



NORTHERN OKLAHOMA COLLEGE

June 30, 2011

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AUDITED FINANCIAL STATEMENTS

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REPORT REQUIRED BY *GOVERNMENT AUDITING STANDARDS*

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Independent Auditors' Report

To the Board of Regents
Northern Oklahoma College

We have audited the accompanying statement of net assets of Northern Oklahoma College (the "College"), a component unit of the State of Oklahoma, as of and for the year ended June 30, 2011, and the related statements of revenues, expenses and changes in net assets and cash flows for the year then ended. We have also audited the financial statements of the Northern Oklahoma College Foundation, Inc. (the "Foundation"), a discrete component unit of the College. 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.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America, and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. The financial statements of the Foundation were not audited in accordance with *Government Auditing Standards*. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, 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 respective financial position of the College and its component unit as of June 30, 2011, and the respective changes in its net assets and, where applicable, cash flows thereof for the year then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued our report dated October 28, 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, contract 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 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.

Our audit was conducted for the purpose of forming an opinion on the financial statements that collectively comprise the College's basic financial statements. The accompanying schedule of state awards is presented for purposes of additional analysis 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.

Cole & Reed P.C.

Oklahoma City, Oklahoma
October 28, 2011

Northern Oklahoma College
Management's Discussion and Analysis
June 30, 2011 and 2010

The following discussion and analysis of the financial performance of Northern Oklahoma College (the College) provides an overview of the College's financial activities for the fiscal years ended June 30, 2011 and 2010. The analysis is intended to provide you, the reader, with a summary of significant financial activities and information and should be read in conjunction with the College's financial statements.

DISCUSSION OF THE BASIC FINANCIAL STATEMENTS

The 2011 and 2010 financial statements were prepared in accordance with Governmental Accounting Standards Board Statements No. 34, *Basic Financial Statements and Management's Discussion and Analysis* (GASB 34). GASB 34 provides not only for the presentation of management's discussion and analysis but also provides for the following statements.

Statement of net assets: This is a financial statement of the College as a whole. It is prepared on the accrual basis of accounting and presents all assets, liabilities and net assets of the College.

Statement of revenues, expenses and changes in net assets: This statement is also prepared on the accrual basis of accounting and presents the overall operations of the College for the years ended June 30, 2011 and 2010.

Statement of cash flows: This statement is presented to provide a summary of how the College generated cash during the current year. This is basically done by taking the statement of revenues, expenses and changes in net assets and presenting it on a cash basis. In accordance with GASB 34, the direct method of presentation is used to prepare this statement.

The College is presenting all of its financial statements as a business-type activity and has no "Fund" financial statements, as defined by GASB 34. The statement of net assets is similar to a business balance sheet, which presents assets, liabilities and equity. In the College's case, equity is considered net assets. The statement of revenues, expenses, and change in net assets is equivalent to a business income statement, i.e., the results of operations for the current year. The statement of cash flows is very similar to that being used by businesses, in that it presents the cash activity of the College for the current year.

Statements of Net Assets

The Statement of Net Assets presents the financial position of the College at the end of the fiscal year. From the data presented, readers of the statement are able to determine the assets available to continue the operations of the College. They also are able to determine how much the College owes vendors, investors and lending institutions. Finally, the Statement of Net Assets provides a picture of the net assets (assets minus liabilities) and their availability to pay expenses of the College or as one way to measure the College's financial health or financial position.

Northern Oklahoma College
Management's Discussion and Analysis (Continued)
June 30, 2011 and 2010

Statements of Net Assets (Continued)

Over time, increases and decreases in the College's net assets are one indicator of whether its financial health is improving or worsening. You will also need to consider non-financial factors, however such as changes in the College's programs and degrees offered and accreditations status, enrollment levels, in addition to the condition of its physical facilities, to fully assess the overall health of the College.

Condensed Statements of Net Assets

	June 30		Increase	Percent
	2011	2010	(Decrease)	Change
Current assets	\$ 16,468,421	\$ 13,427,666	\$ 3,040,755	23%
Noncurrent assets	26,305,232	26,677,368	(372,136)	-1%
Total Assets	42,773,653	40,105,034	2,668,619	7%
Liabilities				
Current liabilities	2,739,135	3,202,061	(462,926)	-14%
Noncurrent liabilities	15,516,794	14,523,213	993,581	7%
Total liabilities	18,255,929	17,725,274	530,655	3%
Net assets:				
Investment in capital assets, net of related debt	9,717,026	10,952,595	(1,235,569)	-11%
Restricted for purposes	5,592,204	4,032,792	1,559,412	39%
Unrestricted	9,208,494	7,394,373	1,814,121	25%
Total net assets	<u>\$ 24,517,724</u>	<u>\$ 22,379,760</u>	<u>\$ 2,137,964</u>	<u>10%</u>

During the period July 1, 2010 to June 30, 2011, the College's net assets increased by \$2,137,964. A significant increase in current assets of \$3,040,755 and decrease of \$372,136 in noncurrent assets resulted in a total increase of \$2,668,619 in total assets. The increase in the current assets resulted primarily from an increase in cash and cash equivalents of \$2,208,542. The transfer of cash and cash equivalents to investments in the amount of \$257,396 affected both current and noncurrent assets. The decrease in the noncurrent assets resulted from the reduction of capital lease proceeds held by OCIA of \$344,458, acquisitions of capital assets of \$2,193,069, offset by depreciation expense of \$3,717,755, and an increase in deferred cost on OCIA lease restructure of \$1,281,920. These transactions resulted primarily from projects in conjunction with the remaining OCIA Bond Issue 2005F and 2005G capital improvement projects and leasehold improvements for the College Center.

Northern Oklahoma College
Management's Discussion and Analysis (Continued)
June 30, 2011 and 2010

Statements of Cash Flows

The Statement of Cash Flows provides additional information about the College's financial results by reporting the major sources and uses of cash. This statement will assist in evaluating the College's ability to generate net cash flows, its ability to meet its obligations as they come due, and its need for external financing. The statement is divided into five parts. The first part deals with operating cash flows and show the net cash used by the operating activities of the College. The second reflects cash flows from non-capital financing activities. This part reflects the cash received and spent for non-operating, non-investing, and non-capital financing purposes. The third deals with cash flows from capital and related financing activities. This part also deals with the cash used for the acquisition and construction of capital and related assets. The fourth reflects the cash flows from investing activities and shows the purchases, proceeds, and interest received from investing activities. The fifth reconciles the net cash used to the operating income or loss reflected on the Statement of Revenues, Expenses and Changes in Net Assets.

The following summarizes the College's cash flow for the year ending June 30:

Condensed Statements of Cash Flows

	2011	2010
Cash provided (used) by:		
Operating activities	\$ (19,859,513)	\$ (18,862,818)
Noncapital financing activities	22,556,100	20,081,760
Capital and related financing activities	(294,165)	1,521,202
Investing activities	(79,168)	708,858
Net change in cash	2,323,254	3,449,002
Cash, beginning of the year	11,546,248	8,097,246
Cash, end of year	<u>\$ 13,869,502</u>	<u>\$ 11,546,248</u>

Statements of Revenues, Expenses and Changes in Net Assets

The Statement of Revenues, Expenses and Changes in Net Assets presents the revenues earned and the expense incurred during the year. A public college's dependency on state appropriations and gifts will result in operating deficits (losses). The *Governmental Accounting Standards Board (GASB)* requires state appropriations and gifts to be classified as non-operating revenues.

The purpose of this statement is to present the revenues received by the College, both operating and non-operating, and the expenses paid by the institution, operating and non-operating, and any other revenues, expenses, gains and losses received or spent. Operating revenues are generally received for providing goods and services to various customers of the College. Operating expenses are those expenses paid to acquire or produce the foods and services provided in return for the operating revenues, and to carry out the mission of the College. Non-operating revenues are revenues received for which goods and services are not provided. State appropriations are considers neither operating nor non-operating revenues and are reported under "Other Revenues, Expenses, Gains, and Losses."

Northern Oklahoma College
Management's Discussion and Analysis (Continued)
June 30, 2011 and 2010

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

The following summarized the College's revenues, expense and changes in net assets, for the years ended June 30:

Operating Results

	June 30		Increase	Percent
	2011	2010	(Decrease)	Change
Operating revenues:				
Tuition and fees, net	\$ 9,316,308	\$ 8,402,078	\$ 914,230	11%
Grants and contracts	2,726,393	2,445,199	281,194	11%
Auxiliary	5,356,057	4,998,333	357,724	7%
Other	89,896	74,711	15,185	20%
Total operating revenues	17,488,654	15,920,321	1,568,333	10%
Less operating expenses	42,379,804	38,056,157	4,323,647	11%
Net operating income (loss)	<u>\$ (24,891,150)</u>	<u>\$ (22,135,836)</u>	<u>\$ (2,755,314)</u>	<u>12%</u>

During the period July 1, 2010 to June 30, 2011, the College's operating expenses increased by \$4,323,647, while the total operating revenues increased \$1,568,333. The increase in operating revenues is attributable to an increase in tuition and fees rates and resulting revenue of \$914,230 and an increase in auxiliary services of \$357,724. The increase in operating expenses is primarily attributable to an increase in financial aid of \$2,264,346, compensation of \$455,275, supplies and materials of \$693,201, and depreciation and amortization of \$838,301.

