

WESTERN OKLAHOMA STATE COLLEGE

June 30, 2012

WESTERN OKLAHOMA STATE COLLEGE

June 30, 2012

AUDITED FINANCIAL STATEMENTS

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Independent Auditors' Report

Board of Regents
Western Oklahoma State College
Altus, Oklahoma

We have audited the accompanying statements of net assets of Western Oklahoma State College (the "College"), 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 statements of cash flows for the years then ended. These financial statements are the responsibility of the College's management. Our responsibility is to express an opinion on these financial statements based on our audits. We did not audit the financial statements of the College's discretely presented component unit, the Western Oklahoma State College Foundation, Inc. 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 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 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 Western Oklahoma State College and its discretely presented component unit as of June 30, 2012 and 2011, and the respective changes in net assets and, where applicable, cash flows thereof, 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 1, 2012, on our consideration of the College's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements, and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on 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 should be considered 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, 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.

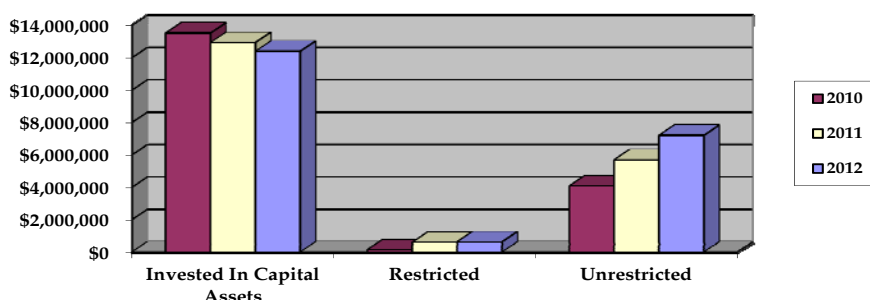
Oklahoma City, Oklahoma
October 1, 2012

WESTERN OKLAHOMA STATE COLLEGE
Management's Discussion and Analysis
Years Ended June 30, 2012, 2011 and 2010

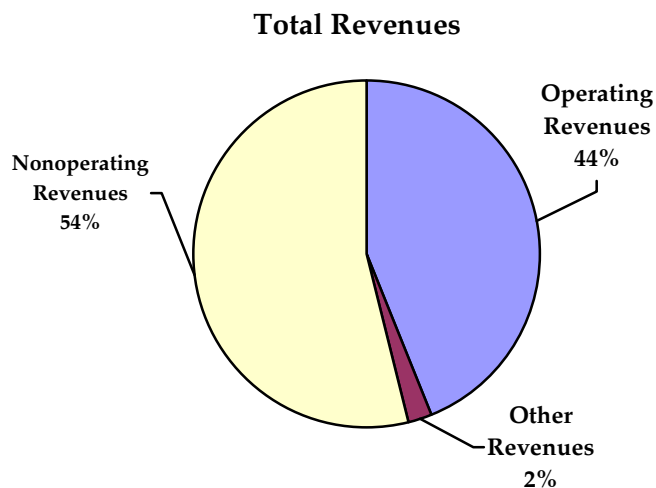
The discussion and analysis of Western Oklahoma State College's (the "College") financial statements provides an overview of the College's financial activities for the year ended June 30, 2012. Since this management's discussion and analysis is designed to focus on current activities and currently known facts, please read it in conjunction with the College's basic financial statements and related footnotes.

FINANCIAL HIGHLIGHTS

Net Assets



The following chart provides a graphical breakdown of total revenues by category for the fiscal year ended June 30, 2012.



In fiscal year ended June 30, 2012, the College's revenues exceeded expenses, creating an increase in total net assets of \$1,003,479, which represents a 5.22% in net assets for 2012. In fiscal year ended June 30, 2011, the College's revenues exceeded expenses, creating an increase in total net assets of \$1,483,381, which represents an 8.36% increase in net assets for 2011.

WESTERN OKLAHOMA STATE COLLEGE
Management's Discussion and Analysis (Continued)
Years Ended June 30, 2012, 2011 and 2010

OVERVIEW OF THE FINANCIAL STATEMENTS AND FINANCIAL ANALYSIS

The annual report consists of three basic financial statements: the Statement of Net Assets, the Statement of Revenues, Expenses, and Changes in Net Assets, and the Statement of Cash Flows.

The Statement of Net Assets and the Statement of Revenues, Expenses, and Changes in Net Assets report information on the activities of the College as a whole. When revenues and other support exceed expenses, the result is an increase in total net assets. When the reverse occurs, the result is a decrease in total net assets. The relationship between revenues and expenses may be thought of as the College's operating results.

These two statements report the College's net assets and changes in total net assets. You can think of the College's net assets-the difference between assets and liabilities-as one way to measure the College's financial health, or financial position. Over time, increases or decreases in the College's net assets are an indicator of whether the financial health is improving or deteriorating. You will need to consider many other non-financial factors, such as the trend and quality of student applicants, freshman class size, student retention, condition of the buildings and safety of the campus, to assess the overall health of the institution.

All assets and liabilities included in these two statements are presented using the accrual basis of accounting, which is similar to the accounting used by most private-sector institutions. All of the current year's revenues and expenses are taken into account, regardless of when cash is received or paid.

FINANCIAL ANALYSIS OF THE COLLEGE AS A WHOLE

The following table of the College's net assets summarizes the major changes between years:

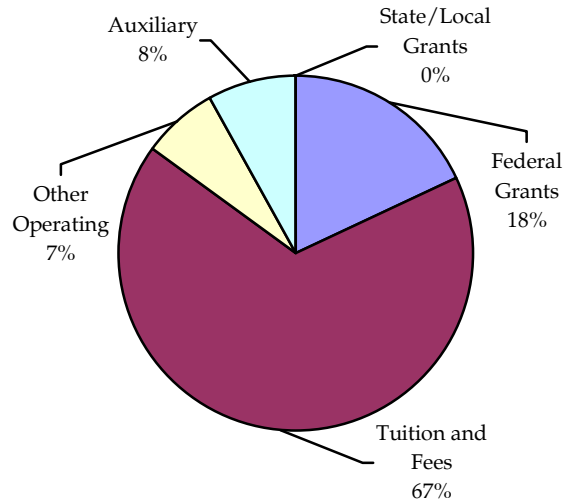
Condensed Statement of Net Assets							
	June 30		Increase	Percent	June 30	Increase	Percent
	2012	2011	(Decrease)	Change	2010	(Decrease)	Change
Current assets	\$ 8,413,564	\$ 6,632,910	\$ 1,780,654	27%	\$ 4,879,078	\$ 1,753,832	36%
Noncurrent assets:							
Restricted Cash and							
Cash Equivalents	291,291	274,459	16,832	6%	148,066	126,393	85%
Capital assets, net	17,137,020	17,694,535	(557,515)	-3%	18,197,329	(502,794)	-3%
Other	321,733	402,513	(80,780)	-20%	986	401,527	40723%
Total assets	<u>26,163,608</u>	<u>25,004,417</u>	<u>1,159,191</u>	5%	<u>23,225,459</u>	<u>1,778,958</u>	8%
Current liabilities	996,830	824,868	171,962	21%	1,131,482	(306,614)	-27%
Noncurrent liabilities:	4,941,197	4,957,447	(16,250)	0%	4,355,256	602,191	14%
Total liabilities	<u>5,938,027</u>	<u>5,782,315</u>	<u>155,712</u>	3%	<u>5,486,738</u>	<u>295,577</u>	5%
Net assets:							
Invested in							
capital assets	12,394,330	12,935,121	(540,791)	-4%	13,518,301	(583,180)	-4%
Restricted	628,155	594,953	33,202	6%	143,291	451,662	315%
Unrestricted	7,203,096	5,692,028	1,511,068	27%	4,077,129	1,614,899	40%
Total net assets	<u>\$ 20,225,581</u>	<u>\$ 19,222,102</u>	<u>\$ 1,003,479</u>	5%	<u>\$ 17,738,721</u>	<u>\$ 1,483,381</u>	8%

WESTERN OKLAHOMA STATE COLLEGE
Management's Discussion and Analysis (Continued)
Years Ended June 30, 2012, 2011 and 2010

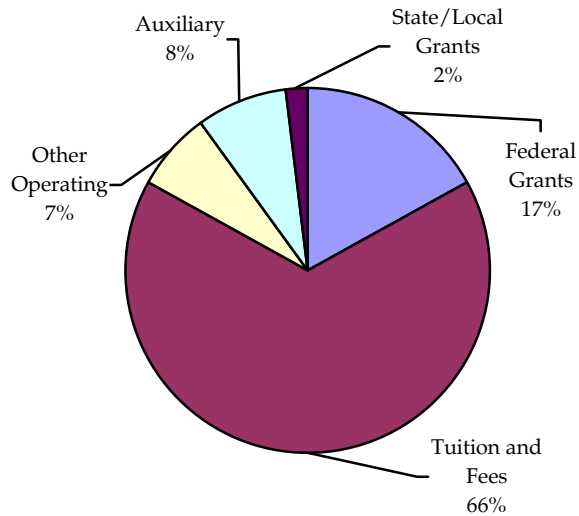
FINANCIAL ANALYSIS OF THE COLLEGE AS A WHOLE (Continued)

The breakdown of operating revenues and expenses for fiscal years ended June 30, 2012, 2011 and 2010 are as follows:

Operating Revenues 2012



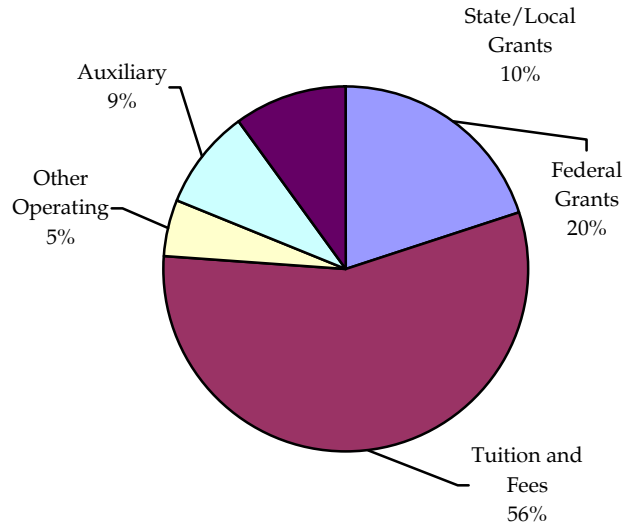
Operating Revenues 2011



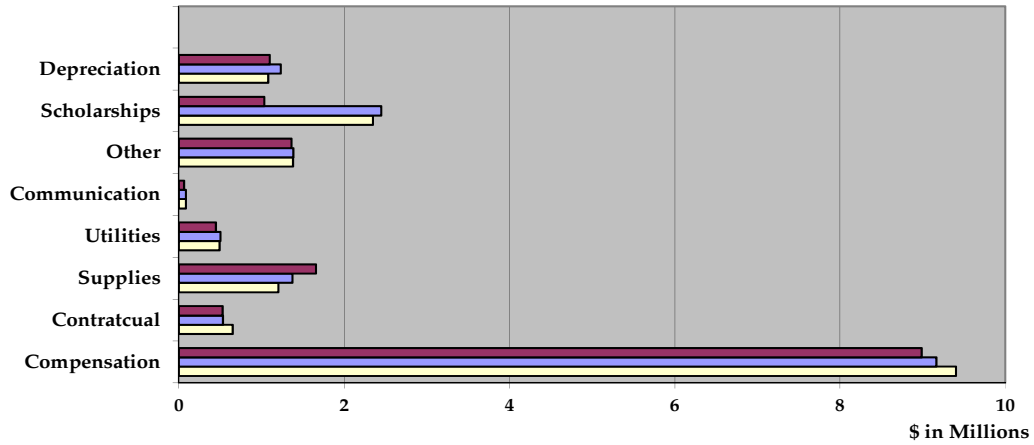
WESTERN OKLAHOMA STATE COLLEGE
Management's Discussion and Analysis (Continued)
Years Ended June 30, 2012, 2011 and 2010

