

**NORTHWESTERN
OKLAHOMA STATE
UNIVERSITY**

June 30, 2012

NORTHWESTERN OKLAHOMA STATE UNIVERSITY

June 30, 2012

AUDITED FINANCIAL STATEMENTS

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Independent Auditors' Report

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

We have audited the accompanying statements of net assets of Northwestern Oklahoma State University (the "University"), a component unit of the State of Oklahoma, as of and for the years ended June 30, 2012 and 2011, and the related statements of revenues, expenses and changes in net assets and cash flows for the years then ended. These financial statements are the responsibility of the University's management. Our responsibility is to express an opinion on these financial statements based on our audits. We did not audit the financial statements of the University's discretely presented component unit, the Northwestern Oklahoma State University Foundation, Inc. and Alumni Association (the "Foundation"). Those financial statements were audited by another auditor, whose report thereon has been furnished to us, and our opinion, insofar as it relates to the amounts included for the Foundation, is based solely on the report of the other auditor.

We conducted our audits in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. The financial statements of the Foundation were audited by other auditors and were not audited in accordance with *Government Auditing Standards*. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and the significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits and the report of the other auditor provide a reasonable basis for our opinion.

In our opinion, based on our audits and the report of the other auditor, the financial statements referred to above present fairly, in all material respects, the respective financial position of Northwestern Oklahoma State University and its discretely presented component unit, Northwestern Oklahoma State University Foundation, Inc. and Alumni Association, as of June 30, 2012 and 2011, and the respective changes in its net assets and, where applicable, its cash flows for the years then ended, in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued our report dated October 31, 2012, on our consideration of the University's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and is important in assessing the results of our audit.

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis and the schedule of funding progress, as listed in the table of contents, be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Cole & Reed P.C.

Oklahoma City, Oklahoma
October 31, 2012

MANAGEMENTS' DISCUSSION AND ANALYSIS (UNAUDITED)

NORTHWESTERN OKLAHOMA STATE UNIVERSITY

June 30, 2012

OVERVIEW OF FINANCIAL STATEMENTS AND FINANCIAL ANALYSIS

Northwestern Oklahoma State University is pleased to present its financial statements for fiscal year 2012, with selected comparative information for fiscal years 2011 and 2010. Management's discussion and analysis is designed to focus on current activities, resulting changes, and current known facts, so it should be read in conjunction with the University's financial statements and footnotes. There are three financial statements presented: the Statement of Net Assets; the Statement of Revenues, Expenses and Changes in Net Assets; and, the Statement of Cash Flows. All dollar amounts in the tables in this MD&A are presented in millions of dollars. This discussion and analysis of the University's financial statements provides an overview of its financial activities for the year. Accounting standards require that financial statements for the Northwestern Oklahoma State University Foundation, Inc. be reported with the University's report.

STATEMENT OF NET ASSETS

The Statement of Net Assets presents the Assets (current and non-current), Liabilities (current and noncurrent), and Net Assets (assets minus liabilities) as of the end of the fiscal year. The purpose of this statement is to give readers of the financial statements a fiscal snapshot of Northwestern Oklahoma State University.

These statements include all assets and liabilities using the accrual basis of accounting, which is consistent with the accounting used by private sector institutions. Readers of the Statement of Net Assets can determine the assets available to continue the operations of the institution. Amounts owed to vendors and lending institutions can also be determined. Finally, the Statement of Net Assets provides a picture of the net assets (assets minus liabilities) and their availability for expenditure by the institution.

Net assets – the difference between assets and liabilities – is one way to measure the University's health, or position. Over time, increases or decreases in net assets are an indicator of whether or not the University's financial health is improving. Non-financial factors are also important to consider, including student enrollment and condition of campus buildings. Net assets are divided into three categories. The first category, Invested in Capital Assets, Net of Debt, provides information on the institution's property, plant and equipment. The next category, Restricted Net Assets-Expendable, is divided into two categories, Scholarship and Capital Project and Debt Service. These expendable net assets are available for expenditure by the institution, but must be spent for purposes as determined by donors and/or external entities that have placed time or purpose restrictions on the use of the assets. The final category is Unrestricted Net Assets. Unrestricted assets are available to the institution for any lawful purpose of the institution.

MANAGEMENTS' DISCUSSION AND ANALYSIS (UNAUDITED)--Continued

NORTHWESTERN OKLAHOMA STATE UNIVERSITY

June 30, 2012

STATEMENT OF NET ASSETS--Continued

A Condensed Statement of Net Assets is prepared from the University's Statement of Net Assets and summarizes the assets, liabilities, and net assets as of June 30, 2012 compared to years ending June 30, 2011 and June 30, 2010.

CONDENSED STATEMENT OF NET ASSETS
(In Millions)

	<u>2012</u>	<u>June 30 2011</u>	<u>2010</u>
ASSETS			
Current assets	\$ 4.6	\$ 5.2	\$ 4.7
NONCURRENT ASSETS			
Capital Assets, Net of Depreciation	26.4	26.9	26.7
Other assets	2.8	3.1	2.5
TOTAL ASSETS	<u>\$ 33.8</u>	<u>\$ 35.2</u>	<u>\$ 33.9</u>
LIABILITIES			
Current liabilities	\$ 1.6	\$ 1.9	\$ 1.3
Noncurrent liabilities	8.8	9.2	9.0
TOTAL LIABILITIES	<u>\$ 10.4</u>	<u>\$ 11.1</u>	<u>\$ 10.3</u>
NET ASSETS			
Invested in Capital Assets	\$ 17.7	\$ 18.1	\$ 17.6
Restricted	2.3	2.0	2.5
Unrestricted	3.4	4.0	3.5
TOTAL NET ASSETS	<u>\$ 23.4</u>	<u>\$ 24.1</u>	<u>\$ 23.6</u>

June 30, 2012 compared to June 30, 2011

The total assets of the University decreased from 2011 to 2012. Decreases occurred in cash and cash equivalents as well as capital assets. Total liabilities for the year decreased by \$681,435 with the primary decrease being in accounts payable following the completion of the athletic stadium lighting project.

Total noncurrent liabilities decreased by \$337,835 for FY12. The main decrease in this category resulted from the lowering of debt with both the Oklahoma Capital Improvement Authority Lease Obligation (OCIA) and the Oklahoma Development Finance Authority Master Lease Program (ODFA). During FY12 the ODFA bonds were refinanced resulting in an overall savings of interest paid over the life of the bond.

MANAGEMENTS' DISCUSSION AND ANALYSIS (UNAUDITED)--Continued

NORTHWESTERN OKLAHOMA STATE UNIVERSITY

June 30, 2012

STATEMENT OF NET ASSETS--Continued

The Northwestern Oklahoma State University Foundation, Inc., plays a significant role in the financial analysis of the university. Even though the Foundation is a separate component unit, its investment portfolio accounts for a large part of the asset base contained within these financial statements. Over the past few years the recessionary times contributed to a decrease in the assets of the Foundation. During FY12, the total assets of the Foundation grew by nearly \$1.8 million.

Increases in funds contributed and property, plant and equipment contributed to the Foundation explains this increase.

June 30, 2011 compared to June 30, 2010

The total assets of the University increased from 2010 to 2011. Increases occurred in cash and cash equivalents, prepaid pension asset, and capital assets. The total liabilities for the year increased by \$800,000 with the primary increase in accounts payable. The largest part of this increase was for an invoice for replacement lighting installed on the football field at Ranger Stadium and new lights at the Myers Stadium baseball field.

Total noncurrent liabilities increased by \$225,000 for FY11. The main increase in this category resulted from the State of Oklahoma extending the life on the Oklahoma Capital Improvement Authority (OCIA) lease obligations through a restructuring agreement which increased the total debt.

The Northwestern Oklahoma State University Foundation, Inc., plays a significant role in the financial analysis of the university. Even though the Foundation is a separate component unit, its investment portfolio accounts for a large part of the asset base contained within this financial audit. Over the past few years the recessionary times contributed to a decrease in the assets of the Foundation. During FY11, the total assets of the Foundation grew by nearly \$3.36 million from both a rebound in the market as well as new gifts received.

STATEMENT OF REVENUES, EXPENSES AND CHANGES IN NET ASSETS

The Statement of Revenues, Expenses and Changes in Net Assets presents the University's results of operation for the year and the effect on net assets. Operating revenues and expenses are generated from "exchange" transactions that arise in the course of normal activity for the organization. The comparison of operating revenues to operating expenses is an important measure of an institution's fiscal stability. Public institutions will normally not have an excess of operating revenues over operating expenses because state appropriations are considered nonoperating revenues under accounting principles generally accepted in the United States of America.

MANAGEMENTS' DISCUSSION AND ANALYSIS (UNAUDITED)--Continued

NORTHWESTERN OKLAHOMA STATE UNIVERSITY

June 30, 2012

STATEMENT OF REVENUES, EXPENSES AND CHANGES IN NET ASSETS--Continued

CONDENSED STATEMENT OF REVENUES, EXPENSES AND CHANGES IN NET ASSETS
(In Millions)

	Years Ended June 30		
	2012	2011	2010
OPERATING REVENUE			
Student Tuition and Fees (net of scholarship allowance of \$6.9, \$8.1, and \$6.9, respectively)	\$ 5.2	\$ 3.9	\$ 3.7
Federal, State and Local Grants/Contracts	0.8	1.0	1.1
Auxiliary	4.3	4.2	3.6
Other	0.3	0.3	0.2
TOTAL OPERATING REVENUE	10.6	9.4	8.6
OPERATING EXPENSES			
Compensation and Employee Benefits	17.8	17.0	16.4
Contractual Services	2.6	2.4	2.0
Supplies and Materials	2.7	2.4	1.9
Depreciation	1.9	1.8	1.7
Utilities	1.0	0.9	0.9
Communication Expense	0.3	0.3	0.2
Scholarships and Fellowships	3.0	3.0	2.4
Other Operating Expense	0.7	0.8	0.7
TOTAL OPERATING EXPENSES	30.0	28.6	26.2
OPERATING INCOME (LOSS)	(19.4)	(19.2)	(17.6)
NONOPERATING REVENUE (LOSS)			
State Appropriations	10.1	11.0	11.0
OTRS on-behalf Payments	0.8	0.7	0.6
Federal and State Grants/Contracts	5.4	6.1	4.9
Gifts	0.2	0.3	0.3
Investment Income	0.2	0.3	0.2
Interest Expense	(0.3)	(0.3)	(0.4)
NET NONOPERATING REVENUE	16.4	18.1	16.6
INCOME (LOSS) BEFORE OTHER REVENUE/EXPENSE	(3.0)	(1.1)	(1.0)
OTHER REVENUE/EXPENSE	2.3	1.6	4.5
CHANGE IN NET ASSETS	(0.7)	0.5	3.5
NET ASSETS AT BEGINNING OF YEAR	24.1	23.6	20.1
NET ASSETS AT END OF YEAR	\$ 23.4	\$ 24.1	\$ 23.6

Year Ended June 30, 2012 compared to Year ended June 30, 2011

The Statement of Revenues, Expenses and Changes in Net Assets shows a decrease in net assets of \$698,490. There was an increase in private gifts from capital assets which includes acquiring the National Guard Armory building and a gift from a private donor that turfed the baseball field. During FY11 the University received \$716,289 in Federal stimulus funding, but these funds were not available during FY12.

MANAGEMENTS' DISCUSSION AND ANALYSIS (UNAUDITED)--Continued

NORTHWESTERN OKLAHOMA STATE UNIVERSITY

June 30, 2012

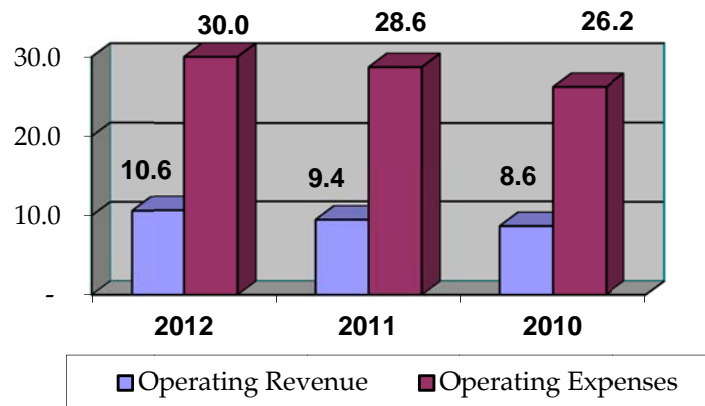
STATEMENT OF REVENUES, EXPENSES AND CHANGES IN NET ASSETS--Continued

Year Ended June 30, 2011 compared to Year ended June 30, 2010

The Statement of Revenues, Expenses and Changes in Net Assets shows a change in net assets of \$500,000. The University received grants and gifts totaling over \$266,000 in FY11. The two largest pieces to this gift were a donation for a university sign located at the entrance to the Woodward Campus and funds to help build the new agriculture education building at the university farm.

