

Carl Albert State College
(A Component Unit of the State of Oklahoma)
Accountants' Reports and Financial Statements
June 30, 2012



Carl Albert State College
(A Component Unit of the State of Oklahoma)
June 30, 2012

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Independent Accountants' Report on Financial Statements and Supplementary Information

Board of Regents
Carl Albert State College
Poteau, Oklahoma

We have audited the accompanying financial statements of Carl Albert State College (the College), a component unit of the state of Oklahoma, as of and for the year ended June 30, 2012, as listed in the table of contents. These financial statements are the responsibility of the College's management. Our responsibility is to express an opinion on these financial statements based on our audit. We have also audited the financial statements of the separately presented component unit Carl Albert State College Development Foundation, Inc. (the Foundation) as of and for the year ended June 30, 2012, which collectively with the separate statements of the College comprise the College's basic financial statements. The financial statements of the College referred to above do not include the financial information of the Foundation. Rather a complete set of the financial statements of the Foundation is presented separately.

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

In our opinion, the 2012 financial statements referred to above present fairly, in all material respects, the respective financial position of Carl Albert State College and its separately presented component unit as of June 30, 2012, and the respective changes in financial position and cash flows thereof for the year then ended in conformity with accounting principles generally accepted in the United States of America.

As discussed in *Note 2* of the Foundation's financial statements, the previously issued 2011 Foundation financial statements have been restated to correct a material misstatement therein.

In accordance with *Government Auditing Standards*, we have also issued our report dated October 4, 2012, on our consideration of the College's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

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

Our audits were conducted for the purpose of forming an opinion on the financial statements that collectively comprise the College's basic financial statements. The accompanying schedule of expenditures of federal awards required by U.S. Office of Management and Budget Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*, as listed in the table of contents, is presented for purposes of additional analysis and is not a required part of the basic financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the basic financial statements. The information has been subjected to the auditing procedures applied in the audit of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic financial statements or to the basic financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the information is fairly stated in all material respects in relation to the basic financial statements as a whole.

BKD, LLP

October 4, 2012

Carl Albert State College
(A Component Unit of the State of Oklahoma)
Management's Discussion and Analysis
Year Ended June 30, 2012

Introduction

This section of Carl Albert State College's (CASC) Comprehensive Annual Report presents management's discussion and analysis of CASC's financial performance during the fiscal years ended June 30, 2012 and 2011. Since this management discussion and analysis is designed to focus on current activities, resulting change and current known facts, please read it in conjunction with CASC's financial statements and the footnotes.

Using This Report

The Annual Financial Report is presented in five parts: management's discussion and analysis, independent accountants' report, financial statements, notes to financial statements, and required supplemental information.

The statement of net assets and statement of revenues, expenses and changes in net assets and statements of cash flows display information about the College as an entity. The statements are prepared treating the College as a business-type activity. Business-type activities are financed in whole or in part by fees charged to external parties for the goods or services provided. The College charges fees to its students to help cover all or part of the cost of providing services. All of the current year's revenues and expenses are taken into account regardless of when the cash is received or paid.

These three statements report the College's net assets and cash and changes in them. The reader can think of the College's net assets – the difference between assets and liabilities – as one way to measure the College's financial health, or financial position. Over time, increases or decreases in the College's net assets are one indicator of whether its financial health is improving or deteriorating. The reader will need to consider other nonfinancial factors, however, such as changes in enrollment trends, student retention, construction projects, physical plant condition, etc., to assess the overall health of the College.

Financial Analysis of the College as a Whole

As of June 30, 2012, CASC's net assets decreased by \$148,824 to \$21,979,185. Operating expenses for the fiscal year ended June 30, 2012, were \$21,741,679, an increase of approximately \$1,022,609 from fiscal year 2011 due in large part to making payments to the CASC Development Foundation for the Leaders Center and Scholars dormitories. Operating revenue totaled \$10,381,552, a decrease of approximately \$343,003 from fiscal 2011. Operating revenue includes tuition and fees, federal and state grants and contracts, and auxiliary. Nonoperating revenues include state appropriations, and federal and state grants. State appropriations decreased by \$19,115 and net nonoperating revenues as a whole decreased \$603,722 over fiscal 2011.

CASC has a capital lease obligation to the Oklahoma Capital Improvement Authority (OCIA), which originated during the year ended June 30, 2000, for land acquisition and the remodeling of the Allied Health Science Center for \$700,000, and which is being paid by OCIA as on-behalf payments. Additionally in 2006, OCIA issued bonds for the College in the amount of \$8,155,856 for the construction of new buildings on both the Poteau and Sallisaw campuses, which are also being paid by OCIA as on-behalf payments. In 2010, CASC obtained bond funding for construction of the Deanna J. Reed Science and Math Center in the amount of \$7,121,000. Monthly payments of principal and interest are paid by CASC and supported through facility fees.

The Statement of Net Assets

The statement of net assets reports CASC's financial position. Net assets – the difference between assets and liabilities – is one way to measure the College's health, or position. Over time, increases or decreases in the College's net assets are an indicator of whether or not its financial health is improving. Nonfinancial factors, such as student enrollment and condition of campus buildings, are also important to consider.

This statement includes all assets and liabilities using the accrual basis of accounting. The following summarizes the College's assets, liabilities, and net assets as of June 30:

Statement of Net Assets at June 30

	2012	2011
Current Assets	\$ 11,183,235	\$ 13,783,736
Noncurrent Assets	26,757,896	24,535,312
Total Assets	37,941,131	38,319,048
Current Liabilities	1,279,172	1,036,565
Noncurrent Liabilities	14,682,774	15,154,474
Total Liabilities	15,961,946	16,191,039
Net Assets Invested in Capital		
Assets, Net of Related Debt	11,132,472	7,801,936
Restricted	5,555,699	5,162,653
Unrestricted	5,291,014	9,163,420
Total Net Assets	\$ 21,979,185	\$ 22,128,009

Account Analysis

The following paragraphs explain the changes in the major categories of the accompanying financial statements for the current and prior year.

Assets

Assets are presented in two major classifications. Current assets represent resources that are available to meet current operational needs. Cash equivalents represent investments with the State Cash Management Program, which is managed by the Oklahoma State Treasurer.

These investments are immediately convertible to cash as the need arises. Accounts receivable represent monies due to the College, which are expected to be collected within a short amount of time.

Noncurrent assets represent resources that will not be available to meet current obligations. A major component of noncurrent assets is capital assets. Capital assets are made up of the College's land, buildings, equipment, library resources and any related improvements. Capital assets are reported net of accumulated depreciation. Capital asset activity is summarized in *Note 4* to the financial statements.

Account Analysis (continued)

Liabilities

Liabilities are also separated into current and noncurrent classifications. Current liabilities are those obligations that are due immediately and will be paid from current resources. Current liabilities have increased from fiscal year 2011 due to current maturities of capital leases.

Noncurrent liabilities are comprised primarily of bonds payable and capital lease payables. The College entered into a lease agreement with the Oklahoma Capital Improvement Authority (OCIA) in 1999 which resulted in a lease obligation payable to OCIA. The debt incurred through obtaining bond financing for the Deanna J. Reed Science and Math Center is also reflected in the noncurrent liabilities section of this audit report. Both revenue bonds and capital lease agreements related to the College are discussed in greater detail in *Note 5* to the financial statements. Noncurrent liabilities decreased \$470,700 from 2011.