FINANCIAL ANALYSIS OF THE COLLEGE AS A WHOLE (Continued)

Operating Revenues 2010



Operating Expenses



WESTERN OKLAHOMA STATE COLLEGE
Management's Discussion and Analysis (Continued)
Years Ended June 30, 2012, 2011 and 2010

FINANCIAL ANALYSIS OF THE COLLEGE AS A WHOLE (Continued)

Condensed Statement of Revenues, Expenses and Changes in Net Assets

	Years Ended June 30		Increase	Percent	Year Ended	Increase	Percent
	2012	2011	(Decrease)	Change	June 30	(Decrease)	Change
					2010		
Operating revenues:							
Tuition & Fees	\$ 5,686,345	\$ 4,844,905	\$ 841,440	17%	\$ 3,046,070	1,798,835	59%
Federal and state grants	1,128,244	1,415,208	(286,964)	-20%	1,612,957	(197,749)	-12%
Auxillary enterprise charges	532,122	605,326	(73,204)	-12%	483,724	121,602	25%
Other	365,510	499,438	(133,928)	-27%	264,362	235,076	89%
Total Operating Revenues	<u>7,712,221</u>	<u>7,364,877</u>	<u>347,344</u>	5%	<u>5,407,113</u>	<u>1,957,764</u>	36%
Less operating expenses	<u>16,646,100</u>	<u>16,723,362</u>	<u>(77,262)</u>	0%	<u>15,181,049</u>	<u>1,542,313</u>	10%
Net loss from operations	<u>(8,933,879)</u>	<u>(9,358,485)</u>	<u>424,606</u>	-5%	<u>(9,773,936)</u>	<u>415,451</u>	-4%
Nonoperating revenues							
(expenses):							
State appropriations	5,626,900	5,657,009	(30,109)	-1%	5,378,308	278,701	5%
State payments from federal ARRA	-	380,447	(380,447)	-100%	437,693	(57,246)	-13%
Federal grants and contracts	3,054,582	3,251,710	(197,128)	-6%	2,994,763	256,947	9%
State & local grants and contracts	373,969	366,950	7,019	2%	355,800	11,150	3%
On-behalf							
appropriations for OTRS	464,599	399,826	64,773	16%	342,859	56,967	17%
State Regents							
Endowment Contributions	21,962	66,117	(44,155)	-67%	80,641	(14,524)	-18%
Interest Revenue	18,194	11,933	6,261	52%	22,665	(10,732)	-47%
Interest Expense	(127,879)	(73,385)	(54,494)	74%	(227,689)	154,304	-68%
Net Nonoperating revenues	<u>9,432,327</u>	<u>10,060,607</u>	<u>(628,280)</u>	-6%	<u>9,385,040</u>	<u>675,567</u>	7%
Other revenues, expenses,							
and gains and losses							
Capital grants and gifts	16,684	322,271	(305,587)	-95%	118,495	203,776	172%
State appropriations restricted							
for capital purposes	432,367	458,988	(26,621)	-6%	467,266	(8,278)	-2%
On-behalf OCIA capital leases	55,980	-	55,980	100%	633,905	(633,905)	-100%
Total Other	<u>505,031</u>	<u>781,259</u>	<u>(276,228)</u>	-35%	<u>1,219,666</u>	<u>(438,407)</u>	-36%
Increase in net assets	1,003,479	1,483,381	(479,902)	-32%	830,770	652,611	79%
Net assets, beginning	<u>19,222,102</u>	<u>17,738,721</u>	<u>1,483,381</u>	8%	<u>16,907,951</u>	<u>830,770</u>	5%
Net assets, ending	<u>\$ 20,225,581</u>	<u>\$ 19,222,102</u>			<u>\$ 17,738,721</u>		

WESTERN OKLAHOMA STATE COLLEGE
Management's Discussion and Analysis (Continued)
Years Ended June 30, 2012, 2011 and 2010

FINANCIAL ANALYSIS OF THE COLLEGE AS A WHOLE (Continued)

June 30, 2012 compared to June 30, 2011 resulted in the following revenue and expense changes:

- Tuition & fees revenues increased by 17%. This increase is due to a combination of several factors. Collections of prior year receivables, for which the College had provided an allowance, exceeded management's estimates by approximately 12.23%, out-of-state waivers increased by \$855,558 (due to a 24.33% increase in out-of-state enrollment), and although tuition and fee rates increased by only 3% over the FY 11 fiscal year, total enrollment increased 2.59%. Auxiliary revenues decreased by 12%, which represents an increase of \$3,848 in Residence Hall and a decrease in student store of \$77,052. Federal and State Grants & Contracts experienced a decrease of 20%, due mostly to the absence of the onetime Congressionally-directed Grant funds received in FY 11 in the amount of \$205,271. The overall operating revenues increased by 5%, or \$347,344 over that of FY 11.
- Although state appropriations show a decrease of only 1%, the state payments from federal ARRA revenues had been completely eliminated. These funds were used in the years FY 10 and FY 11 to help alleviate the burden of the lost revenue on state agencies. However, in FY 12 this funding was no longer available, resulting in an overall decrease in state funding (including the ARRA funds) of approximately \$411,000.
- Interest revenue and expense both increased this year. The interest revenue increase by 52% this year due to a larger auxiliary fund balance invested for the year. The increase in the interest expense is attributed to the restructuring of the 2005 OCIA bond indebtedness. Payments made by OCIA on behalf of the College for the 2005 bonds were deferred to later years, so the interest paid for FY 11 represents mostly the deferred cost on the 2005 OCIA bond debt restructure. The interest payments resumed in FY 12 resulting in an increase of 74% from the previous year.
- The 95% decrease in the Capital grants and gifts represents a decrease in the the overall activity in the restricted fund, mostly in the federal grants and awards for scholarships.
- The on-behalf contributions to Oklahoma Teacher's Retirement System represent the amount of dedicated state revenue from the State's sales, use and income taxes that are used as contributions to the Oklahoma Teacher's Retirement Program (OTRS). For 2012, the State of Oklahoma contributed 5% of the State's General Revenue Fund to the OTRS on behalf of participating employers. The College has estimated the amounts contributed to the OTRS by the State on its behalf by multiplying the ratio of its covered salaries to total covered salaries for the OTRS for the year by the applicable percentage of taxes collected during the year. This amount was \$464,599 for FY 2012 and \$399,826 for FY 2011, which is a 16% increase, or \$64,773.
- On-behalf capital lease payments increased by \$55,980 from the prior. Due to the 2005 OCIA bond restructuring, all principal payments were deferred in FY 11 to later years. There were no principal payments to the OCIA 2005 bond indebtedness for FY2011, but a small payment of \$55,980 was made in FY12, resulting in the increase.

WESTERN OKLAHOMA STATE COLLEGE
Management's Discussion and Analysis (Continued)
Years Ended June 30, 2012, 2011 and 2010

FINANCIAL ANALYSIS OF THE COLLEGE AS A WHOLE (Continued)

June 30, 2011 compared to June 30, 2010 resulted in the following revenue and expense changes:

- Tuition & fees revenues increased by 59%. This increase is due to a combination of several factors. Collections of prior year receivables exceeded management's estimates by approximately 12.23%, out-of-state waivers increased by \$707,974 (due to a 18.19% increase in out-of-state enrollment), and although tuition and fee rates increased by only 3.2% over the FY 10 fiscal year, total enrollment increased 14.16%. Auxiliary revenues increased by 25%, which represents an increase of \$27,218 in Residence Hall and an increase in student store of \$94,384. Federal and State Grants & Contracts experienced a decrease of 12%, due mostly to the OSRHE Allied Health Grant that ended FY 10. The overall operating revenues increased by 36%, or \$1,957,764 over that of FY 10.
- Interest revenue and expense both declined this year. The interest revenue decreased by 47%, primarily caused by the elimination of the interest earned on the OCIA bond funds in previous years. These bond funds were fully spent by October 2009. The interest earnings on the OCIA bond funds were restricted to the projects that these funds support. The 68% decrease in the interest expense is attributed to the restructuring of the 2005 OCIA bond indebtedness. Payments made by OCIA on behalf of the College for the 2005 bonds were deferred to later years, so the interest paid for FY 11 represents the amortization of the deferred cost on the 2005 OCIA bond debt restructure.
- The \$203,776 increase in the Capital grants and gifts represents an increase in the overall activity in the restricted fund, primarily from federal grant awards for safety and security technology, nursing instructional equipment, and radiology program equipment.
- The on-behalf contributions to Oklahoma Teacher's Retirement System represent the amount of dedicated state revenue from the State's sales, use and income taxes that are used as contributions to the Oklahoma Teacher's Retirement Program (OTRS). For 2011, the State of Oklahoma contributed 5% of the State's General Revenue Fund to the OTRS on behalf of participating employers. The College has estimated the amounts contributed to the OTRS by the State on its behalf by multiplying the ratio of its covered salaries to total covered salaries for the OTRS for the year by the applicable percentage of taxes collected during the year. This amount was \$399,826 for FY 2011 and \$342,859 for FY 2010, which is a 17% increase, or \$56,967.
- On-behalf capital lease payments decreased by 100%, or \$633,905 less than previous year's numbers. Due to the 2005 OCIA bond restructuring, all principal payments have been deferred to later years. There were no principal payments to the OCIA 2005 bond indebtedness for FY2011.

WESTERN OKLAHOMA STATE COLLEGE
Management's Discussion and Analysis (Continued)
Years Ended June 30, 2012, 2011 and 2010

FINANCIAL ANALYSIS OF THE COLLEGE AS A WHOLE (Continued)

Another way to assess the financial health of an institution is to look at the Statement of Cash Flows. Its primary purpose is to provide relevant information about the cash receipts and cash payments of an entity during a period. The Statement of Cash Flows also helps users assess an entity's ability to generate future net cash flows, its ability to meet its obligations as they come due, and its needs for external financing.