Non-Operating Results

	June 30		Increase	Percent
	2011	2010	(Decrease)	Change
Non-operating revenues				
(expenses):				
State appropriations	\$ 10,863,472	\$ 10,756,563	\$ 106,909	1%
State appropriations - ARRA	1,394,762	799,310	595,452	
On-behalf payments				
(teachers' retirements)	807,000	709,000	98,000	14%
Grants and contracts	11,196,668	8,972,811	2,223,857	25%
Investment income	178,228	206,972	(28,744)	-14%
Interest expense	(988,504)	(729,942)	(258,562)	35%
Total non-operating revenues	<u>\$ 23,451,626</u>	<u>\$ 20,714,714</u>	<u>\$ 2,736,912</u>	<u>13%</u>

Northern Oklahoma College
Management's Discussion and Analysis (Continued)
June 30, 2011 and 2010

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

Non-Operating Results (Continued)

During the period July 1, 2010 to June 30, 2011, the College's non-operating revenues and expenses increased by \$2,736,912. The change is attributable primarily to an increase in federal and state grants and contracts of \$2,223,857, an increase of \$106,909 in the Oklahoma State Finance appropriations the College received during 2011, an increase in state appropriations – ARRA funds of \$595,452, and an increase in on-behalf payments of \$98,000. Investment income decreased by \$28,744 due primarily to a decrease in the available balance to invest on the OCIA Series 2005F & 2005G Bond Issue funds because of the substantial drawdown totals utilized for capital projects in 2011. Interest expense increased \$258,562 primarily from the interest payments for the OCIA Series 2005F & 2005G Bond Issue and ODFA Revenue Bonds.

Net Assets Summary

	June 30			Percent
	2011	2010	(Decrease)	Change
Net increase in net assets	\$ 2,137,964	\$ 2,203,214	\$ (65,250)	-3%
Net assets, beginning of year	22,379,760	20,176,546	2,203,214	11%
	<u>\$ 24,517,724</u>	<u>\$ 22,379,760</u>	<u>\$ 2,137,964</u>	<u>10%</u>

Current assets consist primarily of cash and cash equivalents totaling \$13,336,654. Included in cash equivalents are short-term investments that the College makes with the state treasurer. These dollars are invested in short-term repurchase agreements, and the College can use the monies on a daily basis. As such, these are considered cash equivalents. Also included in current

assets is \$604,679 of accounts receivable, and \$1,811,886 due from federal grants. Inventories of approximately \$507,000, which consists primarily of the bookstore, are also included current assets. Noncurrent assets consist primarily of capital assets (land, buildings, structures, etc.) net of depreciation totaling \$24,193,178, along with endowment funds of \$505,254, and restricted cash and cash equivalents of approximately \$324,000. The restricted cash is cash that cannot be used by the College for operating activities and consists primarily of cash being held by a trustee from outstanding bonds. Noncurrent assets also includes \$1,281,920 of deferred cost on OCIA leases restructure of the 2005F lease agreement that occurred in August of 2010. Current liabilities include \$1,920,484 of accounts payable and accrued liabilities, \$85,647 of accrued payroll, \$273,110 of accrued compensated absences, and approximately \$242,000 of amounts due on principal of bonds and capitalized lease obligations in the next 12 months. Noncurrent liabilities consist entirely of capital lease obligations and revenue bonds less the current portion.

Northern Oklahoma College
Management's Discussion and Analysis (Continued)
June 30, 2011 and 2010

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

Net Assets Summary (Continued)

Net assets totaled \$24,517,724, with \$9,717,026 as investment in capital assets, i.e., this is property and equipment less bonded indebtedness. There is \$2,605,932 restricted for scholarships and \$2,154,531 restricted for capital projects, along with \$532,849 restricted for debt service and \$298,892 restricted for loans. Approximately \$9,208,000 of the net assets is unrestricted.

Operating revenues consist primarily of tuition and fees and federal grants and contracts. There is also \$5,356,057 included in operating revenues from sales and services of the auxiliary enterprises (i.e., bookstore, dormitories, etc.). Operating expenses are presented in their natural classification, with the largest expense being compensation. Non-operating revenues and expenses consist primarily of state appropriations of approximately \$10,863,472, and on-behalf contributions for OTRS of \$807,000, along with investment income of \$178,228 and interest expense of \$988,504. For the year ended June 30, 2011, the college also received \$1,394,766 in state appropriations – ARRA Stimulus funds which included \$694,766 for operating costs and \$700,000 for College Center leasehold improvements. Non-operating revenues also include federal grants and contracts such as Pell and SEOG totaling \$11,196,668. For the year ended June 30, 2011, the College had an increase in net assets of \$2,137,964. Included in the increase in net assets are \$914,230 increase in tuition and fees, \$357,724 increase in auxiliary services, and increase of \$2,505,051 in federal grants and contracts, and a \$4,323,646 increase in operating expenses.

Capital Assets

As of June 30, 2011, the College had a net book value of fixed assets of \$24,193,718 compared to \$25,718,404 at June 30, 2010. In the current year, additions to construction in progress, land, improvements, infrastructure and buildings were approximately \$332,457, while purchases of machinery and equipment were \$890,518 and leasehold improvements were \$970,094. Depreciation recorded for 2011 and 2010, was \$3,717,755 and \$2,879,453 respectively.

Capital Financing

The College has one revenue bond issue outstanding, along with two capital leases. The Oklahoma Development Finance Authority (ODFA) Master Lease Revenue Bonds, Series 2001B lease agreement for the purchase of two buses was repaid in full in May 2011.

**Northern Oklahoma College
Management's Discussion and Analysis (Continued)
June 30, 2011 and 2010**

Capital Financing (Continued)

In fiscal year 2006, the Oklahoma Capital Improvement Authority issued State Facilities Revenue Bonds (Higher Education Projects) Series 2005F and 2005G for which the College entered into a lease agreement with OCIA for a portion of these bond proceeds totaling \$14,293,235. The revenue bond projects for Northern Oklahoma College include Wilkin Hall – Phase II Renovation, Nursing and Communications Building, Enid Campus Renovations, Vineyard Library/Administration Renovation and Expansion, and New Classroom Building-Stillwater. The Series 2005 Bonds bear interest payable on July 1 and January 1 of each year, beginning July 1, 2006 and the initial principal payment is July 1, 2007. The Series 2005F provides for monthly payments to OCIA for 24 years through July 1, 2030, or until the OCIA bonds and related interest are paid. The Series 2005G provide for monthly payments to OCIA for one year through July 1, 2007, or until the OCIA bonds and related interest are paid. Interest rates on these bonds range from 3.75 percent to 5.00 percent. The Oklahoma State Legislature appropriates monies to the College for the monthly lease payments. In August 2010, the College's 2005F lease agreement with the OCIA was restructured through a partial refunding of OCIA's 2005F bond debt. OCIA issued two new bonds, Series 2010A and 2010B. The 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 cost for restructuring. The College has recorded a deferred charge of \$1,538,304 on restructuring as a deferred cost that will be amortized over a period of six years. During 2011, no principal or interest payment was paid on the lease. Interest income in the amount of \$9,241 was earned on invested bond funds.

During fiscal 2004, the Oklahoma Development Authority (the Authority) issued The Oklahoma Development Finance Authority Public Facilities Financing program Revenue Refunding Bonds, Series 2004 (Northern Oklahoma College) in the amount of \$3,365,000. The bonds were issued to refinance the outstanding series 1999 Revenue Bonds. The revenue bonds (Oklahoma Development Finance Authority Revenue Bond, Series 1999) were issued by the College to purchase the Phillips College Campus in Enid. Unamortized bond issuance costs and the discounts on the old bonds were written-off and are included in the other non-operating revenues and expenses in 2004. The bonds are due in annual installments ranging from \$180,000 to \$300,000 through July 1, 2019. Interest rates on these bonds range from 3.00 percent to 5.40 percent. Funds used to repay these bonds come from the College's beneficial interest in the "Section Thirteen Fund State Education Institutions" and the "New College Fund." For the years ended June 30, 2011 and 2010, the net revenue from pledged sources before debt service payments was \$2,283,692 and \$2,644,875. Required principal payments for the years ended June 30, 2011 and 2010, amounted to \$210,000 and \$200,000 respectively.

The capital lease obligation to the Oklahoma Capitol Improvement Authority (OCIA) originated during the year ended June 30, 2000. The second lease is to the Oklahoma Development Finance Authority (ODFA) which originated during the year ended June 30, 2002.