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

The statement of revenues, expenses, and changes in net assets reports the results of CASC's activities and their effect on net assets. All of the current year's revenues and expenses are recognized when earned or incurred, regardless of when cash is received or paid. The following summarizes CASC's revenues, expenses, and changes in net assets for the years ending June 30:

Operating Results for Years Ended June 30

	2012	2011
Operating Revenues		
Tuition and fees, net	\$ 4,306,750	\$ 2,254,921
Federal grants and contracts	1,780,302	3,217,017
State and private grants	546,816	1,281,043
Auxiliary enterprises	3,454,091	3,887,518
Other	293,593	84,056
Total Operating Revenues	10,381,552	10,724,555
Operating Expenses	(21,741,679)	(20,719,070)
Operating Loss	(11,360,127)	(9,994,515)
Nonoperating Revenues (Expenses)		
State appropriations (including OTRS)	6,314,636	6,333,751
Federal and state grants	3,814,488	4,216,237
State payments from federal ARRA funds	-	440,740
On-behalf payments for OTRS	684,522	592,213
Investment income	56,546	32,456
Interest expense	(242,059)	(383,542)
Net nonoperating revenues	10,628,133	11,231,855
Income Before Other Revenues	(731,994)	1,237,340
Other Revenues	583,170	954,022
Net Increase in Net Assets	(148,824)	2,191,362
Net Assets, Beginning of Year	22,128,009	19,936,647
Net Assets, End of Year	\$ 21,979,185	\$ 22,128,009

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

Revenues

Revenues are classified as either operating or nonoperating. Operating revenues for 2012 decreased by \$343,003 from 2011 while nonoperating revenues decreased \$603,722 over 2011. Federal, state, and private grants and contracts made up 17% of total operating revenues in 2012. Tuition and fees accounted for 42% of total operating revenues. Auxiliary revenue accounts for 33% of operating revenues. The primary source of nonoperating revenues is state appropriations, which accounted for 30% of all revenues in 2012. Federal and state grants comprised 34% of nonoperating revenues. Operating revenues decreased primarily due to decrease in federal grant revenue and the nonoperating revenue decrease is primarily due to no state payments from ARRA funds.

Expenses

Expenses are classified as either operating or nonoperating. As with most organizations, employee compensation represents the largest category of expense. Total compensation (salaries and benefits) represented 63.6% of total operating expenses for 2012, and 63.3% for 2011. The \$1,022,609 increase in operating expenses is primarily due to increase in compensation.

The Statement of Cash Flows

The primary purpose of the statement of cash flows is to provide information about the cash receipts and disbursements of an entity during a period. This statement also aids in the assessment of an entity's ability to generate future net cash flows, ability to meet obligations as they come due, and needs for external financing. A significant event that impacted the change in cash flow from 2011 to 2012 was the receipt of revenue bond funds in 2011 to complete the Deanna J. Reed Science and Math Center. No such event occurred in 2012. The College maintains a healthy cash flow and is able to adequately meet its financial obligations.

Cash Flows for the Years Ended June 30

	2012	2011
Cash Flows Provided (Used) By		
Operating activities	\$ (9,463,358)	\$ (9,278,637)
Noncapital financing activities	10,813,646	11,008,976
Investing activities	56,546	3,650
Capital and related financing activities	<u>(4,118,005)</u>	<u>2,987,444</u>
Net Increase (Decrease) in Cash	(2,711,171)	4,721,433
Cash and Equivalents, Beginning of Year	<u>12,085,057</u>	<u>7,363,624</u>
Cash and Equivalents, End of Year	<u>\$ 9,373,886</u>	<u>\$ 12,085,057</u>

Economic Factors that Will Affect the Future

Funding provided by the state of Oklahoma has a major impact on the economic position of Carl Albert state College. Even though there was a decrease in state appropriations, the CASC Board of Regents voted for minimal increases in tuition and fees for the FY 12 academic year. CASC continues to maintain a strong cash reserve and continues to effectively manage all funds. Carl Albert state College also actively pursues nonstate sources of revenue to provide programs and educational opportunities.

Request for Information

This financial report is designed to provide a general overview of the College's finances for all those with an interest. Questions concerning any of the information provided in this report should be addressed to: Ramona Buckner, Vice President for Business Operations, c/o Carl Albert State College, 1507 South McKenna, P. O. Box 369, Poteau, Oklahoma 74953-5208.

Carl Albert State College
(A Component Unit of the State of Oklahoma)
Statement of Net Assets
June 30, 2012

Assets

Current Assets

Cash and cash equivalents	\$ 5,250,141
Restricted cash and cash equivalents	4,123,745
Accounts receivable, net	476,346
Grants receivable	558,083
Inventory	367,317
Loans to students, net	220,901
Interest receivable - student loans	<u>186,702</u>

Total current assets	<u>11,183,235</u>
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Noncurrent Assets

Loans to students, net	466,268
Capital assets, net	25,595,730
Deferred cost on OCIA lease restructure	584,578
Other noncurrent assets	<u>111,320</u>

Total noncurrent assets	<u>26,757,896</u>
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Total assets	<u>37,941,131</u>
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Liabilities

Current Liabilities

Accounts payable and accrued liabilities	\$ 423,434
Accrued compensated absences	152,678
Deferred revenue	226,678
Bonds payable - current portion	209,000
Capital lease payable – current portion	267,382
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Total current liabilities	1,279,172

Noncurrent Liabilities

Bonds payable	6,547,083
Capital lease payable	8,135,691
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Total noncurrent liabilities	14,682,774
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Total liabilities	15,961,946

Net Assets

Invested in capital assets, net of related debt	11,132,472
Restricted for	
Expendable	
Grants and other contracts	558,083
Student loans	873,871
Capital projects	4,123,745
Unrestricted	5,291,014
	<hr/>
Total net assets	\$ 21,979,185

Carl Albert State College
(A Component Unit of the State of Oklahoma)
Statement of Revenues, Expenses and Changes in Net Assets
Year Ended June 30, 2012

Operating Revenues

Tuition and fees, net of scholarship allowances and bad debt expense	\$ 4,306,750
Federal grants and contracts	1,780,302
State grants and contracts	546,816
Auxiliary enterprises	3,454,091
Other operating revenues	<u>293,593</u>
Total operating revenues	<u>10,381,552</u>

Operating Expenses

Compensation and benefits	13,705,188
Contractual services	146,133
Supplies and materials	4,710,323
Scholarships	248,753
Depreciation and amortization	1,862,089
Utilities	612,328
Other	<u>456,865</u>
Total operating expenses	<u>21,741,679</u>

Operating Loss (11,360,127)

Nonoperating Revenues (Expenses)

State appropriations	6,314,636
Federal and state grants	3,814,488
On-behalf payments for OTRS	684,522
Interest income	56,546
Interest on capital asset-related debt	<u>(242,059)</u>
Net nonoperating revenues (expenses)	<u>10,628,133</u>

Loss Before Other Revenues, Expenses, Gains or Losses (731,994)

Other Revenues, Expenses, Gains or Losses

Capital appropriations – State	436,941
On-behalf payments for OICA capital lease	<u>146,229</u>
Total other revenues, expenses, gains or losses	<u>583,170</u>

Decrease in Net Assets (148,824)

Net Assets, Beginning of Year 22,128,009

Net Assets, End of Year \$ 21,979,185

Carl Albert State College
(A Component Unit of the State of Oklahoma)
Statement of Cash Flows
Year Ended June 30, 2012

Operating Activities

Tuition and fees	\$ 4,439,441
Grants and contracts	2,167,691
Payments to suppliers	(5,407,368)
Payments to employees	(13,705,188)
Auxiliary enterprises	3,454,091
Other payments	<u>(412,025)</u>

Net cash used in operating activities	<u>(9,463,358)</u>
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Noncapital Financing Activities

State appropriations	6,999,158
Federal grants and contracts	<u>3,814,488</u>

Net cash provided by noncapital financing activities	<u>10,813,646</u>
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Capital and Related Financing Activities

State appropriations for construction of assets	436,941
Purchase of capital assets	(4,108,059)
Principal paid on capital debt and leases	(189,253)
Interest paid on capital debt and leases	<u>(257,634)</u>

Net cash used in capital and related financing activities	<u>(4,118,005)</u>
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Investing Activities

Interest income received	<u>56,546</u>
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Net cash provided by investing activities	<u>56,546</u>
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Decrease in Cash and Cash Equivalents	(2,711,171)
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Cash and Cash Equivalents, Beginning of Year	<u>12,085,057</u>
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Cash and Cash Equivalents, End of Year	<u><u>\$ 9,373,886</u></u>
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**Reconciliation of Cash and Cash Equivalents to the
Statements of Net Assets**

