31,835	251,038	27,291	310,164
<b>Net Assets, Beginning of Year</b>	<u>30,565</u>	<u>1,020,188</u>	<u>1,852,499</u>	<u>2,903,252</u>
<b>Net Assets, End of Year</b>	<u>\$ 62,400</u>	<u>\$ 1,271,226</u>	<u>\$ 1,879,790</u>	<u>\$ 3,213,416</u>



2010			
Unrestricted	Temporarily Restricted	Permanently Restricted	Total
\$ 7,957	\$ 298,973	\$ 46,557	\$ 353,487
60,000	—	—	60,000
84,637	233,701	—	318,338
13,661	88,573	—	102,234
<u>419,668</u>	<u>(419,668)</u>	<u>—</u>	<u>—</u>
<u>585,923</u>	<u>201,579</u>	<u>46,557</u>	<u>834,059</u>
204,136	—	—	204,136
<u>294,116</u>	<u>—</u>	<u>—</u>	<u>294,116</u>
<u>498,252</u>	<u>—</u>	<u>—</u>	<u>498,252</u>
87,671	201,579	46,557	335,807
<u>(57,106)</u>	<u>818,609</u>	<u>1,805,942</u>	<u>2,567,445</u>
<u>\$ 30,565</u>	<u>\$ 1,020,188</u>	<u>\$ 1,852,499</u>	<u>\$ 2,903,252</u>



**Eastern Oklahoma State College  
Development Foundation, Inc.  
Statements of Cash Flows  
Years Ended June 30, 2011 and 2010**

	<b>2011</b>	<b>2010</b>
<b>Cash Flows from Operating Activities</b>		
Increase (decrease) in net assets	\$ 310,164	\$ 335,807
Adjustments to reconcile increase in net assets to net cash provided by operating activities		
Investment (appreciation) depreciation	21,539	(241,292)
Changes in		
Loan receivables	(77,012)	—
Unconditional promises to give	—	(1,539)
Accounts payable	—	25,504
Net Cash Provided by Operating Activities	254,691	67,472
<b>Cash Flows from Investing Activities</b>		
Purchase of investments	(400,448)	(95,141)
Proceeds from sale of investments	—	—
Net Cash Used in Investing Activities	(400,448)	(95,141)
<b>Net Decrease in Cash and Cash Equivalents</b>	(145,757)	(27,669)
<b>Cash and Cash Equivalents at Beginning of Year</b>	477,381	505,050
<b>Cash and Cash Equivalents at End of Year</b>	\$ 331,624	\$ 477,381



**Eastern Oklahoma State College  
Development Foundation, Inc.  
Notes to Financial Statements  
June 30, 2011 and 2010**

**Note 1: Summary of Significant Accounting Policies**

**Organization**

Eastern Oklahoma State College Development Foundation, Inc. (the Foundation) is a nonprofit organization incorporated in the State of Oklahoma in 1973 and operated to receive and administer gifts for the sole benefit of Eastern Oklahoma State College (the College).

Distribution of amounts is subject to the approval of the Board of Trustees or the appropriate fund sponsor and the availability of monies. Accordingly, the accompanying financial statements reflect only transactions for which appropriate approvals have been received by the Foundation as of the financial reporting date.

**Contributions**

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

**Net Assets**

The financial statements of the Foundation have been prepared on the accrual basis in accordance with generally accepted accounting principles.

Net assets are classified based on the existence or absence of donor-imposed restrictions as follows:

*Unrestricted* – Net assets that are not subject to donor-imposed restrictions. Unrestricted net assets may be designated for specific purposes by action of the Board of Trustees.

*Temporarily Restricted* – Net assets whose use by the Foundation is subject to donor-imposed restrictions that can be fulfilled by actions of the Foundation pursuant to those restrictions or that expire by the passage of time.

*Permanently Restricted* – Net assets subject to donor-imposed restrictions that they be maintained permanently by the Foundation. Such assets primarily include the Foundation's permanent endowment funds and irrevocable trusts held by others for the beneficial interest of the Foundation.



**Eastern Oklahoma State College  
Development Foundation, Inc.  
Notes to Financial Statements  
June 30, 2011 and 2010**

**Note 1: Summary of Significant Accounting Policies** (Continued)

**Cash and Cash Equivalents**

The Foundation defines cash and cash equivalents to be all cash and certificates of deposit with original maturities of three months or less. Cash equivalents of \$311,624 and \$477,381 as of June 30, 2011 and 2010, respectively, were held in financial institutions.