It is important to understand the relationship of revenues to expenses over time. The graph below shows the stability of the relationship of operating revenues to operating expenses over the past three years.

OPERATING REVENUES VS. OPERATING EXPENSES
(In Millions)



The following charts show the relationship of state appropriations when compared to tuition and fees over the past three years. Northwestern experienced a slight decrease in overall enrollment in fiscal year 2012. This decrease was a result of a strong local economy in the northwest part of the state. For FY12 Northwestern received virtually the same amount of state appropriated funding even though mandatory costs increased to operate the university. For FY12 a 5.9 percent tuition increase was implemented to help offset some of the mandatory cost increases. No across the board salary increases were given to employees in FY12; however, a stipend was given to all full-time employees in November of 2011. As part of a planned recruitment effort, allowances for scholarships were increased for FY12 in an effort at attract the best and brightest students. Auxiliary revenues show an increase in revenue due to a small increase in board rates and an overall increase in the number of students living in campus housing. Expenses for campus housing also increased due to more students living on campus and auxiliary funds being earmarked for capital facility improvements.

MANAGEMENTS' DISCUSSION AND ANALYSIS (UNAUDITED)--Continued

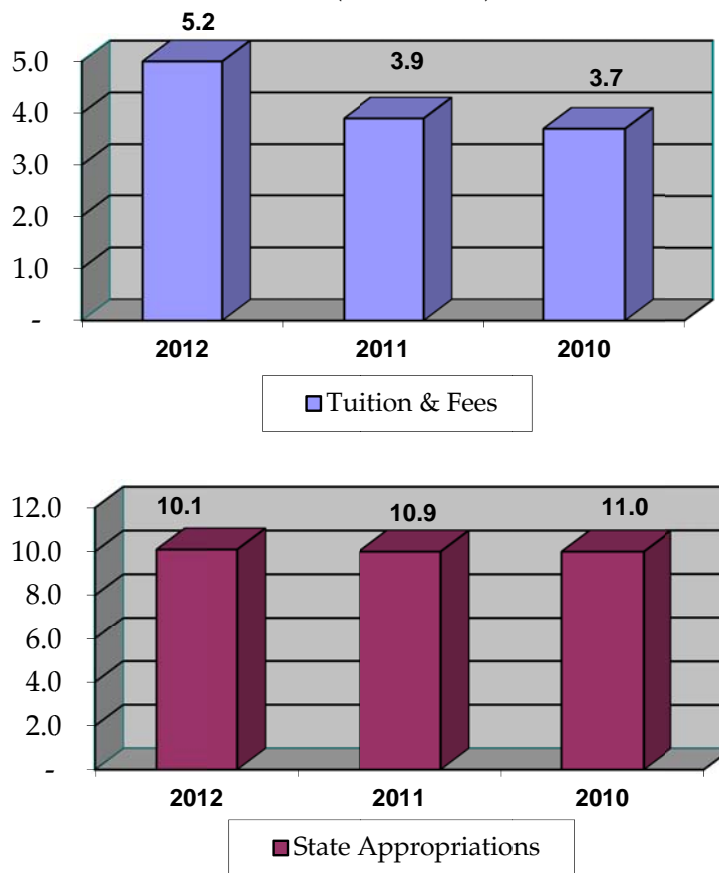
NORTHWESTERN OKLAHOMA STATE UNIVERSITY

June 30, 2012

STATEMENT OF REVENUES, EXPENSES AND CHANGES IN NET ASSETS--Continued

The following two charts show graphically the changes in tuition and fees along with the changes in state appropriations for fiscal year 2010 through fiscal year 2012.

TUITION & FEES VS. STATE APPROPRIATIONS
(In Millions)



STATEMENT OF CASH FLOWS

The final statement presented by Northwestern Oklahoma State University is the Statement of Cash Flows. The primary purpose of the Statement of Cash Flows is to provide information about the cash receipts and disbursements of an entity during a period. This statement also aids in the assessment of an entity's ability to generate future net cash flows, ability to meet obligations as they come due, and needs for external financing. The statement is divided into five parts.

MANAGEMENTS' DISCUSSION AND ANALYSIS (UNAUDITED)--Continued

NORTHWESTERN OKLAHOMA STATE UNIVERSITY

June 30, 2012

STATEMENT OF CASH FLOWS--Continued

STATEMENT OF CASH FLOWS
(In Millions)

	Years Ended June 30		
	2012	2011	2010
CASH PROVIDED BY (USED IN):			
Operating activities	\$ (16.7)	\$ (16.8)	\$ (15.5)
Noncapital financing activities	15.7	17.4	16.2
Investing activities	0.3	0.3	0.3
Capital and related financing activities	<u>0.2</u>	<u>(0.3)</u>	<u>(0.6)</u>
NET INCREASE (DECREASE) IN CASH	(0.5)	0.6	0.4
CASH AT BEGINNING OF YEAR	<u>6.2</u>	<u>5.6</u>	<u>5.2</u>
CASH AT END OF YEAR	<u>\$ 5.7</u>	<u>\$ 6.2</u>	<u>\$ 5.6</u>

The first section presents operating cash flows and shows the net cash used by the operating activities of the institution. The second section reflects cash flows from noncapital financing activities. This section reflects the cash received and spent for nonoperating, noninvesting, and noncapital financing purposes. The third section shows the cash flows from investing activities and shows the purchase, proceeds, and interest received from investing activities. The fourth section presents cash flows from capital and related financing activities. This section deals with the cash used for the acquisition and construction of capital and related items. The fifth section reconciles the net cash used to the operating income or loss reflected on the Statement of Revenues, Expenses, and Change in Net Assts.

The University's cash decreased by \$481,624 from 2011 to 2012. There was an increase in cash of \$526,712 from 2010 to 2011. The current year decrease in cash resulted from a planned expenditure strategy to increase spending in athletics in preparation for the transition to NCAA Division II and increases in physical plant through labor, repairs and maintenance. Infrastructure improvements were also completed in the university dormitories, sidewalks on the Alva campus and improvements to parking lots on all three campuses.

MANAGEMENTS' DISCUSSION AND ANALYSIS (UNAUDITED)--Continued

NORTHWESTERN OKLAHOMA STATE UNIVERSITY

June 30, 2012

ECONOMIC OUTLOOK

The economic stability and future growth of the University is directly related to the state's economic stability. Over the past several years, Oklahoma has suffered from down economic times and higher education has received reductions in state appropriations. There appears to be some stabilization in the national economy as well as in the State of Oklahoma. Northwest Oklahoma has experienced an increase in oil and gas activity, resulting in more residents entering the work force. This increase in work opportunities has impacted the University in retaining full-time employees as well as the recruitment and retention of students.

During FY12, Northwestern experienced a slight drop in enrollment and credit hours generated. Most indicators suggest that this is due to the oil and gas activity. A continuing strategic direction for the University is to focus on student recruitment and retention. With the help of an aggressive enrollment management plan, the university faculty and staff worked closely with all potential and current students in an effort to recruit and retain the very best students. Efforts will continue into FY13 to attract new students to the University.

Northwestern has placed a high priority on the development of grants and sponsored programs. New grant opportunities are always being explored by faculty and staff at Northwestern. During FY12, Northwestern was awarded a Title III grant through the Department of Education. This five year grant is focused on student retention. Meanwhile, Northwestern continued to receive grants for the operation of two TRIO programs, Oklahoma Small Business Development Center, CWPEP and a Violence Prevention Program.

During FY12, construction was completed on a new agricultural educational classroom and shop at the university farm. This will help fulfill the mission of delivering instruction for a new program added at Northwestern, fulfilling a state wide need for agriculture education graduates. This building project was made possible by special state appropriations along with private funds. With the move toward NCAA II membership, a private donor stepped forward and provided funding to turf the infield of the baseball field. During FY12, field lighting was replaced at the football field and lights were added to the baseball field and intramural field, allowing both facilities to host events after dark.

As discussed earlier, the Northwestern Oklahoma State University Foundation, Inc., plays a critical role in supporting the University. FY12 saw a decrease in investment income due primarily to stock market declines but the Foundation did see an increase of approximately \$700,000 in contributions. New contributions and endowments continue to be secured, which helps to provide support for the operations of Northwestern.

MANAGEMENTS' DISCUSSION AND ANALYSIS (UNAUDITED)--Continued

NORTHWESTERN OKLAHOMA STATE UNIVERSITY

June 30, 2012

ECONOMIC OUTLOOK--Continued

Capital projects remain a priority for Northwestern. A parking and safety fee was implemented during FY11. With this fee revenue, improvements are ongoing to improve Alva campus sidewalks, add additional security cameras at all three campuses, and upgrade security systems in the university dormitories.

During FY12, the State of Oklahoma deeded to Northwestern the National Guard Armory Building. Built in 1979, this 16,437 square foot building located on 12.48 acres of land located across from Ranger Field will be used to provide locker room space for women's soccer and softball, an indoor practice facility for all sports as well as an expanded weight lifting area for athletics. Northwestern's physical plant staff will also occupy a section of the building.

The future of Northwestern Oklahoma State University is bright but funding continues to be an ongoing concern. Northwestern is constantly reviewing and evaluating every cost saving measure possible in an effort to best utilize all revenue sources, including state funding. The University is preparing for its accreditation by the Higher Learning Commission scheduled for the spring of 2014. This process actively involves students, faculty, staff and administrators.

STATEMENTS OF NET ASSETS

NORTHWESTERN OKLAHOMA STATE UNIVERSITY

	University		Component Unit	
	June 30,		June 30,	
	2012	2011	2012	2011
ASSETS				
CURRENT ASSETS				
Cash and cash equivalents	\$ 3,452,993	\$ 3,986,368	\$ 1,512,241	\$ 754,481
Restricted cash and cash equivalents	444,246	593,105	-	-
Accounts receivable, net	328,551	307,215	21,914	63,830
Receivable from state agencies	287,104	281,621	-	-
Interest receivable	5,652	6,649	29,044	29,284
Inventories	32,326	38,894	-	-
Current portion of notes receivable, net	882	2,650	-	-
TOTAL CURRENT ASSETS	<u>4,551,754</u>	<u>5,216,502</u>	<u>1,563,199</u>	<u>847,595</u>
NONCURRENT ASSETS				
Restricted cash and cash equivalents	1,828,343	1,627,733	-	-
Investments held by others	-	347,824	12,101,929	11,948,577
Student loans receivable, net	10,908	29,735	-	-
Prepaid pension asset	544,218	522,797	-	-
Deferred charge on OCIA lease restructure	401,340	501,676	-	-
Other assets	139,424	116,266	895,827	862,108
Capital assets, net	<u>26,396,613</u>	<u>26,889,992</u>	<u>2,333,131</u>	<u>1,342,343</u>
TOTAL NONCURRENT ASSETS	<u>29,320,846</u>	<u>30,036,023</u>	<u>15,330,887</u>	<u>14,153,028</u>
TOTAL ASSETS	<u>\$ 33,872,600</u>	<u>\$ 35,252,525</u>	<u>\$ 16,894,086</u>	<u>\$ 15,000,623</u>
LIABILITIES AND NET ASSETS				
CURRENT LIABILITIES				
Accounts payable	\$ 335,329	\$ 832,703	\$ 26,903	\$ 17,528
Accrued payroll	131,397	142,803	-	-
Accrued interest payable	2,039	9,122	-	-
Deferred revenue	150,855	146,745	-	-
Deposits held in custody for others	181,820	156,032	54,979	404,051
Current portion of non current liabilities	<u>778,868</u>	<u>636,503</u>	<u>-</u>	<u>-</u>
TOTAL CURRENT LIABILITIES	<u>1,580,308</u>	<u>1,923,908</u>	<u>81,882</u>	<u>421,579</u>
NONCURRENT LIABILITIES				
Accrued compensated absences	128,270	143,678	-	-
ODFA master lease program	1,946,250	2,202,500	-	-
Federal loan program contributions refundable	11,707	30,044	-	-
Lease obligation payable to state agency	6,781,355	6,829,195	-	-
Note payable	-	-	170,000	170,000
Other noncurrent liabilities	<u>-</u>	<u>-</u>	<u>19,645</u>	<u>38,004</u>
TOTAL NONCURRENT LIABILITIES	<u>8,867,582</u>	<u>9,205,417</u>	<u>189,645</u>	<u>208,004</u>
TOTAL LIABILITIES	<u>10,447,890</u>	<u>11,129,325</u>	<u>271,527</u>	<u>629,583</u>
NET ASSETS				
Invested in capital assets, net of debt	17,761,075	18,101,883	-	-
Restricted				
Nonexpendable				
Grants, bequests and contributions	-	-	15,978,924	13,459,599
Expendable				
Scholarships, instruction and other	417,988	556,372	967,349	1,337,916
Capital projects and debt service	1,830,319	1,398,752	-	-
Unrestricted	<u>3,415,328</u>	<u>4,066,193</u>	<u>(323,714)</u>	<u>(426,475)</u>
TOTAL NET ASSETS	<u>23,424,710</u>	<u>24,123,200</u>	<u>16,622,559</u>	<u>14,371,040</u>
TOTAL LIABILITIES AND NET ASSETS	<u>\$ 33,872,600</u>	<u>\$ 35,252,525</u>	<u>\$ 16,894,086</u>	<u>\$ 15,000,623</u>

See notes to financial statements.