Cash and cash equivalents	\$ 5,250,141
Restricted cash and cash equivalents	<u>4,123,745</u>
Total cash and cash equivalents	<u><u>\$ 9,373,886</u></u>

**Reconciliation of Net Operating Revenues (Expenses) to
Net Cash Used in Operating Activities**

Operating loss	\$ (11,360,127)
Depreciation and amortization expense	1,862,089
Changes in operating assets and liabilities	
Receivables, net	129,730
Inventories	(102,632)
Accounts payable and accrued liabilities	164,048
Deferred revenue	<u>(156,466)</u>

Net Cash Used in Operating Activities \$ (9,463,358)

Supplemental Cash Flows Information

Principal on capital debt paid by state agency on behalf of the college	<u><u>\$ 37,545</u></u>
Interest on capital debt paid by state agency on behalf of the college	<u><u>\$ 108,684</u></u>

Carl Albert State College
(A Component Unit of the State of Oklahoma)
Notes to Financial Statements
June 30, 2012

Note 1: Nature of Operations and Summary of Significant Accounting Policies

Nature of Operations

Carl Albert State College (the College) is a two year state educational institution operating under the jurisdiction of the Board of Regents of Carl Albert State College and the Oklahoma State Regents for Higher Education. The College is a component unit of the State of Oklahoma. The College campus, located in Poteau, Oklahoma, offers a variety of programs and services and serves approximately 2,550 students.

Major federally funded student financial aid programs in which the College participates include the Federal Pell Grant, Federal Supplemental Educational Opportunity Grant, Federal Work-Study, Federal Direct Student Loan, Federal Perkins Loan and the Academic Competitiveness Grant Programs. The College extends unsecured credit to students.

Basis of Accounting and Presentation

The financial statements of the College have been prepared on the accrual basis of accounting. Revenues, expenses, gains, losses, assets, and liabilities from exchange and exchange-like transactions are recognized when the exchange transaction takes place, while those from government-mandated non-exchange transactions (principally federal and state grants and state appropriations) are recognized when all applicable eligibility requirements are met. Internal activity and balances are eliminated in preparation of the financial statements. Operating revenues and expenses include exchange transactions and program-specific, government-mandated nonexchange transactions. Government-mandated nonexchange transactions that are not program specific (such as state appropriations), investment income and interest on capital asset-related debt are included in nonoperating revenues and expenses. The College first applies restricted net assets when an expense or outlay is incurred for purposes for which both restricted and unrestricted net assets are available.

The College prepares its financial statements as a business-type activity in conformity with applicable pronouncements of the Governmental Accounting Standards Board (GASB). The College has the option to apply all Financial Accounting Standards Board (FASB) pronouncements that were issued after November 30, 1989, unless the FASB pronouncement conflicts with or contradicts a GASB pronouncement. The College has elected not to apply FASB pronouncements issued after the applicable date.

Carl Albert State College
(A Component Unit of the State of Oklahoma)
Notes to Financial Statements
June 30, 2012

Use of Estimates

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

Cash Equivalents

The College considers all liquid investments with original maturities of three months or less to be cash equivalents. At June 30, 2012, cash equivalents consisted primarily of funds invested through the State Treasurer's Cash Management Program.

Restricted Cash and Cash Equivalents

At June 30, 2012, restricted cash and cash equivalents included approximately \$11,000 unexpended proceeds of the Series 2010 Bonds and the remaining are monies restricted by the State Board of Regents for capital improvements on the College's campus.

Receivables

Approximately 54% of accounts receivable at June 30, 2012 is due from governmental and other entities for reimbursements under grants and other programs. The remaining 46% of accounts receivable at June 30, 2012 consist of tuition and fee charges to students and charges for auxiliary enterprise services provided to students, faculty, and staff.

Student accounts receivable are stated at the amount billed to the students less applied scholarships and loan proceeds and an allowance for doubtful accounts of \$63,729 at June 30, 2012. The College provides an allowance for doubtful accounts, which is based upon a review of outstanding receivables, historical collection information, and existing economic conditions. Tuition is generally due prior to the beginning of the semester. Charges that are past due without payments, have had no response to the due diligence process and are assigned to third-party collection agencies are considered delinquent. Delinquent receivables are written off based on individual credit evaluation and specific circumstances of the student.

Carl Albert State College
(A Component Unit of the State of Oklahoma)
Notes to Financial Statements
June 30, 2012

Deferred Cost On OCIA Lease Restructure

Bond issue costs incurred on the OCIA lease restructure have been deferred and are being amortized over the life of the lease using the effective interest method. Total amortization for the year ended June 30, 2012 was \$199,681.

Inventory

Inventory consists of bookstore merchandise and consumable supplies. Inventory is stated at the lower of cost or market. Cost is determined using the first-in, first-out (FIFO) method.

Loans to Students

The College makes loans to students under various federal and other loan programs. Such loans receivable are recorded net of estimated uncollectible amounts. The allowance for uncollectible amounts netted against loans to students was \$191,564 at June 30, 2012.

Capital Assets

Capital assets are recorded at cost at the date of acquisition, or fair value at the date of donation if acquired by gift. Depreciation is computed using the straight-line method over the estimated useful life of each asset. The following estimated useful lives are being used by the College:

Buildings	40 years
Building improvements	20 years
Infrastructure	30 years
Furniture, fixtures and equipment	5 years
Library materials	5 years

The College capitalizes interest costs as a component of construction in progress, based on interest costs of borrowing specifically for the project, net of interest earned on the investments acquired with the proceeds of the borrowing. Total interest capitalized was:

Interest capitalized	\$ 118,627
Interest charged to expense	<u>242,059</u>
Total interest incurred	<u><u>\$ 360,686</u></u>

Carl Albert State College
(A Component Unit of the State of Oklahoma)
Notes to Financial Statements
June 30, 2012

Compensated Absences

College policies permit most employees to accumulate vacation benefits that may be realized as paid time off. Expense and the related liability are recognized as vacation benefits are earned whether the employee is expected to realize the benefit as time off or in cash. Compensated absence liabilities for vacation benefits are computed using the regular pay rates in effect at the statement of net assets date plus an additional amount for compensation-related payments such as social security and Medicare taxes computed using rates in effect at that date.

Deferred Revenue

Current deferred revenue represents advances on grants and contract awards for which the College has not met all of the applicable eligibility requirements, and 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.

Net Assets

Net assets of the College are classified in three components. Net assets invested in capital assets, net of related debt, consist of capital assets net of accumulated depreciation and reduced by the outstanding balances of any borrowings used to finance the purchase or construction of those assets. Restricted net assets are noncapital assets which include those that are expendable that must be used for a particular purpose as specified by creditors, grantors or donors external to the College, including amounts deposited with trustees as required by bond indentures, reduced by the outstanding balances of any related borrowings and those that are not expendable that include the federal portion of loan funds. Unrestricted net assets are remaining assets less remaining liabilities that do not meet the definition of invested in capital assets, net of related debt or restricted net assets.

Classification of Revenues

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

Operating revenues – Operating revenues include activities that have the characteristics of exchange transactions, such as (1) student tuition and fees, net of scholarship allowances, (2) sales and services of auxiliary enterprises and (3) interest on student loans.

Carl Albert State College
(A Component Unit of the State of Oklahoma)
Notes to Financial Statements
June 30, 2012

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 authoritative literature, such as state appropriations and interest income.

Scholarship Allowances

Student tuition and fee revenues, and certain other revenues from students, are reported net of scholarship allowances in the statements of revenues, expenses and changes in net assets. Scholarship allowances are the difference between the stated charge for goods and services provided by the College, and the amount that is paid by students and/or third parties making payments on the students' behalf. Certain governmental grants, such as Pell grants, are recorded as nonoperating revenues and other governmental grants are recorded as operating revenues in the College's financial statements. To the extent that revenues from such programs are used to satisfy tuition and fees and other student charges, the College has recorded a scholarship allowance. The scholarship allowances on tuition and fees for the year ended June 30, 2012 was \$9,106,767.