**Investments**

Investments consist of marketable debt and equity securities and certificates of deposit with original maturities of more than three months. Investments are carried at fair value based on the quoted market prices of the underlying securities.

**Tax Status**

The Foundation is a nonprofit corporation and is an exempt organization as defined in Internal Revenue Code Section 501(c)(3). The Foundation has been classified as an organization that is not a private foundation under Section 509(a) of the Internal Revenue Code and qualified for deductible contributions under Section 170(b)(1)(A)(vi). The Foundation receives limited income that is unrelated to its exempt purpose and is taxable under the Internal Revenue Code.

**Property and Equipment**

Property and equipment are stated at cost or at estimated fair value at date of donation. The Foundation provides for depreciation using the straight-line method over the estimated useful lives of the related assets. Repairs and maintenance are expensed as incurred, whereas major improvements in excess of \$500 are capitalized.

**Allocated Expenses**

Expenses by function have been allocated among program and supporting services classifications on the basis of time records and on estimates made by the Foundation's management.



**Eastern Oklahoma State College  
Development Foundation, Inc.  
Notes to Financial Statements  
June 30, 2011 and 2010**

**Note 1: Summary of Significant Accounting Policies** (Continued)

**Concentrations of Credit Risk**

Financial instruments, which potentially subject the Foundation to concentrations of credit risk, consist primarily of cash and cash equivalents, short-term investments and pledges receivable. The Foundation places its cash and certificates of deposit with high quality financial institutions. Pledges receivable consist of a large number of contributors throughout the state of Oklahoma. The Foundation provides an allowance for the estimated uncollectible portion of pledges receivable. The Foundation's management believes that the credit risk is adequately provided for to which it is exposed.

**Management Estimates**

The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the amounts reported in the financial statements and disclosures in the notes thereto. Actual results could differ from those estimates.

**Subsequent Events**

Subsequent events have been evaluated through September 30, 2011, which is the date the financial statements were issued.

**Note 2: Cash and Cash Equivalents**

The Foundation maintains several bank accounts. The table below is designed to disclose the level of custody credit risk assumed by the Foundation based upon how its deposits were insured at June 30, 2011 and 2010. FDIC regulations state time and savings accounts are insured up to a \$250,000 maximum.

Category 1 – Insured by FDIC or collateralized with securities held by the Foundation or by its agent in its name.

Category 2 – Uninsured but collateralized with securities held by the pledging financial institution's trust department or agent in the Foundation's name.

Category 3 – Uninsured and uncollateralized.



**Eastern Oklahoma State College  
Development Foundation, Inc.  
Notes to Financial Statements  
June 30, 2011 and 2010**

**Note 2: Cash and Cash Equivalents (Continued)**

Type of Deposits	Total Carrying Balance	Total Bank Balance	Custody Credit Risk Category		
			1	2	3
<b>June 30, 2011</b>					
Demand Deposits:					
Wilburton State Bank	\$ 41,529	\$ 86,399	\$ 86,399	\$ —	\$ —
First National Bank	70,095	70,095	70,095		
Certificates of Deposit					
BancFirst	250,000	250,000	250,000	—	—
Totals	<u>\$ 361,624</u>	<u>\$ 406,494</u>	<u>\$ 406,494</u>	<u>\$ —</u>	<u>\$ —</u>
<b>June 30, 2010</b>					
Demand Deposits:					
Wilburton State Bank	\$ 183,566	\$ 190,129	\$ 190,129	\$ —	\$ —
First National Bank	43,815	43,815	43,815		
Certificates of Deposit					
BancFirst	250,000	250,000	250,000	—	—
Totals	<u>\$ 477,381</u>	<u>\$ 483,944</u>	<u>\$ 483,944</u>	<u>\$ —</u>	<u>\$ —</u>

**Note 3: Investments**

Investment income consists of the following:

	<u>2011</u>	<u>2010</u>
Interest and dividend income	\$ 77,046	\$ 77,046
Realized gains and losses	85,841	85,841
Unrealized gains and losses	<u>155,451</u>	<u>155,451</u>
	<u>\$ 318,338</u>	<u>\$ 318,338</u>

Investments consist of the following at June 30, 2011:

