

Oklahoma Panhandle State University

Financial Statements

and

Report of Independent Certified Public Accountants

June 30, 2010 and 2009

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Report of Independent Certified Public Accountants

Board of Regents for the Oklahoma Agricultural and Mechanical Colleges
Oklahoma Panhandle State University
Oklahoma City, Oklahoma

We have audited the accompanying statements of net assets of Oklahoma Panhandle State University (the University) (the primary government) as of June 30, 2010 and 2009, and the related statements of revenues, expenses and changes in net assets and statements of cash flows for the years then ended. The financial statements of the separate discretely presented component units, Panhandle State Foundation (the Foundation) (presented as Exhibit I) as of December 31, 2009 and 2008 and OPSU Student Housing, L.L.C (the LLC) (presented as Exhibit II) as of June 30, 2010 and 2009 were audited by other auditors, whose reports dated July 27, 2010 and September 25, 2010, respectively, expressed unqualified opinions on those statements. These statements collectively comprise the University's basic financial statements. These financial statements are the responsibility of the University's management. Our responsibility is to express an opinion on these financial statements based on our audits. Our opinion, insofar as it relates to the amounts included for the Foundation and LLC, is based on the reports of other auditors.

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

In our opinion, based on our audits and the report of other auditors, the financial statements referred to above present fairly, in all material respects, the financial position of Oklahoma Panhandle State University as of June 30, 2010 and 2009, and the separate discretely presented component units as of December 31, 2009 and 2008 and June 30, 2010 and 2009, and the changes in its net assets and cash flows for the years then ended in conformity with accounting principles generally accepted in the United States of America.

Management's discussion and analysis information on pages 3 through 11 is not a required part of the basic financial statements, but is supplementary information required by the accounting principles generally accepted in the United States of America. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

In accordance with *Government Auditing Standards*, we have also issued our report dated October 28, 2010, on our consideration of the University's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting 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 audits.

Tulsa, Oklahoma
October 28, 2010

Stayfield & O'Sell P.C.

**Management's Discussion
and Analysis**

OKLAHOMA PANHANDLE STATE UNIVERSITY

Management's Discussion and Analysis

The discussion and analysis of Oklahoma Panhandle State University's financial statements provides an overview of the University's financial activities for the year ended June 30, 2010. Since this discussion and analysis are designed to focus on current activities resulting in change and current known facts, please read them in conjunction with the University's basic financial statements and the footnotes.

Financial Highlights

The University ended the year with sufficient unrestricted reserves to meet unforeseen contingencies should they arise with an increase of 7.4% in net assets for the year ended June 30, 2010 compared to a decrease of 4.5% for the year ended June 30, 2009. Some of the financial highlights of the year were:

Net Assets

- * For the year ended June 30, 2010, the University's net assets increased from \$13,321,026 in 2009 to \$14,303,437 in 2010. The majority of the increase was in E&G and Investment in Plant.
- * For the year ended June 30, 2009, the University's net assets decreased from \$13,943,774 in 2008 to \$13,321,026 in 2009. The majority of the decrease was in the Auxiliary Fund as a result of development of the water quality lab, increase in number of dorm waivers and capital expenditures from auxiliary funds.

Total Revenues

- * Total revenues increased from \$19,601,170 for the year ended June 30, 2009 to \$21,526,754 for the year ended June 30, 2010. The increase was due mainly to increases in both enrollment and tuition and fees.
- * Total revenues increased from \$18,902,984 for the year ended June 30, 2008 to \$19,601,170 for the year ended June 30, 2009. This increase in revenue was due mainly to increases in tuition and fees as well as an increase in enrollment.

Total Expenses

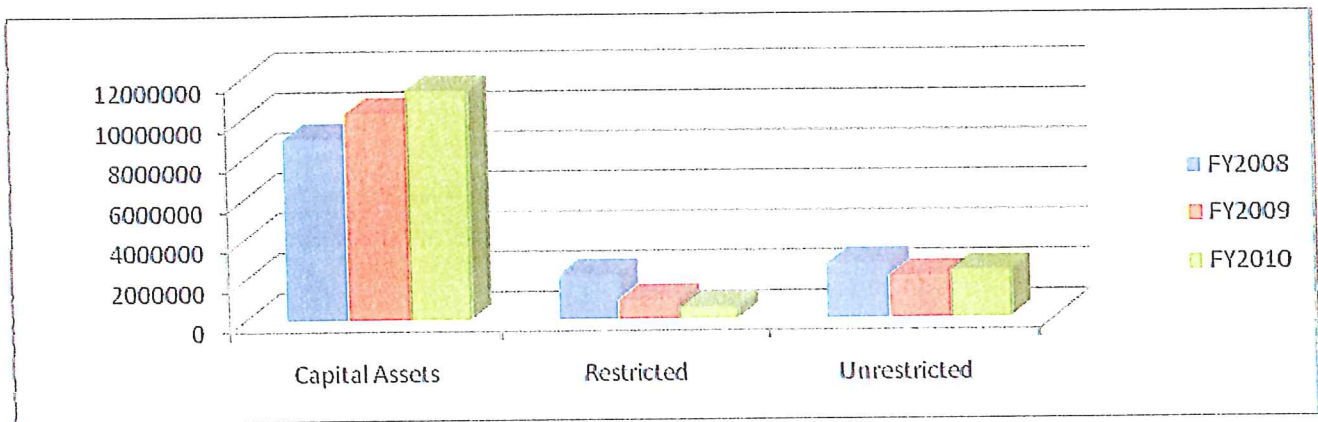
- * Total expenses increased from \$20,223,918 for the year ended June 30, 2009 to \$20,544,343 for the year ended June 30, 2010.
- * Total expenses increased from \$18,907,674 for the year ended June 30, 2008 to \$20,223,918 for the year ended June 30, 2009 as a result of higher employee benefit costs, maintenance and plant investments, debt service expense, scholarships, and other operating expenses.

Unrestricted Fund Balances

- * Unrestricted fund balances increased from \$2,091,724 at June 30, 2009 to \$2,355,029 at June 30, 2010.
- * Unrestricted fund balances decreased from \$2,693,373 at June 30, 2008, to \$2,091,724 at June 30, 2009. The Education and General fund balance increased by \$159,914 to \$1,762,475, 11.42% of the adjusted operating expenses. The Auxiliary Enterprise fund balance decreased from \$1,090,813 to \$329,249.

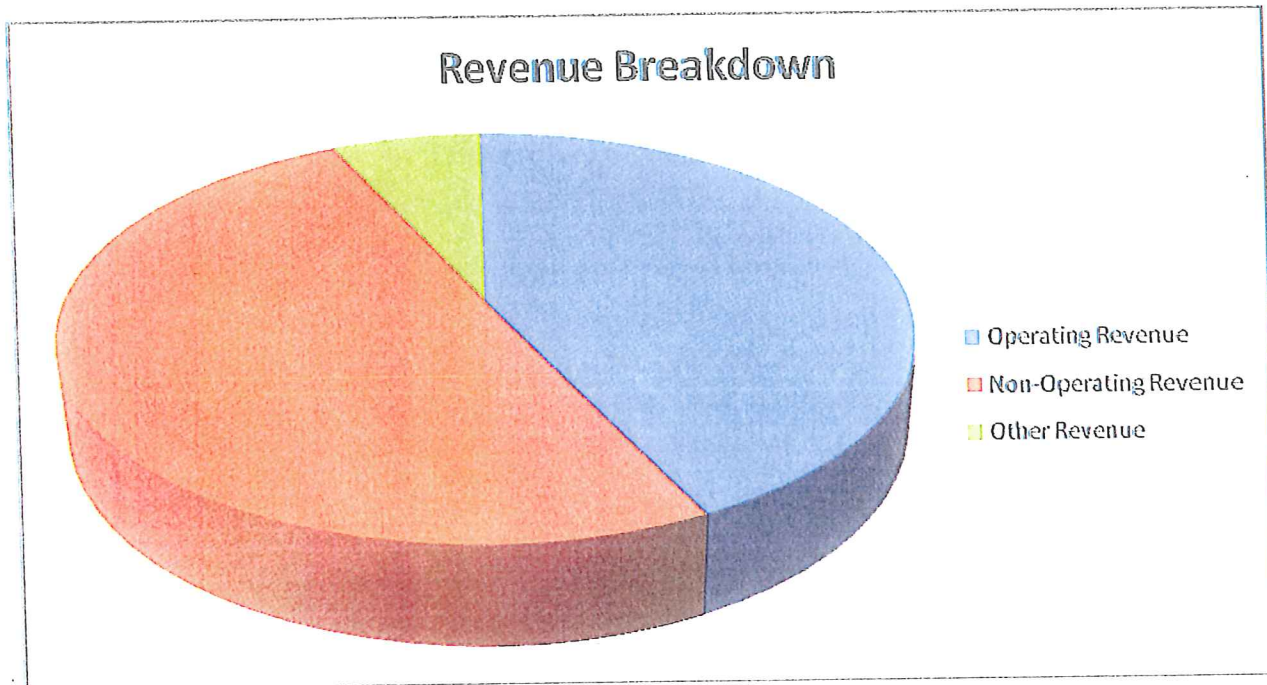
By June 30, 2010, the University's net assets had increased to \$14,303,437 from \$13,321,026 at June 30, 2009 and \$13,943,774 in 2008. Graphically displayed, the comparative net asset increases/decreases by category for the three fiscal years are shown below:

	Capital Assets	Restricted	Unrestricted	Total
FY2008	\$9,038,756	\$2,211,645	\$2,693,373	\$13,943,774
FY2009	\$10,288,298	\$941,004	\$2,091,724	\$13,321,026
Change In Net Assets	\$1,249,542	(\$1,270,641)	(\$601,649)	(\$622,748)
FY2009	\$10,288,298	\$941,004	\$2,091,724	\$13,321,026
FY2010	\$11,402,214	\$546,194	\$2,355,029	\$14,303,437
Change In Net Assets	\$1,113,916	(\$394,810)	\$263,305	\$982,411



The following chart provides a graphical breakdown of revenues by category for the fiscal year ending June 30, 2010:

<u>Operating Revenues</u>	<u>Non-Operating Revenues</u>	<u>Other Revenues</u>	<u>Total Revenues</u>
\$9,251,890	\$10,813,606	\$1,461,258	\$21,526,754



Using This Annual Report

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 University as a whole and on its activities. When revenues and other support exceed expenses, the result is an increase in net assets. When the reverse occurs, the result is a decrease in net assets. The relationship between revenues and expenses may be thought of as Oklahoma Panhandle State University operating results.

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

These statements include all assets and liabilities using the accrual basis of accounting, which is similar to the accounting methods 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.

Net Assets

The following schedules were prepared from the University's statements of net assets, which are presented on an accrual basis of accounting whereby assets are capitalized and depreciated.

- For the year ended June 30, 2010 compared to the year ended June 30, 2009, both assets and liabilities increased due to the issuance of bonds for capital projects on campus. A portion of these funds was spent during the year and may be found in construction in progress as part of capital assets. The remainder is a receivable from the state to be drawn as the project proceeds.
- For the year ended June 30, 2009 compared to the year ended June 30, 2008 construction in progress related to the Science & Ag building brought about an increase in capital assets, net of depreciation as well as a decrease in Restricted for expendable. Non-current liabilities decreased due to reduction of debt through principle payments.

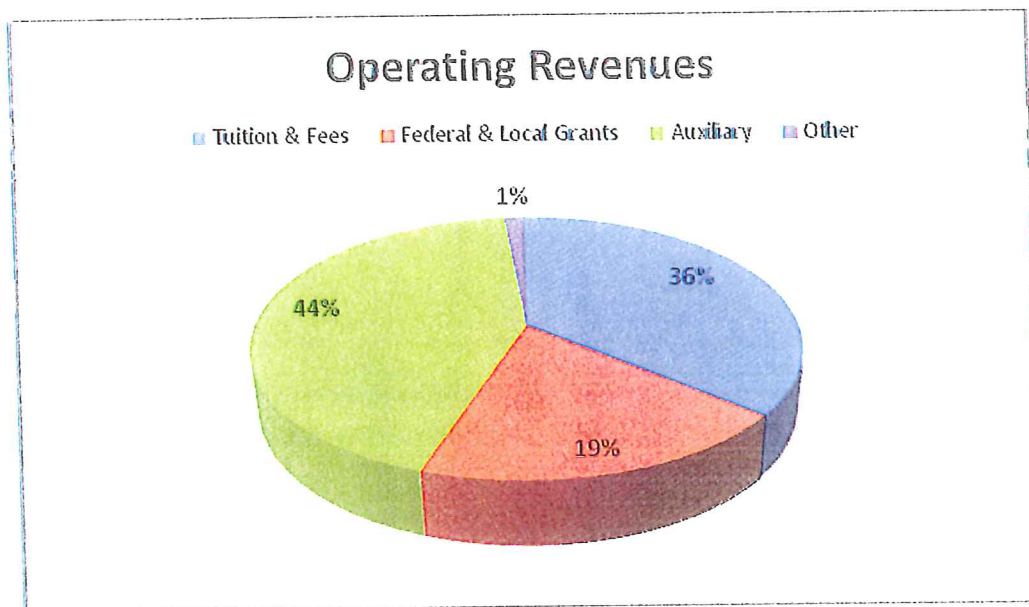
Net Assets, End of Years FY2010 and FY2009

	FY2010	FY2009	Increase (Decrease)	Percent Change
Current Assets	\$ 3,975,099	\$ 3,540,717	\$ 434,382	12.27%
Non-current Assets:				
Restricted cash and cash equivalents	1,182,298	773,107	409,191	52.93%
Capital assets, net of depreciation	22,404,201	21,705,182	699,019	3.22%
Other	1,818,833	267,247	1,551,586	580.58%
Total Assets	<u>\$ 29,380,431</u>	<u>\$ 26,286,253</u>	<u>\$ 3,094,178</u>	<u>11.77%</u>
Current Liabilities	\$ 2,419,220	\$ 1,729,580	\$ 689,640	39.87%
Non-current Liabilities	12,657,774	11,235,647	1,422,127	12.66%
Total Liabilities	<u>\$ 15,076,994</u>	<u>\$ 12,965,227</u>	<u>\$ 2,111,767</u>	<u>16.29%</u>
Net Assets:				
Investment in capital assets	\$ 11,402,214	\$ 10,288,298	\$ 1,113,916	10.83%
Restricted for expendable:	546,194	941,004	(394,810)	-41.96%
Unrestricted	2,355,029	2,091,724	263,305	12.59%
Total Net Assets	<u>\$ 14,303,437</u>	<u>\$ 13,321,026</u>	<u>\$ 982,411</u>	<u>7.37%</u>