	Cash Flows				
	Years Ended June 30		Increase	Year Ended	
	2012	2011	(Decrease)	June 30 2010	Increase (Decrease)
Cash provided (used) by:					
Operating activities	\$ (6,661,411)	\$ (8,388,786)	\$ 1,727,375	\$ (8,284,599)	\$ (104,187)
Noncapital					
financing activities	9,083,176	9,677,909	(594,733)	9,186,895	491,014
Capital and related	(151,695)	(25,908)	(125,787)	(503,854)	477,946
financing activities					
Investing activities	18,194	11,933	6,261	22,665	(10,732)
Net increase in cash and					
cash equivalents	2,288,264	1,275,148	1,013,116	421,107	854,041
Cash and cash equivalents,					
beginning	5,442,511	4,167,363	1,275,148	3,746,256	421,107
Cash and cash equivalents,					
ending	<u>\$ 7,730,775</u>	<u>\$ 5,442,511</u>	<u>\$ 2,288,264</u>	<u>\$ 4,167,363</u>	<u>\$ 1,275,148</u>

June 30, 2012 compared to June 30, 2011 resulted in the following cash flow changes:

The College's liquidity increased during the year. Cash used by operating activities decreased by approximately \$1,727,000 while cash provided by non-capital financing activities decreased due to a decrease of grants and contracts by approximately \$594,000. Cash provided by investing activities increased by approximately \$6,000. The net result of these items is an increase in cash by approximately \$2,288,000.

June 30, 2011 compared to June 30, 2010 resulted in the following cash flow changes:

The College's liquidity increased during the year. Cash used by operating activities increased by approximately \$104,000 while non-capital financing activities increased due to an increase of grants and contracts by approximately \$491,000. Cash provided by investing activities decreased by approximately \$11,000, which is represented by a decrease in interest income as a result of the elimination of interest earnings on the unexpended portion of the 2005 OCIA bond proceeds. The net result of these items is an increase in cash by approximately \$1,275,000.

WESTERN OKLAHOMA STATE COLLEGE
Management's Discussion and Analysis (Continued)
Years Ended June 30, 2012, 2011 and 2010

FINANCIAL ANALYSIS OF THE COLLEGE AS A WHOLE (Continued)

Although the Statement of Revenues, Expenses, and Changes in Net Assets shows an increase in total net assets of approximately \$1,003,000, this is representative of all funds combined. Management feels that it is important to point out the net change in fund balances for each individual fund. This is displayed below.

Summary of Changes in Net Assets by Fund

	Years Ended June 30		
	2012	2011	2010
Educational and General Fund	\$ 1,231,820	\$ 1,413,709	\$ 482,513
Auxiliary Fund	279,248	189,060	(320,504)
Restricted Fund	71,841	280,207	201,736
Unexpended Plant Fund	9,207	135,744	202,117
Capital Assets	(588,637)	(535,334)	264,908
Combined Total	<u>\$ 1,003,479</u>	<u>\$ 1,483,381</u>	<u>\$ 830,770</u>

In 2010, because of deficits in the restricted funds, the Unrestricted Educational and General Fund was reduced by \$12,135 in the College's Statement of Net Assets.

CAPITAL ASSETS AND DEBT ADMINISTRATION

CAPITAL ASSETS

At June 30, 2012, the College has \$17,137,020 invested in capital assets, net of accumulated depreciation of \$13,385,506. Depreciation charges totaled approximately \$1,081,614 for the current fiscal year, compared to \$1,232,008 for the previous fiscal year. Details of these assets for the three years are shown below.

	Years Ended June 30		
	2012	2011	2010
Land	\$ 230,453	\$ 212,345	\$ 212,345
Infrastructure	2,553,938	2,605,873	2,578,583
Land Improvements	913,975	962,790	993,141
Buildings	9,546,260	9,840,422	10,059,923
Furniture, Fixtures, and Equipment	2,177,388	2,352,674	2,643,712
Library Materials	1,697,066	1,720,431	1,709,625
Construction in Progress	17,940	-	-
	<u>\$ 17,137,020</u>	<u>\$ 17,694,535</u>	<u>\$ 18,197,329</u>

WESTERN OKLAHOMA STATE COLLEGE
Management's Discussion and Analysis (Continued)
Years Ended June 30, 2012, 2011 and 2010

CAPITAL ASSETS AND DEBT ADMINISTRATION (Continued)

CAPITAL ASSETS (Continued)

Planned capital expenditures for fiscal year ending June 2013 will be budgeted and paid through a combination of E & G fund reserves, Auxiliary fund reserves, funds financed for energy performance projects and from Section 13. Throughout the year there will be expenditures from other grant programs like Title IV, TANF, and institutional reserve funds.

Section 13 for fiscal year 2013 will expend approximately \$432,000 in new funds to include items such as dorm debt retirement payment - \$102,000 and Master Lease debt payment requirements - \$20,000; campus-wide computer technology equipment and software - \$200,000; new computer academic department requests - \$65,000; physical plant upgrades for HVAC, carpet & vehicles - \$45,000.

The College has contracted with an energy service company to perform an energy performance contract for approximately \$1,000,000. These projects include the retrofitting of many different HVAC units on campus that are fully obsolete and inefficient, lighting retrofits and vending machine meter regulators. These projects are fully guaranteed to generate enough savings for the life of the project to fully fund the investment. Approximately \$500,000 of the project will be paid from E & G and Auxiliary Fund reserves, with the remaining \$500,000 to be financed through the Western Oklahoma State College Foundation, Inc. This debt will be repaid over an eight year term at an interest rate of 3.0%.

DEBT

At June 30, 2012, the College had \$4,957,447 in debt outstanding, compared to \$4,996,030 reported June 30, 2011 and \$4,550,892 reported June 30, 2010. The table below summarizes these amounts by type for the current year and the previous two years.

Outstanding Debt

	Years Ended June 30		
	2012	2011	2010
OCIA 2005 Capital Lease Obligations	\$ 3,187,707	\$ 3,187,707	\$ 4,458,892
OCIA 2010 A&B Capital Lease Obligations	1,753,490	1,753,490	
ODFA 2007 Master Lease Obligations	16,250	54,833	92,000
	<u>\$ 4,957,447</u>	<u>\$ 4,996,030</u>	<u>\$ 4,550,892</u>

WESTERN OKLAHOMA STATE COLLEGE
Management's Discussion and Analysis (Continued)
Years Ended June 30, 2012, 2011 and 2010

CAPITAL ASSETS AND DEBT ADMINISTRATION (Continued)

DEBT (Continued)

In November 2005, the OCIA issued its OCIA Bond Issue 2005F Series. Of the total bond indebtedness, the State Regents for Higher Education allocated \$6,000,000 to the College. Concurrently with the allocation, the College entered into a lease agreement with OCIA for projects being funded by the OCIA bonds. This lease agreement provides for the College to make specified monthly payments to OCIA over 25 years. The proceeds of the bonds and subsequent leases are to provide for capital improvements at the College.

In August 2010, the College's 2005F lease agreement with the OCIA was restructured through a partial refunding of OCIA's 2005 bond debt. OCIA issued two new bonds, Series 2010A and 2010B. The College's lease agreements with OCIA secure the OCIA bond debt and any future debt that might be issued to refund earlier bond issues. OCIA issued this new debt to provide budgetary relief for fiscal years 2011 and 2012 by extending and restructuring debt service. Consequently, the College's lease agreement with OCIA automatically restructured to secure the new bond issues. The College has recorded a charge of \$482,305 on restructuring as a deferred cost that will be amortized over a period of 6 years. This restructuring resulted in an aggregate debt service difference for principal and interest between the original lease agreement and the restructured lease agreement of \$2,757,544 which is approximately the economic cost of the lease restructuring.

During the years ended June 30, 2012, 2011 and 2010, OCIA made lease principal and interest payments on behalf of the College totaling \$55,980, \$0, and \$633,905, respectively.

More detailed information about the College's outstanding debt is presented in Note E to the financial statements.

WESTERN OKLAHOMA STATE COLLEGE FOUNDATION, INC.

Western Oklahoma State College Foundation, Inc. (the Foundation) is a legally separate tax-exempt component unit of the College. The Foundation acts primarily as a fund-raising organization to supplement the resources that are available to the College in support of its programs. Although the College does not control the timing and amount of receipts from the Foundation, the majority of resources, or income thereon, which the Foundation holds and invests, is restricted to the activities of the College by the donors. Because these restricted resources held by the Foundation can only be used by, or for the benefit of, the College, the Foundation is considered a component unit for the College and is discretely presented in the College's financial statements.

WESTERN OKLAHOMA STATE COLLEGE
Management's Discussion and Analysis (Continued)
Years Ended June 30, 2012, 2011 and 2010

WESTERN OKLAHOMA STATE COLLEGE FOUNDATION, INC. (Continued)

The key components of the Foundation's Net Assets are as follows:

	2012	2011	2010
Unrestricted	\$ 1,068,103	\$ 927,387	\$ 809,916
Temporarily Restricted	262,960	266,469	260,243
Permanently Restricted	4,336,912	3,902,006	3,630,295

More detailed information on the Foundation can be found in the financial statements and in Note J to the financial statements.

ECONOMIC FACTORS THAT WILL AFFECT THE FUTURE

Western Oklahoma State College's economic stability and future growth are interwoven with the state's economic stability. Oklahoma shows signs of a gradual recovery from a recessionary period (2008-2011) with the economy presenting mixed signs that the state remains in the midst of economic recovery. On the one hand some state economic indicators are outpacing national economic indicators while other signs indicate continued slow economic growth.

Slow economic growth often translates into fewer dollars for legislative leaders to appropriate to state agencies. During FY 11, Oklahoma began to experience economic upturns after more than two years of economic downturns. In the two years preceding FY 11, Oklahoma experienced reduced revenue collections and had to decrease appropriations for all state agencies, including higher education. Additionally, FY 11 was the final year of the Federal ARRA revenues which allowed colleges and universities to supplement their state appropriations.

In FY 12, Western experienced an increase in state appropriations, yet the College's total appropriation decreased by 5.8% after calculating the loss of the Federal ARRA revenues. Currently FY 13 monthly targets in regard to receipt of state revenues are reaching the expectations of the Office of State Finance (OSF). As was the case in FY 12, Western and other state colleges have not been forced to make reductions to their FY 13 allocations; however recovery to pre-recession funding levels is expected to take a number of years. With the approval of its Board of Regents, Western was able to raise tuition in FY 11 (3.2%), FY 12 (5.5%) and FY 13 (5%) to help alleviate state reductions. Keeping tuition increases at minimal levels was an extremely important matter for Western's Board of Regents.