	<u>Cost</u>	<u>Fair Value</u>	<u>Carrying Value</u>
Pooled Investment Fund	<u>\$ 2,437,662</u>	<u>\$ 2,807,865</u>	<u>\$ 2,807,865</u>



**Eastern Oklahoma State College  
Development Foundation, Inc.  
Notes to Financial Statements  
June 30, 2011 and 2010**

**Note 3: Investments** (Continued)

Investments consist of the following at June 30, 2010:

	<b>Cost</b>	<b>Fair Value</b>	<b>Carrying Value</b>
Pooled investment fund	\$ 2,268,881	\$ 2,424,332	\$ 2,424,332

During the year ended 2009, the Foundation liquidated all investments and made an irrevocable gift to a community foundation organization. The community foundation organization maintains ownership and control over the invested assets and includes the Foundation's gift in a pooled investment fund. Funds placed with this organization cannot be returned to the Foundation without consent by a super majority of the community foundation organization's Board of Directors as well as a super majority of the Foundation's Board of Directors. Disbursements of the investment income generated from the gift can be made for designated purposes.

**Note 4: Endowments**

The Foundation endowments consist of approximately 140 individual funds established for a variety of purposes. As required by generally accepted accounting principles (GAAP), net assets associated with endowment funds, including funds designated by the Board of Directors to function as endowments, are classified and reported based upon the existence or absence of donor-imposed restrictions.

*Interpretation of Relevant Law:* In accordance with the requirements of FAS 117-1, and the Oklahoma Uniform Prudent Management of Institutional Funds Act (OUPMIFA), the Foundation will report the market value of an endowment as perpetual in nature. As a result, the Foundation classifies as permanently restricted (1) the original value of gifts donated to the endowment, (2) the original value of subsequent gifts donated to the endowment, (3) all realized and unrealized gains and losses of the endowment, and (4) less any income distribution in accordance with the spending policy which will be classified as temporarily restricted. In accordance with OUPMIFA, the 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 purpose of the foundation and the donor-restricted endowment fund;



**Eastern Oklahoma State College  
Development Foundation, Inc.  
Notes to Financial Statements  
June 30, 2011 and 2010**

**Note 4: Endowments** (Continued)

General economic conditions;

(3) The possible effect of inflation and deflation;

(4) The expected total return from income and the appreciation of investments;

(5) Other resources of the foundation;

(6) The investment policies of the foundation.

*Return Objectives and Risk Parameters:* The Foundation has adopted investment and spending policies for endowment assets that attempt to provide a predictable stream of funding to programs supported by the endowment while seeking to maintain the purchasing power of the endowment assets. Under this policy, as approved by the Board of Directors, the endowment assets are invested in a manner that is intended to produce results which generate a dependable, increasing source of income and appreciation while assuming a moderate level of investment risk. The Foundation expects its endowment funds, over time, to provide an average rate of return of approximately 7% annually. Actual returns in any given year may vary from this amount.

*Strategies Employed for Achieving Objectives:* To satisfy its long-term rate of return objectives, the Foundation relies on a total return strategy in which investment returns are achieved through both capital appreciation (realized and unrealized) and current yield (interest and dividends). The Foundation targets a diversified asset allocation that places a greater emphasis on equity-based investments to achieve its long-term return objectives while reducing risk to acceptable levels.

*Spending Policy and How the Investment Objectives Relate to Spending Policy:* The Foundation has a policy of appropriating for distribution each year the equivalent of up to 5% of its endowment fund's fair value as of the immediately preceding July 1. In establishing this policy, the Foundation considered the long-term expected return on its endowment. Accordingly, over the long term, the Foundation expects the current spending policy to allow its endowment to grow at an average of 3% annually. This is consistent with the Foundation's objective to maintain the purchasing power of the endowment assets held in perpetuity or for a specified term as well as to provide additional real growth through new gifts and investment return.