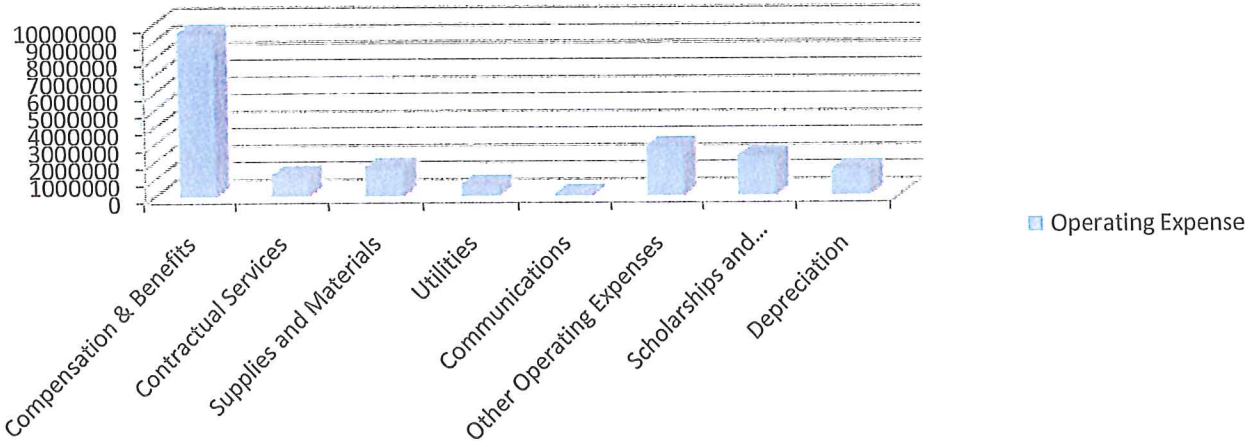
Net Assets, End of Years FY2009 and FY2008

	FY2009	FY2008	Increase (Decrease)	Percent Change
Current Assets	\$ 3,540,717	\$ 4,315,865	\$ (775,148)	-17.96%
Non-current Assets:				
Restricted cash and cash equivalents	773,107	1,518,071	(744,964)	-49.07%
Capital assets, net of depreciation	21,705,182	20,946,164	759,018	3.62%
Other	267,247	423,719	(156,472)	-36.93%
Total Assets	\$ 26,286,253	\$ 27,203,819	\$ (917,566)	-3.37%
Current Liabilities	\$ 1,729,580	\$ 1,529,021	\$ 200,559	13.12%
Non-current Liabilities	11,235,647	11,731,024	(495,377)	-4.22%
Total Liabilities	\$ 12,965,227	\$ 13,260,045	\$ (294,818)	-2.22%
Net Assets:				
Investment in capital assets	\$ 10,288,298	\$ 9,038,756	\$ 1,249,542	13.82%
Restricted for expendable:	941,004	2,211,645	(1,270,641)	-57.45%
Unrestricted	2,091,724	2,693,373	(601,649)	-22.34%
Total Net Assets	\$ 13,321,026	\$ 13,943,774	\$ (622,748)	-4.47%

Operating revenues and expenses for the fiscal year ended June 30, 2010, were as follows:



Operating Expense



	FY2010	FY2009	Increase (Decrease)	Percent Change	FY2008	Increase (Decrease)	Percent Change
Operating Revenue							
Tuition & Fees	\$ 3,346,548	\$ 3,124,314	\$ 222,234	7.11%	\$ 2,791,110	\$ 333,204	11.94%
Federal & Local Grants	1,778,478	1,492,709	285,769	19.14%	1,266,627	226,082	17.85%
Auxiliary	4,007,141	3,575,444	431,697	12.07%	3,308,828	266,616	8.06%
Other	119,723	78,170	41,553	53.16%	136,981	(58,811)	-42.93%
Total Operating Revenue	9,251,890	8,270,637	981,253	11.86%	7,503,546	767,091	10.22%
Less Operating Expense							
	19,912,220	19,670,666	241,554	1.23%	18,309,261	1,361,405	7.44%
Net Operating Loss	(10,660,330)	(11,400,029)	739,699	-6.49%	(10,805,715)	(594,314)	5.50%
Non-operating Revenue							
State Appropriation	7,077,778	7,708,588	(630,810)	-8.18%	7,616,310	92,278	1.21%
Federal ARRA Funds	578,979	-	578,979	-	-	-	-
On-Behalf Appropriations for OTRS	400,000	451,000	(51,000)	-11.31%	444,000	7,000	1.58%
Federal & State Grants	2,354,529	1,718,825	635,704	36.98%	1,510,179	208,646	13.82%
Capital Gifts & Grants	360,242	109,845	250,397	227.95%	425,003	(315,158)	-74.15%
Investment Income	42,078	58,227	(16,149)	-27.73%	202,765	(144,538)	-71.28%
Interest Expense	(632,123)	(553,252)	(78,871)	14.26%	(598,413)	45,161	-7.55%
Net Non-operating Revenue	\$ 10,181,483	\$ 9,493,233	\$ 688,250	7.25%	\$ 9,599,844	\$ (106,611)	-1.11%
Other Revenues, Expenses, Gains and Losses:							
State Appropriations Restricted For Capital Purposes	\$ 981,193	\$ 756,583	\$ 224,610	29.69%	\$ 674,890	\$ 81,693	12.10%
On-Behalf Appropriations for OCIA Capital Leases	480,065	527,465	(47,400)	-8.99%	526,292	1,173	0.22%
Total Other	1,461,258	1,284,048	177,210	13.80%	1,201,182	82,866	6.90%
Decrease in Net Assets	982,411	(622,748)	1,605,159	-257.75%	(4,689)	(618,059)	13181.04%
Net Assets, Beginning of Year	13,321,026	13,943,774	(622,748)	-4.47%	13,948,463	(4,689)	-0.03%
Net Assets, End of Year	\$ 14,303,437	\$ 13,321,026	\$ 982,411	7.37%	\$ 13,943,774	\$ (622,748)	-4.47%

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 for the Year

	Years Ended FY2010, 2009, and 2008		
	2010	2009	2008
Cash provided (used) by:			
Operating activities	\$ (8,236,235)	\$ (9,720,531)	\$ (9,202,473)
Non-capital financing activities	10,011,286	9,427,413	9,126,489
Investing activities	45,963	525,582	352,740
Capital and related financing activities	(996,443)	(1,552,228)	(17,624)
Net increase(decrease) in cash	824,571	(1,319,764)	259,132
Cash, beginning of year	3,283,932	4,603,696	4,344,564
Cash, end of year	\$ 4,108,503	\$ 3,283,932	\$ 4,603,696

Although the statements of revenues, expenses and changes in net assets show an increase in net assets of \$982,411, this is representative of all activities combined. Management believes that it is important to point out the net change in net assets for each major area of the University. This is displayed below.

Summary of Net Assets June 30, 2010, 2009 & 2008

	FY2010	FY2009	Increase (Decrease)	Percent Change	FY2008	Increase (Decrease)	Percent Change
Educational and General	\$ 2,236,684	\$ 1,762,476	\$ 474,208	26.91%	\$ 1,602,560	\$ 159,916	9.98%
Auxiliary Operations	118,345	329,249	(210,904)	-64.06%	1,090,814	(761,565)	-69.82%
Restricted Net Assets	315,669	207,624	108,045	52.04%	236,548	(28,924)	-12.23%
Net Assets Restricted for Capital							
Projects	230,525	733,379	(502,854)	-68.57%	1,975,096	(1,241,717)	-62.87%
Capital Assets	11,402,214	10,288,298	1,113,916	10.83%	9,038,756	1,249,542	13.82%
Combined Total	\$ 14,303,437	\$ 13,321,026	\$ 982,411	7.37%	\$ 13,943,774	\$ (622,748)	-4.47%

The auxiliary net assets experienced a decrease because of increases in dorm waivers and capital improvements to dorm facilities. The decrease in Assets restricted for Capital Projects was offset by the increase in Capital Assets.

Capital Assets

At June 30, 2010, the University has approximately \$22.4 million invested in capital assets, net of accumulated depreciation of \$19.3 million. Depreciation charges totaled approximately \$1,521,833 for the year ended June 30, 2010 compared to \$1,204,423 for the year ended June 30, 2009 and approximately \$1,074,037 for the year ended June 30, 2008. Details of these assets for the three years are shown below.

	Net Capital Assets		
	Year Ended June 30		
	2010	2009	2008
Land	\$ 211,103	\$ 211,103	\$ 115,199
Construction In Progress	731,283	-	6,665,010
Non-major infrastructure	6,390,409	6,383,988	6,296,986
Land improvements	1,313,077	1,303,597	715,067
Buildings	25,519,604	25,417,639	18,118,054
Furniture, fixtures and equipment	5,891,816	4,864,912	4,470,567
Library Materials	1,599,192	1,642,332	1,619,909
Total Capital Assets	41,656,484	39,823,571	38,000,792
Total Accumulated Depreciation	19,252,283	18,118,389	17,054,628
Total Net Capital Assets	\$ 22,404,201	\$ 21,705,182	\$ 20,946,164

Debt

At year-end, the University had \$12,965,366 in debt outstanding compared to \$11,388,476 at June 30, 2009 and \$11,855,837 at June 30, 2008. The table below summarizes these amounts by type.

	Outstanding Debt at Year End		
	2010	2009	2008
OCIA Capital Lease Obligations	\$ 160,787	\$ 183,412	\$ 249,941
Capital Lease Purchase	2,290,000	2,415,000	2,535,000
ODFA-Series 2003C	220,000	271,000	320,000
ODFA-Series 2004A	1,615,000	1,700,000	1,780,000
ODFA-Series 2004C	217,000	256,000	294,000
ODFA-Series 2005F	6,444,579	6,563,063	6,676,895
ODFA-Series 2009 20yr	1,717,000	-	-
ODFA-Series 2009 15yr	301,000	-	-
Total Notes and Capital Leases	\$ 12,965,366	\$ 11,388,475	\$ 11,855,836

Summary

The University's Educational & General Fund ended the year with an increase of \$474,208 in net assets and reserves of 13.06%.

The University ended FY2010 with an increase of \$982,411 in total net assets. This is a 7.4% increase in overall reserves. The increase was mainly in the Investment in Plant Fund and Education and General Fund.

The fall 2010 enrollment for the University was 1,393 head count, which is a 9.9% increase over the fall 2009 of 1,267. This follows an increase of 3.3% in headcount for the fall 2009 headcount of 1,267 over the fall 2008 headcount of 1,226. Credit hours are up for the fall of 2010 over the fall of 2009 by 8.9% and were up by 5.4% for the fall of 2009 over the fall of 2008.

The University began capital improvement projects during the year ended June 30, 2010 for a major electrical upgrade and improvements to the climate control systems in several buildings on campus.

Contacting the University's Financial Management

The University's financial statements are designed to provide our financial statement readers with a general overview of the University's finances, and to show accountability for the money it receives. If you have questions about the University's financial statements or need additional financial information, contact the Business Office at P.O. Box 430, Goodwell, OK 73939.

Oklahoma Panhandle State University

Statements of Net Assets

June 30,

	2010	2009
Assets		
Current Assets		
Cash and cash equivalents	\$ 2,743,976	\$ 2,231,378
Restricted cash and cash equivalents	302,755	393,666
Accounts receivable, net of allowance for doubtful accounts	414,398	493,333
ODFA receivable	3,091	3,091
Interest receivable	14,320	18,206
Inventories	496,559	401,043
Total current assets	<u>3,975,099</u>	<u>3,540,717</u>
Noncurrent Assets		
Restricted cash and cash equivalents	1,061,772	658,888
Investments	120,526	114,219
Receivable from state agency	1,520,664	-
Student loans receivable, net of allowance for doubtful accounts	97,297	96,859
Other assets	200,872	170,388
Capital assets, net of accumulated depreciation	22,404,201	21,705,182
Total noncurrent assets	<u>25,405,332</u>	<u>22,745,536</u>
Total assets	<u>29,380,431</u>	<u>26,286,253</u>
Liabilities		
Current Liabilities		
Accounts payable	765,949	377,020
Accrued liabilities	493,847	425,194
Deferred revenue	139,198	109,876
Student and other deposits	135,400	112,991
Accrued interest payable	54,621	28,409
Accrued compensated absences	226,342	218,531
Current portion of capital lease obligations	603,863	457,559
Total current liabilities	<u>2,419,220</u>	<u>1,729,580</u>
Noncurrent Liabilities (net of current portion)		
Accrued pension benefit obligation	19,944	19,944
Federal loan program contributions refundable	99,253	99,253
Premium on revenue bonds	160,734	169,194
Capital lease obligations	12,377,843	10,947,256
Total noncurrent liabilities	<u>12,657,774</u>	<u>11,235,647</u>
Total liabilities	<u>15,076,994</u>	<u>12,965,227</u>
Net Assets		
Invested in capital assets, net of related debt	11,402,214	10,288,298
Restricted		
Expendable		
Scholarships, research, instruction and other	140,720	32,306
Loans	174,951	175,318
Capital projects	230,523	733,380
Unrestricted	2,355,029	2,091,724
Total net assets	<u>\$ 14,303,437</u>	<u>\$ 13,321,026</u>

The accompanying notes are an integral part of these financial statements.