STATEMENTS OF REVENUES, EXPENSES AND CHANGES IN NET ASSETS

NORTHWESTERN OKLAHOMA STATE UNIVERSITY

	University		Component Unit	
	Year Ended June 30, 2012	2011	Year Ended June 30, 2012	2011
OPERATING REVENUES				
Student tuition and fees, net of scholarship discounts and allowances of \$6,968,000 and \$8,103,000	\$ 5,165,925	\$ 3,834,330	\$ -	\$ -
Federal and state grants and contracts	866,625	989,164	-	-
Housing and food service, net of scholarship discounts and allowances of \$162,000 and \$193,000	4,359,865	4,144,651	-	-
Contributions	-	-	4,414,319	3,713,955
Other operating revenues	297,165	342,934	191,503	122,506
TOTAL OPERATING REVENUES	10,689,580	9,311,079	4,605,822	3,836,461
OPERATING EXPENSES				
Compensation and employee benefits	17,799,972	17,021,189	-	-
Contractual services	2,643,722	2,400,279	-	-
Supplies and materials	2,716,940	2,433,582	-	-
Depreciation	1,850,157	1,793,861	-	-
Utilities	1,020,297	949,617	-	-
Communication expense	279,858	274,187	-	-
Scholarships and fellowships	3,081,883	2,994,641	738,036	1,511,947
Other operating expenses	749,417	659,981	1,634,184	652,365
TOTAL OPERATING EXPENSES	30,142,246	28,527,337	2,372,220	2,164,312
OPERATING INCOME (LOSS)	(19,452,666)	(19,216,258)	2,233,602	1,672,149
NONOPERATING REVENUES (EXPENSES)				
State appropriations	10,103,387	10,208,467	-	-
State payments from federal ARRA revenues	-	716,289	-	-
OTRS on-behalf payments	830,552	709,483	-	-
Federal and state grants and contracts	5,355,210	6,131,039	-	-
Gifts	251,565	279,521	-	-
Investment income	265,807	265,915	(327,943)	2,174,696
Interest expense	(327,030)	(241,623)	-	-
NET NONOPERATING REVENUE (EXPENSES)	16,479,491	18,069,091	(327,943)	2,174,696
Income (loss) before other revenues, expenses, gains and losses	(2,973,175)	(1,147,167)	1,905,659	3,846,845
Federal grants and contracts for capital purposes	12,700	173,700	-	-
Private gifts for capital assets	870,200	266,168	-	-
State appropriations restricted for capital purposes	1,251,164	988,453	-	-
OCIA on-behalf state appropriations	140,621	239,301	-	-
Transfer of agency funds	-	-	345,860	-
CHANGE IN NET ASSETS	(698,490)	520,455	2,251,519	3,846,845
NET ASSETS, BEGINNING OF YEAR	24,123,200	23,602,745	14,371,040	10,524,195
NET ASSETS, END OF YEAR	\$ 23,424,710	\$ 24,123,200	\$ 16,622,559	\$ 14,371,040

See notes to financial statements.

STATEMENTS OF CASH FLOWS

NORTHWESTERN OKLAHOMA STATE UNIVERSITY

	Year Ended June 30,	
	<u>2012</u>	<u>2011</u>
CASH FLOWS FROM OPERATING ACTIVITIES		
Tuition and fees	\$ 5,156,487	\$ 3,862,156
Grants and contracts	861,350	989,558
Auxiliary enterprise charges and other operating receipts	4,675,112	4,488,301
Payments to employees for salaries and benefits	(16,992,539)	(16,478,379)
Payments to suppliers	<u>(10,360,940)</u>	<u>(9,640,344)</u>
NET CASH USED IN OPERATING ACTIVITIES	(16,660,530)	(16,778,708)
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES		
State appropriations	10,103,387	10,208,467
State payments from federal ARRA revenues	-	716,289
Nonoperating grants	5,355,210	6,131,039
Direct student loans received	5,696,247	5,057,007
Direct student loan payments	(5,696,247)	(5,057,007)
Gifts for other than capital purposes	<u>251,565</u>	<u>279,521</u>
NET CASH PROVIDED BY NONCAPITAL FINANCING ACTIVITIES	15,710,162	17,335,316
CASH FLOWS FROM INVESTING ACTIVITIES		
Interest income received	<u>261,321</u>	<u>241,609</u>
NET CASH PROVIDED BY INVESTING ACTIVITIES	261,321	241,609
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES		
Cash paid for capital assets	(1,101,110)	(1,115,570)
Capital appropriations received	1,251,164	988,453
Federal grants and contracts for capital purposes	12,700	173,700
Proceeds from capital leases	390,000	-
Interest paid on capital debt and leases	(87,581)	(113,088)
Repayment of capital debt and leases	<u>(257,750)</u>	<u>(205,000)</u>
NET CASH PROVIDED BY (USED IN) CAPITAL AND RELATED FINANCING ACTIVITIES	<u>207,423</u>	<u>(271,505)</u>
NET CHANGE IN CASH AND CASH EQUIVALENTS	(481,624)	526,712
CASH AND CASH EQUIVALENTS, BEGINNING OF YEAR	<u>6,207,206</u>	<u>5,680,494</u>
CASH AND CASH EQUIVALENTS, END OF YEAR	<u>\$ 5,725,582</u>	<u>\$ 6,207,206</u>

See notes to financial statements.

STATEMENTS OF CASH FLOWS--Continued

NORTHWESTERN OKLAHOMA STATE UNIVERSITY

	Year Ended June 30,	
	<u>2012</u>	<u>2011</u>
RECONCILIATION OF OPERATING LOSS TO NET CASH USED IN OPERATING ACTIVITIES		
Operating loss	\$ (19,452,666)	\$ (19,216,258)
Adjustments to reconcile operating loss to net cash used in operating activities		
Depreciation expense	1,850,157	1,793,861
On-behalf contributions to Teachers' Retirement System	830,552	709,483
Changes in assets and liabilities		
Accounts receivable	(21,336)	9,738
Loans to students and employees	20,595	5,678
Inventories	6,568	2,719
Prepaid pension asset	(21,421)	(167,626)
Accounts payable and accrued expenses	105,752	126,548
Deferred revenue	4,110	13,520
Student and other deposits	25,788	19,661
Compensated absences	9,708	(65,515)
Liability to federal government	<u>(18,337)</u>	<u>(10,517)</u>
NET CASH USED IN OPERATING ACTIVITIES	<u>\$ (16,660,530)</u>	<u>\$ (16,778,708)</u>
NONCASH INVESTING, NONCAPITAL FINANCING AND CAPITAL AND RELATED FINANCING ACTIVITIES		
Interest on capital debt paid by state agency on behalf of the University	\$ 95,030	\$ 24,200
Principal on capital debt paid by state agency on behalf of the University	45,591	43,458
Deferred charge on ODFA lease restructure	74,324	-
Deferred charge on OCIA lease restructure	-	602,011
RECONCILIATION OF CASH AND CASH EQUIVALENTS TO STATEMENTS OF NET ASSETS		
Current assets		
Cash and cash equivalents	3,452,993	3,986,368
Restricted cash and cash equivalents	444,246	593,105
Noncurrent assets		
Restricted cash and cash equivalents	<u>1,828,343</u>	<u>1,627,733</u>
TOTAL CASH AND CASH EQUIVALENTS	<u>\$ 5,725,582</u>	<u>\$ 6,207,206</u>

See notes to financial statements.

NOTES TO FINANCIAL STATEMENTS

NORTHWESTERN OKLAHOMA STATE UNIVERSITY

June 30, 2012

NOTE A--SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Nature of Organization: Northwestern Oklahoma State University (the "University") is a regional University operating under the jurisdiction of the Regional University System of Oklahoma and the Oklahoma State Regents for Higher Education. The University is a component unit of the State of Oklahoma and is included in the general-purpose financial statements of the State of Oklahoma as part of the Higher Education component unit.

Reporting Entity: The financial reporting entity, as defined by Governmental Accounting Standards Board (GASB) Statement No. 14, *The Financial Reporting Entity*, and Governmental Accounting Standards Board (GASB) Statement No. 39, *Determining whether Certain Organizations Are Component Units-an amendment of GASB Statement No. 14*, includes the accounts and funds of the University and its discretely presented component unit, Northwestern Oklahoma State University Foundation, Inc. and Alumni Association (the "Foundation").

Component Unit: Northwestern Oklahoma State University Foundation, Inc. (the "Foundation") and Alumni Association (the "Association") are combined and considered a component unit of the University under GASB 39, and their financial statements are discretely presented with the financial statements of the University. The Foundation is a perpetual corporation formed under the laws of the State of Oklahoma for charitable, benevolent, educational and scientific purposes. Its specific purpose is to benefit the University through charitable actions and activities. Its activities are guided by a Board of Trustees, which receives no compensation for their activities. The Association is an unincorporated association formed for the benefit of the Alumni of Northwestern Oklahoma State University as a whole. Its specific purpose is to provide alumni with information about University related organizations and activities. Its activities are guided by a Board of Directors who receives no compensation for their activities. In September 1986, the two organizations adopted an operating agreement for their mutual benefit. Its purpose was to avoid repetition of projects and to pool the resources of the two organizations. The two organizations remained separate entities, each governed by its own board. The president of the Association will be appointed as a trustee of the Foundation. Accounting for the funds and fund transactions is accomplished by the Foundation. The Foundation provides financial support as needed to the Alumni Association. Each year the Alumni Association Board presents a budget to the Foundation Board to finance its operations.

NOTES TO FINANCIAL STATEMENTS--Continued

NORTHWESTERN OKLAHOMA STATE UNIVERSITY

June 30, 2012

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

Financial Statement Presentation: The University's financial statements are presented in accordance with the requirements of GASB Statement No. 34, *Basic Financial Statement and Management's Discussion and Analysis--for State and Local Governments*, and GASB Statement No. 35, *Basic Financial Statements and Management's Discussion and Analysis for Public Colleges and Universities*. Under GASB Statements No. 34 and 35, the University is required to present a statement of net assets classified between current and noncurrent assets and liabilities, a statement of revenues, expenses and changes in net assets, with separate presentation for operating and nonoperating revenues and expenses, and a statement of cash flows using the direct method.

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

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

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

Investments: The University accounts for its investments at fair value in accordance with GASB Statement No. 31, *Accounting and Financial Reporting for Certain Investments and for External Investment Pools*. Changes in unrealized gain (loss) on the carrying value of investments are reported as a component of investment income in the statement of revenues, expenses and changes in net assets. At June 30, 2012 and 2011, all of the University's investments were considered cash equivalents.