**Northern Oklahoma College
Management's Discussion and Analysis (Continued)
June 30, 2011 and 2010**

Capital Financing (Continued)

Proceeds from the OCIA lease were used to construct the Wellness Center. 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 lack of funding. For the years ended June 30, 2011 and 2010, the legislature appropriated \$39,799 and \$35,739 for the total principal and interest due for the year. Accordingly, the College did not make any payments this year.

Proceeds from the ODFA lease were used to purchase two busses. Required principal payments for the years ended June 30, 2011 and 2010, amounted to \$27,917 and \$30,000 respectively.

**DESCRIPTION OF CURRENTLY KNOWN FACTS, DECISIONS, OR
CONDITIONS THAT ARE EXPECTED TO HAVE A SIGNIFICANT EFFECT
ON THE FINANCIAL POSITION OR RESULTS OF OPERATIONS**

The operating budget for the year July 1, 2011 to June 30, 2012, has been approved, and the estimated amount of state appropriations to be received is approximately \$10,476,041 of which \$9,828,323 is designated for Northern Oklahoma College and \$647,718 designated for College Center in Ponca City. Changes in state appropriations and removal of American Recovery and Reinvestment Act (ARRA) – Fiscal Stabilization Fund Program for Northern Oklahoma College reflects a 5.80% decrease in funding for Northern Oklahoma College and College Center as compared to the adjusted base for year ended June 30, 2011. As a result, the College did implement tuition and mandatory fee increase of 5.9% for the fiscal year ended June 30, 2012 to manage reductions in state appropriations and mandatory cost increases. In the event that further reductions are required, appropriate budget adjustments will be made in order to maintain adequate reserve balances to ensure the College's financial viability. The College will continue to monitor the state and national economic conditions as part of our financial decision making process and will strive to develop scenarios to reduce costs and increase operating revenues to protect critical academic programming, while being sensitive to our students needs. Presently, the College does not anticipate any other significant change in operations, nor are there any items pending that could have a significant effect on the financial position or operating results of the College.

REQUEST FOR INFORMATION

This financial report is designed to provide a general overview of the College's finances for all those with an interest. Questions concerning any of the information provided in this report should be addressed to the Vice President of Financial Affairs c/o Northern Oklahoma College, 1220 East Grand, P.O. Box 310, Tonkawa, Oklahoma 74653-0310.

STATEMENT OF NET ASSETS

NORTHERN OKLAHOMA COLLEGE

	College Year ended June 30, 2011	Component Unit Year ended June 30, 2011
ASSETS		
CURRENT ASSETS		
Cash and cash equivalents	\$ 13,336,654	\$ 126,686
Restricted cash and cash equivalents	208,508	-
Accounts receivable, net	604,679	15,556
Federal grants receivable	1,811,886	-
Contributions receivable	-	704,500
Inventories	506,694	-
TOTAL CURRENT ASSETS	16,468,421	846,742
NONCURRENT ASSETS		
Restricted cash and cash equivalents	324,340	-
Investments	505,254	4,584,692
Capital lease proceeds held by OCIA	-	-
Capital assets, net	24,193,718	51,834
Deferred cost on OCIA lease restructure	1,281,920	-
Other assets	-	168
TOTAL NONCURRENT ASSETS	26,305,232	4,636,694
TOTAL ASSETS	\$ 42,773,653	\$ 5,483,436
LIABILITIES		
CURRENT LIABILITIES		
Accounts payable and accrued liabilities	\$ 1,920,484	\$ 1,250
Accrued payroll	85,647	-
Accrued compensated absences	273,110	-
Deposits held in custody for others	218,076	-
Current portion of capital leases payable to OCIA	26,818	-
Current portion of revenue bonds	215,000	-
TOTAL CURRENT LIABILITIES	2,739,135	1,250
NONCURRENT LIABILITIES		
Capital leases payable to OCIA, net	13,691,794	-
Revenue bonds, net	1,825,000	-
TOTAL NONCURRENT LIABILITIES	15,516,794	-
TOTAL LIABILITIES	18,255,929	1,250
NET ASSETS		
Invested in capital assets, net of related debt	9,717,026	-
Restricted for:		
Nonexpendable		
Scholarships and fellowships	-	3,156,784
Expendable		
Debt service	532,849	-
Capital projects	2,154,531	-
Scholarships	2,605,932	1,496,866
Loans	298,892	71,106
Unrestricted	9,208,494	757,430
TOTAL NET ASSETS	\$ 24,517,724	\$ 5,482,186

See notes to financial statements.

STATEMENT OF REVENUES, EXPENSES AND CHANGES IN NET ASSETS

NORTHERN OKLAHOMA COLLEGE

	College Year ended June 30, 2011	Component Unit Year ended June 30, 2011
OPERATING REVENUES		
Tuition and student fees (net of scholarship allowance of \$3,605,000)	\$ 9,316,308	\$ -
Auxiliary services (net of scholarship allowance of \$2,036,000)	5,356,057	-
Federal and state grants and contracts	2,726,393	-
Other sources	89,896	91,588
TOTAL OPERATING REVENUE	17,488,654	91,588
OPERATING EXPENSES		
Compensation	18,737,702	-
Contractual services	642,148	-
Supplies and materials	8,506,558	-
Depreciation and amortization	3,717,754	-
Utilities	1,371,443	-
Communications	241,602	-
Financial Aid	8,090,586	72,990
Other	1,072,011	168,345
TOTAL OPERATING EXPENSES	42,379,804	241,335
OPERATING LOSS	(24,891,150)	(149,747)
NONOPERATING REVENUES (EXPENSES)		
State appropriations	10,863,468	-
State appropriations - ARRA	1,394,766	-
On-behalf contributions for OTRS	807,000	-
Federal and state grants and contracts	11,196,668	-
Private gifts and contributions	-	1,908,748
Investment income	178,228	642,626
Interest expense	(988,504)	-
NET NONOPERATING REVENUES (EXPENSES)	23,451,626	2,551,374
INCOME (LOSS) BEFORE OTHER REVENUES, EXPENSES, GAINS AND LOSSES	(1,439,524)	2,401,627
State appropriations restricted for capital purposes	2,283,692	-
OCIA on-behalf appropriations	1,293,796	-
CHANGE IN NET ASSETS	2,137,964	2,401,627
NET ASSETS AT BEGINNING OF YEAR	22,379,760	3,080,559
NET ASSETS AT END OF YEAR	\$ 24,517,724	\$ 5,482,186

See notes to financial statements.

STATEMENT OF CASH FLOWS

NORTHERN OKLAHOMA COLLEGE

	College Year ended June 30, 2011
CASH FLOWS FROM OPERATING ACTIVITIES	
Tuition and fees	\$ 9,554,270
Federal and state grants and contracts	2,726,393
Payments to suppliers	(19,657,038)
Payments to employees	(17,929,091)
Auxiliary enterprises sales and services	5,356,057
Other operating receipts (payments)	89,896
NET CASH USED IN OPERATING ACTIVITIES	(19,859,513)
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES	
State appropriations	10,863,472
State payments from federal ARRA revenues	1,394,762
Non-operating grants	10,297,866
NET CASH PROVIDED BY NONCAPITAL FINANCING ACTIVITIES	22,556,100
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES	
Purchases of capital assets	(2,594,033)
Principal paid on capital leases and bonds	(237,917)
Interest paid on capital leases and bonds	(90,365)
Capital appropriations received	2,283,692
Proceeds from OCIA capital lease	344,458
NET CASH USED IN FINANCING ACTIVITIES	(294,165)
CASH FLOWS FROM INVESTING ACTIVITIES	
Interest received on investments	178,228
Proceeds from sales and maturities of investments	262,097
Purchase of investments	(519,493)
NET CASH USED IN INVESTING ACTIVITIES	(79,168)
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	2,323,254
CASH AND CASH EQUIVALENTS AT BEGINNING OF YEAR	11,546,248
CASH AND CASH EQUIVALENTS AT END OF YEAR	\$ 13,869,502

STATEMENT OF CASH FLOWS--Continued

NORTHERN OKLAHOMA COLLEGE

	College Year ended June 30, 2011
RECONCILIATION OF OPERATING LOSS TO NET CASH USED IN OPERATING ACTIVITIES	
Operating loss	\$ (24,891,151)
Adjustments to reconcile net operating loss to net cash used in operating activities:	
Depreciation and amortization expense	3,717,754
On-behalf payments	807,000
Changes in assets and liabilities:	
Receivables, net	237,962
Inventories	(56,660)
Accounts payable and accrued liabilities	278,985
Compensated absences and employee accruals	36,056
Deposits held in custody for others and other liabilities	10,541
NET CASH USED IN OPERATING ACTIVITIES	<u>\$ (19,859,513)</u>
NONCASH INVESTING CAPITAL AND FINANCING ACTIVITIES	
State appropriations for on-behalf capital lease payments	<u>\$ 1,293,796</u>
RECONCILIATION OF CASH AND CASH EQUIVALENTS TO THE STATEMENT OF NET ASSETS	
Current assets	
Cash and cash equivalents	\$ 13,336,654
Restricted cash and cash equivalents	208,508
Noncurrent assets	
Restricted cash and cash equivalents	324,340
	<u>\$ 13,869,502</u>

See notes to financial statements.