Oklahoma Panhandle State University

Statements of Revenues, Expenses and Changes in Net Assets

Years Ended June 30,

	2010	2009
Operating Revenues		
Student tuition and fees, net of scholarship discounts and allowances of \$5,169,000 and \$4,147,000 in 2010 and 2009, respectively	\$ 3,346,548	\$ 3,124,314
Federal grants and contracts	647,998	343,654
State and local grants and contracts	233,715	304,748
Non-governmental grants and contracts	896,765	844,307
Sales and Services of Educational Departments	16,818	38,987
Auxiliary enterprise charges		
Housing, net of scholarship discounts and allowances of \$218,000 and \$174,000 in 2010 and 2009, respectively	601,302	398,110
Food services, net of scholarship discounts and allowances of \$54,000 and \$44,000 in 2010 and 2009, respectively	904,852	756,074
Bookstore	778,336	730,698
Student Union	143,584	130,965
Athletics	109,293	48,534
All other	1,469,774	1,511,063
Interest earned on loan to students	360	1,778
Other operating revenues	102,545	37,405
Total operating revenues	<u>9,251,890</u>	<u>8,270,637</u>
Operating Expenses		
Compensation and employee benefits	9,526,755	9,236,589
Contractual services	1,222,515	1,355,610
Supplies and materials	1,680,081	1,917,053
Utilities	680,562	744,337
Communications	95,215	82,649
Other operating expenses	2,889,255	3,078,955
Scholarships and fellowships	2,296,004	2,051,050
Depreciation	1,521,833	1,204,423
Total operating expenses	<u>19,912,220</u>	<u>19,670,666</u>
Operating Loss	<u>(10,660,330)</u>	<u>(11,400,029)</u>
Nonoperating Revenues (Expenses)		
State appropriations	7,077,778	7,708,588
Federal ARRA funds	578,978	-
On-behalf contributions to OTRS	400,000	451,000
Federal grants	2,285,530	1,653,903
State grants	69,000	64,922
Capital grants and gifts	360,242	109,845
Investment income	42,078	58,227
Interest expense	(632,123)	(553,252)
Net nonoperating revenues	<u>10,181,483</u>	<u>9,493,233</u>
Loss before other revenues, expenses, gains and losses	(478,847)	(1,906,796)
State appropriations restricted for capital purposes	981,193	756,583
On-behalf payments to OCIA	480,065	527,465
Increase (Decrease) in Net Assets	<u>982,411</u>	<u>(622,748)</u>
Net Assets, Beginning of Year	<u>13,321,026</u>	<u>13,943,774</u>
Net Assets, End of Year	<u>\$ 14,303,437</u>	<u>\$ 13,321,026</u>

The accompanying notes are an integral part of these financial statements.

Oklahoma Panhandle State University

Statements of Cash Flows

Years Ended June 30,

	2010	2009
Cash Flows from Operating Activities		
Student tuition and fees	\$ 3,204,450	\$ 3,044,866
Grants and contracts	1,778,478	1,492,708
Auxiliary enterprise charges	4,006,726	3,461,095
Other operating receipts	119,723	78,172
Payments to employees for salaries and benefits	(9,067,562)	(8,764,063)
Payments to suppliers	(8,266,015)	(9,013,886)
Loans issued to students	(12,568)	(42,619)
Collection of loans to students	533	23,196
Net cash used by operating activities	<u>(8,236,235)</u>	<u>(9,720,531)</u>
Cash Flows from Noncapital Financing Activities		
State appropriations	7,077,778	7,708,588
Federal ARRA funds	578,978	-
Other student financial aid receipts	3,763,111	3,362,130
Other student financial aid payments	(3,763,111)	(3,362,130)
Federal and state grants	2,354,530	1,718,825
Net cash provided by noncapital financing activities	<u>10,011,286</u>	<u>9,427,413</u>
Cash Flows from Capital and Related Financing Activities		
Cash paid for capital assets	(1,895,865)	(2,019,755)
Capital grants and gifts received	988,361	866,428
Proceeds of capital debt	678,981	186,161
Interest paid on capital debt and leases	(265,810)	(298,062)
Principal payments on capital debt	(502,110)	(287,000)
Net cash used by capital and related financing activities	<u>(996,443)</u>	<u>(1,552,228)</u>
Cash Flows from Investing Activities		
Interest received on investments	45,963	525,582
Net cash provided by investing activities	<u>45,963</u>	<u>525,582</u>
Net increase (decrease) in cash and cash equivalents	824,571	(1,319,764)
Cash and Cash Equivalents, Beginning of Year	<u>3,283,932</u>	<u>4,603,696</u>
Cash and Cash Equivalents, End of Year	<u>\$ 4,108,503</u>	<u>\$ 3,283,932</u>

The accompanying notes are an integral part of these financial statements.

Oklahoma Panhandle State University

Statements of Cash Flows - Continued

Years Ended June 30,

	<u>2010</u>	<u>2009</u>
Reconciliation of Operating Loss to Net Cash		
Used by Operating Activities		
Operating loss	\$ (10,660,331)	\$ (11,400,028)
Adjustments to reconcile operating loss to net cash used by operating activities		
Depreciation	1,521,833	1,204,423
Net loss on disposal of assets	25,351	-
On-behalf contributions to teachers' retirement system	400,000	451,000
Changes in operating assets and liabilities		
Accounts and other receivables	78,935	(139,085)
Inventories	(95,516)	(13,702)
Accounts payable and accrued liabilities	457,583	177,202
Federal loan program contributions refundable	-	(28,427)
Deferred revenue	29,322	25,877
Compensated absences	7,811	21,632
Student and other deposits	22,409	-
Loan to students and employees	(23,632)	(19,423)
Net cash used by operating activities	<u>\$ (8,236,235)</u>	<u>\$ (9,720,531)</u>
Noncash Investing, Noncapital Financing and Capital and Related Financing Activities		
Principal and interest on capital debt paid by state agency on behalf of the University	<u>\$ 471,605</u>	<u>\$ 519,005</u>
Reconciliation of Cash and Cash Equivalents to the Statements of Net Assets		
Current assets		
Cash and cash equivalents	\$ 2,743,976	\$ 2,231,378
Restricted cash and cash equivalents	302,755	393,666
Noncurrent assets		
Restricted cash and cash equivalents	<u>1,061,772</u>	<u>658,888</u>
Total Cash and Cash Equivalents	<u>\$ 4,108,503</u>	<u>\$ 3,283,932</u>

The accompanying notes are an integral part of these financial statements.

Notes to Financial Statements

June 30, 2010 and 2009

Note A – Summary of Significant Accounting Policies

1. Nature of Operations

Oklahoma Panhandle State University (the University) is a baccalaureate degree granting institution established by an act of the Oklahoma State Legislature in 1909. The University's mission is to provide higher education primarily for the people of the Oklahoma Panhandle and surrounding areas through academic programs, cultural enrichment, lifelong learning experiences, and public service activities.

2. Reporting Entity

The financial reporting entity, as defined by Governmental Accounting Standards Board (GASB) Statement No. 14, *The Financial Reporting Entity*, and as amended by GASB Statement No. 39, *Determining Whether Certain Organizations are Component Units*, consists of the primary government for which the primary government is financially accountable, and other organizations for which the nature and significance of their relationship with the primary government are such that exclusion could cause the financial statements to be misleading or incomplete.

The accompanying financial statements include the accounts and funds of the University. The University is part of the State of Oklahoma Higher Education System. The University is under the governance of the Board of Regents for the Oklahoma Agricultural and Mechanical Colleges (the Board of Regents). The University is a component unit of the State of Oklahoma and is included in the general-purpose financial statements of the State as part of the Higher Education component unit.

Panhandle State Foundation, (the Foundation) is a legally separate, tax-exempt component unit of the University. The Foundation awards scholarships to University students and provides support to the University. In addition, the Foundation maintains and services the funds for various organizations and support groups of the University. Although the University does not control the timing or amount of receipts from the Foundation, the majority of resources, or income thereon, which the Foundation holds and invests, is restricted to the activities of the University by the donors. Because these restricted resources held by the Foundation can only be used by, or for the benefit of, the University, the Foundation is considered a component unit of the University and is discretely presented in the University's financial statements.

OPSU Student Housing, L.L.C. (the LLC) is also a legally separate, tax-exempt component unit of the University. The LLC is responsible for administration and operations of a student housing facility constructed with proceeds of revenue bonds. The LLC is governed by a Board of Trustees comprised primarily of the management of the University. Due to the control that exists over the LLC by the University and support the LLC provides to the University, the LLC is considered a component unit of the University and is discretely presented in the University's financial statements.

Notes to Financial Statements

June 30, 2010 and 2009

Note A – Summary of Significant Accounting Policies – Continued

3. Financial Statement Presentation

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

The University's component units, Panhandle State Foundation and OPSU Student Housing, L.L.C. are presented in accordance with FASB standards. Therefore, certain revenue recognition criteria and presentation features are different from GASB revenue recognition criteria and presentation features. As permitted under GASB 39, the financial statements of these component entities are therefore separately presented in their entirety in the University's financial statement as Exhibit I and Exhibit II.

4. Basis of Accounting

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

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

5. Cash Equivalents

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

Notes to Financial Statements

June 30, 2010 and 2009

Note A – Summary of Significant Accounting Policies – Continued

6. Deposits and Investments

The University 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 University has disclosed its deposit and investment policies related to the risks identified in GASB Statement No. 40. Changes in unrealized gain (loss) 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.

7. Accounts Receivable

Accounts receivable consists of tuition and fee charges to students and fees for auxiliary enterprise services provided to students, faculty and staff, the majority of each residing in the State of Oklahoma. Accounts receivable are recorded net of estimated uncollectible amounts. The University determines its allowance by considering a number of factors, including the length of time accounts receivable are past due, the University's previous loss history, and the condition of the general economy and the industry as a whole. The University writes off specific accounts receivable when they become uncollectible, and payments subsequently received on such receivables are credited to the allowance for doubtful accounts. The provision for bad debts was \$645,713 and \$440,101 for the years ended June 30, 2010 and 2009, respectively.

A student account receivable and student loan receivable is considered to be past due if any portion of the receivable balance is outstanding for more than 90 days after the end of the semester. Late charges are generally assessed and, when they are assessed, are included in income and trade accounts receivable. Students may be granted a deferment, forbearance or cancellation of their student loan receivable based on eligibility requirements defined by the Department of Education.

Accounts receivable also include amounts due from federal, state and local governments, or private sources, in connection with reimbursement of allowable expenditures made pursuant to the University's grants and contracts.

8. Inventories

Inventories consist primarily of rental books, books and supplies held for resale, and livestock. Rental books are valued at amortized cost, using an average three-year life. Books and supplies held for resale are valued at the lower of cost or market on the first-in, first-out basis. Livestock are valued at estimated current fair market value.

Notes to Financial Statements

June 30, 2010 and 2009

Note A – Summary of Significant Accounting Policies – Continued

9. Restricted Cash and Investments

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

10. Capital Assets

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

Depreciation is computed using the straight-line method over the estimated useful lives of the assets, generally 25 to 40 years for buildings, infrastructure and land improvements, and 10 years for library materials and equipment.

11. Deferred Revenues

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

12. Compensated Absences

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

13. Noncurrent Liabilities

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

Notes to Financial Statements

June 30, 2010 and 2009

Note A – Summary of Significant Accounting Policies – Continued

14. Use of Estimates

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect certain reported amounts and disclosures; accordingly, actual results could differ from those estimates. The significant estimates used in the preparation of these financial statements include the depreciation of capital assets and the allowance for doubtful accounts receivable.

15. Net Assets

The University's net assets are classified as follows:

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

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

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

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

16. Income Taxes

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

Notes to Financial Statements

June 30, 2010 and 2009

Note A – Summary of Significant Accounting Policies – Continued

17. Classification of Revenues

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

Operating revenues: Operating revenues include activities that have the characteristics of exchange transactions, such as (1) student tuition and fees, net of scholarship discounts and allowances, (2) sales and services of auxiliary enterprises, net of scholarship discounts and allowances, (3) most federal, state and local grants and contracts, and (4) interest on institutional student loans.

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

18. 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 differences between the stated charge for goods and services provided by the University, and the amount that is paid by students and/or third parties making payments on the students' behalf. Certain governmental grants, such as Pell grants, and other federal or state government or nongovernmental programs, are recorded as either operating or nonoperating revenues in the University's financial statements. To the extent that revenues from such programs are used to satisfy tuition and fees and other student charges, the University has recorded a scholarship discount and allowance.

19. Subsequent Events

The University has evaluated subsequent events through October 28, 2010 the date which the financial statements were issued.

20. Reclassifications

Certain prior year amounts have been reclassified to conform to current year classifications.

Oklahoma Panhandle State University

Notes to Financial Statements

June 30, 2010 and 2009

Note B – Deposits and Investments

1. Custodial Credit Risk - Deposits

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

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

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

The University's carrying amount of the deposits with the State Treasurer and other financial institutions were as follows at June 30:

	2010	2009
Deposits with the State Treasurer	\$ 3,948,560	\$ 3,097,477
U.S. financial institutions	139,943	171,455
Change funds	20,000	15,000
Total deposits	<u>\$ 4,108,503</u>	<u>\$ 3,283,932</u>

At June 30, 2010 and 2009, the related bank balances of the University's deposits totaled \$4,129,628 and \$3,313,818, respectively.

2. Other Deposits

At June 30, 2010 and 2009, the University also held non-negotiable certificates of deposit totaling \$7,415 and \$7,322, respectively. These deposits are either fully insured by Federal Deposit Insurance or collateralized by securities held by the cognizant Federal Reserve Bank. These certificates of deposit are maintained through an investment brokerage firm. For financial reporting purposes, these deposits have been classified as investments.

Oklahoma Panhandle State University

Notes to Financial Statements

June 30, 2010 and 2009

Note B – Deposits and Investments – Continued

2. *Other Deposits – Continued*

The University had the following investments as of June 30:

	2010	2009
U.S. government securities	\$ 15,256	\$ 15,098
Certificates of deposit	7,415	7,322
Fixed income funds	78,064	78,437
Money market funds	19,790	13,362
Total investments	<u>\$ 120,525</u>	<u>\$ 114,219</u>

Investment maturities were as follows at June 30, 2010:

Investment Type	Fair Value	Investment Maturities (in Years)				
		Not Applicable	Less Than One	One to Five	Six to Ten	More Than Ten
U.S. government securities	\$ 15,256	\$ -	\$ -	\$ -	\$ -	\$ 15,256
Certificates of deposit	7,415	-	7,415	-	-	-
Fixed income funds	78,064	-	-	-	-	78,065
Money market funds	19,790	19,790	-	-	-	-
	<u>\$ 120,525</u>	<u>\$ 19,790</u>	<u>\$ 7,415</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 93,321</u>

Interest Rate Risk: The University 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: All United States Government obligations are held by the Federal Reserve Bank in the name of the University. The majority of the University's certificates of deposits were invested through the State Treasurer.