Income Taxes

As a state institution of higher education, the income of the College is generally exempt from federal and state income taxes under Section 115(a) of the Internal Revenue Code and a similar provision of state law. However, the College is subject to federal income tax on any unrelated business taxable income.

Foundation

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

Carl Albert State College
(A Component Unit of the State of Oklahoma)
Notes to Financial Statements
June 30, 2012

The Foundation is a nonprofit organization that reports under Financial Accounting Standards Board (FASB) Accounting Standards Codification (ASC). As such, certain revenue recognition criteria and presentation features are different from GASB revenue recognition criteria and presentation features. No modifications have been made to the Foundation's financial statements which have been included in the College's financial report for these differences.

During the year ended June 30, 2012, the Foundation provided \$257,920 of support to the College for scholarships. The College committed \$371,259 to the Foundation for maintenance and upkeep of the Foundation owned dormitories, of which \$3,965 was included in accounts payable at June 30, 2012.

Note 2: Deposits and Investments

Deposits

Custodial credit risk is the risk that in the event of a bank failure, a government's deposits may not be returned to it. The College's deposit policy for custodial credit risk requires compliance with the provisions of state law.

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

Summary of Carrying Values

The carrying values of deposits discussed above are:

Carrying value	
Cash on hand	\$ 14,522
Deposits	<u>9,359,364</u>
	<u><u>\$ 9,373,886</u></u>

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The deposits are included in the following statements of net assets captions:

Cash and cash equivalents	\$ 5,250,141
Restricted cash and cash equivalents	<u>4,123,745</u>
	<u><u>\$ 9,373,886</u></u>

Note 3: Capital Assets

Capital assets activity for the year ended June 30, 2012 was:

	Beginning Balance	Additions	Disposals	Transfers	Ending Balance
Nondepreciable capital assets					
Land	\$ 1,867,052	\$ -	\$ -	\$ -	\$ 1,867,052
Construction in progress	<u>3,937,718</u>	<u>3,382,325</u>	<u>-</u>	<u>(7,320,043)</u>	<u>-</u>
Total nondepreciable capital assets	<u>5,804,770</u>	<u>3,382,325</u>	<u>-</u>	<u>(7,320,043)</u>	<u>1,867,052</u>
Depreciable capital assets					
Buildings and improvements	25,479,924	226,488	(1,172)	7,320,043	33,025,283
Infrastructure	1,318,904	-	-	-	1,318,904
Furniture, fixtures and equipment	5,733,856	541,471	-	-	6,275,327
Library materials	<u>1,596,890</u>	<u>77,574</u>	<u>(604)</u>	<u>-</u>	<u>1,673,860</u>
Total depreciable capital assets	<u>34,129,574</u>	<u>845,533</u>	<u>(1,776)</u>	<u>7,320,043</u>	<u>42,293,374</u>
Less accumulated depreciation					
Buildings and improvements	9,525,094	744,975	-	-	10,270,069
Infrastructure	1,184,061	18,738	-	-	1,202,799
Furniture, fixtures and equipment	4,619,316	861,127	-	-	5,480,443
Library materials	<u>1,574,421</u>	<u>37,568</u>	<u>(604)</u>	<u>-</u>	<u>1,611,385</u>
Total accumulated depreciation	<u>16,902,892</u>	<u>1,662,408</u>	<u>(604)</u>	<u>-</u>	<u>18,564,696</u>
Total depreciable capital assets, net	<u>17,226,682</u>	<u>(816,875)</u>	<u>(1,172)</u>	<u>7,320,043</u>	<u>23,728,678</u>
Net capital assets	<u><u>\$ 23,031,452</u></u>	<u><u>\$ 2,565,450</u></u>	<u><u>\$ (1,172)</u></u>	<u><u>\$ -</u></u>	<u><u>\$ 25,595,730</u></u>

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Notes to Financial Statements
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Note 4: Noncurrent Liabilities

The following is a summary of noncurrent obligation transactions for the College for the year ended June 30, 2012:

	Beginning Balance	Additions	Deductions	Ending Balance	Current Portion
Bonds and capital leases					
Revenue bonds payable	\$ 6,960,083	\$ -	\$ 204,000	\$ 6,756,083	\$ 209,000
Capital lease obligations	8,254,272	-	22,796	8,231,476	267,382
Premium	181,476		9,877	171,599	9,877
Total bonds and capital leases	15,395,831	-	236,673	15,159,158	486,259
Total noncurrent liabilities	\$ 15,395,831	\$ -	\$ 236,673	\$ 15,159,158	\$ 486,259

Revenue Bonds Payable

On September 15, 2010, the College issued \$7,121,000 of revenue bonds. Proceeds from the issuance of these bonds were used to construct a new science and math building. The bonds bear interest, payable semiannually, at rates of 0.45% to 4.125% which began December 1, 2010. Principal maturities began June 1, 2011, and continue until 2035. The bonds are secured by the net revenues pledged of the College.

Oklahoma Capital Improvement Authority Leases

In September 1999, the Oklahoma Capital Improvement Authority (OCIA) issued its OCIA Bond Issues, 1999 A, B and C series. Of the total bond indebtedness, the State Regents for Higher Education allocated \$700,000 to the College. Concurrent with the allocation, the College entered into a lease agreement with OCIA, which includes the two projects being funded by the OCIA bonds.

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In November 2006, the OCIA issued its OCIA Bond Issues, 2005 Series F. Of the total bond indebtedness, the State Regents for Higher Education allocated \$8,648,000 to the College. Concurrent with the allocation, the College entered into a lease agreement with OCIA, representing the seven projects being funded by the OCIA bonds.

In fiscal year 2010, the 2005 lease agreement with the Oklahoma Capital Improvement Authority was restructured through a partial refunding of OCIA's 2005F bond debt. OCIA issued two new bonds, Series 2010A and 2010B. The lease agreements with OCIA secure the OCIA bond debt and any future debt that might be issued to refund earlier bond issues. OCIA issued this new debt to provide budgetary relief for fiscal years 2011 and 2012 by extending and restructuring debt service. Consequently, the lease agreement with OCIA automatically restructured to secure the new bond issues. This lease restructuring has extended certain principal payments into the future, resulting in a charge or cost on restructuring. We have recorded a charge of (b) \$876,867 on restructuring as a deferred cost that is being amortized over a period of 6 years.

The Oklahoma State Legislature appropriates monies to the College for these lease payments. During the year ended June 30, 2012 lease payments made by the State were \$146,229.

The debt service requirements as of June 30, 2012, are as follows:

Year Ending June 30	Principal	Interest	Total to be Paid
2013	\$ 486,259	\$ 574,821	\$ 1,061,080
2014	894,370	575,361	1,469,731
2015	803,284	547,222	1,350,506
2016	679,371	538,792	1,218,163
2017	725,777	513,744	1,239,521
2018 - 2022	3,335,695	2,101,748	5,437,443
2023 - 2027	3,681,513	1,480,917	5,162,430
2028 - 2032	3,325,361	625,292	3,950,653
2033 - 2035	1,227,528	102,176	1,329,704
	<u>\$ 15,159,158</u>	<u>\$ 7,060,073</u>	<u>\$ 22,219,231</u>

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Note 5: Pension Plan

Oklahoma Teachers' Retirement System (OTRS)

The College contributes to the Oklahoma Teachers' Retirement System (OTRS), a cost-sharing, multiple-employer, defined benefit pension plan administered by the state of Oklahoma. Pension expense is recorded for the amount the College is contractually required to contribute for the year. The plan provides retirement and disability benefits based on members' final compensation, age and term of service. In addition, the plan provides death benefits to survivors upon the death of eligible members. OTRS does not provide for a cost-of-living adjustment. Title 70, Sections 17-101 through 17-116-6, of the Oklahoma statutes defines all retirement benefits. The authority to establish and amend benefit provisions rests with the state legislature. The plan issues a publicly available financial report that includes financial statements and required supplementary information for the plan. The report may be obtained by writing to the plan at P.O. Box 53524, Oklahoma City, OK 73152, or by calling 405.521.2387.