NOTES TO FINANCIAL STATEMENTS--Continued

NORTHWESTERN OKLAHOMA STATE UNIVERSITY

June 30, 2012

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

Accounts Receivable: Accounts receivable consists of tuition and fee charges to students and auxiliary enterprise services provided to students, faculty and staff, the majority of each residing in the State of Oklahoma. Accounts receivable also include amounts due from the federal government, state and local governments, or private sources, in connection with reimbursement of allowable expenditures made pursuant to the University's grants and contracts. Accounts receivable are recorded net of estimated uncollectible amounts.

Inventories: Inventories consist of maintenance supplies and are carried at the lower of cost or market on the first-in, first-out ("FIFO") basis.

Restricted Cash and Investments: Cash and investments that are externally restricted to make long-term student loans, or to purchase capital or other noncurrent assets, are classified as restricted assets in the statements of net assets.

Capital Assets: Capital assets are recorded at cost at the date of acquisition, or fair market value at the date of donation in the case of gifts. For equipment, the University's capitalization policy includes all items with a unit cost of \$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 and that have a cost of \$5,000 or more are capitalized. Routine repairs and maintenance are charged to operating expense in the year in which the expense is incurred.

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

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

Compensated Absences: Employee vacation pay is accrued at year-end for financial statement purposes. The liability and expense incurred are recorded at year-end as accrued vacation payable in the statements of net assets, and as a component of compensation and benefit expense in the statements of revenues, expenses and changes in net assets.

NOTES TO FINANCIAL STATEMENTS--Continued

NORTHWESTERN OKLAHOMA STATE UNIVERSITY

June 30, 2012

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

Noncurrent liabilities: Noncurrent liabilities include (1) principal amounts of revenue bonds payable, notes payable, and capital lease obligations with contractual maturities greater than one year, (2) estimated amounts for accrued compensated absences and other liabilities that will not be paid within the next fiscal year, and (3) other liabilities that, although payable within one year, are to be paid from funds that are classified as noncurrent assets.

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

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

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

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

When an expense is incurred that can be paid using either restricted or unrestricted resources, the University's policy is to first apply the expense towards restricted resources, and then toward unrestricted resources.

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

Use of Estimates: The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect certain reported amounts and disclosures. Accordingly, actual results could differ from these estimates.

NOTES TO FINANCIAL STATEMENTS--Continued

NORTHWESTERN OKLAHOMA STATE UNIVERSITY

June 30, 2012

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

Classification of Revenues: The University has classified its revenues as either operating or nonoperating revenues according to the following criteria:

Operating revenues: Operating revenues include activities that have the characteristics of exchange transactions, such as (1) student tuition and fees, net of scholarship discounts and allowances, (2) sales and services of auxiliary enterprises, net of scholarship discounts and allowances, (3) interest on institutional student loans, and (4) 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, and other revenue sources that are defined as nonoperating revenues by GASB No. 9 *Reporting Cash Flows of Proprietary and Nonexpendable Trust Funds and Governmental Entities That Use Proprietary Fund Accounting*, and GASB No. 34, such as state appropriations, governmental and other pass-through grants, and investment income.

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

Reclassification of Financial Statement Presentation: Certain reclassifications have been made to the 2011 financial statements to conform with the 2012 financial statement presentation. Such reclassifications have had no effect on changes in net assets as previously reported.

NOTES TO FINANCIAL STATEMENTS--Continued

NORTHWESTERN OKLAHOMA STATE UNIVERSITY

June 30, 2012

NOTE B--DEPOSITS AND INVESTMENTS

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

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

At June 30, 2012 and 2011, the carrying amount of all University deposits with the OST and other financial institutions were \$5,725,582 and \$6,207,206, respectively. These amounts consisted of deposits with the OST (\$5,720,912 and \$6,202,536) and change funds (\$4,670 and \$4,670). Of funds on deposit with the OST, amounts invested in *OK INVEST* total \$2,245,303 in 2012 and \$2,581,878 in 2011. The difference between the bank balance of deposits and the related carrying amounts were generally not significant and are due to outstanding checks and deposits in transit.

NOTES TO FINANCIAL STATEMENTS--Continued

NORTHWESTERN OKLAHOMA STATE UNIVERSITY

June 30, 2012

NOTE B--DEPOSITS AND INVESTMENTS--Continued

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

	At June 30, 2012	
<u>OK Invest Portfolio</u>	<u>Cost</u>	<u>Market Value</u>
U.S. Agency Securities	\$ 793,828	\$ 796,162
Money Market Mutual Fund	307,338	307,338
Certificates of Deposit	72,522	72,522
Mortgage Backed Agency Securities	991,042	1,052,941
Municipal Bonds	40,274	45,948
Foreign Bonds	11,299	11,299
U.S. Treasury Obligations	29,000	36,179
Totals	<u>\$ 2,245,303</u>	<u>\$ 2,322,389</u>

	At June 30, 2011	
<u>OK Invest Portfolio</u>	<u>Cost</u>	<u>Market Value</u>
U.S. Agency Securities	\$ 942,992	\$ 950,553
Money Market Mutual Fund	283,863	283,864
Certificates of Deposit	121,909	121,909
Tri-party Repurchase Agreements	174,228	174,228
Mortgage Backed Agency Securities	936,579	977,942
Municipal Bonds	51,462	55,728
Foreign Bonds	9,599	9,599
Commercial Paper	23,996	23,998
U.S. Treasury Obligations	37,250	44,137
Totals	<u>\$ 2,581,878</u>	<u>\$ 2,641,958</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*.

NOTES TO FINANCIAL STATEMENTS--Continued

NORTHWESTERN OKLAHOMA STATE UNIVERSITY

June 30, 2012

NOTE B--DEPOSITS AND INVESTMENTS--Continued

Deposits--Continued: Safety, liquidity, and return on investment are the objectives which establish the framework for the day to day *OK INVEST* management with an emphasis on safety of the capital and the probable income to be derived and meeting the State and its funds' and agencies' daily cash flow requirements.

Guidelines in the Investment Policy address credit quality requirements, diversification percentages and specify the types and maturities of allowable investments, and the specifics regarding these policies can be found on the OST website at <http://www.treasurer.state.ok.us/>. The State Treasurer, at his discretion, may further limit or restrict such investments on a day to day basis. *OK INVEST* includes a substantial investment in securities with an overnight maturity as well as in U.S. government securities with a maturity of up to ten years. *OK INVEST* maintains an overall weighted average maturity of no more than four years.

Participants in *OK INVEST* maintain an interest in its underlying investments and, accordingly, may be exposed to certain risks. As stated in the OST information statement, the main risks are interest rate risk, credit/default risk, liquidity risk, and U.S. government securities risk. *Interest rate risk* is the risk that during periods of rising interest rates, the yield and market value of the securities will tend to be lower than prevailing market rates; in periods of falling interest rates, the yield will tend to be higher. *Credit/default risk* is the risk that an issuer or guarantor of a security, or a bank or other financial institution that has entered into a repurchase agreement, may default on its payment obligations. *Liquidity risk* is the risk that *OK INVEST* will be unable to pay redemption proceeds within the stated time period because of unusual market conditions, an unusually high volume of redemption requests, or other reasons. *U.S. Government securities risk* is the risk that the U.S. government will not provide financial support to U.S. government agencies, instrumentalities or sponsored enterprises if it is not obligated to do so by law. Various investment restrictions and limitations are enumerated in the State Treasurer's Investment Policy to mitigate those risks; however, any interest in *OK INVEST* is not insured or guaranteed by the State of Oklahoma, the Federal Deposit Insurance Corporation or any other government agency.

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

NOTES TO FINANCIAL STATEMENTS--Continued

NORTHWESTERN OKLAHOMA STATE UNIVERSITY

June 30, 2012

NOTE B--DEPOSITS AND INVESTMENTS--Continued

Investments--Continued: *Interest rate risk* is the risk that changes in interest rates will adversely affect the fair value of an investment. Investments that are held for longer periods of time are subject to increased risk of adverse interest changes. Neither the University nor state statutes limit investment maturities as a means of managing exposure to fair value losses arising from increasing interest rates; however, the OST Investment Policy limits the average maturity on its portfolio to four (4) years, with certain individual securities having more restrictive limits as defined in the policy. *Concentration of credit risk* is the risk of loss attributed to the magnitude of the University's investment in a single issuer. Neither the University's investment policy nor state statutes place limits on amounts that can be invested in any one issuer; however, the OST Investment Policy states that, with the exception of U.S. Treasury securities, no more than 50% of the State's total funds may be invested in a single security type or with a single financial institution, with diversification percentages being more restrictive on individual securities. *Custodial credit risk* for investments is the risk that, in the event of failure of the counterparty, the University will not be able to recover the value of its investments or collateral securities in the possession of an outside party. As of June 30, 2012 and 2011, none of the University's investments were subject to custodial credit risk.

At June 30, 2011, the University had investments in funds totaling \$347,824 related to the ODFA Lease program. These funds had a fair market value of \$347,824 at June 30, 2011 and were carried as investments held by others in the University's statement of net assets. During 2012, these funds were liquidated and used in the refinancing of the ODFA Master Lease Revenue Bonds, 2002C Series (described in Note F), resulting in a zero balance as of June 30, 2012.

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

NOTES TO FINANCIAL STATEMENTS--Continued

NORTHWESTERN OKLAHOMA STATE UNIVERSITY

June 30, 2012

NOTE C--ACCOUNTS RECEIVABLE

Accounts receivable consisted of the following at June 30:

	2012	2011
Student tuition and fees	\$ 236,874	\$ 203,004
Auxiliary enterprises and other operating activities	127,304	118,925
Federal, state, and private grants and contracts	195,610	190,864
	559,788	512,793
Less allowance for doubtful accounts	231,237	205,578
Net accounts receivable	<u>\$ 328,551</u>	<u>\$ 307,215</u>

NOTE D--NOTES RECEIVABLE

Student loans made through the Federal Perkins Loan Program (the "Program") comprise substantially all of the loans receivable at June 30, 2012 and 2011. Under this program, the federal government provides funds for approximately 75% of the total contribution for student loans with the University providing the balance. Under certain conditions such loans can be forgiven at annual rates of 10% to 30% of the original balance up to maximums of 50% to 100% of the original loan. The federal government reimburses the University to the extent of 10% of the amounts forgiven for loans originated prior to July 1, 1993 under the Federal Perkins Loan Program. No reimbursements are provided for loans originated after this date. Amounts refundable to the U.S. Government upon cessation of the Program of \$11,707 and \$30,044 at June 30, 2012 and 2011, respectively, are reflected in the accompanying statements of net assets as noncurrent liabilities.

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

At June 30, 2012 and 2011, loan receivable consisted of the following:

	2012	2011
Perkins loans receivable	\$ 11,790	\$ 32,827
Less allowance for uncollectible loans	-	(442)
Loans receivable, net	<u>\$ 11,790</u>	<u>\$ 32,385</u>

NOTES TO FINANCIAL STATEMENTS--Continued

NORTHWESTERN OKLAHOMA STATE UNIVERSITY

June 30, 2012

NOTE E--CAPITAL ASSETS

Following are the changes in capital assets for the year ended June 30, 2012:

	Balance June 30, 2011	Additions	Transfers	Retirements/ Adjustments	Balance June 30, 2012
Capital assets not being depreciated					
Land	\$ 807,382	\$ 257,700	\$ -	\$ (39,900)	\$ 1,025,182
Construction in progress	1,271,268	-	(1,271,268)	-	-
Total assets not being depreciated	<u>\$ 2,078,650</u>	<u>\$ 257,700</u>	<u>\$ (1,271,268)</u>	<u>\$ (39,900)</u>	<u>\$ 1,025,182</u>
Other capital assets					
Land improvements	\$ 2,152,846	\$ 390,258	\$ 614,532	\$ -	\$ 3,157,636
Leasehold improvements	43,381	-	-	-	43,381
Buildings	40,638,328	500,769	656,736	-	41,795,833
Furniture, fixtures and equipment	2,750,967	194,293	-	(92,639)	2,852,621
Library materials	2,168,402	53,658	-	(55,555)	2,166,505
Total other capital assets	<u>47,753,924</u>	<u>1,138,978</u>	<u>1,271,268</u>	<u>(148,194)</u>	<u>50,015,976</u>
Less accumulated depreciation for					
Land improvements	972,949	216,139	-	-	1,189,088
Leasehold improvements	43,381	-	-	-	43,381
Buildings	17,827,879	1,301,927	-	-	19,129,806
Furniture, fixtures and equipment	2,219,274	209,273	-	(92,639)	2,335,908
Library materials	1,879,099	122,818	-	(55,555)	1,946,362
Total accumulated depreciation	<u>22,942,582</u>	<u>1,850,157</u>	<u>-</u>	<u>(148,194)</u>	<u>24,644,545</u>
Other capital assets, net	<u>\$ 24,811,342</u>	<u>\$ (711,179)</u>	<u>\$ 1,271,268</u>	<u>\$ -</u>	<u>\$ 25,371,431</u>
Capital asset summary:					
Capital assets not being depreciated	\$ 2,078,650	\$ 257,700	\$ (1,271,268)	\$ (39,900)	\$ 1,025,182
Other capital assets, at cost	<u>47,753,924</u>	<u>1,138,978</u>	<u>1,271,268</u>	<u>(148,194)</u>	<u>50,015,976</u>
Total cost of capital assets	49,832,574	1,396,678	-	(188,094)	51,041,158
Less accumulated depreciation	<u>22,942,582</u>	<u>1,850,157</u>	<u>-</u>	<u>(148,194)</u>	<u>24,644,545</u>
Capital assets, net	<u>\$ 26,889,992</u>	<u>\$ (453,479)</u>	<u>\$ -</u>	<u>\$ (39,900)</u>	<u>\$ 26,396,613</u>

At June 30, 2012, the cost and related accumulated depreciation of assets held under capital lease obligations were \$11,868,432 and \$2,780,452 respectively.