STATEMENTS OF NET ASSETS

WESTERN OKLAHOMA STATE COLLEGE

	June 30, 2012		June 30, 2011	
	Component Unit WOSC		Component Unit WOSC	
	WOSC	Foundation, Inc.	WOSC	Foundation, Inc.
ASSETS				
CURRENT ASSETS				
Cash and cash equivalents	\$ 7,439,484	\$ 547,315	\$ 5,168,052	\$ 458,838
Interest receivable	-	16,975	-	16,628
Accounts receivable, net of allowance for doubtful accounts	768,870	-	1,155,039	-
Inventories	205,210	-	309,819	-
TOTAL CURRENT ASSETS	8,413,564	564,290	6,632,910	475,466
NONCURRENT ASSETS				
Restricted cash and cash equivalents	291,291	-	274,459	-
Investments, net of allowance	-	4,774,529	-	4,357,782
Debt service reserve funds	197	-	592	-
Deferred cost on OCIA lease restructure	321,536	-	401,921	-
Other assets	-	85,000	-	85,000
Capital assets, net of accumulated depreciation	17,137,020	1,172,260	17,694,535	1,221,104
TOTAL NONCURRENT ASSETS	17,750,044	6,031,789	18,371,507	5,663,886
TOTAL ASSETS	\$ 26,163,608	\$ 6,596,079	\$ 25,004,417	\$ 6,139,352
LIABILITIES AND NET ASSETS				
CURRENT LIABILITIES				
Accounts payable	675,807	-	460,334	-
Accrued interest payable	-	3,104	-	3,490
Deposits held in custody for others	54,705	-	52,215	-
Accrued payroll	79,024	-	82,178	-
Accrued compensated absences	64,067	-	73,508	-
Current portion of noncurrent liabilities	16,250	120,000	38,583	115,000
Lease premium, net	106,977	-	118,050	-
TOTAL CURRENT LIABILITIES	996,830	123,104	824,868	118,490
NONCURRENT LIABILITIES, net of current portion				
Obligations under capital leases	4,941,197	-	4,957,447	-
Revenue bonds payable	-	805,000	-	925,000
TOTAL NONCURRENT LIABILITIES	4,941,197	805,000	4,957,447	925,000
TOTAL LIABILITIES	5,938,027	928,104	5,782,315	1,043,490
NET ASSETS				
Invested in capital assets, net of related debt	12,394,330	-	12,935,121	-
Restricted:				
Expendable				
Instruction, scholarships and other	339,913	262,960	268,072	266,469
Capital projects	288,242	-	326,881	-
Nonexpendable	-	4,336,912	-	3,902,006
Unrestricted	7,203,096	1,068,103	5,692,028	927,387
TOTAL NET ASSETS	20,225,581	5,667,975	19,222,102	5,095,862
TOTAL LIABILITIES AND NET ASSETS	\$ 26,163,608	\$ 6,596,079	\$ 25,004,417	\$ 6,139,352

See notes to financial statements.

STATEMENTS OF REVENUES, EXPENSES AND CHANGES IN NET ASSETS

WESTERN OKLAHOMA STATE COLLEGE

	Year Ended June 30, 2012		Year Ended June 30, 2011	
	Component Unit WOSC		Component Unit WOSC	
	WOSC	Foundation, Inc.	WOSC	Foundation, Inc.
OPERATING REVENUES				
Tuition and fees, net of scholarship discounts and allowances of \$4,445,000 and \$3,945,000 at June 30, 2012 and 2011, respectively	\$ 5,686,345	\$ -	\$ 4,844,905	\$ -
Federal grants and contracts	979,636	-	1,285,295	-
State and local grants and contracts	148,608	-	129,913	-
Student store, net of scholarship discounts and allowances of \$363,000 and \$433,000 at June 30, 2012 and 2011, respectively	427,758	-	504,810	-
Residence hall, net of scholarship discounts and allowances of \$81,000 and \$81,000 at June 30, 2012 and 2011, respectively	104,364	-	100,516	-
Other operating revenues	365,510	205,000	499,438	205,000
Contributions and donations	-	754,132	-	549,388
Interest and dividend income	-	115,292	-	90,655
Other investment income	-	-	-	24,040
Net realized and unrealized investment gains	-	(11,996)	-	20,006
TOTAL OPERATING REVENUES	7,712,221	1,062,428	7,364,877	889,089
OPERATING EXPENSES				
Compensation and employee benefits	9,404,580	-	9,165,610	-
Contractual services	652,385	38,457	531,043	41,096
Supplies and materials	1,203,994	-	1,374,985	-
Utilities	491,620	4,287	501,212	3,357
Communication	84,877	-	85,015	-
Bond interest expense	-	41,741	-	45,636
Other operating expenses	1,379,824	-	1,384,374	-
Scholarships and fellowships	2,347,206	356,986	2,449,115	354,748
Depreciation expense	1,081,614	48,844	1,232,008	48,844
TOTAL OPERATING EXPENSES	16,646,100	490,315	16,723,362	493,681
OPERATING INCOME (LOSS)	(8,933,879)	572,113	(9,358,485)	395,408
NONOPERATING REVENUES (EXPENSES)				
State appropriations	5,626,900	-	5,657,009	-
State payments from federal ARRA revenues	-	-	380,447	-
OTRS on-behalf contributions	464,599	-	399,826	-
Federal grants and contracts	3,054,582	-	3,251,710	-
State and local grants and contracts	373,969	-	366,950	-
Endowment contributions	21,962	-	66,117	-
Return on investments	18,194	-	11,933	-
Interest expense	(127,879)	-	(73,385)	-
NET NONOPERATING REVENUES	9,432,327	-	10,060,607	-
Income before other revenues, expenses, gains, or losses	498,448	572,113	702,122	395,408
Capital grants and gifts	16,684	-	322,271	-
State appropriations restricted for capital purposes	432,367	-	458,988	-
On-behalf payments for OCIA capital leases	55,980	-	-	-
CHANGE IN NET ASSETS	1,003,479	572,113	1,483,381	395,408
NET ASSETS, BEGINNING OF YEAR	19,222,102	5,095,862	17,738,721	4,700,454
NET ASSETS, END OF YEAR	\$ 20,225,581	\$ 5,667,975	\$ 19,222,102	\$ 5,095,862

See notes to financial statements.

STATEMENTS OF CASH FLOWS

WESTERN OKLAHOMA STATE COLLEGE

	Years Ended June 30	
	2012	2011
CASH FLOWS FROM OPERATING ACTIVITIES		
Tuition and fees	\$ 5,518,009	\$ 4,750,198
Grants and contracts	1,482,215	1,122,720
Student store	476,915	385,226
Residence hall	104,364	100,516
Other operating receipts	511,124	561,871
Payments to employees for salaries and benefits	(8,952,575)	(8,760,246)
Payments to suppliers	(5,801,463)	(6,549,071)
NET CASH USED IN OPERATING ACTIVITIES	<u>(6,661,411)</u>	<u>(8,388,786)</u>
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES		
State appropriations	5,626,900	5,657,009
State payments from federal ARRA revenues	-	380,447
Grants and contracts	3,428,551	3,618,660
Direct Loans received	2,422,845	2,295,800
Direct Loans disbursed	(2,422,845)	(2,295,800)
Gifts for other than capital purposes	27,725	21,793
NET CASH PROVIDED BY NONCAPITAL FINANCING ACTIVITIES	<u>9,083,176</u>	<u>9,677,909</u>
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES		
Cash paid for capital assets	(543,294)	(444,049)
Capital appropriations received	432,367	458,988
Interest paid on capital debt and leases	(2,185)	(84,064)
Proceeds from capital leases	-	1,351,569
Repayments of capital debt and leases	(38,583)	(1,308,352)
NET CASH USED IN CAPITAL AND RELATED FINANCING ACTIVITIES	<u>(151,695)</u>	<u>(25,908)</u>
CASH FLOWS FROM INVESTING ACTIVITIES		
Interest income	18,194	11,933
NET CASH PROVIDED BY INVESTING ACTIVITIES	<u>18,194</u>	<u>11,933</u>
NET INCREASE IN CASH AND CASH EQUIVALENTS	2,288,264	1,275,148
CASH AND CASH EQUIVALENTS, BEGINNING OF YEAR	<u>5,442,511</u>	<u>4,167,363</u>
CASH AND CASH EQUIVALENTS, END OF YEAR	<u>\$ 7,730,775</u>	<u>\$ 5,442,511</u>

See notes to financial statements.

STATEMENTS OF CASH FLOWS--Continued

WESTERN OKLAHOMA STATE COLLEGE

	Years Ended June 30	
	<u>2012</u>	<u>2011</u>
RECONCILIATION OF OPERATING LOSS TO CASH USED IN OPERATING ACTIVITIES		
Operating loss	\$ (8,933,879)	\$ (9,358,485)
Adjustments to reconcile operating loss to net cash used by operating activities:		
Depreciation expense	1,081,614	1,232,008
Loss on disposal of capital assets	35,879	37,106
On-behalf contributions to Oklahoma Teachers' Retirement System	464,599	399,826
Changes in assets and liabilities:		
Accounts receivable	380,406	(444,346)
Inventories	104,609	(116,407)
Accounts payable and accrued expenses	214,802	(140,918)
Accrued compensated absences	(9,441)	2,430
NET CASH USED IN OPERATING ACTIVITIES	<u>\$ (6,661,411)</u>	<u>\$ (8,388,786)</u>
NONCASH CAPITAL AND RELATED FINANCING ITEMS		
On-behalf principal and interest paid by OCIA	\$ 55,980	\$ -
Contribution of capital assets	16,684	322,271
Deferred cost on OCIA lease restructure	-	401,921
Amortization of deferred cost	80,385	-
Amortization of bond issuance cost	395	394
Amortization of lease premium	(11,073)	(11,073)
RECONCILIATION OF CASH AND CASH EQUIVALENTS TO THE STATEMENTS OF NET ASSETS		
Current assets:		
Cash and cash equivalents	\$ 7,439,484	\$ 5,168,052
Noncurrent assets:		
Restricted cash and cash equivalents	<u>291,291</u>	<u>274,459</u>
	<u>\$ 7,730,775</u>	<u>\$ 5,442,511</u>

See notes to financial statements.

NOTES TO FINANCIAL STATEMENTS

WESTERN OKLAHOMA STATE COLLEGE

June 30, 2012

NOTE A--SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Nature of Operations: Western Oklahoma State College (the "College") is a two-year state supported college, located in Altus, Oklahoma, operating under the jurisdiction of the Board of Regents of Western Oklahoma State College and the Oklahoma State Regents for Higher Education. The College is accredited by the North Central Association of Colleges and Schools. The College is a component unit of the State of Oklahoma and is included in the general-purpose financial statements of the State of Oklahoma.

Reporting Entity: The financial reporting entity, as defined by Governmental Accounting Standards Board ("GASB") Statement No. 14, *The Financial Reporting Entity*, includes the accounts and funds of the College.

The Western Oklahoma State College Foundation, Inc. (the "Foundation") is a legally separate tax-exempt component unit of the College. The Foundation acts primarily as a fund-raising organization to supplement the resources that are available to the College in support of its programs. The eleven member board of trustees of the Foundation is self-perpetuating and consists of nine rotating board members, one permanent trustee, and one non-voting ex officio board member. Although the College does not control the timing and amount of receipts from the Foundation, the majority of resources, or income thereon that the Foundation holds and invests are restricted to the activities of the College by the donors. Because these restricted resources held by the Foundation can only be used by, or for the benefit of the College, the Foundation is considered a component unit of the College and is discretely presented in the College's financial statements as required by GASB Statement No. 39, *Determining Whether Certain Organizations are Component Units*.

During the years ended June 30, 2012 and 2011, respectively, the Foundation distributed \$195,712 and \$201,887 in support to the College for both restricted and unrestricted purposes. Complete financial statements for the Foundation can be obtained from Western Oklahoma State College Foundation, Inc., 2801 North Main Street, Altus, Oklahoma 73521.