The College is required to contribute a fixed percentage of annual compensation on behalf of active members. The employer contribution rate was 9.5% of annual covered payroll for 2012 and 2011. Employees' contributions are also determined by state statute. For all employees, the contribution rate was 7.5% of covered payroll for 2012 and 2011, respectively. The College's contributions to OTRS for the years ended June 30, 2012, 2011 and 2010 were \$1,666,977, \$1,492,174, and \$1,469,954, respectively, which equaled the required contributions for each year. These contributions included the College's statutory contribution and the employee's contribution paid directly by the college. The OTRS funded status ratio was 56.7% and 47.9% as of June 30, 2011 and 2010, respectively.

The State of Oklahoma is also required to contribute to OTRS on behalf of the participating employers. For 2012, the State of Oklahoma contributed 5% of state revenues from sales and use taxes and individual income taxes to OTRS on behalf of participating employers. The College has estimated the amounts contributed to OTRS by the State of Oklahoma on its behalf by multiplying the ratio of its covered salaries to total covered salaries for OTRS for the year by the applicable percentage of taxes collected during the year. The College's prorated share of these payments for the year ended June 30, 2012, was approximately \$684,522 and is recognized in non-operating revenues and compensation and employee benefit expenses.

Teachers Insurance and Annuity Association (TIAA)

For all eligible full-time contract employees enrolled in the OTRS, the employees are eligible to make employee voluntary contributions to the Teachers Insurance Annuity Association (TIAA), a defined contribution pension plan (the Plan) administered by the College's Board of Regents. Eligible employees are not required to make contributions to the Plan. The Plan provides retirement benefits to eligible employees and their beneficiaries. Benefit provisions and contribution requirements are contained in the Plan document and were established and can be

Carl Albert State College
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amended by action of the College's Board of Regents. The College does not make employer contributions to the Plan.

Note 6: Commitments and Contingencies

Government Grants

The College is currently participating in numerous grants from various departments and agencies of the federal and state governments. The expenditures of grant proceeds must be for allowable and eligible purposes. Single audits and audits by the granting department or agency may result in requests for reimbursement of unused grant proceeds or disallowed expenditures. Upon notification of final approval by the granting department or agency, the grants are considered closed.

The College participates in the Federal Family Education Loan Program (the FFEL Program). The FFEL Program does not require the College to draw down cash; however, the college is required to perform certain administrative functions under the FFEL Program. Failure to perform such functions may require the College to reimburse the loan guarantee agencies. For the year ended June 30, 2012, approximately \$1,942,920 of FFEL Program loans was provided to students.

Current Economic Environment

The economic environment continues to present colleges and universities with difficult circumstances and challenges, which in some cases may result in declines in enrollment revenues, government support, contributions, constraints on liquidity and difficulty obtaining financing. The financial statements have been prepared using values and information currently available to the College.

Current economic conditions could make it difficult for some donors to continue to contribute to colleges and their foundations. Changes in contribution levels could impact the College's ability to provide scholarships or fund programs. State funding may also change as states have fewer resources to allocate.

The changes possible in this environment could result in future adjustments to the values of assets and liabilities, such as allowances for student receivables. The College could experience difficulty maintaining sufficient liquidity should significant changes occur.

The Board of Regents and management are closely monitoring this uncertain economic environment and are attempting to adjust the College's operating and financial plan based upon their significant experience and knowledge of the industry.

Carl Albert State College
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Note 7: Risk Management

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

The College, along with other state agencies and political subdivisions, participates in the State of Oklahoma Risk Management Program and CompSource Oklahoma (formally, the State Insurance Fund) and public entity risk pools current operating as a common risk management and insurance program for its members. The College pays annual premiums to the pools for its tort, property, and liability insurance coverage. The pools 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.

Carl Albert State College Development Foundation, Inc.

Accountants' Report and Financial Statements

June 30, 2012



Carl Albert State College Development Foundation, Inc.
June 30, 2012

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Independent Accountants' Report on Financial Statements

Board of Trustees
Carl Albert State College Development Foundation, Inc.
Poteau, Oklahoma

We have audited the accompanying statement of financial position of Carl Albert State College Development Foundation, Inc. (the Foundation) as of June 30, 2012, and the related statements of activities and cash flows for the year 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 audit.

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

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Carl Albert State College Development Foundation, Inc. as of June 30, 2012, and the changes in its net assets and its cash flows for the year then ended in conformity with accounting principles generally accepted in the United States of America.

As discussed in *Note 2*, in 2012 the Foundation changed its method of accounting for restricted net assets by retroactively restating prior years' financial statements.

BKD, LLP

October 4, 2012

Carl Albert State College Development Foundation, Inc.
Statement of Financial Position
June 30, 2012

Assets

Cash and cash equivalents	\$ 114,567
Receivable from CASC-Dormitories	3,965
Interest receivable	34,421
Investments	5,832,105
Funds held in trust by others	860,643
Property and equipment, net	<u>785,389</u>
 Total assets	 <u><u>\$ 7,631,090</u></u>

Liabilities

Accounts payable	\$ 3,139
Note payable	<u>100,000</u>
 Total liabilities	 <u>103,139</u>

Net Assets

Unrestricted	2,478,109
Temporarily restricted	2,354,485
Permanently restricted	<u>2,695,357</u>
 Total net assets	 <u><u>7,527,951</u></u>
 Total liabilities and net assets	 <u><u>\$ 7,631,090</u></u>

Carl Albert State College Development Foundation, Inc.

Statement of Activities Year Ended June 30, 2012

	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Support and Revenue				
Contributions	\$ -	\$ 248,141	\$ 25,000	\$ 273,141
Investment income	32,384	174,279	7,951	214,614
Royalties	220	-	-	220
Income from CASC-Dormitories	371,259	-	-	371,259
Net assets released from restrictions	344,900	(344,900)	-	-
Total support and revenue	748,763	77,520	32,951	859,234
Expenses				
Program Services				
Scholarships	257,920	-	-	257,920
Facilities and equipment	99,782	-	-	99,782
Promotion and public relations	28,763	-	-	28,763
Payments to LeFlore County Educational Authority	156,000	-	-	156,000
General and administrative	12,912	-	-	12,912
Total expenses	555,377	-	-	555,377
Increase in Net Assets	193,386	77,520	32,951	303,857
Net Assets at Beginning of Year, As Previously Reported	989,739	1,871,547	4,140,037	7,001,323
Adjustment applicable to prior years (<i>Note 2</i>)	1,294,984	405,418	(1,477,631)	222,771
Net Assets at Beginning of Year, As Restated	2,284,723	2,276,965	2,662,406	7,224,094
Net Assets at End of Year	\$ 2,478,109	\$ 2,354,485	\$ 2,695,357	\$ 7,527,951

Carl Albert State College Development Foundation, Inc.
Statement of Cash Flows
Year Ended June 30, 2012

Operating Activities

Change in net assets	\$ 303,857
Items not providing cash	
Depreciation	35,592
Unrealized gain on investments	(126,148)
Changes in	
Interest receivable	(7,395)
Receivable from CASC-Dormitories	18,695
Funds held in trust by others	(9,995)
Accounts payable and other liabilities	3,139
	<hr/>
Net cash provided by operating activities	217,745
	<hr/>

Investing Activities

Proceeds from sale of investments	1,461,801
Purchases of investments	(1,715,789)
	<hr/>
Net cash used in investing activities	(253,988)
	<hr/>

Decrease in Cash and Cash Equivalents (36,243)

Cash and Cash Equivalents, Beginning of Year

150,810

Cash and Cash Equivalents, End of Year

\$ 114,567

Carl Albert State College Development Foundation, Inc.

Notes to Financial Statements

June 30, 2012

Note 1: Nature of Operations and Summary of Significant Accounting Policies

Nature of Operations

Carl Albert State College Development Foundation, Inc. ("Foundation") is a not-for-profit Foundation whose mission and principal activities are to receive and administer gifts for the sole benefit of Carl Albert State College ("College"). The Foundation's revenues and other support are derived principally from contributions and income from the College relating to dormitories owned by the Foundation.