The Board has authorized short-term funds to be invested in any security currently available through the State Treasurer's office. Generally, these include direct obligations of the United States Government and its agencies, certificates of deposit and demand deposits.

Note C – Accounts Receivable

Accounts receivable relate to tuition and fee charges to students and to auxiliary services provided to students, faculty and staff. Accounts receivable consisted of the following at June 30:

Notes to Financial Statements

June 30, 2010 and 2009

Note C – Accounts Receivable – Continued

	2010	2009
Student tuition and fees	\$ 498,292	\$ 326,872
Auxiliary enterprises and other operating activities	561,819	606,562
	1,060,111	933,434
Less allowance for doubtful accounts	(645,713)	(440,101)
Net accounts receivable	<u>\$ 414,398</u>	<u>\$ 493,333</u>

Note D – Loans Receivable

The University makes loans to students through the Federal Perkins Loan Program (the Program). Under the Program, the federal government provides funds for approximately 75% of the total contribution for student loans with the University providing the balance. Under certain conditions such loans can be forgiven at annual rates of 10% to 30% of the original balance up to maximums of 50% to 100% of the original loan. The federal government reimburses the University to the extent of 10% of the amounts forgiven for loans originated prior to July 1, 1993 under the program. No reimbursements are provided for loans originated after this date. Amounts refundable to the U.S. government upon cessation of the Program of \$99,253 at June 30, 2010 and 2009, respectively, are reflected in the accompanying statements of net assets as noncurrent liabilities.

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

The University also makes loans to students through the I.L. Ennis Loan Fund, a private loan program. The University provides administrative services to the I.L. Ennis Loan Fund (Loan Fund) in exchange for financial assistance for the students.

The University has provided an allowance for uncollectible loans which, in management's opinion, is sufficient to absorb loans which will ultimately be written off. Loans receivable consisted of the following at June 30:

	2010		
	Program	Loan Fund	Total
Loans receivable	\$ 71,437	\$ 278,746	\$ 350,183
Less: allowance for uncollectible loans	(9,050)	(243,836)	(252,886)
Net loans receivable	<u>\$ 62,387</u>	<u>\$ 34,910</u>	<u>\$ 97,297</u>

Oklahoma Panhandle State University

Notes to Financial Statements

June 30, 2010 and 2009

Note D – Loans Receivable – Continued

	2009		
	Program	Loan Fund	Total
Loans receivable	\$ 70,466	\$ 267,279	\$ 337,745
Less: allowance for uncollectible loans	(9,050)	(231,836)	(240,886)
Net loans receivable	\$ 61,416	\$ 35,443	\$ 96,859

Loans receivable are classified in the statements of net assets as follows at June 30:

	2010	2009
Current	\$ -	\$ -
Noncurrent	97,297	96,859
	\$ 97,297	\$ 96,859

Note E – Capital Assets

Capital asset activity was as follows for the year ended June 30, 2010:

	Balance at July 1, 2009	Additions	Transfers	Retirements	Balance at June 30, 2010
Capital assets not being depreciated					
Land	\$ 211,103	\$ -	\$ -	\$ -	\$ 211,103
Construction in-progress	-	731,283	-	-	731,283
Total capital assets not being depreciated	211,103	731,283	-	-	942,386
Other capital assets					
Non-major infrastructure networks	6,383,988	6,421	-	-	6,390,409
Non-structural improvements	1,303,597	9,480	-	-	1,313,077
Buildings and improvements	25,417,639	132,930	-	(30,966)	25,519,603
Equipment	4,864,912	1,313,765	-	(286,861)	5,891,816
Library materials	1,642,332	52,324	-	(95,464)	1,599,192
Total other capital assets	39,612,468	1,514,920	-	(413,291)	40,714,097
Accumulated depreciation					
Non-major infrastructure networks	1,840,029	314,773	-	-	2,154,802
Non-structural improvements	389,782	55,447	-	-	445,229
Buildings and improvements	10,701,608	494,235	-	(16,016)	11,179,827
Equipment	3,766,723	601,369	-	(276,460)	4,091,632
Library materials	1,420,247	56,009	-	(95,464)	1,380,792
Total accumulated depreciation	18,118,389	1,521,833	-	(387,940)	19,252,282
Capital assets, net	\$ 21,705,182	\$ 724,370	\$ -	\$ (25,351)	\$ 22,404,201

Oklahoma Panhandle State University

Notes to Financial Statements

June 30, 2010 and 2009

Note E – Capital Assets – Continued

At June 30, 2010, the cost and related accumulated depreciation of assets held under capital lease obligations was as follows:

	Buildings	Infrastructure	Equipment	Total
Cost	\$ 7,363,932	\$ 2,540,929	\$ 2,649,795	\$ 12,554,656
Less accumulated depreciation	(91,692)	(414,225)	(2,649,795)	(3,155,712)
	\$ 7,272,240	\$ 2,126,704	\$ -	\$ 9,398,944

Capital asset activity was as follows for the year ended June 30, 2009:

	Balance at July 1, 2008	Additions	Transfers	Retirements	Balance at June 30, 2009
Capital assets not being depreciated					
Land	\$ 115,199	\$ 95,904	\$ -	\$ -	\$ 211,103
Construction in-progress	6,665,010	-	(6,665,010)	-	-
Total capital assets not being depreciated	6,780,209	95,904	(6,665,010)	-	211,103
Other capital assets					
Non-major infrastructure networks	6,296,986	51,900	35,102	-	6,383,988
Non-structural improvements	715,067	588,530	-	-	1,303,597
Buildings and improvements	18,118,054	681,095	6,629,872	(11,382)	25,417,639
Equipment	4,470,567	568,256	(64,490)	(109,421)	4,864,912
Library materials	1,619,908	34,070	-	(11,646)	1,642,332
Total other capital assets	31,220,582	1,923,851	6,600,484	(132,449)	39,612,468
Accumulated depreciation					
Non-major infrastructure networks	1,526,904	313,125	-	-	1,840,029
Non-structural improvements	353,149	36,633	-	-	389,782
Buildings and improvements	10,281,819	427,166	-	(7,377)	10,701,608
Equipment	3,513,464	374,896	(16,266)	(105,371)	3,766,723
Library materials	1,379,291	52,602	-	(11,646)	1,420,247
Total accumulated depreciation	17,054,627	1,204,422	(16,266)	(124,394)	18,118,389
Capital assets, net	\$ 20,946,164	\$ 815,333	\$ (48,260)	\$ (8,055)	\$ 21,705,182

Oklahoma Panhandle State University

Notes to Financial Statements

June 30, 2010 and 2009

Note E – Capital Assets – Continued

At June 30, 2009, the cost and related accumulated depreciation of assets held under capital lease obligations was as follows:

	Buildings	Infrastructure	Equipment	Total
Cost	\$ 7,363,932	\$ 2,540,929	\$ 2,649,795	\$ 12,554,656
Less accumulated depreciation	(81,504)	(351,580)	(2,387,455)	(2,820,539)
	<u>\$ 7,282,428</u>	<u>\$ 2,189,349</u>	<u>\$ 262,340</u>	<u>\$ 9,734,117</u>

Note F – Noncurrent Liabilities

Noncurrent liability activity for the year ended June 30, 2010, was as follows:

	Balance at July 1, 2009	Additions	Reductions	Balance at June 30, 2010	Current Portion
Capital lease obligations					
OCIA - Series 1999	\$ 183,412	\$ -	\$ (22,625)	\$ 160,787	\$ 14,313
OCIA - Series 2002	2,415,000	-	(125,000)	2,290,000	130,000
ODFA - Series 2003C	271,000	-	(51,000)	220,000	52,000
ODFA - Series 2004A	1,700,000	-	(85,000)	1,615,000	90,000
ODFA - Series 2004C	256,000	-	(39,000)	217,000	41,000
OCIA - Series 2005F	6,563,063	-	(118,484)	6,444,579	174,210
ODFA - Series 2009C 20yr	-	1,765,000	(48,000)	1,717,000	68,000
ODFA - Series 2009C 15yr	-	314,000	(13,000)	301,000	18,000
Total capital lease obligations	<u>11,388,475</u>	<u>2,079,000</u>	<u>(502,109)</u>	<u>12,965,366</u>	<u>587,523</u>
Other liabilities					
Accrued pension benefit obligation	27,824	-	-	27,824	7,880
Federal loan program contributions	99,253	-	-	99,253	-
Premium on revenue bonds	177,654	-	(8,460)	169,194	8,460
Total other liabilities	<u>304,731</u>	<u>-</u>	<u>(8,460)</u>	<u>296,271</u>	<u>16,340</u>
Total noncurrent liabilities	<u>\$ 11,693,206</u>	<u>\$ 2,079,000</u>	<u>\$ (510,569)</u>	<u>\$ 13,261,637</u>	<u>\$ 603,863</u>

Oklahoma Panhandle State University

Notes to Financial Statements

June 30, 2010 and 2009

Note F – Noncurrent Liabilities – Continued

Noncurrent liability activity for the year ended June 30, 2009, was as follows:

	Balance at July 1, 2008	Additions	Reductions	Balance at June 30, 2009	Current Portion
Capital lease obligations					
OCIA - Series 1999	\$ 249,941	\$ -	\$ (66,529)	\$ 183,412	\$ 22,626
OCIA - Series 2002	2,535,000	-	(120,000)	2,415,000	125,000
ODFA - Series 2003C	320,000	-	(49,000)	271,000	51,000
ODFA - Series 2004A	1,780,000	-	(80,000)	1,700,000	85,000
ODFA - Series 2004C	294,000	-	(38,000)	256,000	39,000
OCIA - Series 2005F	6,676,895	-	(113,832)	6,563,063	118,593
Total capital lease obligations	11,855,836	-	(467,361)	11,388,475	441,219
Other liabilities					
Accrued pension benefit obligation	37,215	-	(9,391)	27,824	7,880
Federal loan program contributions	127,680	-	(28,427)	99,253	-
Premium on revenue bonds	186,114	-	(8,460)	177,654	8,460
Total other liabilities	351,009	-	(46,278)	304,731	16,340
Total noncurrent liabilities	\$ 12,206,845	\$ -	\$ (513,639)	\$ 11,693,206	\$ 457,559

Oklahoma Capital Improvement Authority Lease Obligations

In September 1999, the Oklahoma Capital Improvement Authority (OCIA) issued its OCIA Bond Issues, 1999 Series A, B and C. Of the total bond indebtedness, the State Regents for Higher Education allocated \$700,000 to the University. Concurrently with the allocation, the University entered into a lease agreement with OCIA for the project being funded by the OCIA bonds. The lease agreement provides for the University to make specified monthly payments to OCIA over the respective terms of the agreement, which is for approximately 20 years. The proceeds of the bonds and subsequent leases are to provide for capital improvements at the University.

Through June 30, 2009, the University has drawn-down 100% of its total allotment for expenses incurred in connection with specific projects. These expenses have been capitalized as investments in capital assets, in accordance with the University's policy. Lease principal and interest payments to OCIA totaling \$31,727 and \$78,955 during the years ended June 30, 2010 and 2009, respectively, were made by the State of Oklahoma on behalf of the University. These on-behalf payments have been recorded as restricted state appropriations in the statements of revenues, expenses and changes in net assets.

On September 1, 2002, the University entered into capital lease obligation Series 2002 in the amount of \$2,965,000. Lease payments over the term of the agreement, including interest, total \$4,886,478. Payments began September 1, 2005, and go through September 1, 2022, and will be made monthly ranging from \$12,487 to \$20,995. Proceeds from the obligation were used for the installation of equipment for energy conservation on campus buildings and facilities.

Notes to Financial Statements

June 30, 2010 and 2009

Note F – Noncurrent Liabilities – Continued

Oklahoma Capital Improvement Authority Lease Obligations – Continued

In 2005, the OCIA issued its State Facilities Revenue Bonds (Higher Education Project) Series 2005F. Of the total bond indebtedness, the State Regents allocated approximately \$6,998,000 to the University. Total lease payments over the term of the agreement including principal and interest, beginning July 1, 2006 through July 1, 2030, will be \$12,223,801. Payments will be made annually ranging from \$82,033 to \$528,546, by the State of Oklahoma on behalf of the University. Concurrently with the allocation, the University entered into a lease agreement with OCIA, for the projects being funded by the OCIA bonds. The proceeds of the bonds and subsequent leases are provided for capital improvements at the University.

Through June 30, 2010, the University has drawn-down 100% of its \$6,998,000 total allotment plus \$605,121 of the interest earned including \$6,513 and \$463,677 of draw-downs during the years ended June 30, 2010 and 2009, respectively, for expenses incurred in connection with specific projects. These expenses have been capitalized as investments in capital assets or recorded as operating expenses, in accordance with the University's policy. For the year ended June 30, 2010 and June 30, 2009, interest receivable is \$4,646 and \$9,392, respectively. Lease payments to OCIA, totaling \$439,988 and \$440,050 during the years ended June 30, 2010 and 2009, respectively, were made by the State of Oklahoma on behalf of the University. These on-behalf payments have been recorded as restricted state appropriations in the statements of revenues, expenses and changes in net assets.

Oklahoma Development Finance Authority Lease Obligations

On December 1, 2003, the University entered into capital lease obligation Series 2003C in the amount of \$501,000. Lease payments over the term of the agreement, including interest, total \$595,507. Payments begin June 1, 2004 and go through December 1, 2013, and will be made semi-annually ranging from \$1,088 to \$59,088. Proceeds from the obligation were used for the purchase and installation of chillers on campus buildings and facilities. The University has pledged Section Thirteen revenues to support payments on this lease obligation.