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

NOTES TO FINANCIAL STATEMENTS--Continued

WESTERN OKLAHOMA STATE COLLEGE

June 30, 2012

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

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

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

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

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

Inventories: Inventories consist of books and supplies held for resale at the bookstore, which are valued at the lower of cost (first-in, first-out basis) or market.

Accounts Receivable: Accounts receivable consists of tuition and fee charges to students and to auxiliary enterprise services provided to students, faculty and staff, the majority of each residing in the State of Oklahoma. Student accounts receivable are carried at the unpaid balance of the original amount billed to students, less an estimate made for doubtful accounts based on a review of all outstanding amounts. Management determines the allowance for doubtful accounts by identifying troubled accounts and by using historical experience applied to an aging of accounts. Student accounts receivable are written off for financial reporting purposes when deemed uncollectible. Recoveries of student accounts receivable previously written off are credited to the allowance for doubtful accounts when received. A student account receivable is considered to be past due if any portion of the receivable balance is outstanding after the end of the semester.

NOTES TO FINANCIAL STATEMENTS--Continued

WESTERN OKLAHOMA STATE COLLEGE

June 30, 2012

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

Accounts Receivable--Continued: Accounts receivables also includes amounts due from federal, state and local governments, or private sources, in connection with reimbursement of allowable expenditures made pursuant to the College's grants and contracts, and distributable income from the State Regents for Higher Education. No allowance for doubtful accounts has been provided for other receivables.

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

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

Depreciation is computed using the straight-line method over the estimated useful lives of the assets, generally 50 years for buildings, 25-50 years for infrastructure and land improvements, and 7 to 20 years for library materials and equipment. Depreciation expense includes amortization of assets held under capital lease obligations.

Compensated Absences: Employee vacation pay is accrued when earned by employees. The liability and expense incurred are recorded at year-end as accrued expenses in the statements of net assets, and as a component of compensation expense in the statements of revenues, expenses, and change in net assets.

Noncurrent Liabilities: Noncurrent liabilities include principal amounts of capital lease obligations with contractual maturities greater than one year.

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

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

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

NOTES TO FINANCIAL STATEMENTS--Continued

WESTERN OKLAHOMA STATE COLLEGE

June 30, 2012

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

Net Assets--Continued:

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

The College's unrestricted net assets were designated for the following purposes at June 30:

	<u>2012</u>	<u>2011</u>
Educational and general operations	\$ 4,981,956	\$ 3,750,135
Auxiliary enterprises and other operating activities	<u>2,221,140</u>	<u>1,941,893</u>
Total unrestricted net assets	<u>\$ 7,203,096</u>	<u>\$ 5,692,028</u>

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

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

Operating Revenues: Operating revenues include activities that have the characteristics of exchange transactions, such as (1) student tuition and fees, net of scholarship discounts and allowances, (2) sales and services of auxiliary enterprises, net of scholarship discounts and allowances, and (3) certain 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, certain governmental and other pass-through grants, and investment income.

NOTES TO FINANCIAL STATEMENTS--Continued

WESTERN OKLAHOMA STATE COLLEGE

June 30, 2012

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

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

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

Use of Estimates: The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

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.

NOTE B--DEPOSITS AND INVESTMENTS

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

NOTES TO FINANCIAL STATEMENTS--Continued

WESTERN OKLAHOMA STATE COLLEGE

June 30, 2012

NOTE B--DEPOSITS AND INVESTMENTS

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

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

At June 30, 2012 and 2011, the bank balances of all College deposits with the OST and other financial institutions were \$7,696,903 and \$5,260,042, respectively. Of funds on deposit with the OST, amounts invested in *OK INVEST* total \$1,311,018 in 2012 and \$548,284 in 2011.

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

At June 30, 2012		
<u>OK INVEST Portfolio</u>	<u>Cost</u>	<u>Market Value</u>
U.S. agency securities	\$ 463,512	\$ 464,874
Money market mutual fund	179,453	179,453
Certificates of Deposit	42,345	42,345
Mortgage Backed Agency Securities	578,663	614,806
Municipal Bonds	23,515	26,828
Foreign Bonds	6,597	6,597
U.S. treasury obligations	16,933	21,125
Totals	<u>\$ 1,311,018</u>	<u>\$ 1,356,028</u>

NOTES TO FINANCIAL STATEMENTS--Continued

WESTERN OKLAHOMA STATE COLLEGE

June 30, 2012

NOTE B--DEPOSITS AND INVESTMENTS--Continued

Deposits--Continued:

At June 30, 2011		
<u>OK INVEST Portfolio</u>	<u>Cost</u>	<u>Market Value</u>
U.S. agency securities	\$ 200,252	\$ 201,858
Money market mutual fund	60,281	60,281
Certificates of Deposit	25,888	25,888
Tri-party repurchase agreements	36,999	36,999
Mortgage Backed Agency Securities	198,891	207,674
Municipal Bonds	10,928	11,834
Foreign Bonds	2,039	2,039
Commercial Paper	5,096	5,096
U.S. treasury obligations	7,910	9,373
Totals	<u>\$ 548,284</u>	<u>\$ 561,042</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 statues and the OST establish the primary objectives and guidelines governing the investment of funds in *OK INVEST*. Safety, liquidity, and return on investment are the objectives which establish the framework for the day to day *OK INVEST* management with an emphasis on safety of the capital and the probable income to be derived and meeting the State and it's 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 investments in securities with an overnight maturity as well as in U.S. government securities with a maturity of up to ten years. *OK INVEST* maintains an overall weighted average maturity of no more than four years. Participants in *OK INVEST* maintain an interest in its underlying investments and, accordingly, may be exposed to certain risks. As stated in the OST information statement, the main risks are interest rate risk, credit/default risk, liquidity risk, and U.S. government securities risk.

NOTES TO FINANCIAL STATEMENTS--Continued

WESTERN OKLAHOMA STATE COLLEGE

June 30, 2012

NOTE B--DEPOSITS AND INVESTMENTS--Continued

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

Interest Rate Risk: At June 30, 2012, the College does not have any investments. The College does not have a formal policy that limits investment maturities as a means of managing its exposure to fair value losses arising from increasing interest rates.

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

NOTE C--ACCOUNTS RECEIVABLE

Accounts receivable consist of the following at June 30:

	2012	2011
Student tuition and fees	\$ 978,231	\$ 809,895
Auxillary enterprises and other operating activities	100,995	150,152
Contributions and gifts	153,967	159,730
Federal, state, and private grants and contracts	257,047	611,018
	1,490,240	1,730,795
Less allowance for doubtful accounts	(721,370)	(575,756)
Accounts receivable, net of allowance for doubtful accounts	\$ 768,870	\$ 1,155,039

NOTES TO FINANCIAL STATEMENTS--Continued

WESTERN OKLAHOMA STATE COLLEGE

June 30, 2012

NOTE D--CAPITAL ASSETS

Following are the changes in capital assets for the years ended June 30, 2012 and 2011:

	Year Ended June 30, 2012				Ending Balance
	Beginning Balance	Additions	Transfers	Retirements	
Capital assets not being depreciated					
Land	212,345	18,108	-	-	230,453
Total capital assets not being depreciated	<u>\$ 212,345</u>	<u>\$ 18,108</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 230,453</u>
Other capital assets					
Non-major infrastructure networks	\$ 3,141,211	\$ 11,112	\$ -	\$ -	\$ 3,152,323
Land improvements	1,907,834	-	-	-	1,907,834
Buildings	15,563,334	17,454	-	-	15,580,788
Furniture, fixtures, and equipment	7,858,763	469,412	-	(701,766)	7,626,409
Library materials	1,994,536	25,952	-	(13,709)	2,006,779
Construction in progress	-	17,940	-	-	17,940
Total other capital assets	<u>30,465,678</u>	<u>541,870</u>	<u>-</u>	<u>(715,475)</u>	<u>30,292,073</u>
Less accumulated depreciation					
Non-major infrastructure networks	535,338	63,047	-	-	598,385
Land improvements	945,044	48,815	-	-	993,859
Buildings	5,722,912	311,616	-	-	6,034,528
Furniture, fixtures and equipment	5,506,089	621,815	-	(678,883)	5,449,021
Library materials	274,105	36,321	-	(713)	309,713
Total accumulated depreciation	<u>12,983,488</u>	<u>1,081,614</u>	<u>-</u>	<u>(679,596)</u>	<u>13,385,506</u>
Other capital assets, net	<u>\$ 17,482,190</u>	<u>\$ (539,744)</u>	<u>\$ -</u>	<u>\$ (35,879)</u>	<u>\$ 16,906,567</u>
Capital asset summary					
Capital assets not being depreciated	\$ 212,345	\$ 18,108	\$ -	\$ -	\$ 230,453
Other capital assets	<u>30,465,678</u>	<u>541,870</u>	<u>-</u>	<u>(715,475)</u>	<u>30,292,073</u>
Total capital assets	30,678,023	559,978	-	(715,475)	30,522,526
Less accumulated depreciation	<u>12,983,488</u>	<u>1,081,614</u>	<u>-</u>	<u>(679,596)</u>	<u>13,385,506</u>
Capital assets, net	<u>\$ 17,694,535</u>	<u>\$ (521,636)</u>	<u>\$ -</u>	<u>\$ (35,879)</u>	<u>\$ 17,137,020</u>

NOTES TO FINANCIAL STATEMENTS--Continued

WESTERN OKLAHOMA STATE COLLEGE

June 30, 2012

NOTE D--CAPITAL ASSETS--Continued

	Year Ended June 30, 2011				Ending Balance
	Beginning Balance	Additions	Transfers	Retirements	
Capital assets not being depreciated					
Land	212,345	-	-	-	212,345
Total capital assets not being depreciated	<u>\$ 212,345</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 212,345</u>
Other capital assets					
Non-major infrastructure networks	\$ 3,053,737	\$ 104,395	\$ -	\$ (16,921)	\$ 3,141,211
Land improvements	1,887,129	20,705	-	-	1,907,834
Buildings	15,471,959	93,329	-	(1,954)	15,563,334
Furniture, fixtures, and equipment	7,438,168	494,035	-	(73,440)	7,858,763
Library materials	1,949,683	53,856	-	(9,003)	1,994,536
Total other capital assets	<u>29,800,676</u>	<u>766,320</u>	<u>-</u>	<u>(101,318)</u>	<u>30,465,678</u>
Less accumulated depreciation					
Non-major infrastructure networks	475,154	62,824	-	(2,640)	535,338
Land improvements	893,988	51,056	-	-	945,044
Buildings	5,412,036	311,267	-	(391)	5,722,912
Furniture, fixtures and equipment	4,794,456	772,299	-	(60,666)	5,506,089
Library materials	240,058	34,562	-	(515)	274,105
Total accumulated depreciation	<u>11,815,692</u>	<u>1,232,008</u>	<u>-</u>	<u>(64,212)</u>	<u>12,983,488</u>
Other capital assets, net	<u>\$ 17,984,984</u>	<u>\$ (465,688)</u>	<u>\$ -</u>	<u>\$ (37,106)</u>	<u>\$ 17,482,190</u>
Capital asset summary					
Capital assets not being depreciated	\$ 212,345	\$ -	\$ -	\$ -	\$ 212,345
Other capital assets	29,800,676	766,320	-	(101,318)	30,465,678
Total capital assets	30,013,021	766,320	-	(101,318)	30,678,023
Less accumulated depreciation	11,815,692	1,232,008	-	(64,212)	12,983,488
Capital assets, net	<u>\$ 18,197,329</u>	<u>\$ (465,688)</u>	<u>\$ -</u>	<u>\$ (37,106)</u>	<u>\$ 17,694,535</u>