Endowment Net Asset Composition by Type of Fund as of June 30, 2011:

	<b>Unrestricted</b>	<b>Temporarily Restricted</b>	<b>Permanently Restricted</b>
Donor-restricted endowment funds	\$ —	\$ 1,020,188	\$ 1,852,499
Board-designated endowment funds	—	—	—
Total endowment funds	<u>\$ —</u>	<u>\$ 1,020,188</u>	<u>\$ 1,852,499</u>



**Eastern Oklahoma State College  
Development Foundation, Inc.  
Notes to Financial Statements  
June 30, 2011 and 2010**

**Note 4: Endowments** (Continued)

Endowment Net Asset Composition by Type of Fund as of June 30, 2010:

	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Permanently Restricted</u>
Donor-restricted endowment funds	\$ —	\$ 1,271,226	\$ 1,879,790
Board-designated endowment funds	—	—	—
<b>Total endowment funds</b>	<u>\$ —</u>	<u>\$ 1,271,226</u>	<u>\$ 1,879,790</u>

Changes in Endowment Net Assets for the year ending June 30, 2011:

	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Permanently Restricted</u>
Endowment net assets - beginning	\$ —	\$ 1,020,188	\$ 1,852,499
Investment return		280,522	—
Other income		78,960	—
Contributions		204,867	27,291
Appropriations for expenditure	—	(313,311)	—
<b>Total endowment funds</b>	<u>\$ —</u>	<u>\$ 1,271,226</u>	<u>\$ 1,879,790</u>

Changes in Endowment Net Assets for the years ending June 30, 2010:

	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Permanently Restricted</u>
Endowment net assets - beginning	\$ —	\$ 818,609	\$ 1,805,942
Investment return		233,701	—
Other Income		88,573	—
Contributions		298,973	46,557
Appropriations for expenditure	—	(419,668)	—
<b>Total endowment funds</b>	<u>\$ —</u>	<u>\$ 1,020,188</u>	<u>\$ 1,852,499</u>



**Eastern Oklahoma State College  
Development Foundation, Inc.  
Notes to Financial Statements  
June 30, 2011 and 2010**

**Note 5: Related Party Transactions**

Based upon an exchange of service agreement, the College provides the Foundation with the necessary staffing and office space at no cost to the Foundation. Thus, the Foundation has no employees. In exchange, the College received scholarships, funds for capital improvements, and other services from the Foundation. The value of such services has been recorded on the financial statements as in-kind contributions.

**Note 6: Fair Value Measurements**

The Foundation uses quoted market prices to determine the fair value of an asset or liability when available. If quoted market prices are not available, the Foundation determines fair value using valuation techniques that use market-based or independently-sourced market data, such as interest rates.

The following methods and assumptions were used to estimate the fair value of assets and liabilities in the financial statements.

*Cash and Cash Equivalents:* The carrying amount approximates the fair value due to the short maturity of such amounts.

*Investments:* Investments in cash and cash equivalents, publicly traded securities, and mutual funds are stated at market value based on quoted market prices. Investments common trust funds, certificates of deposit, government agency bonds, and mortgage-backed securities are stated at market price as determined by the fund manager or quoted market prices in non-active markets. Other investments are stated at fair value based upon current market conditions and other factors deemed relevant to the valuation as provided by the independent valuation specialist and or Foundation management.

*Pledges and Accounts Receivable:* The carrying amount of receivables is based on the discounted value of expected future cash flows, which approximate fair value.

*Other Assets:* Remaining financial instruments are carried at cost, which approximates fair value.

*Accounts Payable and Other Liabilities:* The carrying amount approximates fair value due to the short maturity of those amounts.



**Eastern Oklahoma State College  
Development Foundation, Inc.  
Notes to Financial Statements  
June 30, 2011 and 2010**

**Note 6: Fair Value Measurements** (Continued)

Fair value is defined as the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. The fair value hierarchy requires an entity to maximize the use of observable inputs and minimize the use of unobservable inputs when measuring fair value. The three levels of inputs that may be used to measure fair value are:

- Level 1** Quoted prices in active markets for identical assets or liabilities.
- Level 2** Observable inputs other the Level 1 prices, such as quoted prices for similar assets or liabilities; quoted prices in markets that are not active; or other inputs that are observable or can be corroborated by observable market data for substantially the full term of the asset or liabilities.
- Level 3** Unobservable inputs that are supported by little or no market activity and that are significant to the fair value of the assets or liabilities.

The following table presents the fair value measurements of assets and liabilities recognized in the accompanying financial statements at fair value on a recurring basis and the level within the fair market value hierarchy in which the fair value measurements fall at June 30, 2011.