NOTES TO FINANCIAL STATEMENTS--Continued

NORTHWESTERN OKLAHOMA STATE UNIVERSITY

June 30, 2012

NOTE E--CAPITAL ASSETS--Continued

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

	Balance June 30, 2010	Additions	Transfers	Retirements/ Adjustments	Balance June 30, 2011
Capital assets not being depreciated					
Land	\$ 676,382	\$ 131,000	\$ -	\$ -	\$ 807,382
Construction in progress	21,797	1,249,471	-	-	1,271,268
Total assets not being depreciated	<u>\$ 698,179</u>	<u>\$ 1,380,471</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 2,078,650</u>
Other capital assets					
Land improvements	\$ 1,938,166	\$ 214,680	\$ -	\$ -	\$ 2,152,846
Leasehold improvements	43,381	-	-	-	43,381
Buildings	40,582,284	56,044	-	-	40,638,328
Furniture, fixtures and equipment	2,641,499	224,073	-	(114,605)	2,750,967
Library materials	2,101,913	96,213	-	(29,724)	2,168,402
Total other capital assets	<u>47,307,243</u>	<u>591,010</u>	<u>-</u>	<u>(144,329)</u>	<u>47,753,924</u>
Less accumulated depreciation for					
Land improvements	814,585	158,364	-	-	972,949
Leasehold improvements	43,381	-	-	-	43,381
Buildings	16,536,679	1,291,200	-	-	17,827,879
Furniture, fixtures and equipment	2,129,905	203,974	-	(114,605)	2,219,274
Library materials	1,768,500	140,323	-	(29,724)	1,879,099
Total accumulated depreciation	<u>21,293,050</u>	<u>1,793,861</u>	<u>-</u>	<u>(144,329)</u>	<u>22,942,582</u>
Other capital assets, net	<u>\$ 26,014,193</u>	<u>\$ (1,202,851)</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 24,811,342</u>
Capital asset summary:					
Capital assets not being depreciated	\$ 698,179	\$ 1,380,471	\$ -	\$ -	\$ 2,078,650
Other capital assets, at cost	<u>47,307,243</u>	<u>591,010</u>	<u>-</u>	<u>(144,329)</u>	<u>47,753,924</u>
Total cost of capital assets	48,005,422	1,971,481	-	(144,329)	49,832,574
Less accumulated depreciation	<u>21,293,050</u>	<u>1,793,861</u>	<u>-</u>	<u>(144,329)</u>	<u>22,942,582</u>
Capital assets, net	<u>\$ 26,712,372</u>	<u>\$ 177,620</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 26,889,992</u>

At June 30, 2011, the cost and related accumulated depreciation of assets held under capital lease obligations were \$11,478,432 and \$2,290,209 respectively.

NOTES TO FINANCIAL STATEMENTS--Continued

NORTHWESTERN OKLAHOMA STATE UNIVERSITY

June 30, 2012

NOTE F--LONG-TERM LIABILITIES

Long-term liability activity for the year ended June 30, 2012 was as follows:

	Balance June 30, 2011	Additions	Reductions	Balance June 30, 2012	Amounts due within one year
Capital lease obligations					
ODFA master lease	\$ 2,415,000	\$ 2,444,000	\$ 2,585,250	\$ 2,273,750	\$ 327,500
OCIA lease obligation	6,874,785	-	45,591	6,829,194	47,839
Total capital lease obligations	9,289,785	2,444,000	2,630,841	9,102,944	375,339
Other liabilities					
Accrued compensated absences	522,091	367,869	358,161	531,799	403,529
Federal loan program contributions	30,044	-	18,337	11,707	-
Total other liabilities	552,135	367,869	376,498	543,506	403,529
Total long-term liabilities	\$ 9,841,920	\$ 2,811,869	\$ 3,007,339	\$ 9,646,450	\$ 778,868

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

	Balance June 30, 2010	Additions	Reductions	Balance June 30, 2011	Amounts due within one year
Capital lease obligations					
ODFA master lease	\$ 2,620,000	\$ -	\$ 205,000	\$ 2,415,000	\$ 212,500
OCIA lease obligation	6,316,232	2,250,530	1,691,977	6,874,785	45,590
Premium on OCIA lease obligation	171,643	-	171,643	-	-
Total capital lease obligations	9,107,875	2,250,530	2,068,620	9,289,785	258,090
Other liabilities					
Accrued compensated absences	587,606	322,226	387,741	522,091	378,413
Federal loan program contributions	40,561	-	10,517	30,044	-
Total other liabilities	628,167	322,226	398,258	552,135	378,413
Total long-term liabilities	\$ 9,736,042	\$ 2,572,756	\$ 2,466,878	\$ 9,841,920	\$ 636,503

NOTES TO FINANCIAL STATEMENTS--Continued

NORTHWESTERN OKLAHOMA STATE UNIVERSITY

June 30, 2012

NOTE F--LONG-TERM LIABILITIES--Continued

Capital Lease Obligations

Oklahoma Capital Improvement Authority Lease Obligation

In September 1999, the Oklahoma Capital Improvement Authority (OCIA) issued its OCIA Bond Issues, 1999 Series A, B and C. Of the total bond indebtedness, the State Regents for Higher Education allocated \$850,000 to the University. Concurrently with the allocation, the University entered into a lease agreement with OCIA, for the project being funded by the OCIA bonds. The lease agreement provides for the University to make specified monthly payments to OCIA over the respective terms of the agreement, which is for 20 years. The proceeds of the bonds and subsequent lease are to provide for capital improvements at the University.

Through June 30, 2012, the University has drawn down its total allotment of \$850,000 for expenditures incurred in connection with specified projects. These expenditures have been capitalized as capital assets or recorded as non-capitalized operating expenses, in accordance with University policy. The University has recorded a lease obligation payable to OCIA for the total amount of the allotment, less repayments made during the fiscal year. The University has also recorded an asset for its pro-rata share of the bond issuance costs, and is amortizing that asset over the term of the lease agreement. At June 30, 2012 and 2011, the unamortized bond issuance costs totaled \$373 and \$425, respectively.

In 2004, the OCIA issued bond series 2004A that refunded a significant portion of the 1999A bonds. The amortization of the 1999A bond issue ended in 2010. The lease agreement will no longer secure the 1999A bond issue but will now act as security for the 2004A bond issue over the term of the lease through the year 2020. As a result, there are two amortization schedules, which have been combined, related to this one lease agreement.

In November 2005, the Oklahoma Capital Improvement Authority (OCIA) issued its OCIA Bond Issues, 2005 Series F and G. Of the total bond indebtedness, the State Regents for Higher Education allocated \$6,813,432 to the University. Concurrently with the allocation, the University entered into a lease agreement with OCIA, which includes three projects being funded by the OCIA bonds. The lease agreement provides for the University to make specified monthly payments to OCIA over the term of the agreement. The projects have terms 5 to 30 years. The proceeds of the bonds and the subsequent leases are to provide for capital improvements at the University.

NOTES TO FINANCIAL STATEMENTS--Continued

NORTHWESTERN OKLAHOMA STATE UNIVERSITY

June 30, 2012

NOTE F--LONG-TERM LIABILITIES--Continued

Capital Lease Obligations--Continued

Oklahoma Capital Improvement Authority Lease Obligation--Continued

Through June 30, 2012, the University has drawn down the total of \$6,813,432 for expenditures incurred in connection with specified projects. These expenses have been capitalized as investment in capital assets in accordance with University policy. The University has recorded a lease obligation payable to OCIA for the total amount of the allotment, less repayments made on the University's behalf.

During the year ended June 30, 2011, the 2005 lease agreement with OCIA was restructured through a partial refunding of OCIA's 2005F bond debt. OCIA issued two new bonds, Series 2010A and 2010B. The 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 lease agreement with OCIA automatically restructured to secure the new bond issues. This lease restructuring has extended certain principal payments into the future, resulting in a charge or cost on restructuring. A charge of \$602,010 was recorded as a deferred cost on restructuring that will be amortized over a period of 6 years. As of June 30, 2012 and 2011, the deferred cost, net of amortization, was \$401,340 and \$501,676, respectively. This restructuring resulted in an aggregate debt service difference for principal and interest between the original lease agreement and the restructured lease agreement of \$172,878, which also approximates the economic cost of the lease restructuring.

During the years ended June 30, 2012 and 2011, OCIA made lease principal and interest payments totaling \$140,621 and \$239,301, respectively, on behalf of the University. These on-behalf payments have been recorded as restricted state appropriations in the statements of revenues, expenses and changes in net assets.

Oklahoma Development Finance Authority Master Lease Program

In December 2002, the ODFA issued its ODFA Master Lease Revenue Bonds, Series 2002C. Of the total bond indebtedness, the State Regents for Higher Education allocated \$3,815,000 to the University. Concurrently with the allocation, the University entered into a lease agreement with ODFA, for the project being funded by the ODFA bonds. The lease agreement provides for the University to make specified monthly payments to ODFA over the respective terms of the agreement, which is through December 1, 2020. The proceeds of the bonds and subsequent leases are to provide for capital improvements to the University.

NOTES TO FINANCIAL STATEMENTS--Continued

NORTHWESTERN OKLAHOMA STATE UNIVERSITY

June 30, 2012

NOTE F--LONG-TERM LIABILITIES--Continued

Capital Lease Obligations--Continued

Oklahoma Development Finance Authority Master Lease Program--Continued

In November 2011, the ODFA refinanced the Series 2002C ODFA Master Lease Revenue Bonds with the Series 2011B ODFA Master Lease Revenue Refunding Bonds. As a result, the University's lease was restructured according to the terms of the new bonds. The University will continue to make specified monthly payments to ODFA over the respective term of the agreement through May 2020.

Investments Held By Others consist of the following funds held under the ODFA program at June 30, 2012 and 2011:

	<u>June 30, 2012</u>	<u>June 30, 2011</u>
Debt service reserve fund	\$ -	\$ 347,824
Total assets held by others	<u>\$ -</u>	<u>\$ 347,824</u>

Debt service reserve funds are restricted for the payment of principal and interest pursuant to the agreements. During 2012, the reserve funds were liquidated and used in the refunding of the Series 2002C ODFA Master Lease Revenue Bonds.

In July 2011, the ODFA issued its ODFA Master Real Property Lease Revenue Bonds, Series 2011A. Of the total bond indebtedness, the State Regents for Higher Education allocated \$390,000 to the University. Concurrently with the allocation, the University entered into a lease agreement with ODFA, for the project being funded by the ODFA bonds. The lease agreement provides for the University to make specified monthly payments to ODFA over the respective terms of the agreement, which is through May 2015. The proceeds of the bonds and subsequent leases are to provide for capital improvements to the University.