NOTES TO FINANCIAL STATEMENTS--Continued

WESTERN OKLAHOMA STATE COLLEGE

June 30, 2012

NOTE D--CAPITAL ASSETS--Continued

The cost and related accumulated depreciation of assets held under capital lease obligations was as follows at June 30:

	2012				
	<u>Buildings</u>	<u>Equipment</u>	<u>Land Improvements</u>	<u>Construction in Progress</u>	<u>Total</u>
Cost	\$ 3,524,754	\$ 1,167,520	\$ 1,692,189	\$ 761,047	\$ 7,145,510
Less accumulated depreciation	<u>240,621</u>	<u>916,218</u>	<u>101,531</u>	<u>159,972</u>	<u>1,418,342</u>
	<u>\$ 3,284,133</u>	<u>\$ 251,302</u>	<u>\$ 1,590,658</u>	<u>\$ 601,075</u>	<u>\$ 5,727,168</u>

	2011				
	<u>Buildings</u>	<u>Equipment</u>	<u>Land Improvements</u>	<u>Construction in Progress</u>	<u>Total</u>
Cost	\$ 3,524,754	\$ 1,167,520	\$ 1,692,189	\$ 761,047	\$ 7,145,510
Less accumulated depreciation	<u>170,126</u>	<u>799,438</u>	<u>67,688</u>	<u>138,602</u>	<u>1,175,854</u>
	<u>\$ 3,354,628</u>	<u>\$ 368,082</u>	<u>\$ 1,624,501</u>	<u>\$ 622,445</u>	<u>\$ 5,969,656</u>

NOTE E--NONCURRENT LIABILITIES

Noncurrent liability activity for the College was as follows for the years ended June 30:

	2012				
	<u>Balance at June 30, 2011</u>	<u>Additions</u>	<u>Reductions</u>	<u>Balance at June 30, 2012</u>	<u>Amounts Due Within One Year</u>
Capital lease obligations					
OCIA 2005F capital lease obligations	3,187,707	-	-	3,187,707	-
OCIA 2010 A&B capital lease obligations	1,753,490	-	-	1,753,490	-
ODFA 2007 master lease obligations	<u>54,833</u>	<u>-</u>	<u>(38,583)</u>	<u>16,250</u>	<u>16,250</u>
Total capital lease obligations	4,996,030	-	(38,583)	4,957,447	16,250
Other noncurrent obligations					
Compensated absences	<u>73,508</u>	<u>118,979</u>	<u>(128,420)</u>	<u>64,067</u>	<u>64,067</u>
Total noncurrent liabilities	<u>\$ 5,069,538</u>	<u>\$ 118,979</u>	<u>\$ (167,003)</u>	<u>\$ 5,021,514</u>	<u>\$ 80,317</u>

NOTES TO FINANCIAL STATEMENTS--Continued

WESTERN OKLAHOMA STATE COLLEGE

June 30, 2012

NOTE E--NONCURRENT LIABILITIES--Continued

	2011			Balance at June 30, 2011	Amounts Due Within One Year
	Balance at June 30, 2010	Additions	Reductions		
Capital lease obligations					
OCIA 2005F capital lease obligations	4,458,892	-	(1,271,185)	3,187,707	-
OCIA 2010 A&B capital lease obligations	-	1,753,490		1,753,490	-
ODFA 2007 master lease obligations	92,000	-	(37,167)	54,833	38,583
Total capital lease obligations	4,550,892	1,753,490	(1,308,352)	4,996,030	38,583
Other noncurrent obligations					
Compensated absences	71,078	115,816	(113,386)	73,508	73,508
Total noncurrent liabilities	\$ 4,621,970	\$ 1,869,306	\$ (1,421,738)	\$ 5,069,538	\$ 112,091

Oklahoma Capital Improvement Authority Lease Obligations: In November 2005, the OCIA issued its OCIA Bond Issue 2005F Series. Of the total bond indebtedness, the State Regents for Higher Education allocated \$6,000,000 to the College. Concurrently with the allocation, the College entered into a lease agreement with OCIA for projects being funded by the OCIA bonds. Each of the agreements provides for the College to make specified monthly payments to OCIA over 10 years. The proceeds of the bonds and subsequent leases are to provide for capital improvements at the College.

In August 2010, the College's 2005F lease agreement with the OCIA was restructured through a partial refunding of OCIA's 2005F bond debt. OCIA issued two new bonds, Series 2010A and 2010B. The College's lease agreements with OCIA secure the OCIA bond debt and any future debt that might be issued to refund earlier bond issues. OCIA issued this new debt to provide budgetary relief for fiscal years 2011 and 2012 by extending and restructuring debt service. Consequently, the College's lease agreement with OCIA automatically restructured to secure the new bond issues. This lease restructuring has extended certain principal payments into the future, resulting in a charge or cost on restructuring. In FY 2011, the College recorded a deferred charge of \$482,305 on restructuring as a deferred cost that will be amortized over a period of 6 years. During the year ended June 30, 2012, amortization of the deferred charge was \$80,385.

During the years ended June 30, 2012 and 2011, OCIA made principal and interest payments totaling \$55,980 and \$0, respectively, on behalf of the College. These on-behalf payments have been recorded as restricted state appropriations in the College's statements of revenues, expenses, and changes in net assets.

NOTES TO FINANCIAL STATEMENTS--Continued

WESTERN OKLAHOMA STATE COLLEGE

June 30, 2012

NOTE E--NONCURRENT LIABILITIES--Continued

Oklahoma Development Finance Authority Master Lease Program: In 2007, the Oklahoma Development Finance Authority ("ODFA") issued the Oklahoma State System of Higher Education Master Lease Revenue Bonds, Series 2007. Of the total bond indebtedness, the State Regents for Higher Education allocated \$181,000 to the College. The proceeds of the bonds are to provide for capital improvements at the College.

Future minimum lease payments related to the College's obligations under its various capital lease obligations are as follows:

Year Ending June 30:	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2013	16,250	65,720	81,970
2014	171,901	245,601	417,502
2015	473,485	237,155	710,640
2016	488,820	223,398	712,218
2017	426,320	184,529	610,849
2018-2022	919,986	678,609	1,598,595
2023-2027	1,233,423	495,997	1,729,420
2028-2032	1,227,262	156,252	1,383,514
Total	<u>\$ 4,957,447</u>	<u>\$ 2,287,261</u>	<u>\$ 7,244,708</u>

NOTE F--RETIREMENT PLAN

The College's academic and nonacademic personnel are covered by the Oklahoma Teachers' Retirement System, which is a State of Oklahoma public employees retirement system. The College does not maintain the accounting records, hold the investments for, or administer this plan.

Oklahoma Teachers' Retirement System

Plan Description: The College 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 plan provides for benefits upon disability and to survivors upon the death of eligible members. The benefit provisions are established and may be amended by the legislature of the State of Oklahoma. Title 70 of the Oklahoma Statutes, Sections 17-101 through 17-120, assigns the authority for management and operation of the plan to the Board of Trustees of OTRS. The 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.

NOTES TO FINANCIAL STATEMENTS--Continued

WESTERN OKLAHOMA STATE COLLEGE

June 30, 2012

NOTE F--RETIREMENT PLAN--Continued

Oklahoma Teachers' Retirement System--Continued

Funding Policy: The College is required to contribute a fixed percentage of annual compensation on behalf of active members. The employer contribution rate of 9.5% in fiscal year 2012, is applied to annual compensation, and is determined by state statute. The contribution rate was 9.5% in fiscal year 2011 and 9%-9.5% in fiscal year 2010.

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, respectively. These contributions were made directly by the College for 2012, 2011 and 2010.

The College's contributions to the OTRS for the years ended June 30, 2012, 2011 and 2010 were approximately \$1,017,000, \$999,000 and \$971,000, respectively. These contributions included the College's statutory contribution and the share of the employees' contributions paid directly by the College.

The State of Oklahoma is also required to contribute to the OTRS on behalf of the participating employers. For 2012, the State of Oklahoma contributed 5% of state revenues from sales and use taxes and individual income taxes, to the OTRS on behalf of participating employers.

The College has estimated the amounts contributed to the OTRS by the State of Oklahoma on its behalf by multiplying the ratio of its covered salaries to total covered salaries for the OTRS for the year by the applicable percentage of taxes collected during the year. For the years ended June 30, 2012 and 2011, the total amounts contributed to the OTRS by the State of Oklahoma on behalf of the College were approximately \$465,000 and \$400,000, respectively. These on-behalf payments have been recorded as nonoperating revenues and operating expenses in the statements of revenues, expenses, and changes in net assets.

NOTE G--FUNDS HELD IN TRUST BY OTHERS

Oklahoma State Regents' Endowment Trust Funds

In connection with the Oklahoma State Regents' Endowment Program (the "Endowment Program"), funds are invested by the Oklahoma State Regents on behalf of the College. These funds are not recognized in the College's statement of net assets. At June 30, 2012 and 2011, the funds totaled approximately \$641,000 and \$632,000, respectively. The College is entitled to receive an annual distribution of earnings on these funds. Distributions to be received totaled approximately \$26,000 at June 30, 2012 and 2011.

NOTES TO FINANCIAL STATEMENTS--Continued

WESTERN OKLAHOMA STATE COLLEGE

June 30, 2012

NOTE H--RELATED PARTY TRANSACTIONS

The College is the beneficiary of the Western Oklahoma State College Foundation, Inc. (the "Foundation"), which provides support for the College by way of scholarships and other direct resources. The College contracts with the Foundation to provide limited services and office space in exchange for the support the College receives. The College provides support to the Foundation through employee services and office space.

In July 1998, the Foundation issued revenue bonds through the Jackson County Public Finance Authority to construct a student housing facility (the "Housing Facility") on property owned by the College. Concurrently with the issuance of these bonds, the College entered into a Lease and Development Agreement (the "Lease Agreement") and an Operations and Maintenance Agreement (the "Operation Agreement"). In connection with the Lease Agreement, the College agreed to pay a development fee to the Foundation, and further agreed to rent the real property upon which the Housing Facility was to be constructed. The term of the lease agreement was for 50 years beginning July 1, 1998, and provided for the Foundation to pay the College \$100 per year in rent expense.

The Operation Agreement provided that the College would be responsible for the management and operations of the Housing Facility, and in exchange for the services provided by the College to the Foundation, the Foundation would pay the College the sum of \$925 per semester for each student residing in the Housing Facility. The Operations Agreement automatically renewed each fiscal year but could be terminated by the College or the Foundation. In connection with the Operations Agreement, the College's Board of Regents had verbally agreed to incur the expenses and debt service in excess of revenues collected. The agreement was reviewed annually by the College, and was subject to Board approval for future years. Effective July 1, 2002, the Operations Agreement was terminated.