On May 1, 2004, the University entered into capital lease obligation Series 2004A in the amount of \$2,085,000. Lease payments over the term of the agreement, including interest, total \$3,151,875. Payments began December 1, 2004, and go through June 1, 2024, and will be made semi-annually ranging from \$3,600 to \$153,600. Proceeds from the obligation were used for the installation of equipment for energy conservation on campus buildings and facilities. The University has pledged Section Thirteen revenues to support payments on this lease obligation.

On December 1, 2004, the University entered into capital lease obligation Series 2004C in the amount of \$401,000. Lease payments over the term of the agreement, including interest, total \$479,845. Payments began June 1, 2005, and go through December 1, 2015, and will be made semi-annually ranging from \$874 to \$46,874. Proceeds from the obligation were used for infrastructure capital expenditures. The University has pledged Section Thirteen revenues to support payments on this lease obligation.

Notes to Financial Statements

June 30, 2010 and 2009

Note F – Noncurrent Liabilities – Continued

Oklahoma Development Finance Authority Lease Obligations – Continued

On August 1, 2009, the University entered into capital lease obligation Series 2009C in the amount of \$2,079,000. Lease payment over the term of the agreement, including interest, total \$2,963,397. Payments began October 15, 2009 and go through May 15, 2029, and will range from \$112,206 to \$158,223 annually. Proceeds from the obligation were used for capital expenditures. The University has pledged fee revenues to support payments on this lease.

Future minimum lease payments under the University’s capital lease obligations are as follows at June 30, 2010:

Years Ending June 30:	Principal	Interest	Total
2011	\$ 603,863	\$ 598,524	\$ 1,202,387
2012	605,691	576,122	1,181,813
2013	629,655	552,700	1,182,355
2014	660,535	527,229	1,187,764
2015	625,207	500,282	1,125,489
2016 - 2020	3,489,128	2,063,457	5,552,585
2021 - 2025	3,611,904	1,163,296	4,775,200
2026 - 2030	2,755,723	404,937	3,160,660
	<u>\$ 12,981,706</u>	<u>\$ 6,386,547</u>	<u>\$ 19,368,253</u>

Note G – Retirement Plans

The University’s academic and non-academic personnel are covered by various retirement plans. One plan available to University personnel is the Oklahoma Teachers’ Retirement System (OTRS), which is a State of Oklahoma public employee retirement system. The University also sponsors a Supplemental Retirement Plan, which is a single-employer public-employee retirement system. The University does not maintain the accounting records, hold the investments for, or administer these plans.

Oklahoma Teachers’ Retirement System

Plan Description

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

Notes to Financial Statements

June 30, 2010 and 2009

Note G – Retirement Plans – Continued

Funding Policy

The University is required to contribute a fixed percentage of annual compensation on behalf of active members. The average employer contribution rate of 8.55 % for 2010, 7.80% for 2009, and 7.30% for 2008 is applied to annual compensation, and is determined by state statute.

Employees' contributions are also determined by state statute. For all employees, the contribution rate was 7% of covered salaries and fringe benefits in 2010, 2009, and 2008. These contributions were made directly by the University for 2010, 2009, and 2008.

The University's contributions to OTRS for the years ended June 30, 2010, 2009, and 2008, were approximately \$1,043,852, \$979,268, and \$861,298, respectively, equal to the required contributions for each year. These contributions included the University's statutory contribution and the share of the employee's contributions paid directly by the University.

The State of Oklahoma is also required to contribute to OTRS on behalf of the participating employers. For 2010 and 2009, the State of Oklahoma contributed 3.54% of state revenues from sales and use taxes and individual income taxes, to OTRS on behalf of participating employers. The University has estimated the amounts contributed to OTRS by the State of Oklahoma on its behalf by multiplying the ratio of its covered salaries to total covered salaries for OTRS for the year by the applicable percentages of taxes collected during the year. For the years ended June 30, 2010 and 2009, the total amounts contributed to OTRS by the State of Oklahoma on behalf of the University was approximately \$400,000 and \$451,000, respectively. These on-behalf payments have been recorded as nonoperating state appropriations revenues and operating compensation and employee benefit expenses in the statements of revenues, expenses and changes in net assets.

Supplemental Retirement Plan

Plan Description

The Supplemental Retirement Plan (the Plan) is a single-employer defined benefit pension plan administered by the University. It guarantees eligible employees a level of retirement benefits. If Social Security and OTRS payments do not equal one-half of the employees highest three years' earnings, the University pays the balance from the current year's operating budget. The authority to establish and amend benefit provisions rests with the Board of Regents. The Plan does not issue a separate financial report, nor is it included in the financial report of another entity.

Funding Policy

The Plan is not funded and benefits do not vest to the participants until their retirement. The University has been funding the benefits on a "pay as you go" basis. Only certain employees are eligible to participate in the Plan and the Plan has been discontinued. During the years ended June 30, 2010, 2009, 2008, the University paid approximately \$31,000, \$31,000 and \$30,000, respectively, to retirees under the Plan.

Notes to Financial Statements

June 30, 2010 and 2009

Note G – Retirement Plans – Continued

Supplemental Retirement Plan – Continued

Annual Pension Cost and Net Pension Obligation

The pension cost and pension obligation have not substantially changed from prior years and the liability is considered to be immaterial to these financial statements.

Note H – Other Post-Employment Insurance Benefits

In addition to pension benefits as described in Note G, the University pays the life insurance premiums for retired employees until death. A retiring employee must have been employed full-time in the Oklahoma State System of Higher Education for not less than ten years immediately preceding the date of retirement, been a member of OTRS during that time, and elected to receive a vested benefit under the provisions of OTRS. The University funds the payments for this benefit out of current operations. Each retiree is eligible to receive \$10,000 of life insurance coverage at a cost to the University of \$.29 per \$1,000 of coverage. As of June 30, 2010, there were approximately 133 active employees and 49 retirees covered under the life insurance program. Authority to establish and amend benefit provisions rests with the Board of Regents. The OPEB Plan does not issue a stand-alone financial report.

Funding Policy

Contribution requirements of the University are established and may be amended by the Board of Regents. All contributions are made by the University. Benefits are funded under a “pay as you go” funding method; however, expenses are recorded as benefits accumulate.

The University’s annual life insurance cost and net obligation of the Plan were comparable with the prior year and the liability is considered to be immaterial to these financial statements.

Note I – Funds Held in Trusts by Others

The University has a beneficial interest in the “Section Thirteen Fund State Educational Institutions” and the “New College Fund” administered by the Commissioners of the Land Office of the State of Oklahoma as trustee for the various educational institutions entitled thereto. The University has the right to receive annually approximately 3.7% of the distributions of income produced by “Section Thirteen Fund State Educational Institutions” assets and “New College Fund”. The University received approximately \$963,950 and \$757,000 from these funds during the years ended June 30, 2010 and 2009, respectively, which is restricted to the construction or acquisition of buildings, equipment, or other capital items. These appropriated amounts are recorded as restricted state appropriations in the statements of revenues, expenses and changes in net assets. State law prohibits the distribution of any corpus of these funds to the beneficiaries. The total trust reserve for the University, held in trust by the Commissioners of the Land Office, is approximately \$13,492,719 and \$12,374,371 at June 30, 2010 and 2009, respectively.

Notes to Financial Statements

June 30, 2010 and 2009

Note J – Related Party Transactions

The following is a summary of transactions between the University and the Foundation during the years ended June 30:

	2010	2009
Direct support from the Foundation to the University	\$ 188,604	\$ 118,466
Scholarships paid directly by the Foundation to University students	168,925	148,268

The following is a summary of transactions between the University and OPSU Student Housing, LLC during the years ended June 30:

	2010	2009
Charges to students' accounts on behalf of OPSU Student Housing, LLC by the University	\$ 523,455	\$ 518,272
Transfer of cash to OPSU Student Housing, LLC by University	498,000	506,810

Note K – Commitments and Contingencies

The University participates in a number of other federally assisted grant and contract programs. These programs are subject to financial and compliance audits by the grantors or their representatives. Such audits could lead to requests for reimbursement to the grantor agency for expenditures disallowed under terms of the grant. The amount for expenditures that may be disallowed by the granting agencies cannot be determined at this time, although it is believed by the University that the amount, if any, would not be significant. The University participates in the Federal Family Education Loan Program (the FFEL Program), which includes the Federal Stafford Loan Program and Federal Parents' Loans for Undergraduate Students Program. The FFEL Program does not require the University to draw-down cash; however, the University is required to perform certain administrative functions under the FFEL Program. Failure to perform such functions may require the University to reimburse the loan guarantee agencies. For the years ended June 30, 2010 and 2009, approximately \$3,855,992 and \$3,418,444, respectively, of FFEL Program loans were provided to University students.

During the ordinary course of business, the University may be subjected to various lawsuits and civil action claims. There were no pending lawsuits or claims against the University at June 30, 2010 and 2009 that management believes would result in a material loss to the University in the event of an adverse outcome.

Note L – Risk Management

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

Notes to Financial Statements

June 30, 2010 and 2009

Note L – Risk Management – Continued

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

EXHIBIT I

PANHANDLE STATE FOUNDATION

AUDIT REPORT

FOR THE YEARS ENDED

DECEMBER 31, 2009 and 2008

PANHANDLE STATE FOUNDATION

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BROWN, GRAHAM & COMPANY
PROFESSIONAL CORPORATION
CERTIFIED PUBLIC ACCOUNTANTS

P.O. Box 67 • Spearman, Texas 79081 • 806-659-2538

INDEPENDENT AUDITOR'S REPORT

To the Board of Directors
Panhandle State Foundation
Goodwell, Oklahoma

We have audited the accompanying statements of financial position of the Panhandle State Foundation (a nonprofit organization) (the "Foundation") as of December 31, 2009 and 2008, and the related statements of activities and cash flows for the years then ended. These financial statements are the responsibility of the Foundation's management. Our responsibility is to express an opinion on these financial statements based on our audits.

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

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the Panhandle State Foundation as of December 31, 2009 and 2008, and the changes in its net assets and cash flows for the years then ended in conformity with accounting principles generally accepted in the United States of America.

Brown, Graham & Company, P.C.

Spearman, Texas
July 27, 2010

PANHANDLE STATE FOUNDATION

STATEMENTS OF FINANCIAL POSITION

December 31, 2009 and 2008

	2009	2008
ASSETS		
Cash and cash equivalents	\$ 109,406	\$ 726,706
Temporary investments	160,259	160,420
Investments (at fair market value)	5,962,297	5,283,436
Receivables:		
Accrued interest	417	860
Interest in net assets of perpetual trust	425,497	386,581
Property and equipment (net of accumulated depreciation)	1,221	1,775
Total assets	\$ 6,659,097	\$ 6,559,778
 LIABILITIES AND NET ASSETS		
Liabilities:		
Accrued compensated absences	\$ 3,562	\$ 2,250
Funds held in custody for others	153,641	150,902
Total liabilities	157,203	153,152
 Net Assets:		
Unrestricted	3,742,079	3,109,942
Temporarily restricted	261,835	948,131
Permanently restricted	2,497,980	2,348,553
Total net assets	6,501,894	6,406,626
Total liabilities and net assets	\$ 6,659,097	\$ 6,559,778

The accompanying notes are an integral part of these financial statements.

PANHANDLE STATE FOUNDATION

STATEMENTS OF ACTIVITIES

Years Ended December 31, 2009 and 2008

<u>CHANGE IN UNRESTRICTED NET ASSETS</u>	<u>2009</u>	<u>2008</u>
Unrestricted revenues, gains and (losses):		
Contributions	\$ 38,746	\$ 174,043
Investment income	287,368	301,356
Net unrealized gains (losses) on investments	<u>572,220</u>	<u>(1,167,098)</u>
Total unrestricted revenues, gains and (losses)	898,334	(691,699)
Net assets released from restrictions:		
Satisfaction of program restrictions	1,049,183	466,013
Reclassifications	<u>4,123</u>	<u>-</u>
Total unrestricted revenues, gains, (losses), and reclassifications	<u>1,951,640</u>	<u>(225,686)</u>
Expenses:		
Program services:		
Scholarships for University students	259,497	256,282
Non-scholarship support to University	957,233	366,748
Supporting services:		
General and administrative	102,219	96,163
Depreciation	<u>554</u>	<u>1,046</u>
Total expenses	<u>1,319,503</u>	<u>720,239</u>
Increase (decrease) in unrestricted net assets	<u>632,137</u>	<u>(945,925)</u>
 <u>CHANGE IN TEMPORARILY RESTRICTED ASSETS</u>		
Revenues and gains:		
Contributions	378,472	399,979
Net assets released from restrictions:		
Satisfaction of program restrictions	(1,049,183)	(466,013)
Reclassifications	<u>(15,585)</u>	<u>-</u>
Increase (decrease) in temporarily restricted assets	<u>(686,296)</u>	<u>(66,034)</u>
 <u>CHANGES IN PERMANENTLY RESTRICTED ASSETS</u>		
Revenues and gains:		
Contributions	99,049	52,989
Change in interest in perpetual trust	38,916	(175,728)
Reclassifications	<u>11,462</u>	<u>-</u>
Increase (decrease) in permanently restricted assets	<u>149,427</u>	<u>(122,739)</u>
Total increase (decrease) in net assets	95,268	(1,134,698)
 NET ASSETS, beginning of year	<u>6,406,626</u>	<u>7,541,324</u>
NET ASSETS, end of year	<u>\$ 6,501,894</u>	<u>\$ 6,406,626</u>

The accompanying notes are an integral part of these financial statements.