NOTES TO FINANCIAL STATEMENTS

NORTHERN OKLAHOMA COLLEGE

June 30, 2011

NOTE A--SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Nature of Operations: Northern Oklahoma College (the "College") is a two-year, state supported college operating under the jurisdiction of the Board of Regents of Northern Oklahoma College (the Board of Regents) and 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 of Oklahoma. The College has three campuses located in Tonkawa, Enid and Stillwater.

Reporting Entity: The Northern Oklahoma College Foundation, Inc. (the "Foundation") is a legally separate, tax-exempt component unit of the College. The Foundation acts primarily as a fund-raising organization to supplement the resources that are available to the College in support of its programs. Although the College does not control the timing and amount of receipts from the Foundation, the majority of resources, or income thereon, that the Foundation holds and invests are 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 is discretely presented in the College's financial statements.

The Foundation is a 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.

Although the College is the exclusive beneficiary of the Foundation, the Foundation is independent of the College in all respects. The Foundation is not a subsidiary or affiliate of the College and is not directly or indirectly controlled by the College. Moreover, the assets of the Foundation are the exclusive property of the Foundation and do not belong to the College. The College is not accountable for, and does not have ownership of, any of the financial and capital resources of the Foundation. The College does not have the power or authority to mortgage, pledge, or encumber the assets of the Foundation. The Board of Directors of the Foundation is entitled to make all decisions regarding the business and affairs of the Foundation, including, without limitation, distributions made to the College. Third parties dealing with the College should not rely upon the financial statements of the Foundation for any purpose without consideration of all of the foregoing conditions and limitations.

Separate financial statements of the Foundation can be requested by contacting the Foundation's controller at 580-628-6237.

NOTES TO FINANCIAL STATEMENTS--Continued

NORTHERN OKLAHOMA COLLEGE

June 30, 2011

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

Measurement Focus and Basis of Accounting: 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 College and Universities*. Under GASB Statements No. 34 and 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.

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 Financial Accounting Standards Board (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 statement 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's Cash Management Program are considered cash equivalents.

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

Accounts Receivable: The College's accounts receivable primarily relate to tuition and fee charges to students and to auxiliary enterprise services provided to students, faculty and staff, the majority of each residing in the state of Oklahoma. Other receivables relate to reimbursements of expenditures from various federal, state and private sources. Receivables are carried at original amounts less an estimate made for doubtful receivables based on a review of all outstanding amounts. Management determines the allowance for doubtful accounts by identifying troubled accounts and by using historical experience applied to an aging of accounts. Receivables are written-off for financial reporting purposes when deemed uncollectible. Recoveries of receivables previously written-off are recorded as revenue when received.

NOTES TO FINANCIAL STATEMENTS--Continued

NORTHERN OKLAHOMA COLLEGE

June 30, 2011

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

Inventories: Inventories, mainly bookstore inventories, are stated at the lower of the cost or market. Cost is determined using the first-in, first-out method.

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

Capital Assets: Capital assets are recorded at cost on the date of the acquisition or fair value if acquired by gift. For equipment, the College's capitalization policy includes all items with a unit cost of \$5,000 or more, and an estimated useful life of greater than one year. Renovations to buildings, infrastructure and land improvements that significantly increase the value or extend the useful life of the structure are capitalized. Routine repairs and maintenance are charged to operating expense in the year in which the expense was incurred. Depreciation is computed using the straight-line method over the estimated useful life of each asset. The following estimated useful lives are being used by the College:

Land improvements	5-20 years
Buildings	40 years
Furniture, fixtures and equipment	5 years
Infrastructure	5-20 years

Leasehold Improvements made pursuant to property with one year lease agreements are capitalized for control purposes and amortized over a one year period.

Compensated Absences: Employees of the College earn accrued vacation or leave at the rate of 8 to 12 hours per month, depending on the length of employment. The liability for and expense incurred are recorded at year-end as accrued compensated absences in the statement of net assets, and as a component of compensation and benefit expense in the statement of revenues, expenses and changes in net assets.

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 or unrelated business income under Internal Revenue Code Section 511(a)(2)(b).

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.

NOTES TO FINANCIAL STATEMENTS--Continued

NORTHERN OKLAHOMA COLLEGE

June 30, 2011

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

Net Assets--Continued:

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.

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 education 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 auxiliary enterprises, net of scholarship discounts and allowances, and (3) certain federal, state and local grants and contracts.

Nonoperating revenues: Nonoperating revenues include activities that have the characteristics of nonexchange transactions, such as gifts and contributions, student aid revenues, and other revenue sources that are defined as nonoperating revenues by GASB Statement No. 9, *Reporting Cash Flows of Proprietary and Nonexpendable Trust Funds and Governmental Entities That Use Proprietary Fund Accounting*, and GASB Statement 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 and 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.

NOTES TO FINANCIAL STATEMENTS--Continued

NORTHERN OKLAHOMA COLLEGE

June 30, 2011

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

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 the reported amounts of assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates. The significant estimates used in the preparation these financial statements include the depreciation of capital assets and the allowance for doubtful accounts for accounts receivable.

NOTE B--DEPOSITS AND INVESTMENTS

Deposits: *Custodial credit risk* for deposits is the risk that in the event of a bank failure, the College's deposits may not be returned or the College will not be able to recover collateral securities in the possession of an outside party. Generally, the College deposits its funds with the Office of the State Treasurer (OST) and those funds are pooled with funds of other state agencies and then, in accordance with statutory limitations, are placed in financial institutions or invested as the OST may determine, in the state's name. State statutes require the OST to ensure that all state funds are either insured by Federal Deposit Insurance, collateralized by securities held by the cognizant Federal Reserve Bank, or invested in U.S. government obligations. The OST's responsibilities include receiving and collateralizing the deposit of State funds, investing State funds in compliance with statutory requirements, and maintaining adequate liquidity to meet the cash flow needs of the State and all its funds and agencies. If the College deposits funds directly with financial institutions, those funds must be insured by Federal Deposit Insurance or collateralized by securities held by the cognizant Federal Reserve Bank in the College'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; (d) investments related to tri-party repurchase agreements which are collateralized at 102% and, whereby, the collateral is held by a third party in the name of the OST; (e) collateralized certificates of deposit; (f) commercial paper; (g) obligations of state and local governments; and (h) State of Israel bonds.

At June 30, 2011 the carrying amounts of all College deposits with OST were \$13,336,654. Of funds on deposit with the OST, amounts invested in *OK INVEST* total \$4,175,595 in 2011.

NOTES TO FINANCIAL STATEMENTS--Continued

NORTHERN OKLAHOMA COLLEGE

June 30, 2011

NOTE B--DEPOSITS AND INVESTMENTS--Continued

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

<i>OK Invest</i> Portfolio	Cost	Market Value
U.S. Agency Securities	\$ 1,525,073	\$ 1,537,300
Money Market Mutual Fund	459,084	459,084
Certificates of Deposit	197,160	197,160
Tri-party Repurchase Agreements	281,773	281,773
Mortgage Backed Agency Securities	1,514,700	1,581,597
Municipal Bonds	83,228	90,128
Foreign Bonds	15,525	15,252
Commercial Paper	38,808	38,811
U.S. Treasury Obligations	60,244	71,382
Totals	<u>\$ 4,175,595</u>	<u>\$ 4,272,487</u>

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

Participants in *OK INVEST* maintain an interest in its underlying investments and, accordingly, may be exposed to certain risks. As stated in the OST information statement, the main risks are interest rate risk, credit/default risk, liquidity risk, and U.S. government securities risk. *Interest rate risk* is the risk that during periods of rising interest rates, the yield and market value of the securities will tend to be lower than prevailing market rates; in periods of falling interest rates, the yield will tend to be higher. *Credit/default risk* is the risk that an issuer or guarantor of a security, or a bank or other financial institution that has entered into a repurchase agreement, may default on its payment obligations.

NOTES TO FINANCIAL STATEMENTS--Continued

NORTHERN OKLAHOMA COLLEGE

June 30, 2011

NOTE B--DEPOSITS AND INVESTMENTS--Continued

Liquidity risk is the risk that *OK INVEST* will be unable to pay redemption proceeds within the stated time period because of unusual market conditions, an unusually high volume of redemption requests, or other reasons.

U.S. Government securities risk is the risk that the U.S. government will not provide financial support to U.S. government agencies, instrumentalities or sponsored enterprises if it is not obligated to do so by law. Various investment restrictions and limitations are enumerated in the State Treasurer's Investment Policy to mitigate those risks; however, any interest in *OK INVEST* is not insured or guaranteed by the State of Oklahoma, the Federal Deposit Insurance Corporation or any other government agency.