NOTES TO FINANCIAL STATEMENTS--Continued

NORTHWESTERN OKLAHOMA STATE UNIVERSITY

June 30, 2012

NOTE F--LONG-TERM LIABILITIES--Continued

Capital Lease Obligations--Continued

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

Year Ending June 30:	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2013	\$ 375,339	\$ 176,172	\$ 551,511
2014	586,282	379,978	966,260
2015	945,475	357,722	1,303,197
2016	877,510	327,684	1,205,194
2017	881,033	295,360	1,176,393
2018-2022	2,142,733	986,181	3,128,914
2023-2027	1,651,410	664,082	2,315,492
2028-2031	<u>1,643,162</u>	<u>209,204</u>	<u>1,852,366</u>
	<u>\$ 9,102,944</u>	<u>\$ 3,396,383</u>	<u>\$ 12,499,327</u>

NOTE G--RETIREMENT PLANS

The University's academic and nonacademic personnel are covered by various retirement plans. The plans available to University personnel include the Oklahoma Teachers' Retirement System ("OTRS"), which is a State of Oklahoma public employees retirement system, the Supplemental Retirement Annuity ("SRA"), a single employer defined benefit plan available to employees hired prior to July 1, 1995, and a defined contribution 403(b) plan. The University does not maintain the accounting records, hold the investments for, or administer these plans.

NOTES TO FINANCIAL STATEMENTS--Continued

NORTHWESTERN OKLAHOMA STATE UNIVERSITY

June 30, 2012

NOTE G--RETIREMENT PLANS--Continued

Oklahoma Teachers' Retirement System (OTRS)

Plan Description

The University contributes to the Oklahoma Teachers' Retirement System (OTRS), a cost-sharing multiple-employer defined benefit pension plan sponsored by the State of Oklahoma. OTRS provides defined retirement benefits based on members' final compensation, age and term of service. In addition, the retirement program provides for benefits upon disability and to survivors upon the death of eligible members. The benefit provisions are established and may be amended by the legislature of the State of Oklahoma. Title 70 of the Oklahoma Statutes, Sections 17-101 through 116.9, as amended, assigns the authority for management and operation of the Plan to the Board of Trustees of OTRS. OTRS does not provide for a cost of living adjustment. OTRS issues a publicly available financial report that includes financial statements and supplementary information for OTRS. That report may be obtained by writing to Teachers' Retirement System of Oklahoma, P.O. Box 53524, Oklahoma City, Oklahoma 73152, or by calling (405) 521-2387.

Funding Policy

The University is required to contribute a fixed percentage of annual compensation on behalf of active members. The employer contribution rate was 8.05% for the first six months of fiscal year 2010 and at January 1, 2010 the contribution rate changed to 8.55%, where it remained throughout 2011 and 2012. This rate is applied to annual compensation, and is determined by state statute.

Employees' contributions are also determined by state statute. For all employees, the contribution rate was 7% of covered salaries and fringe benefits in 2012, 2011 and 2010. During this time, the University paid the entire amount of employees' contributions to OTRS directly.

The University's contribution to OTRS for the years ended June 30, 2012, 2011 and 2010, was approximately \$2,022,000, \$1,975,000 and \$1,840,000, respectively. These contributions included the University's statutory contribution and the share of the employee's contribution paid directly by the University.

NOTES TO FINANCIAL STATEMENTS--Continued

NORTHWESTERN OKLAHOMA STATE UNIVERSITY

June 30, 2012

NOTE G--RETIREMENT PLANS--Continued

Oklahoma Teachers' Retirement System (OTRS)--Continued

Funding Policy--Continued

The State of Oklahoma is also required to contribute to the OTRS on behalf of the participating employers. For 2012 and 2011, the State of Oklahoma contribution was 5% of state revenues from sales and use taxes and individual income taxes, to the OTRS on behalf of participating employers. The University has estimated the amounts contributed to the OTRS by the State of Oklahoma on its behalf by multiplying the ratio of its covered salaries to total covered salaries for OTRS for the year by the applicable percentage of taxes collected during the year. For the years ended June 30, 2012 and 2011, the total amounts contributed to the OTRS by the State of Oklahoma on behalf of the University were approximately \$831,000 and \$709,000, respectively. These on behalf payments have been recorded as both revenues and expenses in the statements of revenues, expenses and changes in net assets.

Defined Contribution Plan

The University also has a defined contribution 403(b) plan (DCP) available to full-time employees. The DCP is administered by the RUSO System, and the plan provisions are established and may be amended by the Board of Regents. Plan members may make voluntary contributions in accordance with IRS regulations. The University has no contribution requirements, and no contributions were made during the years ended June 30, 2012, 2011 and 2010.

Supplemental Retirement Annuity (SRA)

Plan Description

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

NOTES TO FINANCIAL STATEMENTS--Continued

NORTHWESTERN OKLAHOMA STATE UNIVERSITY

June 30, 2012

NOTE G--RETIREMENT PLANS--Continued

Supplemental Retirement Annuity (SRA)--Continued

Funding Policy

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

Annual Cost and Net Obligation (Asset)

Annual pension cost and net pension obligation (asset) of the SRA for 2012 and 2011 are as follows:

	<u>2012</u>	<u>2011</u>
Annual required contribution	\$ 187,155	\$ 174,613
Interest on net pension obligation	(41,824)	(28,414)
Adjustment to annual required contribution	<u>53,248</u>	<u>36,175</u>
Annual pension cost	198,579	182,374
Contribution made	<u>(220,000)</u>	<u>(350,000)</u>
Increase in net pension obligation	(21,421)	(167,626)
Net pension obligation (asset) at beginning of year	<u>(522,797)</u>	<u>(355,171)</u>
Net pension obligation (asset) at end of year	<u>\$ (544,218)</u>	<u>\$ (522,797)</u>

The annual required contribution for 2012 and 2011 was determined as part of an actuarial valuation on June 30, 2012 and 2011, using the projected unit credit actuarial cost method. The actuarial assumptions included (a) a discount rate of 8% per year to determine the present value of future benefit payments; (b) retirement at age 65; (c) an 8% rate of return on investments; and (d) projected salary increases of 3.5% per year. The value of the SRA assets is based on the TIAA-CREF group annuity account asset value. The unfunded actuarial accrued liability is being amortized over twenty years as a level dollar amount on a closed basis.

NOTES TO FINANCIAL STATEMENTS--Continued

NORTHWESTERN OKLAHOMA STATE UNIVERSITY

June 30, 2012

NOTE G--RETIREMENT PLANS--Continued

Supplemental Retirement Annuity (SRA)--Continued

Trend Information

Year Ended June 30	Annual Pension Cost (APC)	Percentage of APC Contributed	Net Pension Obligation (Asset)
2012	\$ 198,579	110.8%	\$ (544,218)
2011	\$ 182,374	191.9%	\$ (522,797)
2010	\$ 188,833	190.6%	\$ (355,171)

Funded Status and Funding Progress

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

	2012	2011
Actuarial accrued liability (AAL)	\$ 2,829,525	\$ 2,626,856
Actuarial value of plan assets	991,709	990,508
Unfunded actuarial accrued liability (UAAL)	<u>\$ 1,837,816</u>	<u>\$ 1,636,348</u>
Funded ratio (actuarial value of plan assets/AAL)	35.0%	37.7%
Covered payroll (active plan members)	\$ 1,685,218	\$ 1,911,390
UAAL as a percentage of covered payroll	109.1%	85.6%

NOTE H--OTHER POST-EMPLOYMENT INSURANCE BENEFITS

Plan Description

The University's postemployment healthcare plan is an agent multiple-employer defined benefit plan administered by the Regional University System of Oklahoma Board of Regents (the University's Board). The plan provides medical and life insurance benefits to eligible retired employees until age 65. A retiring employee must have been employed full-time in the Regional University System of Oklahoma for not less than ten years immediately preceding the date of retirement; been a member of the Oklahoma Teachers' Retirement System during that time; and elected to receive a vested benefit under the provision of the Oklahoma Teachers' Retirement System. As of June 30, 2012 there were 250 active participants in the plan. The retirement insurance program was adopted by the Board of Regents in 1985. In March of 2008, the Retiree Medical Trust for Regional University System of Oklahoma was established to hold assets and pay benefits on behalf of the University's postemployment healthcare plan, and was administered by The Bank of Oklahoma, N.A.

NOTES TO FINANCIAL STATEMENTS--Continued

NORTHWESTERN OKLAHOMA STATE UNIVERSITY

June 30, 2012

NOTE H--OTHER POST-EMPLOYMENT INSURANCE BENEFITS

Plan Description--Continued

Prior to the establishment of the trust, the insurance benefits were accounted for on a pay-as-you-go basis so that premiums were made from current operating funds. The plan does not issue a stand-alone financial report nor is it included in the financial report of another entity.

Funding Policy

The contribution requirements of the University are established and may be amended by the Regional University System of Oklahoma Board of Regents. The University is required to contribute the *annual required contribution of the employer*, in an amount actuarially determined in accordance with the parameters of GASB Statement 45. The ARC represents a level of funding that, if paid on an ongoing basis, is projected to cover normal cost each year and amortize any unfunded actuarial liabilities (or funding excess) over a period not to exceed thirty years. The current ARC is \$179,342 and represents 1.4% (percent) of covered payroll.

Annual Cost and Net Obligation (Asset)

Annual OPEB cost and net OPEB obligation (asset) of the plan for 2012 and 2011 are as follows:

	<u>2012</u>	<u>2011</u>
Annual required contribution	\$ 179,342	\$ 171,566
Interest on net OPEB obligation	-	-
Adjustment to annual required contribution	-	-
Annual OPEB cost	<u>179,342</u>	<u>171,566</u>
Contribution made	<u>(179,342)</u>	<u>(171,566)</u>
Decrease (increase) in net OPEB obligation	-	-
Net OPEB obligation (asset) at beginning of year	<u>(72,985)</u>	<u>(72,985)</u>
Net OPEB obligation (asset) at end of year	<u>\$ (72,985)</u>	<u>\$ (72,985)</u>

Projections of benefits for financial reporting purposes are based on the substantive plan and include the types of benefits provided at the time of each valuation. The actuarial methods and assumptions used include techniques that are designed to reduce short-term volatility in actuarial accrued liabilities and the actuarial value of assets, consistent with the long-term perspective of the calculations. For the June 30, 2012 actuarial valuation, the projected unit credit cost method was used. The actuarial assumptions included a 7.0% investment rate of return and an annual healthcare cost inflationary increase of 9.0%.

NOTES TO FINANCIAL STATEMENTS--Continued

NORTHWESTERN OKLAHOMA STATE UNIVERSITY

June 30, 2012

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

Trend Information

Fiscal Year Ended	Annual OPEB Cost	Annual OPEB Cost Contributed	Net OPEB Obligation (Asset)
2012	\$ 179,342	100%	\$ (72,985)
2011	\$ 171,566	100%	\$ (72,985)
2010	\$ 167,688	100%	\$ (72,985)

Funded Status and Funding Progress

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

	2012	2011
Actuarial accrued liability (AAL)	\$ 1,961,561	\$ 1,897,324
Actuarial value of plan assets	524,165	459,782
Unfunded actuarial accrued liability (UAAL)	<u>\$ 1,437,396</u>	<u>\$ 1,437,542</u>
Funded ratio (actuarial value of plan assets/AAL)	26.7%	24.2%
Covered payroll (active plan members)	\$ 12,858,361	\$ 12,497,331
UAAL as a percentage of covered payroll	11.2%	11.5%

Actuarial valuation of an ongoing plan involves estimates of the value of reported amounts and assumptions about the probability of occurrence of events far into the future. Examples include assumptions about future employment, mortality, and the healthcare cost trend. Amounts determined regarding the funded status of the plan and the annual required contributions of the employer are subject to continual revision as actual results are compared with past expectations and new estimates are made about the future. The schedule of funding progress, presented as required supplementary information following the notes to the financial statements, presents multiyear trend information that shows whether the actuarial value of plan assets is increasing or decreasing over time relative to the actuarial accrued liabilities for benefits.

NOTES TO FINANCIAL STATEMENTS--Continued

NORTHWESTERN OKLAHOMA STATE UNIVERSITY

June 30, 2012

NOTE I--FUNDS HELD IN TRUST BY OTHERS

Beneficial Interest in State School Land Funds

The University has a beneficial interest in the "Section Thirteen Fund State Educational Institutions" and the "New College Fund" administered by the Commissioners of the Land Office as trustees for the various educational institutions entitled thereto. The University has the right to receive annually 3.7% of the distributions of income produced by "Section Thirteen Fund State Educational Institutions" assets and 100% of the distributions of income produced by the University's "New College Fund". The University received approximately \$1,225,000 and \$972,000 during the years ended June 30, 2012 and 2011, respectively which is restricted to the construction or acquisition of buildings, equipment, or other capital items. These amounts are recorded as state appropriations for capital purposes in the statements of revenues, expenses and changes in net assets. State law prohibits the distribution of any corpus of these funds to the beneficiaries. The total trust fund for Northwestern Oklahoma State University, held in trust by the Commissioners of Land Office, was approximately \$16,030,000 and \$15,982,000 at June 30, 2012 and 2011.