PANIHANDLE STATE FOUNDATION

STATEMENTS OF CASH FLOWS

Years Ended December 31, 2009 and 2008

<u>CASH FLOWS FROM OPERATING ACTIVITIES</u>	<u>2009</u>	<u>2008</u>
Cash received from contributions	\$ 412,048	\$ 577,321
Interest and dividends	287,811	306,946
Cash paid to suppliers and employees	(95,736)	(90,994)
Cash paid for scholarships & other support	(1,216,731)	(623,030)
Net cash flows from operating activities	<u>(612,608)</u>	<u>170,243</u>
 <u>CASH FLOWS FROM INVESTING ACTIVITIES</u>		
Increase in funds held in custody for others	2,739	19,655
Proceeds from sale of investments	285,109	799,124
Purchase of investments	(362,170)	(1,590,998)
Net cash flows from investing activities	<u>(74,322)</u>	<u>(772,219)</u>
 <u>CASH FLOWS FROM FINANCING ACTIVITIES</u>		
Contributions restricted for investment in endowment	69,630	52,989
Net cash flows from financing activities	<u>69,630</u>	<u>52,989</u>
Net increase (decrease) in cash and cash equivalents	(617,300)	(548,987)
CASH AND CASH EQUIVALENTS, beginning of year	<u>726,706</u>	<u>1,275,693</u>
CASH AND CASH EQUIVALENTS, end of year	<u>\$ 109,406</u>	<u>\$ 726,706</u>

RECONCILIATION OF CHANGES IN NET ASSETS TO CASH FLOWS FROM OPERATING ACTIVITIES

Increase (decrease) in net assets	\$ 95,268	\$ (1,134,698)
Adjustments to reconcile increase (decrease) in net assets to net cash flows from operating activities:		
Net unrealized (gain) loss on investments	(572,220)	1,167,098
Change in interest in perpetual trust	(38,916)	175,728
Depreciation	554	1,046
Contributions restricted for endowment	(99,049)	(52,989)
Change in assets and liabilities:		
(Increase) decrease in contributions receivable	-	8,469
(Increase) decrease in accrued interest receivable	443	5,589
Increase (decrease) in accounts payable	1,312	-
Net cash flows from operating activities	<u>\$ (612,608)</u>	<u>\$ 170,243</u>

SUPPLEMENTAL DISCLOSURES:

Non-cash contributions received	<u>\$ 34,590</u>	<u>\$ 5,170</u>
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The accompanying notes are an integral part of these financial statements.

PANHANDLE STATE FOUNDATION

NOTES TO FINANCIAL STATEMENTS

Years Ended December 31, 2009 and 2008

1. ORGANIZATION

Panhandle State Foundation (the Foundation) was established November 9, 1961, as a private non-profit organization for the benefit of Oklahoma Panhandle State University (the University). The Foundation awards scholarships to University students and provides general support to the University. In addition, the Foundation maintains and services the funds for various organizations and support groups of the University. A board of directors governs the Foundation, which is separate and distinct from the board of regents, the governing board of the University.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

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 are recognized when a liability is incurred. Expenses incurred but not paid at year-end are represented as a liability on the statements 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 accompanying financial statements are presented in accordance with Financial Accounting Standards Board (FASB) Accounting Standards Codification No. 958, which requires the Foundation to report information regarding its financial position and activities according to three classes of net assets: unrestricted, temporarily restricted, and permanently restricted.

Unrestricted net assets represent resources over which the Board of Directors has unlimited discretionary control to carry out the activities of the Foundation. Temporarily restricted net assets represent resources whose use is limited by donor-imposed restrictions that will be met either by actions of the organization or by the passage of time. Permanently restricted net assets represent resources whose use is limited by donor-imposed restrictions that require the net assets to be maintained permanently.

Contributions Received and Made - In accordance with FASB Accounting Standards Codification No. 958, pledges from contributors are recognized as revenues in the period designated by the donor. Unsolicited contributions are recognized as revenues when received. FASB Accounting Standards Codification No. 958 defines a contribution as "an unconditional transfer of cash or other assets....Other assets include unconditional promises to give." FASB Accounting Standards Codification No. 958 also requires the recognition of a liability for an unconditional promise to give by the Foundation. The liability and associated expense should be recognized at the time when the Foundation has an obligation to transfer the promised assets in the future, which generally occurs when the donor approves a specific grant or when the recipient is notified.

Recognition of Donor Restrictions - Revenues restricted by donor's are reported as an increase in unrestricted net assets if the restriction expires in the reporting period in which the revenues are received. All other donor restricted revenues are reported as an increase in temporarily or permanently restricted net assets depending on the nature of the restriction. When a restriction expires, temporarily restricted net assets are reclassified to unrestricted net assets.

PANHANDLE STATE FOUNDATION

NOTES TO FINANCIAL STATEMENTS

Years Ended December 31, 2009 and 2008

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Property and Equipment - Purchased property and equipment is recorded at cost while donated property and equipment is recorded at fair market value at the date of donation. Depreciation of property and equipment is calculated on the estimated useful life of the assets using the straight-line method as follows:

Computer equipment and software	5 - 7 years
Furniture and fixtures	10 years

Statements of Cash Flows - For purposes of the statements of cash flows, cash and cash equivalents include bank checking and savings accounts and certificates of deposit with original maturities of 90 days or less.

Investments - In accordance with FASB Accounting Standards Codification No. 958-320, investments in marketable securities with readily determinable fair values and all investments in debt securities are valued at their fair value in the statements of financial position. Net unrealized and realized gains and losses on investments are included in the statements of activities as changes in unrestricted net assets.

Use of Estimates - Management uses estimates and assumptions in preparing financial statements. Those estimates and assumptions affect the reported amounts of assets, liabilities, and net assets, the disclosure of contingent assets and liabilities, and the reported revenues and expenses. Actual results could differ from those estimates.

Income Tax Status - The Panhandle State Foundation qualifies as an organization 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.

3. CASH AND CASH EQUIVALENTS

For purposes of these financial statements, cash equivalents consist of deposits in checking and money market accounts.

	2009	2008
Checking account	\$ 67,732	\$ 205,174
Money market	41,674	521,532
Total cash and cash equivalents	<u>\$ 109,406</u>	<u>\$ 726,706</u>

Certificates of deposit with an original maturity in excess of 90 days are reported as temporary investments rather than cash equivalents. A credit risk exists when deposits held at a financial institution are in excess of FDIC insured amounts or when cash accounts at brokerage firms exceed SIPC limits. Total deposits in excess of FDIC and SIPC limits were \$0 and \$271,531 for the years ended December 31, 2009 and 2008, respectively.

PANHANDLE STATE FOUNDATION

NOTES TO FINANCIAL STATEMENTS

Years Ended December 31, 2009 and 2008

4. INVESTMENTS IN SECURITIES

The Foundation's investments in securities, at fair market value, include the following as of December 31, 2009 and 2008:

	<u>2009</u>	<u>2008</u>
Common stocks	\$ 2,513,825	\$ 2,095,252
Mutual funds	330,293	261,282
Corporate bonds	435,084	322,341
Asset and mortgage backed securities	2,683,095	2,604,561
Total investments	<u>\$ 5,962,297</u>	<u>\$ 5,283,436</u>

Total investment return consists of the following components:

	<u>2009</u>	<u>2008</u>
Interest income	\$ 184,460	\$ 174,032
Dividend income	102,908	127,324
Net gains and losses on investments reported at fair value	572,220	(1,167,098)
Total investment return	<u>\$ 859,588</u>	<u>\$ (865,742)</u>

5. FAIR VALUE MEASUREMENTS

FASB ASC No. 820-10-50, Fair Value Measurements, establishes a framework for measuring fair value. That framework provides a fair value hierarchy that prioritizes the inputs to valuation techniques used to measure fair value. The hierarchy gives the highest priority to unadjusted quoted prices in active markets for identical assets or liabilities (level 1 measurements) and the lowest priority to unobservable inputs (level 3 measurements). The three levels of the fair value hierarchy under FASB ASC No. 820-10-50 are described as follows:

Level 1 – Inputs to the value methodology are quoted prices available in active markets for identical investments as of the reporting date;

Level 2 – Inputs to the valuation methodology are other than quoted prices in active markets, which are either directly or indirectly observable as of the reporting date, and fair value can be determined through the use of model or other valuation methodologies; and

Level 3 – Inputs to the valuation methodology are unobservable inputs in situations where there is little or no market activity for the asset or liability and the reporting entity makes estimates and assumptions related to the pricing of the asset or liability including assumptions regarding risk.

The fair market values of the Foundation's investments are determined from quoted prices in active markets, (Level 1, as defined above) as of December 31, 2009, and December 31, 2008.

PANHANDLE STATE FOUNDATION

NOTES TO FINANCIAL STATEMENTS

Years Ended December 31, 2009 and 2008

6. PROPERTY AND EQUIPMENT

Investment in property and equipment, at December 31, 2009 and 2008, was as follows:

	Balance 1/1/09	Additions	Dispositions	Balance 12/31/09
Computer equipment and software	\$ 8,489	\$ -	\$ -	\$ 8,489
Accumulated Depreciation	(6,714)	(554)	-	(7,268)
Net property and equipment	<u>\$ 1,775</u>	<u>\$ (554)</u>	<u>\$ -</u>	<u>\$ 1,221</u>

	Balance 1/1/08	Additions	Dispositions	Balance 12/31/08
Computer equipment and software	\$ 8,489	\$ -	\$ -	\$ 8,489
Accumulated Depreciation	(5,668)	(1,046)	-	(6,714)
Net property and equipment	<u>\$ 2,821</u>	<u>\$ (1,046)</u>	<u>\$ -</u>	<u>\$ 1,775</u>

7. INTEREST IN NET ASSETS OF PERPETUAL TRUST

The Foundation is the beneficiary of assets held in trust by other foundations. Two donors created trusts that are managed through Baptist Foundation of Oklahoma and the Oklahoma United Methodist Foundation. These assets are to be held in perpetuity by the respective foundations, with the trust income to be distributed annually to the Panhandle State Foundation. The funds received from these trusts are for general scholarships and therefore reported as unrestricted. Investments of the trusts were valued at \$425,497 and \$386,581 on December 31, 2009 and 2008, respectively. In accordance with FASB Accounting Standards Codification No. 958, the value of the assets held in trust have been reported as an asset of the Panhandle State Foundation.

8. FUNDS HELD IN CUSTODY FOR OTHERS

The Foundation holds in custody and services various funds belonging to the Alumni Association. Although these funds are administered by the Foundation, the Foundation does not exercise control over the funds. Accordingly, these amounts are presented as liabilities in the accompanying statements of financial position. The balances of these funds as of December 31, 2009 and 2008, include the following:

	2009	2008
Alumni Association	<u>\$ 153,641</u>	<u>\$ 150,902</u>

9. COMPENSATED ABSENCES

Employees earn annual leave at a rate of 20 hours per month. Upon leaving employment with the Foundation, an employee with one or more years of service is paid for accrued annual leave up to a maximum of 36 days. The liability for accrued compensated absences as of December 31, 2009 and 2008, was \$3,562 and \$2,250.

PANHANDLE STATE FOUNDATION

NOTES TO FINANCIAL STATEMENTS

Years Ended December 31, 2009 and 2008

10. RESTRICTED NET ASSETS

Temporarily restricted net assets are available for the following purposes as specified by the donor:

	12/31/2008	Increase	Decrease	Reclass	12/31/2009
Contributions received for scholarships	\$ 123,616	\$ 103,995	\$ 91,949	\$ (15,561)	\$ 120,101
Contributions received for staff development	11,948		1,000		10,948
Contributions received for specific programs and student groups	107,418	264,477	279,252	1,415	94,058
Contribution received for facilities and equipment	705,149	10,000	676,982	(1,439)	36,728
Total temporarily restricted net assets	<u>\$ 948,131</u>	<u>\$ 378,472</u>	<u>\$ 1,049,183</u>	<u>\$ (15,585)</u>	<u>\$ 261,835</u>

Included in the above amount restricted for facilities and equipment at December 31, 2008, was \$692,538 restricted specifically for equipping the new Science and Ag building. Payments for this purpose in 2009 were \$676,982.

Permanently restricted net assets are restricted to investments held in perpetuity, the income from which is expendable for scholarships to students and for the support of specified academic programs of the University. Permanently restricted net assets include the following endowment funds:

	Balance 12/31/2008	Market Increase or Decrease	Contributions	Reclass	Balance 12/31/2009
<u>Endowments</u>					
Lucille Rhoton Fund	\$ 319,621	\$ -	\$ -		\$ 319,621
Hazel E. Exline Scholarship Endowment	164,289	-	-		164,289
Mary Lee Memorial Endowment	160,000	-	-		160,000
Baughman Foundation Endowment	135,000	-	5,000		140,000
Dr. W.F. Dunaway Scholarship Fund	50,000	-	-		50,000
Imeta O'Neal Dent Music Scholarship	46,000	-	-		46,000
Marvin E. McKee Presidential Fund	35,000	-	-		35,000
Ruth Brown Art Scholarship	48,000	-	-		48,000
Downer Endowment	119,931	-	-		119,931
Other permanently restricted funds	884,131	-	94,049	11,462	989,642
Total Endowments	<u>1,961,972</u>	<u>-</u>	<u>99,049</u>	<u>11,462</u>	<u>2,072,483</u>
<u>Beneficial Interests</u>					
Interest in Allie Mitchell Trust	372,236	38,046	-		410,282
Interest in Robert Murphy Trust	14,345	870	-		15,215
Total Beneficial Interests	<u>386,581</u>	<u>38,916</u>	<u>-</u>	<u>-</u>	<u>425,497</u>
Total permanently restricted net assets	<u>\$2,348,553</u>	<u>\$ 38,916</u>	<u>\$ 99,049</u>	<u>\$ 11,462</u>	<u>\$2,497,980</u>

PANHANDLE STATE FOUNDATION

NOTES TO FINANCIAL STATEMENTS

Years Ended December 31, 2009 and 2008

10. RESTRICTED NET ASSETS (continued)

Selected funds within the three groups of net assets have been reclassified. Reclassified temporarily restricted net assets and permanently restricted net assets are included in the "Reclass" columns of the tables listed on the previous page. Permanently restricted net assets consisting of funds that were determined to be inactive and inadequate to provide scholarships were consolidated with other funds with similar objectives. Funds in the temporarily restricted net assets grouping that had accumulated enough contributions to endow a continuing scholarship have been reclassified as permanently restricted net assets.

The Foundation has interpreted the State Prudent Management of Institutional Funds Act (SPMIFA) as requiring the preservation of the fair value of the original gift as of the date the donor restricted endowment funds are received, absent of any explicit donor stipulations to the contrary.