NOTE I--COMMITMENTS AND CONTINGENCIES

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

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

NOTES TO FINANCIAL STATEMENTS--Continued

WESTERN OKLAHOMA STATE COLLEGE

June 30, 2012

NOTE J--WESTERN OKLAHOMA STATE COLLEGE FOUNDATION, INC.

The following are significant disclosures of the Foundation:

DESCRIPTION OF THE ENTITY AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Nature of Operations: Western Oklahoma State College Foundation, Inc., a nonprofit organization, was formed in 1974 for the benefit of Western Oklahoma State College (the College) in aid of charitable, benevolent educational, scientific and literary purposes. The purposes of the Foundation are strengthened by the worthy accomplishments that are a part of the history of the Foundation. The role of the Foundation is to provide the financial support that will enable the College to achieve expanded goals and fulfill higher purposes that otherwise are not possible on limited funding. The Foundation leaders recognize the potential for the Foundation and realize greater support can be attained for the College as it reaches increasingly significant levels of educational leadership. The Foundation seeks continuous support from individuals, business firms, corporations, civic groups, foundations, service organizations and bequests of wills. As the Foundation grows, the College educational programs grow. The Foundation provides a variety of opportunities to share in the future development of the College and its continuing *Commitment to Excellence*.

Significant accounting and reporting policies applied in the preparation of the accompanying financial statements are as follows:

Basis of Accounting: The Foundation uses the accrual basis of accounting, whereby revenues are recognized when earned and expenses when incurred. Expenses incurred but not paid are represented by a liability on the statement of financial position. Other revenues are recognized when received or earned. Net assets represent the cumulative excess of revenues recognized over expenses incurred.

Financial Statement Presentation: The financial statement presentation follows the guidance of ASC 958-205, "Financial Statements of Not-for-Profit Organizations." Under ASC 958-205, the Foundation is required to report information regarding its financial position and activities according to three classes of net assets: unrestricted, temporarily restricted, and permanently restricted. In addition, the Foundation is required to present a statement of cash flows. The Foundation reports information regarding its financial position and changes in net assets according to the three classes of net assets based on the existence or absence of donor-imposed restrictions, as follows: unrestricted net assets consist of expendable amounts available to support the Foundation's operations and objectives; temporarily restricted net assets consist of amounts which have been temporarily restricted by donors for specific purposes or time periods; and permanently restricted net assets consist of amounts required to be maintained by the Foundation, with income generated by such amounts available to support general or specific purposes.

NOTES TO FINANCIAL STATEMENTS--Continued

WESTERN OKLAHOMA STATE COLLEGE

June 30, 2012

NOTE J--WESTERN OKLAHOMA STATE COLLEGE FOUNDATION, INC.--Continued

DESCRIPTION OF THE ENTITY AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES--Continued

Revenue Recognition and Support: The Foundation reports gifts of cash and other assets as unrestricted contributions unless they are received with donor stipulations that limit the use of the asset. In the case that a donor restriction expires, through the passage of time or when the stipulated purpose is accomplished, temporarily restricted net assets are reclassified as unrestricted and reported as net assets released from restrictions. Donor restricted net assets whose stipulations are met within the same year as the reporting period are reflected as unrestricted net assets in the statement of activities.

Contributions received under endowment agreements, where donors have restricted the use of income received from the assets, are reported as increases in permanently restricted net assets. Income and realized or unrealized gains that is not donor restricted are reported as increases in unrestricted net assets in the statement of activities.

Fair Value Measurements: The Foundation follows the ASC Topic 820, Fair Value Measurements and Disclosures, with respect to financial assets and liabilities. Topic 820 defines fair value, establishes a framework for fair value and expands disclosures about fair value measurements. 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. Topic 820 establishes a fair value hierarchy that prioritizes the inputs to valuation techniques used to measure fair value into three broad levels. The following is a brief description of those three levels:

Level 1: Quoted prices in active markets for identical assets or liabilities;

Level 2: Inputs that are derived principally from or corroborated by observable market data; and

Level 3: Inputs that are unobservable and significant to the overall fair value measurement.

Capital Assets: Capital assets are recorded at cost at the date of acquisition. Depreciation is computed using the straight-line method over the estimated useful life of the asset, which is generally 37.5 years for buildings. Capital assets that are contributed to the Foundation are carried at their fair market value at the time of the donation.

Cash and Cash Equivalents: The Foundation considers all liquid investments with original maturities of three months or less to be cash equivalents.

NOTES TO FINANCIAL STATEMENTS--Continued

WESTERN OKLAHOMA STATE COLLEGE

June 30, 2012

NOTE J--WESTERN OKLAHOMA STATE COLLEGE FOUNDATION, INC.--Continued

DESCRIPTION OF THE ENTITY AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES--Continued

Use of Estimates: The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities, disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

Income Taxes: The Foundation is exempt from income taxes under Section 501(c)(3) of the Internal Revenue Code, as such; no provision has been made for federal or state income taxes. Federal and state informational tax returns have been filed as required.

The Foundation has adopted the provisions of FASB Accounting Standards Codification Topic ASC 740-10 (previously Financial Interpretation NO. 48, Accounting for Uncertainty in Income Taxes). The implementation of this standard has no impact on the financial statements. As of June 30, 2012 and 2011, the unrecognized tax benefit accrual was zero.

Concentration of Risk: The Foundation maintains its cash accounts and certificates of deposit at several commercial banks. Cash accounts and certificates of deposit at each bank are insured by the Federal Deposit Insurance Corporation (FDIC) for up to \$250,000 and additional insurance to cover any of those amounts that may exceed the \$250,000 FDIC insurance. The Foundation has not experienced any losses in cash and cash equivalents and does not believe that they are exposed to significant credit risk.

Date of Management's Review: Subsequent events were evaluated through August 30, 2012, which is the date the financial statements were available to be issued.

WOSC STUDENT FACILITIES REVENUE BOND SERIES 2008

In July 1998, Western Oklahoma State College Foundation, Inc. (Foundation) entered into a lease and development agreement with the Board of Regents of Western Oklahoma State College (the Board) to lease a portion of the Western Oklahoma State College campus for the purpose of constructing a student housing facility. The Board agreed to pay the development fee of \$150,000 in order to obtain the financing. In addition, the Board entered into an operation and maintenance agreement whereby the Board agreed to operate and maintain the student housing facility. In July 2002, the Board terminated the original operation and maintenance agreement and entered into a lease agreement providing for an annual lease of \$205,000. The Board agreed to pay for all maintenance, utilities, insurance and repairs necessary to operate the student housing facility.

NOTES TO FINANCIAL STATEMENTS--Continued

WESTERN OKLAHOMA STATE COLLEGE

June 30, 2012

NOTE J--WESTERN OKLAHOMA STATE COLLEGE FOUNDATION, INC.--Continued

WOSC STUDENT FACILITIES REVENUE BOND SERIES 2008--Continued

In June 2008, the WOSC Student Facilities Revenue Bonds Series 1998 were retired with the proceeds from the issue of the WOSC Student Facilities Revenue Bonds Series 2008 in the amount of \$1,360,000 with interest due on June 1 and December 1 and with principal payments annually. The first principal and interest payments commenced on December 1, 2008.

The bonds mature during the fiscal year ending June 30, in the following manner:

	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2013	\$ 120,000	\$ 37,958	\$ 157,958
2014	120,000	33,478	153,478
2015	125,000	28,798	153,798
2016	130,000	23,798	153,798
2017	135,000	18,468	153,468
2018-2019	295,000	19,360	314,360
	<u>\$ 925,000</u>	<u>\$ 161,860</u>	<u>\$ 1,086,860</u>

CAPITAL ASSETS

Capital assets consist of the following at June 30:

	<u>2012</u>	<u>2011</u>
Student housing facility	\$ 1,807,234	\$ 1,807,234
Less accumulated depreciation	<u>(634,974)</u>	<u>(586,130)</u>
	<u>\$ 1,172,260</u>	<u>\$ 1,221,104</u>

Depreciation expense included in the accompanying financial statements for the years ended June 30, 2012 and 2011 was \$48,844 each year.

NOTES TO FINANCIAL STATEMENTS--Continued

WESTERN OKLAHOMA STATE COLLEGE

June 30, 2012

NOTE J--WESTERN OKLAHOMA STATE COLLEGE FOUNDATION, INC.--Continued

INVESTMENTS AND ALLOWANCE FOR INVESTMENT LOSS

Investments are made in conformity with the objectives and guidelines of the Foundation's Board of Directors. The investments are stated at fair value. Types of investments are as follows at June 30:

	<u>2012</u>	<u>2011</u>
	Fair Value	Fair Value
	Level 1	Level 1
Certificates of deposits	\$ 3,192,004	\$ 2,789,016
Money market funds	54,836	21,656
Mutual funds	1,037,322	1,144,747
Annuities	251,000	251,000
Real estate investment trusts (REIT)	<u>269,846</u>	<u>169,846</u>
Total investments	4,805,008	4,376,265
Allowance for market revaluation	<u>(30,479)</u>	<u>(18,483)</u>
Fair market value (carrying value)	<u>\$ 4,774,529</u>	<u>\$ 4,357,782</u>

ENDOWMENT DISCLOSURE

The Foundation's endowment consists of 92 individual donor restricted funds which are managed and controlled by the Foundation and were established for scholarships and program support. As required by generally accepted accounting principles, net assets associated with endowment funds are classified and reported based on the existence or absence of donor imposed restrictions. All of the endowment funds held by the Foundation are managed and controlled by the Foundation in accordance with the following policies.

NOTES TO FINANCIAL STATEMENTS--Continued

WESTERN OKLAHOMA STATE COLLEGE

June 30, 2012

NOTE J--WESTERN OKLAHOMA STATE COLLEGE FOUNDATION, INC.--Continued

ENDOWMENT DISCLOSURE--Continued

Interpretation of Relevant Law

The Board of Trustees of the Foundation have interpreted the State Prudent Management of Institutional Funds Act ("SPMIFA") as requiring the preservation of the fair value of the original gift as of the gift date of the donor restricted endowment funds absent explicit donor stipulations to the contrary. As a result of this interpretation, the Foundation classifies as permanently restricted net assets: (a) the original value of the gifts donated to the permanent endowment; (b) the original value of subsequent gifts to the permanent endowment; and (c) accumulation to the permanent endowment made in accordance with the direction of the applicable donor gift instrument at the time the accumulation is added to the fund. The remaining portion of the donor restricted endowment fund that is not classified in permanently restricted net asset is classified as temporarily restricted net assets until those amounts are appropriated for expenditure by the Foundation in the manner consistent with the standard of prudence prescribed by SPMIFA. In accordance with SPMIFA, 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 funds;
- (2) The purpose of the Foundation and donor restricted endowment fund;
- (3) General economic conditions;
- (4) Possible effect of inflation and deflation;
- (5) The expected total return from income and appreciation of investments;
- (6) Other resources of the Foundation;
- (7) The investment policies of the Foundation.