Oklahoma State Regents Endowment Trust Fund

In connection with the Oklahoma State Regents' Endowment Program (the "Endowment Program"), the State of Oklahoma has matched contributions received under the Endowment Program. The state match amounts, plus any retained accumulated earnings, totaled approximately \$4,514,000 and \$4,706,000 at June 30, 2012 and 2011, respectively, and is invested by the Oklahoma State Regents on behalf of the University. The University is entitled to receive an annual distribution of 5% of the market value at year end on these funds. As legal title of the State Regents matching endowment funds is retained by the Oklahoma State Regents, only the funds available for distribution, approximately \$287,000 and \$282,000 at June 30, 2012 and 2011, respectively, have been reflected as assets in the statements of net assets.

NOTES TO FINANCIAL STATEMENTS--Continued

NORTHWESTERN OKLAHOMA STATE UNIVERSITY

June 30, 2012

NOTE J--COMMITMENTS AND CONTINGENCIES

The University conducts certain programs pursuant to various grants and contracts that 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 governmental agencies from various sources of the University.

During the ordinary course of business, the University may be subjected to various lawsuits and civil action claims. Management believes that resolution of any such matters pending at June 30, 2012 and 2011 will not have material adverse impact to the University.

NOTE K--RISK MANAGEMENT

The University is exposed to various risks of loss from torts; theft of, damage to, and destruction of assets; business interruption; errors and omission; employee injuries and illness; natural disasters; and employee health, life, and accident benefits. Commercial insurance coverage is purchased for claims arising from such matters other than torts, property, and workers' compensation. Settled claims have not exceeded this commercial coverage in any of the three preceding years.

The University, along with other state agencies and political subdivisions, participates in the State of Oklahoma Risk Management Program and the State Insurance Fund, public entity risk pools currently operating as a common risk management and insurance program for its members. The University pays annual premiums to the pools for tort, property, and liability insurance coverage. The Oklahoma Risk Management Pool's governing agreement specifies that the pool will be self-sustaining through member premiums and will reinsure through commercial carriers for claims in excess of specified stop-loss amounts.

The University also participates in the College Association of Liability Management (CALM) Workers' Compensation Plan for its workers' compensation coverage. CALM is an Interpositional Cooperative Act Agency that was organized to provide workers' compensation insurance coverage for participating colleges and universities through the State Insurance Fund. CALM is a political subdivision of the State of Oklahoma and is governed by a board of trustees elected from members of the participating colleges and universities.

NOTES TO FINANCIAL STATEMENTS--Continued

NORTHWESTERN OKLAHOMA STATE UNIVERSITY

June 30, 2012

NOTE L--ACCOUNTING STANDARDS ISSUED NOT YET ADOPTED

The GASB has issued several new accounting pronouncements, which will be effective to the University in subsequent years. A description of the new accounting pronouncements, the fiscal year in which they are effective, and the University's consideration of the impact of these pronouncements are described below:

Fiscal Year Ended June 30, 2013

- *Statement No. 60, Accounting and Financial Reporting for Service Concession Arrangements -*
GASB No. 60 addresses issues related to service concession arrangements (SCAs), which are a type of public-private or public-public partnership. This Statement applies only to those arrangements in which specific criteria determining whether a transferor has control over the facility are met. The University will only be required to adopt the provisions of GASB No. 60 if it enters into an SCA, and it currently has not entered into any such arrangements.
- *Statement No. 61, The Financial Reporting Entity: Omnibus – An Amendment of GASB Statements No. 14 and No. 34.*
GASB No. 61 modifies certain requirements for inclusion of component units in the financial reporting entity and also amends the criteria for reporting component units as if they were part of the primary government (that is, blending) in certain circumstances. Earlier application is encouraged. The University does not believe that the adoption of GASB No. 61 will have a significant impact on its financial statement presentation.
- *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 University does not believe that the adoption GASB No. 62 will have a significant impact on its financial position, activities or cash flows, or its financial statement presentation.
- *Statement No. 63, Financial Reporting of Deferred Outflows of Resources, Deferred Inflows of Resources, and Net Position.*
GASB No. 63 provides financial reporting guidance for deferred outflows of resources and deferred inflows of resources. Previous financial reporting standards do not include guidance for reporting those financial statement elements, which are distinct from assets and liabilities. Adoption of this statement will require the University to make changes in its financial statement presentation.

NOTES TO FINANCIAL STATEMENTS--Continued

NORTHWESTERN OKLAHOMA STATE UNIVERSITY

June 30, 2012

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

Fiscal Year Ended June 30, 2014

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

GASB No. 65 establishes accounting and financial reporting standards that reclassify, as deferred outflows of resources or deferred inflows of resources, certain items that were previously reported as assets and liabilities and recognizes, as outflows of resources (expenses) or inflows of resources (revenues), certain items that were previously recognized as assets and liabilities. The University has not quantified the effects of adoption of GASB No. 65 on its net position.

Fiscal Year Ended June 30, 2015

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

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

NOTES TO FINANCIAL STATEMENTS--Continued

NORTHWESTERN OKLAHOMA STATE UNIVERSITY

June 30, 2012

NOTE M--NORTHWESTERN OKLAHOMA STATE UNIVERSITY FOUNDATION, INC AND ALUMNI ASSOCIATION

The following are significant disclosures of Northwestern Oklahoma State University Foundation, Inc. and Alumni Association:

INVESTMENTS

Investment income consists of the following:

	2012	2011
Interest and dividend income	\$ 368,230	\$ 375,277
Realized gains and losses	1,446,091	489,792
Unrealized gains and losses	(1,981,104)	1,385,005
	(166,783)	2,250,074
Investment Expenses	(161,159)	(75,378)
	<u>\$ (327,942)</u>	<u>\$ 2,174,696</u>

Investments are held for the production of income and consist of the following at June 30, 2012:

Investment Type	Cost	Fair Value	Carrying Value
Foundation managed funds:			
Uninvested Cash	\$ 101,511	\$ 101,511	\$ 101,511
Certificates of deposits	583,603	583,603	583,603
Government bonds	1,394	1,298	1,298
Corporate bonds	1,681,005	1,538,575	1,538,575
Preferred stock	1,900	1,949	1,949
Common stock	386,505	106,037	106,037
Mutual funds	1,078,538	956,697	956,697
	<u>3,834,456</u>	<u>3,289,670</u>	<u>3,289,670</u>
Professionally managed funds:			
Uninvested cash	704,102	704,102	704,102
Corporate bonds	-	-	-
Preferred stock	-	-	-
Common stock	7,288,050	6,978,655	6,978,655
Mutual funds	1,129,965	1,129,502	1,129,502
	<u>9,122,117</u>	<u>8,812,259</u>	<u>8,812,259</u>
	<u>\$ 12,956,573</u>	<u>\$ 12,101,929</u>	<u>\$ 12,101,929</u>

NOTES TO FINANCIAL STATEMENTS--Continued

NORTHWESTERN OKLAHOMA STATE UNIVERSITY

June 30, 2012

NOTE M--NORTHWESTERN OKLAHOMA STATE UNIVERSITY FOUNDATION, INC AND ALUMNI ASSOCIATION--Continued

Investments are held for the production of income and consist of the following at June 30, 2011:

<u>Investment Type</u>	<u>Cost</u>	<u>Fair Value</u>	<u>Carrying Value</u>
Foundation managed funds:			
Certificates of deposits	\$ 231,000	\$ 231,015	\$ 231,015
Government bonds	1,538	31,782	31,782
Corporate bonds	1,830,747	1,745,247	1,745,247
Preferred stock	3,725	3,676	3,676
Common stock	387,926	121,998	121,998
Mutual funds	620,316	561,907	561,907
Managed futures	502,215	542,545	542,545
	<u>3,577,467</u>	<u>3,238,170</u>	<u>3,238,170</u>
Professionally managed funds:			
Uninvested cash	728,586	728,586	728,636
Corporate bonds	-	463,019	463,019
Preferred stock	-	-	-
Common stock	6,516,430	6,915,003	6,915,003
Mutual funds	-	603,799	603,799
	<u>7,245,016</u>	<u>8,710,407</u>	<u>8,710,457</u>
	<u>\$ 10,822,483</u>	<u>\$ 11,948,577</u>	<u>\$ 11,948,627</u>

The following methods and assumptions were used by the Foundation in estimating its fair value disclosures for financial instruments:

Cash and cash equivalents: the carrying amounts reported in the statement of financial position approximate fair values because of the short maturities of those investments.

Certificates of deposits: Valued at fair value by discounting the related cash flows based upon current yields of similar instruments with comparable durations considering the credit worthiness of the issuer.

Corporate bonds, government securities, common stocks, preferred stocks, mutual funds and managed funds: Valued at the closing price reported in the active market in which the individual securities are traded.

NOTES TO FINANCIAL STATEMENTS--Continued

NORTHWESTERN OKLAHOMA STATE UNIVERSITY

June 30, 2012

NOTE M--NORTHWESTERN OKLAHOMA STATE UNIVERSITY FOUNDATION, INC AND ALUMNI ASSOCIATION--Continued

Mortgage backed bonds: Valued at fair value by discounting related cash flows based upon U.S. Treasury Bond yields.

The preceding methods described may produce a fair value calculation that may not be indicative of net realizable value or reflective of future fair values. Furthermore, although the organization believes the fair value of certain financial instruments could result in a different fair value measurement at the reporting date.

FAIR VALUE MEASUREMENTS

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

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

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

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

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

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

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

NOTES TO FINANCIAL STATEMENTS--Continued

NORTHWESTERN OKLAHOMA STATE UNIVERSITY

June 30, 2012

NOTE M--NORTHWESTERN OKLAHOMA STATE UNIVERSITY FOUNDATION, INC AND ALUMNI ASSOCIATION--Continued

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

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

The following table presents the fair value measurements of assets and liabilities recognized in the accompanying financial statements at fair value on a recurring basis and the level within the fair market value hierarchy in which the fair value measurements fall at June 30, 2012 and 2011.

	As of June 30, 2012			
	Level 1	Level 2	Level 3	Total
Uninvested cash	\$ 805,613	\$ -	\$ -	\$ 805,613
Certificates of deposits	-	583,603	-	583,603
Equity securities	7,089,641	-	-	7,089,641
Corporate and other bonds	-	1,538,575	-	1,538,575
U.S. government securities	-	1,298	-	1,298
Mutual funds	2,086,199	-	-	2,086,199
	<u>\$ 9,981,453</u>	<u>\$ 2,123,476</u>	<u>\$ -</u>	<u>\$ 12,104,929</u>
	As of June 30, 2011			
	Level 1	Level 2	Level 3	Total
Uninvested cash	\$ 728,636	\$ -	\$ -	\$ 728,636
Certificates of deposits	-	231,015	-	231,015
Equity securities	7,040,677	-	-	7,040,677
Corporate and other bonds	-	2,208,266	-	2,208,266
U.S. government securities	-	31,782	-	31,782
Mutual funds	1,165,706	-	-	1,165,706
Managed futures	542,545	-	-	542,545
	<u>\$ 9,477,564</u>	<u>\$ 2,471,063</u>	<u>\$ -</u>	<u>\$ 11,948,627</u>

NOTES TO FINANCIAL STATEMENTS--Continued

NORTHWESTERN OKLAHOMA STATE UNIVERSITY

June 30, 2012

NOTE M--NORTHWESTERN OKLAHOMA STATE UNIVERSITY FOUNDATION, INC AND ALUMNI ASSOCIATION--Continued

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

Investments: Where quoted market prices are available in an active market, investments are classified within Level 1 of the valuation hierarchy. Level 1 investments include equity securities, mutual funds, and money market funds. If quoted market prices are not available, then fair values are estimated by using pricing models, quoted prices of securities with similar characteristics or discounted cash flows.