The Foundation's goal is to invest endowed assets in such a way as to provide a predictable stream of funding for scholarships to the University while preserving the original principal of endowed funds. When selecting investments, more emphasis is given to investment return rather than growth as a means to provide more current income for scholarships. The rate of return on investments varies according to the market, but the Foundation has been able to consistently maintain a minimum return of at least 5% over the past few years.

The Foundation utilizes a total return approach whereby all funds are pooled for investing and the total earnings are reported as unrestricted net assets. The total earnings are first used to fund the endowed scholarships and the remainder is then used to provide general scholarship support to the University. Any unrealized gains or losses on investments are also reported as unrestricted net assets so that the original amount of the endowment principal is maintained.

11. SUMMARY OF SUPPORTING SERVICES

Following is a summary of general and administrative supporting services by type of expenditure for the year ended December 31, 2009 and 2008.

General and Administrative:	2009	2008
Salaries and benefits	\$ 74,307	\$ 69,110
Audit and legal	8,072	6,693
Office supplies	2,409	2,551
Postage	1,650	2,977
Printing	5,683	3,920
Travel	1,254	907
Meeting expense	3,427	3,545
Other current expense	247	1,290
Facility expense	5,170	5,170
Total general and administrative	\$ 102,219	\$ 96,163

PANHANDLE STATE FOUNDATION

NOTES TO FINANCIAL STATEMENTS

Years Ended December 31, 2009 and 2008

12. RELATED PARTY TRANSACTIONS

During the year ended December 31, 2009 and 2008, the Foundation awarded scholarships totaling approximately \$259,497 and \$256,282 respectively, to students and faculty members of the University. In addition, the Foundation paid for goods and services on behalf of the University totaling \$957,233 and \$366,748 for 2009 and 2008 respectively. Included in contribution revenues and in general and administrative expenses for both years is \$5,170 for office space contributed by the University to the Foundation.

13. RELATED ENTITY

The Panhandle State Foundation is the sole owner of the OPSU Student Housing, LLC, a single-member limited liability company created to build and manage a student housing facility on the OPSU campus. The LLC is to exist until all construction related debt is satisfied. By contract, the University controls the LLC. The Foundation has no transactions with the LLC, it has no investment in the LLC, it is not entitled to any distribution of net profits from the LLC, and all assets of the LLC pass directly to the University upon dissolution of the LLC. In accordance with the Financial Accounting Standards Board (FASB) Accounting Standards Codification No. 810-10-15 the financial statements of the LLC have not been consolidated with the financial statements of the Panhandle State Foundation.

14. SUBSEQUENT EVENTS

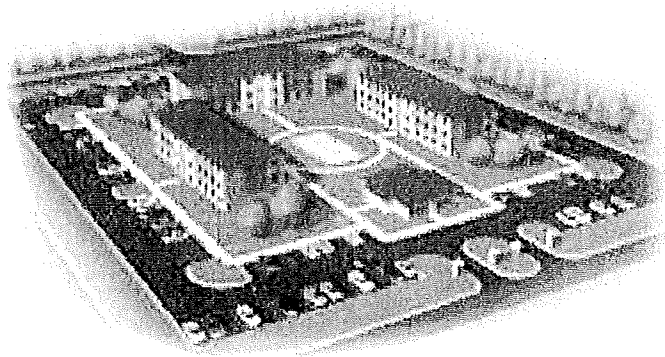
Subsequent events have been evaluated through July 27, 2010, the date of which the financial statements were issued.

EXHIBIT II

AUDIT REPORT

OPSU STUDENT HOUSING, L.L.C.
GOODWELL, OKLAHOMA

JUNE 30, 2010



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OPSU STUDENT HOUSING, L.L.C.
GOODWELL, OKLAHOMA
JUNE 30, 2010

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EXHIBIT B STATEMENT OF OPERATIONS AND CHANGES IN MEMBER'S DEFICIT	5
EXHIBIT C STATEMENT OF CASH FLOWS	6
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INDEPENDENT AUDITOR'S REPORT

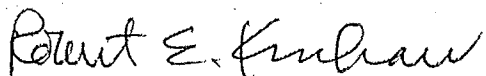
To the Board of Trustees
OPSU Student Housing, L.L.C.
Goodwell, Oklahoma

I have audited the accompanying financial statements of the OPSU Student Housing, L.L.C. (the "LLC") as of and for the fiscal year ended June 30, 2010, as listed in the table of contents. These financial statements are the responsibility of the OPSU Student Housing, L.L.C.'s management. My responsibility is to express an opinion on these financial statements based on my audit.

I conducted my audit in accordance with auditing standards generally accepted in the United States of America. Those standards require that I plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes consideration of internal control over financial reporting as a basis for designing audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the LLC's internal control over financial reporting. Accordingly, I express no such opinion. An audit also includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. I believe that my audit provides a reasonable basis for my opinion.

In my opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the OPSU Student Housing, L.L.C. as of June 30, 2010, and the results of its operations and cash flows for the year then ended, in conformity with U.S. generally accepted accounting principles.

As discussed in Note A to the financial statements, the accompanying financial statements have been prepared from separate records maintained by the LLC and may not necessarily indicate the conditions that would have existed or the revenues and expenses that would have occurred if the LLC had been operated as an unaffiliated company.



Robert E. Kershaw, Certified Public Accountant
A Professional Limited Liability Company
August 25, 2010

OPSU STUDENT HOUSING, L.L.C.
GOODWELL, OKLAHOMA
BALANCE SHEET
JUNE 30, 2010

<u>ASSETS</u>	<u>2010</u>	<u>Memo Only 2009</u>
<u>CURRENT ASSETS:</u>		
Cash and cash equivalents	\$ 132,111	\$ 103,593
Investments with Bond Trustees	623,830	534,513
Accounts receivable from Panhandle State University	23,111	23,111
Accounts receivable from residents, net of allowance for doubtful accounts of \$109,878 and \$99,878 for 2010 and 2009, respectively	10,178	16,230
Other assets	3,853	4,340
TOTAL CURRENT ASSETS	<u>793,082</u>	<u>681,787</u>
<u>OTHER ASSETS:</u>		
Investment with Bond Trustees	383,006	383,767
Property and equipment, net of accumulated depreciation	3,324,522	3,479,232
TOTAL ASSETS	<u>\$ 4,500,610</u>	<u>\$ 4,544,787</u>
<u>LIABILITIES & MEMBER'S EQUITY (DEFICIT)</u>		
<u>CURRENT LIABILITIES:</u>		
Accounts payable and accrued expenses	\$ 129,544	\$ 130,177
Deferred revenue	10,431	10,412
Current portion of long-term debt	110,000	95,000
Total Current Liabilities	<u>249,975</u>	<u>235,589</u>
<u>LONG-TERM LIABILITIES:</u>		
Tax exempt bonds payable, net of discount	5,026,619	5,133,935
Taxable bonds payable, net of discount	-	-
Total Long-Term Liabilities	<u>5,026,619</u>	<u>5,133,935</u>
TOTAL LIABILITIES	<u>5,276,594</u>	<u>5,369,524</u>
MEMBER'S DEFICIT	<u>(775,984)</u>	<u>(824,737)</u>
TOTAL LIABILITIES AND NET ASSETS	<u>\$ 4,500,610</u>	<u>\$ 4,544,787</u>

See Accountant's Audit Report & Notes Which Accompany These Financial Statements

EXHIBIT B

OPSU STUDENT HOUSING, L.L.C.
GOODWELL, OKLAHOMA
STATEMENT OF OPERATIONS AND CHANGES IN MEMBER'S DEFICIT
FOR THE YEAR ENDED JUNE 30, 2010

	<u>2010</u>	<u>Memo Only 2009</u>
<u>REVENUES:</u>		
Rental	\$ 514,805	\$ 503,864
Investment income	1,648	7,996
Miscellaneous income	8,631	12,375
TOTAL REVENUES	<u>525,084</u>	<u>524,235</u>
<u>EXPENSES:</u>		
Interest	274,221	276,787
Depreciation	154,711	154,711
Insurance expense	30,624	33,572
Professional fees	1,750	5,250
Payroll expense	-	-
Bad debt expense	10,000	20,000
Issuance costs	-	-
Repairs and maintenance	-	-
Other expenses	5,025	6,732
TOTAL EXPENSES	<u>476,331</u>	<u>497,052</u>
NET INCOME (LOSS)	48,753	27,183
MEMBER'S DEFICIT AT BEGINNING OF YEAR	(824,737)	(865,167)
MEMBER'S DEFICIT, PRIOR YEAR ADJUSTMENT	<u>-</u>	<u>13,247</u>
MEMBER'S DEFICIT AT END OF YEAR	<u>\$ (775,984)</u>	<u>\$ (824,737)</u>

See Accountant's Audit Report & Notes Which Accompany These Financial Statements

EXHIBIT C

OPSU STUDENT HOUSING, L.L.C.
GOODWELL, OKLAHOMA
STATEMENT OF CASH FLOWS
FOR THE YEAR ENDED JUNE 30, 2010

	<u>2010</u>	<u>Memo Only 2009</u>
Cash Flows from Operating Activities:		
Net income (loss)	\$ 48,753	\$ 27,183
Add(Deduct) Items Not Affecting Cash:		
Depreciation	154,711	154,711
Amortization	2,684	2,684
Bad debt expense	10,000	20,000
(Increase)Decrease in Accounts Receivable from OPSU	-	-
(Increase)Decrease in Accounts Receivable from residents	(3,947)	(12,862)
(Increase)Decrease in Other assets	487	2,052
Increase(Decrease) in Accounts Payable and accrued expenses	(633)	(3,967)
Increase(Decrease) in Deferred revenue	19	2,033
	<u>212,073</u>	<u>191,834</u>
Net Cash Provided (Used) by Operating Activities		
Cash Flows from Investing Activities:		
Net change in deposits with Trustees	(88,555)	(134,494)
Property and equipment purchases	-	-
	<u>(88,555)</u>	<u>(134,494)</u>
Net Cash Flows from Investing Activities		
Cash Flows from Financing Activities:		
Payment on Taxable Bonds	(95,000)	(75,000)
	<u>(95,000)</u>	<u>(75,000)</u>
Net Cash Flows from Financing Activities		
Net Increase (Decrease) in Cash	28,518	(17,660)
Cash, Beginning of Year	103,593	108,006
Cash, Prior Year Adjustment	-	13,247
	<u>\$ 132,111</u>	<u>\$ 103,593</u>
Supplemental Cash Flow Information:		
Interest expensed	\$ 274,221	\$ 276,787
Interest capitalized	-	-
Amortization of bond discount	(2,684)	(2,684)
Decrease in accrued interest payable	633	1,467
Cash paid for interest	<u>\$ 272,170</u>	<u>\$ 275,570</u>

See Accountant's Audit Report & Notes Which Accompany These Financial Statements

OPSU STUDENT HOUSING, L.L.C.
GOODWELL, OKLAHOMA
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2010

NOTE 1 - SUMMARY OF ACCOUNTING POLICIES

Background:

OPSU Student Housing, L.L.C. (the "LLC") is responsible for administration and operations of a student housing facility (the "Project") constructed with the proceeds of revenue bonds. The LLC is governed by a Board of Trustees comprised primarily of management of Oklahoma Panhandle State University (the "University"). The LLC's sole member, Panhandle State Foundation (the "Foundation"), is an Oklahoma not-for-profit corporation formed to promote the projects of the University.

On November 1, 2003, the Texas County Development Authority (the "Issuer") issued its 2003 Series A and 2003 Series B Student Housing Revenue Bonds (the "Bonds"), totaling \$5,455,000. The proceeds of the Bonds were loaned to the LLC pursuant to a loan agreement dated November 1, 2003.

The University is responsible for collection of monthly rentals and management of the operations of the LLC under a Manage and Maintain agreement dated November 1, 2003. The LLC is responsible for the payment of the interest and principal obligations on the outstanding bonds and limited administrative expenses. Excess funds in the LLC, if any, as determined by the Ground Lease Agreement described in Note E, are transferred to the University annually.

Nature of Operations:

The Project consists of a 144 bed housing facility located in Goodwell, Oklahoma, on the campus of the University.

Basis of Accounting:

The financial statements of the LLC have been prepared on the accrual basis of accounting in accordance with accounting principles generally accepted in the United States of America. The accompanying financial statements have been prepared from the separate records maintained by the LLC and may not indicate the conditions that would have existed if the LLC had been operated as an affiliated company.

Use of Estimates:

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America includes the

OPSU STUDENT HOUSING, L.L.C.
GOODWELL, OKLAHOMA
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2010

use of estimates that affect certain reported amounts and disclosures. Accordingly, actual results could differ from those estimates.

Cash and Cash Equivalents:

For purposes of the statement of cash flows, the LLC considers all highly liquid investments with original maturities of three months or less to be cash equivalents, except for treasury bills, commercial paper, and other short term financial instruments included in the LLC's investment accounts. The carrying amount of cash and cash equivalents approximates fair value due to short maturity of these financial instruments.

Investments:

Investments in marketable securities are stated at fair value, based on quoted market prices.

Accounts Receivable:

Accounts receivable from residents 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, by using historical experience applied to any aging of accounts, and by considering the general economy and the industry as a whole. Student accounts are written off when deemed uncollectible. Recoveries of students' accounts previously written off are credited to the allowance for doubtful accounts.

Property and Equipment:

Property and equipment are stated at cost. Depreciation is computed using the straight-line method over the estimated useful lives of the assets. Buildings are depreciated over a thirty year life and furniture and equipment are depreciated over ten years. The cost of maintenance and repairs is charged to expense as incurred. The capitalization threshold has been set at \$4,000.00.

Revenue Recognition:

The LLC generally leases units based on single semester lease agreements for which students are billed at the beginning of each semester. Deferred revenues are recorded for unearned rent.

OPSU STUDENT HOUSING, L.L.C.
GOODWELL, OKLAHOMA
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2010

Financial Instruments:

Due to their short maturity, the carrying amounts of accounts receivable, accounts payable, and accrued liabilities approximated their fair values at June 30, 2010. The LLC estimates that the carrying amount of long-term debt described in Note 6 would not differ materially from fair value because those instruments bear interest rates that are close to current market rates.

Costs of Borrowing:

Interest costs incurred on funds borrowed to finance the Project, net of interest earned on short-term investment of the proceeds of such borrowings, are capitalized as a component of the cost of acquiring such assets during the construction period.