Endowment net asset composition by type of funds as of June 30:

Endowments	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Permanently Restricted</u>	<u>Total</u>
	2012			
Donor restricted endowments	\$ -	\$ 262,960	\$ 4,336,912	\$ 4,599,872
Board designated endowments	802,920	-	-	802,920
Total Funds Invested	<u>\$ 802,920</u>	<u>\$ 262,960</u>	<u>\$ 4,336,912</u>	<u>\$ 5,402,792</u>
	2011			
Donor restricted endowments	\$ -	\$ 266,469	\$ 3,902,006	\$ 4,168,475
Board designated endowments	720,479	-	-	720,479
Total Funds Invested	<u>\$ 720,479</u>	<u>\$ 266,469</u>	<u>\$ 3,902,006</u>	<u>\$ 4,888,954</u>

NOTES TO FINANCIAL STATEMENTS--Continued

WESTERN OKLAHOMA STATE COLLEGE

June 30, 2012

NOTE J--WESTERN OKLAHOMA STATE COLLEGE FOUNDATION, INC.--Continued

ENDOWMENT DISCLOSURE--Continued

Changes in endowment net assets for the year ended June 30:

	Unrestricted Board <u>Designated</u>	Temporarily Restricted	Permanently Restricted	<u>Total</u>
Endowment net assets, as of June 30, 2010	\$ 663,142	\$ 260,243	\$ 3,630,295	\$ 4,553,680
Investment return				
Investment income	14,387	127,660	11,376	153,423
Net realized and unrealized gain on investments	<u>20,006</u>	<u>-</u>	<u>-</u>	<u>20,006</u>
Total investment return	<u>34,393</u>	<u>127,660</u>	<u>11,376</u>	<u>173,429</u>
Contributions	22,944	102,814	260,335	386,093
Appropriation of endowment assets for expenditure	<u>-</u>	<u>(224,248)</u>	<u>-</u>	<u>(224,248)</u>
Endowment net assets, as of June 30, 2011	<u>\$ 720,479</u>	<u>\$ 266,469</u>	<u>\$ 3,902,006</u>	<u>\$ 4,888,954</u>
Investment return				
Investment income	52,511	61,069	1,712	115,292
Net realized and unrealized gain on investments	<u>(11,996)</u>	<u>-</u>	<u>-</u>	<u>(11,996)</u>
Total investment return	<u>40,515</u>	<u>61,069</u>	<u>1,712</u>	<u>103,296</u>
Contributions	41,926	154,139	433,194	629,259
Appropriation of endowment assets for expenditure	<u>-</u>	<u>(218,717)</u>	<u>-</u>	<u>(218,717)</u>
Endowment net assets, as of June 30, 2012	<u>\$ 802,920</u>	<u>\$ 262,960</u>	<u>\$ 4,336,912</u>	<u>\$ 5,402,792</u>

Funds with Deficiencies

From time to time, the fair value of assets associated with individual donor restricted endowment funds may fall below the level that donor or SPMIFA requires the Foundation to retain as a fund of perpetual duration. In accordance with generally accepted accounting principles, the allowance reported in unrestricted net assets which is a reduction in fair market value of invested endowment funds is \$30,479 and \$18,483 at June 30, 2012 and 2011, respectively.

NOTES TO FINANCIAL STATEMENTS--Continued

WESTERN OKLAHOMA STATE COLLEGE

June 30, 2012

NOTE J--WESTERN OKLAHOMA STATE COLLEGE FOUNDATION, INC.--Continued

ENDOWMENT DISCLOSURE--Continued

Return Objectivities 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 its endowments while seeking to maintain the purchasing power of the endowment assets. Endowment assets include those assets of the donor restricted funds that the Foundation must hold in perpetuity or for a donor specified period as well as board designated funds. Under this policy, as approved by the Board of Trustees, the endowment assets are invested with the primary objective of growth and a secondary objective of current income. The asset allocation policies reflect and are consistent with the investment objectives and risk tolerances expressed through the investment policy. These policies, developed after examining the historical relationships of risk and return among asset classes, are designed to provide the highest probability of meeting or exceeding the return objectives at the lowest level of risk. Actual returns in any given year may vary from this amount.

Spending Policy

The Foundation has a policy of appropriating for distribution each year amounts up to, but not to exceed actual investment performance for the year.

How the Investment Objectives Relate to the Spending Policy

Since the Foundation has a policy of designating unrestricted funds each year for investment, it feels that this policy protects the purchasing power of the endowments. In light of the current market fluctuations and the future needs of the Foundation, it evaluates the spending policy annually to ensure that it remains in accordance with the long term objectives of the Foundation.

SILVER STATUES

The Foundation maintains various silver statues. These statues are maintained for public exhibition rather than financial gain. On June 30, 2012 and 2011, these statues had a value of approximately \$85,000. These statues are protected, kept unencumbered, cared for, and preserved.

NOTES TO FINANCIAL STATEMENTS--Continued

WESTERN OKLAHOMA STATE COLLEGE

June 30, 2012

NOTE J--WESTERN OKLAHOMA STATE COLLEGE FOUNDATION, INC.--Continued

CONTRIBUTIONS AND DONATIONS

The following is a breakdown of the contributions and donations received in 2012 and 2011 and their respective categories by restriction:

	As of June 30, 2012			
	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Permanently Restricted</u>	<u>Total</u>
Contributions and donations				
Endowments	\$ 25,137	\$ 115,940	\$ 425,009	\$ 566,086
Sustaining membership account	15,466	-	-	15,466
Pass-through funds	-	144,190	-	144,190
President partners	<u>20,205</u>	<u>-</u>	<u>8,185</u>	<u>28,390</u>
Total contributions and donations	<u>\$ 60,808</u>	<u>\$ 260,130</u>	<u>\$ 433,194</u>	<u>\$ 754,132</u>
	As of June 30, 2011			
	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Permanently Restricted</u>	<u>Total</u>
Contributions and donations				
Endowments	\$ 5,901	\$ 102,814	\$ 253,076	\$ 361,791
Sustaining membership account	19,544	-	-	19,544
Pass-through funds	-	139,018	-	139,018
President partners	<u>21,776</u>	<u>-</u>	<u>7,259</u>	<u>29,035</u>
Total contributions and donations	<u>\$ 47,221</u>	<u>\$ 241,832</u>	<u>\$ 260,335</u>	<u>\$ 549,388</u>

NOTES TO FINANCIAL STATEMENTS--Continued

WESTERN OKLAHOMA STATE COLLEGE

June 30, 2012

NOTE K--NEW ACCOUNTING PRONOUNCEMENTS

The GASB has issued several new accounting pronouncements, which will be effective to the College in subsequent years. A description of the new accounting pronouncements, the fiscal year in which they are effective, and the College'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 College 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 College 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 College 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 College to make changes in its financial statement presentation.

NOTES TO FINANCIAL STATEMENTS--Continued

WESTERN OKLAHOMA STATE COLLEGE

June 30, 2012

NOTE K--NEW ACCOUNTING PRONOUNCEMENTS- 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 College 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 College has not yet determined the impact that implementation of GASB No. 68 will have on its net position.

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
Western Oklahoma State College
Altus, Oklahoma

We have audited the financial statements of Western Oklahoma State College (the "College"), 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 1, 2012. Our report was modified to include a reference to other auditors. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits in *Government Auditing Standards*, issued by the Comptroller General of the United States. Other auditors audited the financial statements of the Western Oklahoma State College Foundation, Inc. (the "Foundation"), the College's discretely presented component unit, as described in our report on the College'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 College is responsible for establishing and maintaining effective internal control over financial reporting. In planning and performing our audit, we considered the College's internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the College's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the College's internal control over financial reporting.

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

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

Compliance and Other Matters

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

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 1, 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
Western Oklahoma State College
Altus, Oklahoma

Compliance

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

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

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

Internal Control Over Compliance

Management of the College is responsible for establishing and maintaining effective internal control over compliance with requirements of laws, regulations, contracts, and grants applicable to federal programs. In planning and performing our audit, we considered the College's internal control over compliance with requirements that could have a direct and material effect on a major federal program in order to determine our auditing procedures for the purpose of expressing our opinion on compliance and to test and report on internal control over compliance 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 College's internal control over compliance.

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

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

Schedule of Expenditures of Federal Awards

We have audited the basic financial statements of the College as of and for the year ended June 30, 2012, and have issued our report thereon dated October 1, 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 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 taken as a whole.

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

Cole & Reed P.C.

Oklahoma City, Oklahoma
October 1, 2012

SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS

WESTERN OKLAHOMA STATE COLLEGE

Year Ended June 30, 2012

<u>Federal Grantor/Pass-through Grantor/Program Title</u>	<u>Federal CFDA Number</u>	<u>Expenditures</u>
U.S. Department of Education		
Student Financial Aid Cluster		
Federal Pell Grant Program	84.063	\$ 3,102,926
Federal Supplemental Educational Opportunity Grants	84.007	34,236
Federal Work Study Program	84.033	59,410
Federal Direct Student Loan Program	84.268	2,416,227
Federal Academic Competiveness Grant Program	84.375	1,819
College Access Challenge Grant Program	84.378A	9,981
<i>Total Student Financial Aid Cluster</i>		<u>5,624,599</u>
TRIO Program Cluster		
Upward Bound	84.047	308,968
Student Support Services	84.042A	244,297
<i>Total TRIO Program Cluster</i>		<u>553,265</u>
Passed through the Oklahoma State Department of Education: Carl Perkins Program	84.051	36,289
Total U.S. Department of Education		<u>6,214,153</u>
U.S. Department of Health and Human Services		
Temporary Assistance for Needy Families	93.558	145,835
Child Development Associative Initiative	93.596	74,965
Total U.S. Department of Health and Human Services		<u>220,800</u>
U.S. Department of Labor		
Oklahoma Works (TAACCCT)	17.282	2,099
Total U.S. Department of Labor		<u>2,099</u>
U.S. Department of Agriculture		
Distance Learning and Telemedicine Loan and Grant Program	10.855	379
Total U.S. Department of Labor		<u>379</u>
 TOTAL EXPENDITURES OF FEDERAL AWARDS		 <u>\$ 6,437,431</u>

See notes to schedule of expenditures of federal awards.

NOTES TO SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS

WESTERN OKLAHOMA STATE COLLEGE

June 30, 2012

NOTE A--SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The Schedule of Expenditures of Federal Awards is presented on the accrual basis of accounting, which is the basis used by Western Oklahoma State College to present the basic financial statements. Under the accrual basis, expenditures are recognized when the related liability is incurred.

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 College began participation in the Direct Loan Program on July 1, 2010. The College administers the origination and disbursement of the loans to eligible students or parents. The College is not responsible for the collection of these loans.

NOTE C--SUBRECIPIENTS

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

SCHEDULE OF FINDINGS AND QUESTIONED COSTS

WESTERN OKLAHOMA STATE COLLEGE

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? 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? yes none reported

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

Unqualified

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

yes no

Identification of major programs:

<u>Program</u>	<u>CFDA Number</u>
Student Financial Aid Cluster	*
TRIO Cluster	84.042A; 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

WESTERN OKLAHOMA STATE COLLEGE

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

WESTERN OKLAHOMA STATE COLLEGE

June 30, 2012

No matters are reportable.