Restricted Cash and Cash Equivalents: Restricted cash includes cash held by a bank trust department in compliance with the College's outstanding bond issue. A summary of the restricted cash as of June 30 is as follows:

	2011
Accounts held by Trustee	
Debt Service:	
Debt service account	\$ 324,340
Revenue account	142,024
Earnings account	66,484
Total restricted cash	<u>\$ 532,848</u>
Restricted cash and cash equivalents per the statement of net assets:	
Current	\$ 208,508
Noncurrent	324,340
	<u>\$ 532,848</u>

Investments: Investment *credit risk* is the risk that an issuer or other counterparty to an investment will not fulfill its obligations. Generally, the College's investments are managed by the State Treasurer. In accordance with state statutes the State Treasurer may only purchase and invest in (a) obligations of the United States government, its agencies and instrumentalities; (b) prime banker's acceptances; (c) investment grade obligations of state and local governments; (d) money market funds; (e) collateralized or insured certificates of deposits; (f) negotiable certificates of deposits; (g) prime commercial paper; and (h) repurchase agreements. *Interest rate risk* is the risk that changes in interest rates will adversely affect the fair value of an investment. Investments that are held for longer periods of time are subject to increased risk of adverse interest changes.

NOTES TO FINANCIAL STATEMENTS--Continued

NORTHERN OKLAHOMA COLLEGE

June 30, 2011

NOTE B--DEPOSITS AND INVESTMENTS--Continued

Neither the College nor state statutes limit investment maturities as a means of managing exposure to fair value losses arising from increasing interest rates; however, the OST Investment Policy limits the average maturity on its portfolio to four (4) years, with certain individual securities having more restrictive limits as defined in the policy. *Concentration of credit risk* is the risk of loss attributed to the magnitude of the College's investment in a single issuer. Neither the College's investment policy nor state statutes place limits on amounts that can be invested in any one issuer; however, the OST Investment Policy states that, with the exception of U.S. Treasury securities, no more than 50% of the State's total funds may be invested in a single security type or with a single financial institution, with diversification percentages being more restrictive on individual securities. *Custodial credit risk* for investments is the risk that, in the event of failure of the counterparty, the College will not be able to recover the value of its investments or collateral securities in the possession of an outside party. As of June 30, 2011 none of the College's investments were subject to custodial credit risk.

At June 30, 2011 the College had investments totaling \$505,254. At June 30 the market value of such investments was:

	2011
Certificates of deposit	\$ 505,254
	<u>\$ 505,254</u>

All the securities are held in the College's name by a custodial bank. The investments are designated by the Board of Regents to use for scholarships. The investments are carried at market value in compliance with GASB Statement No. 31, *Accounting and Reporting for Certain Investments and for External Investment Pools*.

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

NOTES TO FINANCIAL STATEMENTS--Continued

NORTHERN OKLAHOMA COLLEGE

June 30, 2011

NOTE B--DEPOSITS AND INVESTMENTS--Continued

Northern Oklahoma College Foundation

The fair value of investments held by the Foundation by type at June 30, 2011, are as follows:

Cash and cash equivalents	\$	26,008
Certificates of deposit		567,311
Common stock - domestic		755,335
Mutual funds		25,153
Pooled funds - equities		1,867,924
Pooled funds - fixed income		1,250,758
Private pool investments		92,203
	\$	<u>4,584,692</u>

NOTE C--ACCOUNTS RECEIVABLE

The College's accounts receivable primarily relate to tuition and fee charges to students and to auxiliary enterprise services to students, faculty and staff. Total accounts receivable of approximately \$2,013,000 is shown on the accompanying statement of net assets net of related allowances for doubtful accounts of approximately \$1,409,000, resulting in a net carrying amount of approximately \$605,000 at June 30, 2011.

NOTE D--LOANS RECEIVABLE

Student loans made through Federal Perkins Loans Program (the Program) comprise substantially all of the loans receivable at June 30, 2011. There were no federal or institutional contributions to the Program during 2011.

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 approximately \$238,000 at June 30, 2011, which represents 100% of the loan receivable balance, resulting in a net carrying amount of \$-0- at June 30, 2011.

NOTES TO FINANCIAL STATEMENTS--Continued

NORTHERN OKLAHOMA COLLEGE

June 30, 2011

NOTE E--CAPITAL ASSETS

Capital asset activity for the year ended June 30, 2011 was as follows:

	2011			
	Beginning Balance	Increases	Transfers/ Retirements	Ending Balance
Capital assets not being depreciated:				
Land	\$ 1,377,541	\$ -	\$ -	\$ 1,377,541
Construction in progress	1,304,428	248,143	(1,541,571)	11,000
Total capital assets not being depreciated	<u>2,681,969</u>	<u>248,143</u>	<u>(1,541,571)</u>	<u>1,388,541</u>
Capital assets being depreciated:				
Land improvements	902,187	23,552	-	925,739
Infrastructure	1,781,867	-	-	1,781,867
Buildings and building improvements	44,976,688	254,376	1,347,957	46,579,021
Machinery and equipment	19,977,096	890,518	-	20,867,614
Leasehold Improvements	-	776,480	193,614	970,094
Total capital assets being depreciated	<u>67,637,838</u>	<u>1,944,926</u>	<u>1,541,571</u>	<u>71,124,335</u>
Less accumulated depreciation for:				
Land improvements	711,848	17,115	-	728,963
Infrastructure	955,712	105,458	-	1,061,170
Buildings and building improvements	25,464,985	1,446,598	-	26,911,583
Machinery and equipment	17,468,858	1,307,566	-	18,776,424
Leasehold Improvement	-	841,018	-	841,018
Total accumulated depreciation, net	<u>44,601,403</u>	<u>3,717,755</u>	<u>-</u>	<u>48,319,158</u>
Total capital assets being depreciated, net	<u>23,036,435</u>	<u>(1,772,829)</u>	<u>1,541,571</u>	<u>22,805,177</u>
Capital assets, net	<u>\$ 25,718,404</u>	<u>\$ (1,524,686)</u>	<u>\$ -</u>	<u>\$ 24,193,718</u>

Construction in progress relates to renovation projects on the Enid and Stillwater campuses from funding received from the Oklahoma Capital Improvement Authority with the issuance of the Series 2005F and 2005G bonds (Note I) as well as other capital and auxiliary funds.

NOTES TO FINANCIAL STATEMENTS--Continued

NORTHERN OKLAHOMA COLLEGE

June 30, 2011

NOTE F--FUNDS HELD IN TRUST BY OTHERS

The College has a beneficial interest in the "Section Thirteen Fund State Educational Institutions" and the "New College Fund," administered by the Commissioners of the Land Office, as trustees for the various educational institutions entitled thereto.

The College has the right to receive annually approximately 3.33% of the distributions of income produced by "Section Thirteen Fund State Education Institutions" assets and 100% of the distributions of income produced by the Northern Oklahoma College "New College Fund."

The College received \$2,283,692 during the year ended June 30, 2011, which is restricted to the construction or acquisition of buildings, equipment, or other capital items. These amounts are recorded as state appropriations restricted for capital purposes. State law prohibits the distribution of any corpus of these funds to the beneficiaries. The total trust reserve for the College held in the trust by the Commissioners of the Land Office was \$41,436,653 at June 30, 2011.

The College has pledged future revenues from the "Section Thirteen Fund State Educational Institutions" and the "New College Fund" as repayment on the revenue bonds.

NOTE G--LONG TERM LIABILITIES

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

	Balance June 30, 2010	Additions	Reductions	Balance June 30, 2011	Amounts Due Within One Year
Revenue bonds	\$ 2,250,000	\$ -	\$ (210,000)	\$ 2,040,000	\$ 215,000
1999/2004 OCIA capital lease	287,180	-	(25,564)	261,616	26,818
2005/2010 OCIA capital leases	12,587,477	1,538,304	(668,785)	13,456,996	-
ODFA capital lease	27,917	-	(27,917)	-	-
Accrued compensated absences	237,054	273,110	(237,054)	273,110	273,110
Total long-term liabilities	<u>\$ 15,389,628</u>	<u>\$ 1,811,414</u>	<u>\$ (1,169,320)</u>	<u>\$ 16,031,722</u>	<u>\$ 514,928</u>

Additional information regarding revenue bonds is included at Note H. Additional information regarding capital lease obligations is included in Note I.

NOTES TO FINANCIAL STATEMENTS--Continued

NORTHERN OKLAHOMA COLLEGE

June 30, 2011

NOTE H--REVENUE BONDS

During fiscal 2004, the Oklahoma Development Finance Authority (the Authority) issued The Oklahoma Development Finance Authority Public Facilities Financing program Revenue Refunding Bonds, Series 2004 (Northern Oklahoma College) in the amount of \$3,365,000. These bonds were issued to refinance the outstanding Series 1999 Revenue Bonds. The bonds were issued to provide funds to the Board of Regents on behalf of the College to refinance the acquisition of Phillips College campus in Enid and to pay certain costs of issuance of the bonds. Unamortized bond issuance costs and the discount on the old bonds were written-off in 2004 and were included in other nonoperating revenues and expenses in the accompanying statement of changes in net assets. The bonds are due in annual installments ranging from \$210,000 to \$300,000 through July 1, 2019. Interest is payable semiannually at rates from 3.7% to 5.4%. The College's beneficial interest in the "Section Thirteen Fund State Educational Institutions" and the "New College Fund" administered by the Commissioners of the Land Office is pledged to the repayment of this bond series. Certain minimum amounts at specified dates are required to be maintained in a trust account for the payment of principal and interest. No transfer was required in 2011. Bonds maturing on or after June 1, 2014, are callable at the Authority's option at specified premiums, depending on the redemption date. The College was in compliance with all significant debt covenants at June 30, 2011.