Debt issue costs incurred in connection with the issuance of the bonds are written off in the year incurred. The debt issue costs written off were \$0 and \$0 during the years ended June 30, 2010 and 2009, respectively.

Income Taxes:

For federal income tax purposes, the LLC, as a wholly owned limited liability company of a single tax exempt organization, is disregarded as an entity separate from its owner. Accordingly, the Foundation treats the operations of the LLC as its own for income tax and information reporting purposes, and includes the operating results of the LLC in its tax return. Therefore, neither provision nor benefits for income taxes will be recorded by the LLC.

NOTE 2 - INVESTMENTS

The funds held by the Bond Trustees consist of cash, money market investments, securities that are primarily issued by the U.S. government and various other financial instruments. These short-term investments are primarily stated at cost, which approximates market.

Under the terms of the various trust indentures or similar documents, various funds such as revenue, operating, bond, and debt service must be established and maintained for each of the projects. These or associated documents govern the types of investments and requirements for collateralization.

OPSU STUDENT HOUSING, L.L.C.
 GOODWELL, OKLAHOMA
 NOTES TO FINANCIAL STATEMENTS
 JUNE 30, 2010

The Bond indentures contain significant limitations and restrictions on annual debt service requirements, maintenance of and flow of monies through various restricted accounts, minimum amounts to be maintained in various sinking funds, and minimum bond coverages. Investments are maintained in the following accounts at:

	June 30,	
	2010	2009
Debt Service Reserve Fund	\$ 383,006	\$ 383,767
Surplus Fund	13,270	13,243
Revenue Fund	460,557	380,634
2003 A Bond Fund	118,378	109,012
Operating Fund	31,625	31,625
2003 B Bond Fund	-	-
	\$ 1,006,836	\$ 918,281

Investment income, to the extent it exceeds capitalized interest for the respective project, is reported in income. Information necessary to report the proceeds of sales and purchases of investments for the statement of cash flows is not meaningful due to the nature of the investments and the large volume of transactions.

NOTE 3 - PROPERTY AND EQUIPMENT

Property and equipment consist of the following:

	June 30,	
	2010	2009
Buildings	\$ 4,032,325	\$ 4,032,325
Furniture and equipment	203,000	203,000
	4,235,325	4,235,325
Less: Accumulated depreciation	(910,804)	(756,093)
	\$ 3,324,522	\$ 3,479,232

NOTE 4 - CONCENTRATION OF CREDIT RISK

The LLC maintains cash balances with financial institutions. Accounts at each institution are insured by the Federal Deposit Insurance Corporation up to \$250,000. Periodically, the LLC maintains deposits in excess of

OPSU STUDENT HOUSING, L.L.C.
GOODWELL, OKLAHOMA
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2010

federally insured limits. Management monitors the soundness of these financial institutions and believes the LLC's risk is not significant. The balances in investments with Bond Trustees are invested according to bond documents which work to mitigate the credit risk of those investments.

NOTE 5 - GROUND LEASE

The ground lease agreement between the Board of Regents of the Oklahoma Agricultural and Mechanical Colleges (the "Board of Regents") and the LLC requires the LLC to pay to the Board of Regents of the College for the term beginning November 1, 2003 through October 31, 2043, the net available cash flow for the lease year ended November 1, as defined in the ground lease agreement. No rent is due or payable in years where the net available cash flow is zero or a negative amount. In addition to the base rent, the LLC shall pay directly, or reimburse the College upon written notice, for all real estate, personal property and other taxes, special assessments, insurance premiums and other charges, costs and expenses. The Trust Indenture restricts transfers to the Board of Regents for ground lease expense until the cumulative net available cash flows exceed \$150,000. Annual commitments for the ground lease for the succeeding five years are not yet determinable.

The liability of the LLC, with respect to its obligations under the ground lease, shall be non-recourse and the satisfaction of any of the LLC's obligations shall be limited to the LLC's interest in the property. Pursuant to the ground lease agreement, ground lease expense is to be calculated from November to November. For the years ended June 30, 2010 and 2009, no ground lease expense has been accrued, which is subject to adjustment at the calculation date.

NOTE 6 - LONG-TERM DEBT

Certain series of taxable and non-taxable bonds have been issued by the issuer as registered bonds pursuant to an indenture of trust between the Issuer and the Bond Trustees. The issuance of both tax-exempt and taxable bonds was due to the percentage limitation on the amount of tax exempt bond proceeds that can be used to pay transaction expenses and still maintain a tax-exempt status.

Pursuant to loan agreements between the Issuer and the LLC, the Issuer has loaned the proceeds of the Bonds to the LLC. The proceeds were used to finance the construction of the facilities, fund interest on the Bonds

OPSU STUDENT HOUSING, L.L.C.
GOODWELL, OKLAHOMA
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2010

during the construction period, fund a debt service reserve fund, and pay the cost of issuing the Bonds.

Pursuant to security agreements, leasehold deeds to secure debt, assignment of contract documents and assignment of rents between the LLC and the Bond Trustees, the LLC grants to the Bond Trustees first lien security title in the leasehold estates created by the ground leases and a security interest in the revenues and accounts generated by the operations of the LLC. The LLC also assigned to the Bond Trustees its rights under various agreements and contracts. Pursuant to the Bond indenture, the Issuer assigned all of its interest in the loan agreements to the Bond Trustees to secure the Bonds.

The Issuer and the Bond Trustees agree that the LLC will have no liability under the various agreements delivered in connection with the issuance of the bonds beyond its interest in the project.

Long-term debt consists of the following at June 30:

	<u>2010</u>	<u>2009</u>
Notes payable, secured by a mortgage on property:		
Due in four annual installments beginning November 1, 2007, interest payable semi-annually at 4.00%	\$ 110,000	\$ 205,000
Due in three annual installments beginning November 1, 2011, interest payable semi-annually at interest rates ranging between 4.00% to 4.40%	360,000	360,000
Due in five annual installments beginning November 1, 2014, interest payable semi-annually at 4.90%	715,000	715,000
Due in five annual installments beginning November 1, 2019, interest payable semi-annually at 5.25%	910,000	910,000
Due in eleven annual installments beginning November 1, 2024, interest payable semi-annually at 5.45%	3,080,000	3,080,000
	<u>5,175,000</u>	<u>5,270,000</u>
Less unamortized discount on bonds payable	38,381	41,065
	<u>5,136,619</u>	<u>5,228,935</u>
Less current maturities	110,000	95,000
	<u>\$ 5,026,619</u>	<u>\$ 5,133,935</u>

The unamortized bond discount recognized upon the issuance of the bonds is being amortized over the life of the bonds using the straight-line method.

OPSU STUDENT HOUSING, L.L.C.
 GOODWELL, OKLAHOMA
 NOTES TO FINANCIAL STATEMENTS
 JUNE 30, 2010

Maturities of long-term debt at June 30, 2010 are as follows:

<u>Year Ending June 30,</u>	<u>Tax Exempt</u>	<u>Taxable</u>	<u>Total</u>
2011	\$ 110,000	\$ -	\$ 110,000
2012	115,000	-	115,000
2013	120,000	-	120,000
2014	125,000	-	125,000
2015	130,000	-	130,000
2016-2020	750,000	-	750,000
2021-2025	955,000	-	955,000
2026-2030	1,245,000	-	1,245,000
2031-2035	1,625,000	-	1,625,000
	<u>\$ 5,175,000</u>	<u>\$ -</u>	<u>\$ 5,175,000</u>

Internal Control and Compliance Reports



**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 for the Oklahoma Agricultural and Mechanical Colleges
Oklahoma Panhandle State University
Oklahoma City, Oklahoma

We have audited the financial statements of Oklahoma Panhandle State University (the University) as of and for the year ended June 30, 2010, and have issued our report thereon dated October 28, 2010. We did not audit the financial statements of Panhandle State Foundation (the Foundation) and OPSU Student Housing, L.L.C (the LLC), separate discretely presented component units of Oklahoma Panhandle State University as of June 30, 2010 (presented as Exhibit I and II). Those financial statements were audited by other auditors, whose report thereon have been furnished to us, and in our opinion, insofar as it relates to the amounts included for the Foundation and the LLC, are based on the reports of the other auditors. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

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

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

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

Compliance and Other Matters

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

We noted a certain matter that we reported to management of the Oklahoma Panhandle State University in a separate letter dated October 28, 2010.

This report is intended solely for the use of the Audit and Compliance Committee, management, and the U.S. Department of Education and other federal awarding agencies and is not intended to be and should not be used by anyone other than these specified parties.

Tulsa, Oklahoma
October 28, 2010

A handwritten signature in black ink that reads "Stanfield & O'Sullivan, P.C." The signature is written in a cursive, flowing style.



**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**

Board of Regents for the Oklahoma Agricultural and Mechanical Colleges
Oklahoma Panhandle State University
Oklahoma City, Oklahoma

Compliance

We have audited the compliance of Oklahoma Panhandle State University (the University) with the types of compliance requirements described in *OMB Circular A-133 Compliance Supplement* that could have a direct and material effect on each of the University's major federal programs for the year ended June 30, 2010. The University's major federal programs are identified in the summary of auditors' results section of the accompanying schedule of findings and questioned costs. Compliance with the requirements of laws, regulations, contracts and grants applicable to each of its major federal programs is the responsibility of the University's management. Our responsibility is to express an opinion on the University's compliance based on our audit.

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

In our opinion, the University complied, in all material respects, with the compliance requirements referred to above that are applicable to each of its major federal programs for the year ended June 30, 2010.

Internal Control Over Compliance

The management of the University 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 University'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 on internal control over compliance in accordance with OMB Circular A-133, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of the University's internal control over compliance.

A deficiency in internal control over compliance exists when the design or operation of a control over compliance does not allow management or employees, in the normal course of performing their assigned function, 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 would not necessarily identify all deficiencies in internal control that might be significant deficiencies or material weaknesses. We did not identify any deficiencies in internal control over compliance that we consider to be material weaknesses, as defined above.

Schedule of Expenditures of Federal Awards

We have audited the basic financial statements of the University as of and for the year ended June 30, 2010, and have issued our report thereon dated October 28, 2010. Our audit was performed for the purpose of forming an opinion on the basic financial statements taken as a whole. The accompanying schedule of expenditures of federal awards is presented for purposes of additional analysis as required by OMB Circular A-133 and is not a required part of the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, is fairly stated, in all material respects, in relation to the basic financial statements taken as a whole.

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

Tulsa, Oklahoma
October 28, 2010

Stanfield & O'Dell P.C.

Oklahoma Panhandle State University

Schedule of Expenditures of Federal Awards

Year Ended June 30, 2010

<u>Federal Grantor/Pass-through Grantor/Program or Cluster Title</u>	<u>Federal CFDA Number</u>	<u>Expenditures</u>
<i>Student Financial Aid Cluster</i>		
U.S. Department of Education		
Direct Programs		
Office of Student Financial Assistance		
Federal Pell Grant Program	84.063	\$ 2,133,253
Federal Work Study Program	84.033	40,871
Federal Family Education Loans	84.032	3,855,992
Academic Competitiveness Grant	84.375	37,124
National Science and Mathematics Access to Return Talent Grant	84.376	24,000
Federal Supplemental Educational Opportunity Grants	84.007	<u>41,000</u>
<i>Total Student Financial Aid Cluster</i>		<u>6,132,240</u>
 <u>State of Oklahoma - Pass thru Funds</u>		
State Fiscal Stabilization Fund - ARRA Funds	84.394	<u>578,978</u>
 <i>Trio Cluster</i>		
Office of Postsecondary Education TRIO		
Upward Bound	84.047	<u>210,113</u>
Total U.S. Department of Education		<u>6,921,331</u>
 <u>Corporation for National and Community Service</u>		
AmeriCorps State and National	94.006	<u>6,525</u>
 <u>U.S. Department of Agriculture</u>		
Rural Utilities Service's Distance Learning and Telemedicine Loan and Grant Program	10.855	<u>415,219</u>
 Total Expenditures of Federal Awards		 <u><u>\$ 7,343,075</u></u>

See Notes to Schedule of Expenditures of Federal Awards.

Notes to Schedule of Expenditures of Federal Awards

Year Ended June 30, 2010

Note A – Summary of Significant Accounting Policies

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

Note B – Federal Family Education Loan Program

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

Note C – Federal Perkins Loan Program

The University had \$71,437 in Federal Perkins Loans outstanding at June 30, 2010.

Note D – Subrecipients

During the year ended June 30, 2010, the University did not provide any federal awards to subrecipients.

Note E – Major Program Determination

The dollar threshold used to distinguish between Type A and Type B programs was \$300,000. The University qualifies as a low-risk auditee.

Oklahoma Panhandle State University

Schedule of Finding and Questioned Costs

For the Year Ended June 30, 2010

Section I – Summary of Auditor’s Results

Financial Statements

Type of auditor’s report issued: Unqualified

Internal control over financial reporting:
Material weakness(es) identified? __ yes x no
Significant deficiency(ies) identified? __ yes x none reported
Noncompliance material to financial statements noted? __ yes x no

Federal Awards

Internal control over major programs:
Material weakness(es) identified? __ yes x no
Significant deficiency(ies) identified __ yes x none reported

Type of auditor’s report issued on compliance for major program: Unqualified

Any audit findings disclosed that are required to be reported in accordance with Circular A-133, Section .510(a)? __ yes x no

Identification of major program:
CFDA Numbers

84.063
84.007
84.033
84.032
84.375
84.376
10.855
84.394

Name of Federal Program or Cluster
U.S. Department of Education -
Student Financial Aid Cluster:
Pell Grant
Supplemental Education Opportunity Grant
Work Study
Family Education Loan Program
Academic Competitiveness Grant
National Science and Mathematics Access to Return Talent Grant
Rural Utilities Service’s Learning and Telemedicine Loan and Grant Program
State Fiscal Stabilization Fund

Dollar threshold used to distinguish Between Type A and Type B programs: \$300,000

Auditee qualified as low-risk auditee? x yes __ no

Section II – Financial Statement Findings None

Section III – Federal Award Findings and Questioned Costs None