Use of Estimates

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

Cash and Cash Equivalents

The Foundation considers all liquid investments with original maturities of three months or less to be cash equivalents. At June 30, 2012, cash equivalents consisted primarily of money market accounts with brokers and certificates of deposit.

Investments and Investment Return

Investments in equity securities having a readily determinable fair value and in all debt securities are carried at fair value. Other investments are valued at the lower of cost (or fair value at time of donation, if acquired by contribution) or fair value. Investment return includes dividend, interest and other investment income; realized and unrealized gains and losses on investments carried at fair value; and realized gains and losses on other investments.

Investment return that is initially restricted by donor stipulation and for which the restriction will be satisfied in the same year is included in unrestricted net assets. Other investment return is reflected in the statements of activities as unrestricted, temporarily restricted or permanently restricted based upon the existence and nature of any donor or legally imposed restrictions.

The Foundation maintains pooled investment accounts for its endowments. Investment income and realized and unrealized gains and losses from securities in the pooled investment accounts are allocated monthly to the individual endowments based on the relationship of the fair value of the interest of each endowment to the total fair value of the pooled investments accounts, as adjusted for additions to or deductions from those accounts.

Carl Albert State College Development Foundation, Inc.

Notes to Financial Statements

June 30, 2012

Property and Equipment

Property and equipment are stated at cost less accumulated depreciation. Depreciation is charged to expense using the straight-line method over the estimated useful life of each asset.

The estimated useful lives for each major depreciable classification of property and equipment are as follows:

Dormitory	30 years
Building improvements	30 years
Computer equipment	5 years

Long-lived Asset Impairment

The Foundation evaluates the recoverability of the carrying value of long-lived assets whenever events or circumstances indicate the carrying amount may not be recoverable. If a long-lived asset is tested for recoverability and the undiscounted estimated future cash flows expected to result from the use and eventual disposition of the asset is less than the carrying amount of the asset, the asset cost is adjusted to fair value and an impairment loss is recognized as the amount by which the carrying amount of a long-lived asset exceeds its fair value.

No asset impairment was recognized during the year ended June 30, 2012.

Temporarily and Permanently Restricted Net Assets

Temporarily restricted net assets are those whose use by the Foundation has been limited by donors to a specific time period or purpose. Permanently restricted net assets have been restricted by donors to be maintained by the Foundation in perpetuity.

Contributions

Gifts of cash and other assets received without donor stipulations are reported as unrestricted revenue and net assets. Gifts received with a donor stipulation that limits their use are reported as temporarily or permanently restricted revenue and net assets. When a donor stipulated time restriction ends or purpose restriction is accomplished, temporarily restricted net assets are reclassified to unrestricted net assets and reported in the statement of activities as net assets released from restrictions. Gifts having donor stipulations which are satisfied in the period the gift is received are reported as unrestricted revenue and net assets.

Conditional gifts depend on the occurrence of a specified future and uncertain event to bind the potential donor and are recognized as assets and revenue when the conditions are substantially met and the gift becomes unconditional.

Carl Albert State College Development Foundation, Inc.

Notes to Financial Statements

June 30, 2012

Income Taxes

The Foundation is exempt from income taxes under Section 501 of the Internal Revenue Code and a similar provision of state law. However, the Foundation is subject to federal income tax on any unrelated business taxable income.

The Foundation files tax returns in the U.S. federal jurisdiction. With a few exceptions, the Foundation is no longer subject to U.S. federal examinations by tax authorities for years before 2009.

Note 2: Restatement of Prior Years' Financial Statements

During 2012, the Foundation determined that certain board designated net assets were misrecorded as permanently or temporarily restricted net assets. Accordingly, the Foundation adjusted the net asset classifications to agree to the donor restrictions as of June 30, 2011.

Also during 2012, the Foundation determined that certain savings bonds previously contributed to the Foundation, totaling \$222,771 were not recorded in the financial statements.

The following financial statement items as of June 30, 2011, were affected by the correction of the errors.

	As Originally Reported	As Restated	Effect of Change
Assets			
Investments	<u>\$ 5,229,198</u>	<u>\$ 5,451,969</u>	<u>\$ 222,771</u>
Net Assets			
Unrestricted	\$ 989,739	\$ 2,284,723	\$ 1,294,984
Temporarily restricted	1,871,547	2,276,965	405,418
Permanently restricted	<u>4,140,037</u>	<u>2,662,406</u>	<u>(1,477,631)</u>
Total net assets	<u>\$ 7,001,323</u>	<u>\$ 7,224,094</u>	<u>\$ 222,771</u>

The restatement did not have a significant impact on the previously reported change in net assets for the year ended June 30, 2011.

Carl Albert State College Development Foundation, Inc.

Notes to Financial Statements

June 30, 2012

Note 3: Investments and Investment Return

Investments at June 30 consisted of the following:

Equity securities	\$ 449,793
Certificates of deposit	1,700,563
Corporate debt	1,973,682
Mutual funds	833,316
Money market funds and other	643,543
Savings bonds	<u>231,208</u>
	<u>\$ 5,832,105</u>

Total investment return is comprised of the following:

Interest and dividend income	\$ 33,653
Net realized and unrealized gains on investments reported at fair value	<u>180,961</u>
	<u>\$ 214,614</u>

Note 4: Beneficial Interest in Trust

The Foundation is the beneficiary of income from contributions by various donors under a trust administered by the Oklahoma State Regents for Higher Education. Under the terms of the trust, the Foundation has the irrevocable right to receive income earned on the trust assets in perpetuity, but never receives the assets held in trust, so long as the conditions of the trust are met. The fair value of the Foundation's share of net assets is recorded as permanently restricted net assets. Trust income is restricted for endowed lectureships.

Carl Albert State College Development Foundation, Inc.

Notes to Financial Statements

June 30, 2012

Note 5: Property and Equipment

Property and equipment at June 30 consists of:

Dormitories	\$ 956,822
Building and improvements	110,941
Computer equipment	<u>38,011</u>
	1,105,774
Less accumulated depreciation	<u>(320,385)</u>
	<u><u>\$ 785,389</u></u>

Note 6: Note Payable

The Foundation entered into a \$100,000 loan agreement with a related party on July 31, 2010, payable in full on November 1, 2012. The loan carries 0% interest and is unsecured.

Note 7: Net Assets

Temporarily Restricted Net Assets

Temporarily restricted net assets at June 30, 2012 are available for the following purposes or periods:

Scholarships	\$ 1,790,389
Facilities improvement	221,290
Miscellaneous purpose restrictions	68,915
For periods after June 30, 2012	<u>273,891</u>
	<u><u>\$ 2,354,485</u></u>

Carl Albert State College Development Foundation, Inc.
Notes to Financial Statements
June 30, 2012

Permanently Restricted Net Assets

Permanently restricted net assets at June 30, 2012, are restricted to:

Investment in perpetuity, the income of which is
expendable to support
 Scholarships
 Lectureships

\$	1,931,183
	<u>764,174</u>
\$	<u><u>2,695,357</u></u>

Net Assets Released from Restrictions

Net assets were released from donor restrictions by incurring expenses satisfying the restricted purposes or by occurrence of other events specified by donors.

Note 8: Endowment

The Foundation's endowment consists of approximately 140 individual funds established for a variety of purposes. The endowment includes both donor-restricted endowment funds and funds designated by the governing body to function as endowments (board-designated endowment funds). As required by accounting principles generally accepted in the United States of America (GAAP), net assets associated with endowment funds, including board-designated endowment funds, are classified and reported based on the existence or absence of donor-imposed restrictions.