	<b>As of June 30, 2011</b>			
	Level 1	Level 2	Level 3	Total
Pooled Investment Funds	<u>\$2,824,780</u>	<u>\$ —</u>	<u>\$ —</u>	<u>\$2,824,780</u>
	<b>As of June 30, 2010</b>			
	Level 1	Level 2	Level 3	Total
Pooled Investment funds	<u>\$2,424,332</u>	<u>\$ —</u>	<u>\$ —</u>	<u>\$2,424,332</u>

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



**Eastern Oklahoma State College  
Development Foundation, Inc.  
Notes to Financial Statements  
June 30, 2011 and 2010**

**Note 6: Fair Value Measurements** (Continued)

*Investments:* Where quoted market prices are available in an active market, investments are classified within Level 1 of the valuation hierarchy. Level 1 investments include equity securities, mutual funds, and money market funds. If quoted market prices are not available, then fair values are estimated by using pricing models, quoted prices of securities with similar characteristics or discounted cash flows. Level 2 investments include equity securities with similar characteristics or discounted cash flows. Level 2 investments include equity securities, corporate and other bonds, U.S. government securities, marketable alternative assets, inflation hedging and opportunistic and other investments. In certain cases where Level 1 or Level 2 inputs are not available, investments are classified within Level 3 of the hierarchy and include corporate and other bonds and marketable and nonmarketable alternative assets.





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

Board of Regents  
Eastern Oklahoma State College  
El Reno, Oklahoma

**Compliance**

We have audited Eastern Oklahoma State College's (the College) compliance with the types of compliance requirements described in the U.S. Office of Management and Budget (OMB) Circular A-133 *Compliance Supplement* that are applicable to each of its major federal programs for the year ended June 30, 2011. The College's major federal programs are identified in the summary of auditors' results section of the accompanying Schedule of Findings and Questioned Costs. Compliance with the requirements of laws, regulations, contracts, and grants applicable to each of its major federal programs is the responsibility of the College's management. Our responsibility is to express an opinion on the compliance of the College based on our audit.

We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States of America; and OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. Those standards and OMB Circular A-133 require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about the College's compliance with those requirements, and performing such other procedures as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion. Our audit does not provide a legal determination on the College's compliance with those requirements.

In our opinion, Eastern Oklahoma State College complied, in all material respects, with the requirements referred to above that are applicable to each of its major federal programs for the year ended June 30, 2011.

4500 S. Garnett, Ste. 800

Tulsa, OK 74146

TEL: 918.492.3388

FAX: 918.492.4443

www.SBAdvisors.com

### **Internal Control over Compliance**

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

A control 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 non-compliance 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 more than a reasonable possibility that non-compliance with a type of compliance requirement of a federal program will not be prevented, or detected and corrected, on a timely basis.

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

### **Schedule of Expenditures of Federal Awards**

We have audited the basic financial statements of Eastern Oklahoma State College as of and for the year ended June 30, 2011, and have issued our report thereon dated September 16, 2011. Our audit was performed for the purpose of forming an opinion on the basic financial statements taken as a whole. The accompanying schedule of expenditures of federal awards is presented for purposes of additional analysis as required by OMB Circular A-133 and is not a required part of the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, is fairly stated, in all material respects, in relation to the basic financial statements taken as a whole.

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

*Hibel & Company, PC*

Tulsa, Oklahoma  
September 16, 2011



**Eastern Oklahoma State College**  
**Schedule of Expenditures of Federal Awards**  
**Year Ended June 30, 2011**

Federal Grantor/Pass-through Grantor/ Program Title	Federal CFDA Number	Expenditures
<b>U.S. Department of Education</b>		
Student Financial Assistance		
Federal Pell Grant	84.063	\$ 5,262,300
Federal Supplemental Education Opportunity Grant	84.007	32,300
Federal Family Education Loans	84.032	4,137,097
Federal Work Study	84.033	69,349
Federal Academic Competitiveness Grant	84.375A	1,300
Total Student Financial Aid Cluster		<u>9,502,346</u>
TRIO Program Cluster		
Student Support Services	84.042A	262,624
Total TRIO Program Cluster		<u>262,624</u>
United States Department of Education – Other Programs Passed through the Oklahoma Department of Vocational Education		
Carl Perkins Vocational & Technical Funds	84.048	31,306
Pass-Through - Other Program, State of Oklahoma Stabilization Education Grants, ARRA Funds	84.394 ARRA	459,678
Native American Serving Non-tribal Institutions	84.031X	258,772
Gear Up Grant	84.334A	1,204,404
Total Other Programs		<u>1,954,160</u>
<b>Total U.S. Department of Education</b>		<b>11,719,130</b>
<b>U.S. Department of Health and Human Services</b>		
Passed through OSHRE		
Temporary Assistance to Needy Families	93.558	302,038
Child Care and Development Block Grant	93.960	55,455
<b>U.S. Department of Labor</b>		
Passed through State of Oklahoma		
Mine Safety Grant	17.600	255,263
CBJTG – Nursing Grant	17.269	258,718
<b>U.S Department of Agriculture</b>		
Rural Development Grant	10.783	200,000
Community Facilities Grant – 1 <sup>st</sup> Response	10.780	30,322
Passed through Oklahoma State University, passed though Samuel Roberts Noble foundation Theory of Practice – Leadership mini grant		<u>2,000</u>
<b>TOTAL EXPENDITURES FOR FEDERAL AWARDS</b>		<b><u>\$ 12,822,926</u></b>