Principal and interest payments required to be made in accordance with the bonds are as follows:

<u>Year ending June 30</u>	<u>Principal</u>	<u>Interest</u>	<u>Total Payments</u>
2012	\$ 215,000	\$ 96,733	\$ 311,733
2013	225,000	87,918	312,918
2014	235,000	78,355	313,355
2015	250,000	68,133	318,133
2016	255,000	54,633	309,633
2017-2020	860,000	83,200	943,200
	<u>\$ 2,040,000</u>	<u>\$ 468,972</u>	<u>\$ 2,508,972</u>

NOTES TO FINANCIAL STATEMENTS--Continued

NORTHERN OKLAHOMA COLLEGE

June 30, 2011

NOTE I--LEASE COMMITMENTS

The lease payable consists of bonds issued by the Oklahoma Capital Improvement Authority (OCIA) to build, improve and remodel facilities at various higher education and other institutions in Oklahoma. Funds are received from OCIA as needed to fund construction projects. The College's pro rata share of bonds has been recorded as a lease payable.

Oklahoma Capital Improvement Authority – Series 1999A / 2004A

The College's lease agreement with OCIA provides for monthly payments to OCIA of approximately \$3,412 for 20 years through August 31, 2019, or until the OCIA bonds and related interest are paid. The Oklahoma State Legislature appropriates monies to the College for the monthly lease payments, which for the year ended June 30, 2011, amounted to \$39,799. During 2011 there was \$25,564, in principal paid on the lease and \$14,235, in related interest paid.

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

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

	<u>Buildings</u>
Cost	\$ 719,514
Less: Accumulated depreciation	<u>(457,463)</u>
	<u>\$ 262,051</u>

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

<u>Year ending June 30</u>	<u>Principal</u>	<u>Interest</u>	<u>Total Lease Payments</u>
2012	\$ 26,818	\$ 12,957	\$ 39,775
2013	28,140	11,616	39,756
2014	29,552	10,209	39,761
2015	30,980	8,731	39,711
2016	32,469	7,244	39,713
2017-2021	113,658	12,009	125,667
	<u>\$ 261,617</u>	<u>\$ 62,766</u>	<u>\$ 324,383</u>

NOTES TO FINANCIAL STATEMENTS--Continued

NORTHERN OKLAHOMA COLLEGE

June 30, 2011

NOTE I--LEASE COMMITMENTS--Continued

Oklahoma Capital Improvement Authority – Series 2005F A and B/2010 A and B

The 2006 legislative session authorized the issuance of OCIA Bond Issue 2005F and 2005G, for which the College entered into a lease agreement with OCIA for a portion of these bond proceeds with varying terms of repayment. The Series 2005 Bonds bear interest payable on July 1 and January 1 of each year, beginning July 1, 2006 and the initial principal payment is July 1, 2007. The Series 2005F provides monthly payments to OCIA for 24 years through July 1, 2030, or until the OCIA bonds and related interest are paid. The Series 2005G provided for monthly payments to OCIA for one year through July 1, 2007. The Oklahoma State Legislature appropriates monies to the College for the monthly lease payments.

In August 2010, the College's 2005F lease agreement with the OCIA was restructured through a partial refunding of OCIA's 2005F bond debt. OCIA issued two new bonds, Series 2010A and 2010B. The 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 cost for restructuring. The College has recorded a deferred charge of \$1,538,304 on restructuring as a deferred cost that will be amortized over a period of six years.

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

Buildings, cost	\$ 14,425,126
Infrastructure, cost	803,516
Equipment, cost	14,500
Less: Accumulated depreciation	<u>(2,232,392)</u>
	<u>\$ 13,010,750</u>

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

<u>Year ending June 30</u>	<u>Principal</u>	<u>Interest</u>	<u>Total Lease Payments</u>
2012	\$ -	\$ 153,969	\$ 153,969
2013	-	180,719	180,719
2014	398,049	598,818	996,867
2015	1,096,621	580,254	1,676,875
2016	1,129,330	546,385	1,675,715
2017-2021	3,830,985	2,107,102	5,938,087
2022-2026	2,737,771	1,548,211	4,285,982
2027-2031	<u>4,264,240</u>	<u>656,800</u>	<u>4,921,040</u>
	<u>\$ 13,456,996</u>	<u>\$ 6,372,258</u>	<u>\$ 19,829,254</u>

NOTES TO FINANCIAL STATEMENTS--Continued

NORTHERN OKLAHOMA COLLEGE

June 30, 2011

NOTE I--LEASE COMMITMENTS--Continued

Oklahoma Development Finance Authority

The College was a recipient of certain bond proceeds (Oklahoma Development Finance Authority Master Lease Revenue Bonds, Series 2001B, dated March 1, 2001) from the Oklahoma Development Finance Authority (ODFA) during 2002. The College received \$260,000 in proceeds for this lease. The lease obligation was repaid in full in May 2011.

Operating Lease

In 2011, the College entered into an agreement to lease office space (Fountain Square in Stillwater) for \$6,006 per month. The related rental expense was approximately \$56,000 for the year ended June 30, 2011. Also in 2011, the College entered into another lease agreement to lease office space (College Center in Ponca City) for \$8,000 per month, with the first payment beginning in June 2011. Future minimum lease payments are approximately \$168,000 annually for 2012, 2013, and 2014.

NOTE J--RETIREMENT PLAN

Oklahoma Teachers' Retirement System (OTRS)

Plan Description: The College contributes to the OTRS, a cost-sharing, multiple employer, defined benefit, public employee retirement system administered by a 13-member Board of Trustees appointed by the Oklahoma State Governor. Pension expense is recorded for the amount the College is required to contribute for the year as determined by the OTRS Board of Trustees or Oklahoma State Statute. OTRS issues a publicly available financial report that includes the financial statements and required supplementary information. This report may be obtained by writing to the Oklahoma Teachers' Retirement System at P.O. Box 53524, Oklahoma City, Oklahoma 73152 or calling (405) 521-2387.

OTRS provides defined retirement benefits based on members' final compensation, age, and term of service for all qualified persons employed by state-supported educational institutions. In addition, OTRS provides for benefits upon disability and to survivors upon death of eligible members. OTRS does not provide for a cost-of-living adjustment. Oklahoma Statute, Title 70 O.S., Section 17-105, defines all retirement benefits under OTRS. The authority to establish or amend benefit provisions rests with the Oklahoma State Legislature.

NOTES TO FINANCIAL STATEMENTS--Continued

NORTHERN OKLAHOMA COLLEGE

June 30, 2011

NOTE J--RETIREMENT PLAN--Continued

Oklahoma Teachers' Retirement System (OTRS)--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 members. The employer contribution rates for 2011, 2010, and 2009, were 9.50%, 9.50%, and 9.00% respectively, and were applied to annual compensation, and are determined by state statute. The College's contribution to OTRS for the years ended June 30, 2011, 2010 and 2009, was approximately \$2,074,000, \$2,040,000, and \$1,988,000, respectively, which equaled the required contributions for the year.

The State of Oklahoma is also required to contribute to OTRS on behalf of the participating employers. For 2011, the State of Oklahoma contributed 5% of state revenues from sales and use taxes and individual income taxes to OTRS on behalf of participating employers. The College has estimated the amounts contributed to OTRS by the State of Oklahoma on its behalf by multiplying the ratio of its covered salaries to total covered salaries for OTRS for the year by the applicable percentage of taxes collected during the year. The College's prorated share of these payments for the year ended June 30, 2011 was approximately \$807,000 and is recognized in non-operating revenues and compensation and employee benefit expenses.

Deferred Compensation Agreements and IRC Section 403(b) Plan

During 2011, the College terminated the nonqualified deferred compensation agreements for key executives, and made distributions to liquidate those accounts. The College replaced these nonqualified deferred compensation agreements with an employer-paid 403(b) contribution plan (the "403(b) Plan") for those key executives. Under the 403(b) Plan, a specified percentage of each executive's salary is remitted by the College to an account at a financial institution. Upon retirement from active service, the executives may receive either a lump sum payment based on the amount of contributions plus interest, or an actuarially determined monthly income based on the lump sum amount payable.

During the year ended June 30, 2011, the College remitted approximately \$16,000 to the 403(b) Plan account. The College has recorded these payments as compensation expense.