The Foundation's governing body has interpreted the State of Oklahoma Uniform Prudent Management of Institutional Funds Act (OUPMIFA) as requiring preservation of the fair value of the original gift as of the gift date of the donor-restricted endowment funds absent explicit donor stipulations to the contrary. As a result of this interpretation, the Foundation classifies as permanently restricted net assets (a) the original value of gifts donated to the permanent endowment and (b) the original value of subsequent gifts to the permanent endowment. The remaining portion of donor-restricted endowment funds is classified as temporarily restricted net assets until those amounts are appropriated for expenditure by the Foundation in a manner consistent with the standard of prudence prescribed by OUPMIFA. In accordance with OUPMIFA, the Foundation considers the following factors in making a determination to appropriate or accumulate donor-restricted endowment funds:

1. Duration and preservation of the fund
2. Purposes of the Foundation and the fund
3. General economic conditions
4. Possible effect of inflation and deflation

Carl Albert State College Development Foundation, Inc.

Notes to Financial Statements

June 30, 2012

5. Expected total return from investment income and appreciation or depreciation of investments
6. Other resources of the Foundation
7. Investment policies of the Foundation

The composition of net assets by type of endowment fund at June 30, 2012, was:

	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Donor-restricted endowment funds	\$ -	\$ 2,354,485	\$ 2,695,357	\$ 5,049,842
Board-designated endowment funds	<u>1,545,396</u>	<u>-</u>	<u>-</u>	<u>1,545,396</u>
	<u><u>\$ 1,545,396</u></u>	<u><u>\$ 2,354,485</u></u>	<u><u>\$ 2,695,357</u></u>	<u><u>\$ 6,595,238</u></u>

Changes in endowment net assets for the year ended June 30, 2012, were:

	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Endowment net assets, beginning of year	<u>\$ 1,290,251</u>	<u>\$ 2,276,965</u>	<u>\$ 2,662,406</u>	<u>\$ 6,229,622</u>
Investment return				
Investment income	-	91,309	-	91,309
Net appreciation	<u>30,145</u>	<u>82,970</u>	<u>7,951</u>	<u>121,066</u>
Total investment return	<u>30,145</u>	<u>174,279</u>	<u>7,951</u>	<u>212,375</u>
Contributions	250,000	248,141	25,000	523,141
Appropriations of endowment assets for expenditures	<u>(25,000)</u>	<u>(344,900)</u>	<u>-</u>	<u>(369,900)</u>
	<u><u>\$ 1,545,396</u></u>	<u><u>\$ 2,354,485</u></u>	<u><u>\$ 2,695,357</u></u>	<u><u>\$ 6,595,238</u></u>

Carl Albert State College Development Foundation, Inc.

Notes to Financial Statements

June 30, 2012

Amounts of donor-restricted endowment funds classified as permanently and temporarily restricted net assets at June 30 consisted of:

Permanently restricted net assets - portion of perpetual endowment funds required to be retained permanently by explicit donor stipulation or OUPMIFA	<u>\$ 2,695,357</u>
Temporarily restricted net assets	
Term endowment funds	<u>\$ 2,354,485</u>
Portion of perpetual endowment funds subject to a time restriction under OUPMIFA	
With purpose restrictions	\$ 2,080,594
Without purpose restrictions	<u>273,891</u>
	<u>\$ 2,354,485</u>

The Foundation has adopted investment and spending policies for endowment assets that attempt to provide a predictable stream of funding to programs and other items supported by its endowment while seeking to maintain the purchasing power of the endowment. Endowment assets include those assets of donor-restricted endowment funds the Foundation must hold in perpetuity or for donor-specified periods, as well as those of board-designated endowment funds. Under the Foundation's policies, endowment assets are invested in a manner that is intended to produce results which generate a dependable, increasing source of income and appreciation while assuming a moderate level of investment risk. The Foundation expects its endowment funds to provide an average rate of return of approximately 7% annually over time. Actual returns in any given year may vary from this amount.

To satisfy its long-term rate of return objectives, the Foundation relies on a total return strategy in which investment returns are achieved through both current yield (investment income such as dividends and interest) and capital appreciation (both realized and unrealized). The Foundation targets a diversified asset allocation that places a greater emphasis on equity-based investments to achieve its long-term return objectives within prudent risk constraints.

The Foundation has a policy (the spending policy) of appropriating for expenditure each year 4% of its endowment fund's average fair value over the prior 4 quarters through the year end preceding the year in which expenditure is planned. In establishing this policy, the Foundation considered the long-term expected return on its endowment. Accordingly, over the long term, the Foundation expects the current spending policy to allow its endowment to grow at an average of 3% annually. This is consistent with the Foundation's objective to maintain the purchasing power of endowment assets held in perpetuity or for a specified term, as well as to provide additional real growth through new gifts and investment return.

Carl Albert State College Development Foundation, Inc.

Notes to Financial Statements

June 30, 2012

Note 9: Disclosures About Fair Value of Assets and Liabilities

ASC Topic 820, *Fair Value Measurements*, defines fair value as the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. Topic 820 also specifies a fair value hierarchy which requires an entity to maximize the use of observable inputs and minimize the use of unobservable inputs when measuring fair value. The standard describes three levels of inputs that may be used to measure fair value:

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

Following is a description of the valuation methodologies and inputs used for assets and liabilities measured at fair value on a recurring basis and recognized in the accompanying statements of financial position, as well as the general classification of such assets and liabilities pursuant to the valuation hierarchy.

Investments

Where quoted market prices are available in an active market, securities are classified within Level 1 of the valuation hierarchy. Level 1 securities include equity funds, corporate stocks and fixed income investments that are, or the underlying investments are, actively traded on equity exchanges. If quoted market prices are not available, then fair values are estimated by using pricing models, quoted prices of securities with similar characteristics or discounted cash flows. Level 2 securities include negotiable certificates of deposit.

Beneficial Interest in Perpetual Trust

Fair value is estimated at the present value of the future distributions expected to be received over the term of the agreement. Due to the nature of the valuation inputs, the interest is classified within Level 3 of the hierarchy.

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

Carl Albert State College Development Foundation, Inc.

Notes to Financial Statements

June 30, 2012

	Fair Value Measurements Using		
	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
Investments			
Money market funds	\$ 643,543	\$ -	\$ -
Equity securities	449,793	-	-
Certificates of deposit	-	1,700,563	-
Corporate debt securities	1,973,682	-	-
Savings bonds	231,208	-	-
Mutual funds	833,316	-	-
	<u>4,131,542</u>	<u>1,700,563</u>	<u>-</u>
Investment total	\$ <u>4,131,542</u>	\$ <u>1,700,563</u>	\$ <u>-</u>
Beneficial interest in perpetual trust	\$ <u>-</u>	\$ <u>-</u>	\$ <u>860,643</u>

The following is a reconciliation of the beginning and ending balances of recurring fair value measurements recognized in the accompanying statement of financial position using significant unobservable (Level 3) inputs:

	Beneficial Interest In Perpetual Trust
Balance at July 1, 2011	\$ 853,404
Total realized and unrealized gains included in change in net assets	44,954
Disbursements	<u>(37,715)</u>
Balance at June 30, 2012	<u>\$ 860,643</u>
Total gains and losses for the period included in change in net assets attributable to the change in unrealized gains or losses related to assets and liabilities still held at the reporting date	<u>\$ 7,239</u>

Carl Albert State College Development Foundation, Inc.

Notes to Financial Statements

June 30, 2012

Note 10: Related Party Transactions

Carl Albert State College and the Foundation are related parties that are financially interrelated organizations. The Foundation acts primarily as a fund-raising organization to supplement the resources that are available to the College in support of its programs. Based on an exchange of service agreement, the College provides the Foundation with the necessary staffing and office space at no cost to the Foundation. The College also provides funding to the Foundation for the upkeep and maintenance of the Foundation dormitories used by students of the College. During the year ended June 30, 2012, the College committed \$371,259 to the Foundation from dormitory income, which includes a receivable from the College of \$3,965 at June 30, 2012. Also, the Foundation provided \$257,920 to the College for scholarships.

In 1997, the Foundation entered into a 99 year lease agreement with the College. Under the agreement, the College has agreed to lease land to the Foundation for \$10 plus any payments due under a first mortgage or refinancing of attached property. There was no mortgage or refinancing payments during 2012.