**Eastern Oklahoma State College**  
**Notes to Schedule of Expenditures of Federal Awards**  
**Year Ended June 30, 2011**

**Note 1: Summary of Significant Accounting Policies**

The schedule of expenditures of federal awards includes the federal awards activity of Eastern Oklahoma State College (the College) 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 State and 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 2: Federal Family Education Loan Program**

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

**Note 3: Subrecipients**

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



**Eastern Oklahoma State College**  
**Schedule of Findings and Questioned Costs**  
**June 30, 2011**

**Summary of Auditors' Results**

1. The opinion expressed in the independent accountants' report was:  
 Unqualified     Qualified     Adverse     Disclaimed
  
2. The independent accountants' report on internal control over financial reporting described:  
 Significant deficiency(ies) noted considered material weakness(es)?     Yes     No  
 Significant deficiency(ies) noted that are not considered to be a material weakness?     Yes     No
  
3. Noncompliance considered material to the financial statements was disclosed by the audit?     Yes     No
  
4. The independent accountants' report on internal control over compliance with requirements applicable to major federal awards programs described:  
 Significant deficiency(ies) noted considered material weakness(es)?     Yes     No  
 Significant deficiency(ies) noted that are not considered to be a material weakness?     Yes     No
  
5. The opinion expressed in the independent accountants' report on compliance with requirements applicable to major federal awards was:  
 Unqualified     Qualified     Adverse     Disclaimed
  
6. The audit disclosed findings required to be reported by OMB Circular A-133?     Yes     No
  
7. The College's major program was:

<b>Program/Cluster</b>	<b>CFDA Number</b>
Student Financial Aid Cluster	84.063, 84.032, 84.033, 84.007 and 84,375A

8. A threshold of \$300,000 was used to distinguish between Type A and Type B programs as those terms are defined by OMB Circular A-133.
  
9. The College does qualify as a low-risk auditee as defined by OMB Circular A-133.

**Findings Required to be Reported by Government Auditing Standards**

No matters are reportable.

**Findings Required to be Reported by OMB Circular A-133**

No matters are reportable.



**Eastern Oklahoma State College**  
**Summary Schedule of Prior Audit Findings**  
**Year Ended June 30, 2010**

**Prior Year Findings**

***Finding 2010-01***

Finding

Revenues pledged to secure the bonds are accounted for separately, however, the College has not maintained specific records related to assets built or improved with the bond proceeds, nor does it maintain separate accounts detailing the operating and maintenance expenses of facilities built or improved with the bonds.

Cause

The College did not capture these capital expenditures as they occurred, and since they were improvements they are not currently able to be separately identified. The College does not maintain separate records for the operating and maintenance expenses for the facilities due to the College being unaware that they should be accounted for separately.

Criteria

The Bond Resolution of the Student Facilities Revenue Bonds, Series 1997 provides for covenants that require the College to maintain separate records related to the operation and maintenance of the building and facilities built or improved with the bonds.

Effect

The College is not abiding by all the covenants required by their Student Facilities Revenue Bonds, Series 1997.

Status

The College maintains records that account for all student fees pledged against the bonds and any maintenance and operating expenses incurred on the buildings and facilities.

***Finding 2010-2***

Finding

The closing process extended with material entries being posted to the trial balance during and after the fieldwork had been completed.

Cause

The College implemented a new computer system in the prior years. Many issues were discovered during the current year closing that were not discovered previously that caused restatement of accounts.

Criteria

The College is responsible for providing final trial balances to auditors in a timely manner.

Effect

The College did not provide the auditors final trial balances in a timely manner.

Status

The College prepared the annual financial statements in a timely and accurate manner.