Level 2 investments include equity securities with similar characteristics or discounted cash flows. Level 2 investments include equity securities, corporate and other bonds, U.S. government securities, marketable alternative assets, inflation hedging and opportunistic and other investments. In certain cases where Level 1 or Level 2 inputs are not available, investments are classified within Level 3 of the hierarchy and include corporate and other bonds and marketable and nonmarketable alternative assets.

ENDOWMENTS

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

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

- (1) The duration and preservation of the fund;
- (2) The purpose of the foundation and the donor-restricted endowment fund;
- (3) General economic conditions;

NOTES TO FINANCIAL STATEMENTS--Continued

NORTHWESTERN OKLAHOMA STATE UNIVERSITY

June 30, 2012

NOTE M--NORTHWESTERN OKLAHOMA STATE UNIVERSITY FOUNDATION, INC AND ALUMNI ASSOCIATION--Continued

- (4) The possible effect of inflation and deflation;
- (5) The expected total return from income and the appreciation of investments;
- (6) Other resources of the foundation;
- (7) The investment policies of the foundation.

Return Objectives and Risk Parameters: The Foundation has adopted investment and spending policies for endowment assets that attempt to provide a predictable stream of funding to programs supported by the endowment while seeking to maintain the purchasing power of the endowment assets. Under this policy, as approved by the Board of Directors, the endowment assets are invested in a manner that is intended to produce results which generate a dependable, increasing source of income and appreciation while assuming a moderate level of investment risk. The Foundation expects its endowment funds, over time, to provide an average rate of return of approximately 10% annually. Actual returns in any given year may vary from this amount.

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

Spending Policy and How the Investment Objectives Relate to Spending Policy: The Foundation has a policy of appropriating for distribution each year the equivalent of up to 5% of its endowment fund's fair value as of the immediately preceding July 1. In establishing this policy, the Foundation considered the long-term expected return on its endowment. Accordingly, over the long term, the Foundation expects the current spending policy to allow its endowment to grow at an average of 1.16% annually. This is consistent with the Foundation's objective to maintain the purchasing power of the endowment assets held in perpetuity or for a specified term as well as to provide additional real growth through new gifts and investment return.

NOTES TO FINANCIAL STATEMENTS--Continued

NORTHWESTERN OKLAHOMA STATE UNIVERSITY

June 30, 2012

NOTE M--NORTHWESTERN OKLAHOMA STATE UNIVERSITY FOUNDATION, INC AND ALUMNI ASSOCIATION--Continued

Endowment Net Asset Composition by Type of Fund as of June 30, 2012:

	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Permanently Restricted</u>
Donor-restricted endowment funds	\$ -	\$ 967,349	\$ 15,978,924
Board-designated endowment funds	-	-	-
Total endowment funds	<u>\$ -</u>	<u>\$ 967,349</u>	<u>\$ 15,978,924</u>

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

	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Permanently Restricted</u>
Donor-restricted endowment funds	\$ (369,209)	\$ 1,337,916	\$ 13,459,599
Board-designated endowment funds	-	-	-
Total endowment funds	<u>\$ (369,209)</u>	<u>\$ 1,337,916</u>	<u>\$ 13,459,599</u>

Changes in Endowment Net Assets for the year ending June 30, 2012:

	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Permanently Restricted</u>
Endowment net assets - beginning	\$ (369,209)	\$ 1,337,916	\$ 13,459,599
Investment return	369,209	(601,167)	-
Contributions	-	2,232,845	2,519,325
Appropriations for expenditures	-	(2,002,245)	-
Total endowment funds	<u>\$ -</u>	<u>\$ 967,349</u>	<u>\$ 15,978,924</u>

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

	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Permanently Restricted</u>
Endowment net assets - beginning	\$ (1,705,836)	\$ 756,630	\$ 12,108,664
Investment return	1,309,627	471,227	-
Contributions	-	2,347,688	1,350,935
Appropriations for expenditures	-	(2,237,629)	-
Total endowment funds	<u>\$ (396,209)</u>	<u>\$ 1,337,916</u>	<u>\$ 13,459,599</u>

REQUIRED SUPPLEMENTARY
INFORMATION

REQUIRED SUPPLEMENTARY INFORMATION--UNAUDITED

NORTHWESTERN OKLAHOMA STATE UNIVERSITY

June 30, 2012

SCHEDULE OF FUNDING PROGRESS FOR SUPPLEMENTAL RETIREMENT ANNUITY PLAN

Actuarial Valuation Date	Actuarial Value of Assets (a)	Actuarial Accrued Liability (AAL) (b)	Unfunded AAL (UAAL) (b-a)	Funded Ratio (a/b)	Covered Payroll (c)	UAAL as a percentage of Covered Payroll (b-a)/(c)
6/30/2007	\$ 599,508	\$ 2,233,055	\$ 1,633,547	26.8%	\$ 2,631,872	62.1%
6/30/2008	\$ 645,180	\$ 2,161,630	\$ 1,516,450	29.8%	\$ 2,556,978	59.3%
6/30/2009	\$ 674,591	\$ 2,457,468	\$ 1,782,877	27.5%	\$ 2,328,722	76.6%
6/30/2010	\$ 837,245	\$ 2,539,213	\$ 1,701,968	33.0%	\$ 2,272,632	74.9%
6/30/2011	\$ 990,508	\$ 2,626,856	\$ 1,636,348	37.7%	\$ 1,911,390	85.6%
6/30/2012	\$ 991,709	\$ 2,829,525	\$ 1,837,816	35.0%	\$ 1,685,218	109.1%

SCHEDULE OF FUNDING PROGRESS FOR OTHER POST EMPLOYMENT INSURANCE BENEFITS PLAN

Actuarial Valuation Date	Actuarial Value of Assets (a)	Actuarial Accrued Liability (AAL) (b)	Unfunded AAL (UAAL) (b-a)	Funded Ratio (a/b)	Covered Payroll (c)	UAAL as a percentage of Covered Payroll (b-a)/(c)
6/30/2008	\$ 186,000	\$ 1,465,000	\$ 1,279,000	12.7%	\$ 10,768,863	11.9%
6/30/2009	\$ 266,191	\$ 1,390,862	\$ 1,124,671	19.1%	\$ 11,248,169	10.0%
6/30/2010	\$ 348,724	\$ 1,671,673	\$ 1,322,949	20.9%	\$ 12,012,999	11.0%
6/30/2011	\$ 459,782	\$ 1,897,324	\$ 1,437,542	24.2%	\$ 12,497,331	11.5%
6/30/2012	\$ 524,165	\$ 1,961,561	\$ 1,437,396	26.7%	\$ 12,858,361	11.2%

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

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

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

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

We have audited the financial statements of Northwestern Oklahoma State University (the "University"), a component unit of the State of Oklahoma, as of and for the year ended June 30, 2012, and have issued our report thereon dated October 31, 2012. Our report includes a reference to other auditors. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States. Other auditors audited the financial statements of the Northwestern Oklahoma State University Foundation, Inc. and Alumni Association (the "Foundation"), the University's discretely presented component unit, as described in our report on the University's financial statements. The financial statements of the Foundation were not audited in accordance with *Government Auditing Standards*.

Internal Control Over Financial Reporting

Management of the University is responsible for establishing and maintaining effective internal control over financial reporting. In planning and performing our audit, we considered the University's internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the University's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the University'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 University's financial statements will not be prevented, or detected and corrected on a timely basis.

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

Compliance and Other Matters

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

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

Cole & Reed P.C.

Oklahoma City, Oklahoma
October 31, 2012

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

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

Compliance

We have audited the compliance of Northwestern Oklahoma State University (the "University") with the types of compliance requirements described in the U.S. Office of Management and Budget (OMB) Circular A-133 Compliance Supplement that could have a direct and material effect on each of its major federal programs for the year ended June 30, 2012. The University's major federal programs are identified in the summary of auditors' results section of the accompanying schedule of findings and questioned costs. Compliance with the requirements of laws, regulations, contracts, and grants applicable to each of its major federal programs is the responsibility of the University's management. Our responsibility is to express an opinion on the University's compliance based on our audit.

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

In our opinion, Northwestern Oklahoma State University complied, in all material respects, with the requirements referred to above that could have a direct and material effect on each of its major federal programs for the year ended June 30, 2012.

Internal Control Over Compliance

The management of Northwestern Oklahoma State University is responsible for establishing and maintaining effective internal control over compliance with the requirements of laws, regulations, contracts, and grants applicable to federal programs. In planning and performing our audit, we considered the University's internal control over compliance with the requirements that could have a direct and material effect on a major federal program to determine our auditing procedures for the purpose of expressing our opinion on compliance and to test and report on internal control over compliance in accordance with OMB Circular A-133, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of the University's internal control over compliance.

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

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

Schedule of Expenditures of Federal Awards

We have audited the basic financial statements of the University as of and for the year ended June 30, 2012, and have issued our report thereon dated October 31, 2012. 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 the U.S. Office of Management and Budget Circular A-133, *Audits of States, Local Government, and Non-Profit Organizations*, and is not a required part of the basic financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the financial statements. The information has been subjected to the auditing procedures applied in the audit of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements or to the financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the information is fairly stated in all material respects in relation to the basic financial statements as a whole.

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

Cole & Reed P.C.

Oklahoma City, Oklahoma
October 31, 2012

SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS

NORTHWESTERN OKLAHOMA STATE UNIVERSITY

Year Ended June 30, 2012

Federal Grantor/Pass-Through Grantor/Program Title	CFDA Number	Pass-Through Entity Identification Number	Amount Expended
U.S. Department of Education			
Student financial aid cluster			
Federal Pell Grant Program	84.063	N/A	\$ 3,837,353
Federal Work Study Program	84.033	N/A	137,907
Federal Supplemental Education			
Opportunity Grants	84.007	N/A	48,206
Federal Perkins Loan Program	84.038	N/A	11,707
Federal Direct Loan Program	84.268	N/A	<u>5,696,247</u>
Total student financial aid cluster			<u>9,731,420</u>
TRIO Program Cluster			
Upward Bound	84.047A	N/A	178,475
Upward Bound - Math & Science	84.047M	N/A	<u>248,656</u>
Total TRIO Program cluster			<u>427,131</u>
Total U.S. Department of Education			10,158,551
USDA Elevator Grant	10.776	N/A	12,801
Small Business Administration			
Passed through Southeastern Oklahoma State University			
Veteran's Assistance Service Program	59.037	1-7620-0038-17	22,340
Small Business Development Center	59.037	1-7620-0038-17	98,717
National Science Foundation			
Passed through Oklahoma State University			
Oklahoma State alliance for Minority Engineering and Technology	47.096	AA-5-64291	5,500
Title III	84.031	N/A	93,053
U.S. Department of Justice			
Passed through East Central University			
Violence Prevention Program	16.525	N/A	<u>55,293</u>
TOTAL EXPENDITURES OF FEDERAL AWARDS			<u>\$ 10,446,255</u>

See notes to schedule of expenditures of federal awards.

NOTES TO SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS

NORTHWESTERN OKLAHOMA STATE UNIVERSITY

June 30, 2012

NOTE A--SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

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

NOTE B--FEDERAL DIRECT STUDENT 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 University began participation in the Direct Loan Program on July 1, 2010. The University administers the origination and disbursement of the loans to eligible students or parents. The University is not responsible for the collection of these loans.

NOTE C--FEDERAL PERKINS LOANS

The University has \$11,707 in Federal Perkins loans outstanding at June 30, 2012. These loan balances outstanding are included as federal expenditures in the schedule of expenditures of federal awards. During the year ended June 30, 2012, the University did not issue any Perkins loans.

NOTE D--SUBRECIPIENTS

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

SCHEDULE OF FINDINGS AND QUESTIONED COSTS

NORTHWESTERN OKLAHOMA STATE UNIVERSITY

June 30, 2012

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:

Program / Cluster	CFDA Number
Student Financial Aid Cluster	*
Upward Bound	84.047

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

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

Auditee qualified as low-risk auditee? yes no

SCHEDULE OF FINDINGS AND QUESTIONED COSTS--Continued

NORTHWESTERN OKLAHOMA STATE UNIVERSITY

June 30, 2012

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

None to report for the June 30, 2012 period.

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

None to report for the June 30, 2012 period.

SUMMARY SCHEDULE OF PRIOR AUDIT FINDINGS

NORTHWESTERN OKLAHOMA STATE UNIVERSITY

June 30, 2012

No matters were reportable.