NOTES TO FINANCIAL STATEMENTS--Continued

NORTHERN OKLAHOMA COLLEGE

June 30, 2011

NOTE K--POST EMPLOYMENT BENEFITS

The College is funding on a pay-as-you-go basis health and dental insurance premiums for one College retiree as of Jun 30, 2011. In additions, the College pays for term life insurance for one College retiree as of June 30, 2011. Cost of the benefits for 2011 was as follows:

	2011
Health and dental insurance	\$ 2,297
Term life insurance	\$ 52

NOTE L--RELATED PARTY TRANSACTIONS

In the year ended June 30, 2011, the College entered into an Exchange of Services Agreement with Northern Oklahoma College Foundation, Inc. (the Foundation). The Exchange of Service Agreement defines and memorializes the terms agreed upon by the parties for the exchange of services not otherwise covered by separate, specific contractual agreements between the parties.

For substantially all scholarships awarded by the Foundation, amounts are remitted to the College. Subsequently, the College makes payments directly to the award recipients. Such amounts approximated \$74,000 in 2011.

NOTE M--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 omissions; 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 and the state insurance fund, public entity risk pools currently operating as a common risk management and insurance program for its members. The College pays an annual premium to the pools for its torts, property and worker's compensation insurance coverage. The Oklahoma Risk Management Pool's governing agreement specifies that the Pool will be self-sustaining through member premiums and will reinsure through commercial carriers for claims in excess of specified stop-loss amounts.

NOTES TO FINANCIAL STATEMENTS--Continued

NORTHERN OKLAHOMA COLLEGE

June 30, 2011

NOTE N--COMMITMENTS AND CONTINGENCIES

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

The College participates in the Federal Family Education Loan Program (the Program), which includes the Federal Stafford Loan Program, Federal Parents Loans for Undergraduate Students, and Federal Supplemental Loans for Students. The Program does not require the College to draw down cash; however, the College is required to perform certain administrative functions under the Program. Failure to perform such functions may require the College to reimburse the loan guarantee agencies. For the year ended June 30, 2011, approximately \$49,000 of FFEL program loans were provided to students.

In July 2010, the College began participating in the Federal Direct Student Loan Program (Direct Lending Program) that replaced the FFEL Program. The Direct Lending Program requires the College to draw down cash from the U.S. Department of Education, as well as perform certain administrative functions under the Direct Lending Program. For the year ended June 30, 2011, approximately \$9,789,000 of Direct Lending Program loans were provided to College students.

Grant from Enid Economic Development Authority: In June 1999, the College received assistance from the Enid Economic Development Authority (the "Authority") to accomplish the purchase of the Phillips College Campus in Enid. The assistance from the Authority is conditional. The College is required to utilize the facilities primarily for higher education to benefit the Enid area and is restricted from selling the campus. If the campus is sold, the College must repay the full amount of the assistance received, \$1,906,250, back to the Authority. A portion of the assets may be sold if proceeds are used for maintenance or improvement of facilities or used to fund academic programs or scholarships.

NOTE O--ACCOUNTING STANDARDS ISSUED NOT YET ADOPTED

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

NOTES TO FINANCIAL STATEMENTS--Continued

NORTHERN OKLAHOMA COLLEGE

June 30, 2011

NOTE O--ACCOUNTING STANDARDS ISSUED NOT YET ADOPTED--Continued

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

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

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

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

REPORT REQUIRED BY
GOVERNMENT AUDITING STANDARDS

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
Northern Oklahoma College

We have audited the financial statements of Northern Oklahoma College (the "College"), a component unit of the State of Oklahoma, as of and for the year ended June 30, 2011, and the College's discretely presented component unit, Northern Oklahoma College Foundation, Inc. (the "Foundation") as of and for the year ended June 30, 2011, which collectively comprise the College's basic financial statements, and have issued our report thereon dated October 28, 2011. We conducted our audit in accordance with auditing standards generally accepted in the United States of America, and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. The financial statements of the Foundation were not audited in accordance with *Government Auditing Standards*.

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 and correct misstatements on a timely basis. *A material weakness* is a deficiency, or combination of deficiencies, in internal control, such that there is a reasonable possibility that a material misstatement of the College's financial statements will not be prevented, or detected and corrected on a timely basis.

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

Compliance and Other Matters

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

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

Cole & Reed P.C.

Oklahoma City, Oklahoma
October 28, 2011

REPORTS REQUIRED BY
OMB CIRCULAR A-133

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

Board of Regents
Northern Oklahoma College

Compliance

We have audited the compliance of Northern Oklahoma College (the "College") with the types of compliance requirements described in the U.S. Office of Management and Budget (OMB) *Circular A-133 Compliance Supplement* that could have a direct and material effect on each of its major federal programs for the year ended June 30, 2011. The 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 College's compliance based on our audit.

We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America, the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States and OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. Those standards and OMB Circular A-133 require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about the 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, the College complied, in all material respects, with the requirements referred to above that are applicable to its major federal programs for the year ended June 30, 2011. However, the results of our auditing procedures disclosed one instance of noncompliance with those requirements which is required to be reported in accordance with OMB Circular A-133 and which is described in the accompanying schedule of findings and questioned costs as Finding 2011-01.

The College's response to the finding identified in our audit is described in the accompanying schedule of findings and questioned costs. We did not audit the College's response and, accordingly, we express no opinion on the response.

Internal Control Over Compliance

The management of the 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 the requirements that could have a direct and material effect on a major federal program in order to determine our auditing procedures for the purpose of expressing our opinion on compliance, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of the College's internal control over compliance.

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

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

Schedule of Expenditures of Federal Awards

We have audited the basic financial statements of the College as of and for the year ended June 30, 2011, and have issued our report thereon dated October 28, 2011. Our audit was performed for the purpose of forming an opinion on the basic financial statements taken as a whole. The accompanying schedule of expenditures of federal awards is presented for purposes of additional analysis as required by OMB Circular A-133 and is not a required part of the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, is fairly stated, in all material respects, in relation to the basic financial statements taken as a whole.

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

Cole & Reed P.C.

Oklahoma City, Oklahoma
October 28, 2011

SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS

NORTHERN OKLAHOMA COLLEGE

June 30, 2011

Cluster/Program	Federal Agency/ Pass-Through Entity	CFDA Number	FY1011 Amount Expended
Student Financial Aid Cluster			
Federal Supplemental Education Opportunity Grant	U.S. Department of Education	84.007	\$ 148,267
Federal Family Education loans	U.S. Department of Education	84.032	30,960
Federal Direct Loan Program	U.S. Department of Education	84.268	9,678,910
Federal Work Study	U.S. Department of Education	84.033	62,103
Federal Pell Grant	U.S. Department of Education	84.063	9,721,394
Academic Competitiveness Grants	U.S. Department of Education	84.375	93,740
Total student financial aid cluster			19,735,374
Vocational Education National Centers for Career and Technical Education	Department of Education	84.051	71,399
Temporary Assistance to Needy Families	Department of Health and Human Services	93.558	296,751
Child Care and Development Block Grant	Department of Health and Human Services	93.575	215,028
AmeriCorps	Corporation for National and Community Service	94.006	7,427
	Corporation for National and Community Service Martin Luther Kind Day of Service	94.007	500
Upward Bound	U.S. Department of Education	84.047	201,795
ARRA - Pass-Through Program From State of Oklahoma, Office of the Governor State Fiscal Stabilization Fund Education Grants, Recovery Funds	ARRA/Office of the Governor	84.394 ARRA	694,766
ARRA - Pass-Through Program From State of Oklahoma, Office of the Governor State Fiscal Stabilization Fund Government Services, Recovery Funds	ARRA/Office of the Governor	84.397 ARRA	699,996
Pass-Through Program From State of Oklahoma Department of Agriculture for tree planting	U.S. Department of Transportation Highway Enhancement	20.205	18,480
			<u>\$ 21,941,516</u>

See notes to schedule of expenditures of federal awards.

NOTES TO SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS

NORTHERN OKLAHOMA COLLEGE

June 30, 2011

NOTE A--SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The schedule of expenditures of federal awards includes the federal awards activity of Northern Oklahoma 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 States, Local Governments, and Non-Profit Organizations*. Therefore, some amounts presented in this schedule may differ from amounts presented in, or used in the preparation of, the basic financial statements.

NOTE B--FEDERAL DIRECT LOAN PROGRAM

Under the Federal Direct Student Loan Program ("Direct Loan Program"), the U.S. Department of Education makes loans to enable a student or parent to pay the costs of the student's attendance at a postsecondary school. The Direct Loan Program enables an eligible student or parent to obtain a loan to pay for the student's cost of attendance directly from the U.S. Department of Education rather than through private lenders. The College began participation in the Direct Loan Program on July 1, 2010. The College administers the origination and disbursement of the loans to eligible students or parents. The College is not responsible for the collection of these loans.

NOTE C--LOANS OUTSTANDING

The College had the following loan balances outstanding at June 30, 2011. These loan balances outstanding are not included as federal expenditures in the Schedule of Expenditures of Federal Awards.