Note 11: Significant Estimates and Concentrations

Accounting principles generally accepted in the United States of America require disclosure of certain significant estimates and current vulnerabilities due to certain concentrations. Those matters include the following:

Investments

The Foundation invests in various investment securities. Investment securities are exposed to various risks such as interest rate, market and credit risks. Due to the level of risk associated with certain investment securities, it is at least reasonably possible that changes in the values of investment securities will occur in the near term and that such change could materially affect the amounts reported in the accompanying statement(s) of financial position.

Current Economic Conditions

The current protracted economic decline continues to present not-for-profit Foundations with difficult circumstances and challenges, which in some cases have resulted in large and unanticipated declines in the fair value of investments and other assets, declines in contributions and constraints on liquidity. The financial statements have been prepared using values and information currently available to the Foundation.

Carl Albert State College Development Foundation, Inc.

Notes to Financial Statements

June 30, 2012

Current economic conditions have made it difficult for many donors to continue to contribute to not-for-profit Foundations. A significant decline in contribution revenue could have an adverse impact on the Foundation's future operating results.

In addition, given the volatility of current economic conditions, the values of assets and liabilities recorded in the financial statements could change rapidly, resulting in material future adjustments in investment values, allowances for contributions receivable and the valuation of intangibles that could negatively impact the Foundation's ability to meet debt covenants or maintain sufficient liquidity.

Note 12: Subsequent Event

Subsequent events have been evaluated through the date of the Independent Accountants' Report, which is the date the financial statements were available to be issued.

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

Board of Regents
Carl Albert State College
Poteau, Oklahoma

We have audited the financial statements of Carl Albert State College(the College) a component unit of the State of Oklahoma as of and for the year ended June 30, 2012, and the College's separately presented component unit (Carl Albert State College Development Foundation, Inc. (Foundation)) as of and for the year ended June 30, 2012 which collectively comprise the College's basic financial; statements and have issued our report thereon dated October 4, 2012, which contained an explanatory paragraph regarding a correction in previously issued financial statements .The financial statements of the Foundation were not audited in accordance with *Government Auditing Standards*. The financial statements of the College referred to above do not include the financial information of the Foundation. Rather, a complete set of financial statements of the Foundation is presented separately. Except as noted above, 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

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

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

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

Compliance and Other Matters

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

We noted certain matters that we reported to the College's management in a separate letter dated October 4, 2012.

This report is intended solely for the information and use of the governing body, management and others within the College 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.

BKD, LLP

October 4, 2012

Independent Accountants' 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
Carl Albert State College
Poteau, Oklahoma

Compliance

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

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

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

Internal Control Over Compliance

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

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

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

This report is intended solely for the information and use of the governing body, management, others within the College, 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.

BKD, LLP

October 4, 2012

Supplementary Information

Carl Albert State College
(A Component Unit of the State of Oklahoma)
Schedule of Expenditures of Federal Awards
Year Ended June 30, 2012

Cluster/Program	Federal Agency/Pass-Through Entity	CFDA Number	Grant or Identifying Number	Amount
Federal Pell Grant Program	U.S. Department of Education	84.063		\$ 7,021,896
Federal Supplemental Educational Opportunity Grants	U.S. Department of Education	84.007		82,725
Federal Family Education Loans	U.S. Department of Education	84.032		1,942,920
Federal Work-Study Program	U.S. Department of Education	84.033		209,967
Federal Perkins Loans	U.S. Department of Education	84.038		12,748
Academic Competitiveness Grants	U.S. Department of Education	84.375		375
Total Student Financial Aid Cluster				<u>9,270,631</u>
Title III	U.S. Department of Education	84.031		420,959
TRIO - Educational Opportunity Center	U.S. Department of Education	84.066		448,103
TRIO - Upward Bound	U.S. Department of Education	84.047A		688,451
TRIO - Upward Bound Math and Science	U.S. Department of Education	84.047A		329,104
TRIO - Student Support Services	U.S. Department of Education	84.042A		370,035
TRIO - Talent Search	U.S. Department of Education	84.044A		482,577
Total TRIO Cluster				<u>2,739,229</u>
Career and Technical Education - Basic Grants to States	U.S. Department of Education	84.048		<u>55,652</u>
Child Care Development Block Grant	U.S. Department of Health and Human Services/Oklahoma Department of Education	93.575		<u>84,574</u>
Temporary Assistance for Needy Families	U.S. Department of Health and Human Services/Oklahoma Department of Human Services	93.558		<u>228,205</u>
Indian Education Higher Education Grant Program	U.S. Department of the Interior/Oklahoma Department of Indian Affairs	15.114		<u>442,534</u>
Area Health Education Centers Point of Service Maintenance and Enhancement Awards	U.S. Department of Health and Human Services/Oklahoma Department of Human Services	93.107		<u>27,691</u>
Geriatric Education Centers	U.S. Department of Health and Human Services/Oklahoma Department of Human Services	93.969		<u>12</u>
AHEC Community Base Job Training	U.S. Department of Health and Human Services/Oklahoma Department of Human Services	17.269		<u>462</u>
				<u>\$ 12,848,990</u>

Carl Albert State College
(A Component Unit of the State of Oklahoma)
Schedule of Expenditures of Federal Awards (Continued)
Year Ended June 30, 2012

Notes to Schedule

1. This schedule includes the federal awards activity of Carl Albert State College and is presented on the accrual basis of accounting. The information in this schedule is presented in accordance with the requirements of OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. Therefore, some amounts presented in this schedule may differ from amounts presented in, or used in the preparation of, the basic financial statements.
2. Of the federal expenditures presented in this schedule, Carl Albert State College provided federal awards to subrecipients as follows:

Program	Subrecipient	CFDA Number	Amount Provided
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No awards were provided to subrecipients.

Carl Albert State College
(A Component Unit of the State of Oklahoma)
Schedule of Findings and Questioned Costs
Year Ended June 30, 2012

Summary of Auditor's Results

1. The opinion expressed in the independent accountants' report was:
☒ Unqualified ☐ Qualified ☐ Adverse ☐ Disclaimed

2. The independent accountants' report on internal control over financial reporting disclosed:
Significant deficiency(ies)? ☐ Yes ☒ No
Material weakness(es)? ☐ Yes ☒ No

3. Noncompliance considered material to the financial statements was disclosed by the audit? ☐ Yes ☒ No

4. The independent accountants' report on internal control over compliance with requirements that could have a direct and material effect on major federal awards programs disclosed:
Significant deficiency(ies)? ☐ Yes ☒ No
Material weakness(es)? ☐ Yes ☒ No

5. The opinion expressed in the independent accountants' report on compliance with requirements that could have a direct and material effect on major federal awards was:
☒ Unqualified ☐ Qualified ☐ Adverse ☐ Disclaimed

6. The audit disclosed findings required to be reported by OMB Circular A-133? ☐ Yes ☒ No

Carl Albert State College
(A Component Unit of the State of Oklahoma)
Schedule of Findings and Questioned Costs (Continued)
Year Ended June 30, 2012

7. The College's major programs were:

Cluster/Program	CFDA Number
Student Financial Aid Cluster:	
Federal Pell Grant Program	84.063
Federal Supplemental Educational Opportunity Grants	84.007
Federal Perkins Loan Program	84.038
Federal Work-Study Program	84.033
Federal Family Education Loans	84.032
Academic Competitiveness Grants	84.375

8. The threshold used to distinguish between Type A and Type B programs as those terms are defined in OMB Circular A-133 was \$385,470.
9. The College qualified as a low-risk auditee as that term is defined in OMB Circular A-133? ☒ Yes ☐ No

Findings Required to be Reported by Government Auditing Standards

Reference Number	Finding	Questioned Costs
	No matters are reportable.	

Carl Albert State College
(A Component Unit of the State of Oklahoma)
Schedule of Findings and Questioned Costs (Continued)
Year Ended June 30, 2012

Findings Required to be Reported by OMB Circular A-133

Reference Number	Finding	Questioned Costs
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No matters are reportable.

Carl Albert State College
(A Component Unit of the State of Oklahoma)
Summary Schedule of Prior Audit Findings
Year Ended June 30, 2011

Reference Number	Finding	Status
No matters are reportable.		