<u>Cluster/Program</u>	<u>CFDA Number</u>	<u>Amount Outstanding</u>
Federal Perkins Loan Program	84.038	\$ 202,810
Nursing Student Loans	93.364	35,697

NOTE D--SUBRECIPIENTS

The College provided no federal awards to subrecipients.

SCHEDULE OF STATE AWARDS

NORTHERN OKLAHOMA COLLEGE

June 30, 2011

State Grantor/Program Title	Contract Number	Contract Period	State Expenditures
Oklahoma Higher Learning Access Program (OHLAP)	N/A	7/1/10-6/30/11	\$ 646,736
State Regents Academic Scholarships	N/A	7/1/10-6/30/11	12,550
Indian Gaming Management Curriculum	N/A	7/1/10-6/30/11	1,500
CSI Grant	N/A	7/1/10-6/30/11	7,282
Process Technology Fund	N/A	7/1/10-6/30/11	405
Oklahoma Tuition Aid Grant Program (OTAG)	N/A	7/1/10-6/30/11	402,580
Quality Initiative Grant, Institute for Tribal Leadership	N/A	7/1/10-6/30/11	15,652
Teacher Education and Compensation Helps	N/A	7/1/10-6/30/11	<u>146,146</u>
Total state expenditures	N/A	7/1/10-6/30/11	<u>\$ 1,232,851</u>

SCHEDULE OF FINDINGS AND QUESTIONED COSTS

NORTHERN OKLAHOMA COLLEGE

Year Ended June 30, 2011

Section I--Summary of Auditors' Results

Financial statements

Type of auditors' report issued:

Unqualified

Internal control over financial reporting:

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

Noncompliance material to financial statements noted?

☐ yes ☒ no

Federal Awards

Internal control over major programs:

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

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

Unqualified

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

☒ yes ☐ no

Identification of major programs:

<u>Program</u>	<u>CFDA Number</u>
Student Financial Aid Cluster	*
State Fiscal Stabilization Fund	84.394 ARRA
State Fiscal Stabilization Fund	84.397 ARRA

* See Schedule of Expenditures of Federal awards at for identification of CFDA numbers.

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

Auditee qualified as low-risk auditee? ☒ yes ☐ no

SCHEDULE OF FINDINGS AND QUESTIONED COSTS--Continued

NORTHERN OKLAHOMA COLLEGE

Year Ended June 30, 2011

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

None to report for the June 30, 2011 period.

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

See Finding 2011-01.

SCHEDULE OF FINDINGS AND QUESTIONED COSTS--Continued

NORTHERN OKLAHOMA COLLEGE

Year Ended June 30, 2011

FINDING 2011-01

Program CFDA No:
84.394-7 ARRA

CFDA Program Title:
Governor's ARRA Backfill Stimulus Funds

Federal Award Year:
June 30, 2011

Finding:

The College entered into construction contracts that did not have the required Davis-Bacon Act language. As a result, the College did not obtain certified payrolls from the contractor or subcontractor, in a timely manner, to verify that prevailing wages were paid.

Cause:

The College was unaware of the Davis-Bacon Act requirement.

Criteria:

When required by the Davis-Bacon Act, the Department of Labor's (DOL) government wide implementation of the Davis-Bacon Act, ARRA, or by Federal program legislation, all laborers and mechanics employed by contractors or subcontractors to work on construction contracts in excess of \$2,000 financed by Federal assistance funds must be paid wages not less than those established for the locality of the project (prevailing wage rates) by the DOL. The College shall include in their construction contracts subject to the Davis-Bacon Act a requirement that the contractor or subcontractor comply with the requirements of the Davis-Bacon Act and the DOL regulations. This includes a requirement for the contractor or subcontractor to submit to the College weekly, for each week in which any contract work is performed, a copy of the payroll and a statement of compliance (certified payrolls).

Effect:

Employees of the contractors and subcontractors used by the College may not have been paid a prevailing wage.

Context:

The College had no previous experience with federal construction contracts in which the Davis-Bacon Act was applicable. In addition, the College was a subrecipient of the ARRA funds and did not receive any guidance from the primary recipient regarding the applicability of the Davis-Bacon Act. As a result, the College did not have an adequately designed system of internal control to ensure that the requirements of the Davis-Bacon Act were being followed.

SCHEDULE OF FINDINGS AND QUESTIONED COSTS--Continued

NORTHERN OKLAHOMA COLLEGE

Year Ended June 30, 2011

FINDING 2011-01--Continued

Recommendation:

Prior to entering into a contract for construction, the College determines whether or not the Davis-Bacon Act applies, and includes the proper requirements in the contract. All ARRA monies used to fund construction projects are subject to the Davis-Bacon Act.

Institution Response:

The College entered into the construction contract and was later notified by the primary recipient of the requirements regarding the applicability of the Davis-Bacon Act. Upon being notified, the College researched the requirements of the Davis-Bacon Act and contacted the architect, contractor as well as the key individuals of the other funding source of the requirement for the project. Because the contract had already been executed, the project was on a tight deadline for completion, and the construction phase had begun, the applicable wage determination schedule was provided to the architect and contractor. The contractor communicated the wage determination schedule with the subcontractors and the certified payrolls were submitted to the contractor. The architect for the project indicated that these certified payrolls had been given to the Director of the College Center, however were not forwarded to the finance office.

The College contacted the contractor from whom construction services were provided to obtain a duplicate copy of the certification of payroll information as required by the Davis-Bacon Act. The College has received certified payroll information from all applicable contractors and subcontractors that were paid with ARRA funds. All information received subject to the Davis-Bacon Act requirements has been provided to the auditors for their review.

The College has fully implemented the auditors' recommendation and is considering the addition of a grant accountant that would ensure that adequate internal controls and requirements are met in accordance with grant requirements. The grant accountant would also review any and all construction contracts funded with federal funds prior to execution to determine the applicability of the Davis-Bacon Act.

SUMMARY SCHEDULE OF PRIOR AUDIT FINDINGS

NORTHERN OKLAHOMA COLLEGE

Year Ended June 30, 2011

FINDING 2010-01

Program CFDA No:
84.007

CFDA Program Title:
Federal Family Education Loan Program

Federal Award Year:
June 30, 2010

Finding:

We noted that the institution certified and disbursed a subsidized Stafford loan to a student in an amount exceeding the financial assistance for which the student was eligible, thus creating an overaward.

Cause:

This student's loan was certified in error as subsidized instead of unsubsidized. This error is usually noticed when the money is disbursed to the student's bursar account and corrected at that time. Loan counselors either failed to report the change to the guarantor or the guarantor failed to make the change on their end. The guarantor is usually notified by email; however, no records exist to confirm whether or not they were notified in this case.

Criteria:

In accordance with 34 CFR 682.604(h), if before the delivery of any Stafford loan disbursement, the institution learns that the borrower will receive or has received financial aid for the period of enrollment for which the loan was made that exceeds the amount of assistance for which the student is eligible, the school shall reduce or eliminate the overaward by either (1) using the student's PLUS or unsubsidized Stafford loan to cover the expected family contribution, if not already done; (2) returning the entire undelivered disbursement to the lender and providing the lender with a written statement describing the reason for the return of the funds, if any setting forth the student's revised financial need, and directing the lender to re-disburse a revised amount and, if necessary, revise subsequent disbursements to eliminate the overaward; or (3) returning to the lender any portion of the disbursement for which the student is ineligible and providing the lender with a written statement explaining the return of the funds. If the student is determined to be ineligible for the entire loan disbursement and the overaward cannot be reduced or eliminated, you must return all of the loan proceeds. Note that Stafford Loan overawards must be repaid before adjusting or cancelling campus-based funds.

SUMMARY SCHEDULE OF PRIOR AUDIT FINDINGS--Continued

NORTHERN OKLAHOMA COLLEGE

Year Ended June 30, 2011

FINDING 2010-01--Continued

Effect:

As the student was awarded a subsidized loan, this caused the student to be awarded. However, if the student would have been awarded an unsubsidized loan, the unsubsidized loan could have been applied toward their EFC creating no overaward.

Context:

When the student's aid package was prepared the student was identified as receiving an unsubsidized loan. However, when the loan was certified with the guarantee agency, the loan was certified as a subsidized loan. At that time, the institution did not realize the loan had been certified as subsidized, creating an overaward.

Recommendation:

We recommend the institution implement a review process that would identify overawards.

Institution Response:

The Assistant Director spoke to several people at the Department of Education and at the Oklahoma Guaranteed Student Loan Program. None of them could tell us how to convert this loan to Unsubsidized at this point, although they did seem to think we should be able to do so. We have decided that the most expedient way to resolve the situation is for NOC to repay the funds to the lender. Therefore we are returning all of this student's loan funds.

We do not believe that this will occur again since we have converted to the Direct Loan Program. In the future if an error such as this occurs, NOC would be able to cancel the original origination and disbursements and re-originate and disburse under the correct loan program.

Current Status: The planned corrective action has been implemented.