# Carl Albert State College

A Component Unit of the State of Oklahoma

Auditor's Reports and Financial Statements

June 30, 2013 and 2012

BKD LLP
CPAs & Advisors

# Carl Albert State College
## A Component Unit of the State of Oklahoma
## June 30, 2013 and 2012

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# Independent Auditor's Report on Financial Statements and Supplementary Information

Board of Regents
Carl Albert State College
Poteau, Oklahoma

## Report on the Financial Statements

We have audited the accompanying basic financial statements of Carl Albert State College (the College), a component unit of the state of Oklahoma, which are comprised of statements of net position as of June 30, 2013 and 2012, and the statements of revenues, expenses, and changes in net position and of cash flows for the years then ended and the related notes to the financial statements, as listed in the table of contents.

### *Management's Responsibility for the Financial Statements*

Management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

### *Auditor's Responsibility*

Our responsibility is to express an opinion on these financial statements based on our audits. 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 years ended June 30, 2013 and 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 involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

***Opinion***

In our opinion, the 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, 2013 and 2012, and the respective changes in financial position and cash flows thereof for the years then ended in accordance with accounting principles generally accepted in the United States of America.

***Restatement of Financial Statements***

As discussed in *Note 9* to the financial statements, in 2013 the College adopted new accounting guidance, Governmental Accounting Standards Board Statement No. 65, *Items Previously Reported as Assets and Liabilities*.

As discussed in *Note 2* of the Foundation’s financial statements, the previously issued 2012 Foundation financial statements have been restated to correct material misstatements therein.

Our opinion is not modified with respect to these matters.

***Required Supplementary Information***

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.

***Supplementary Information***

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.

**Other Report Required by *Government Auditing Standards***

In accordance with *Government Auditing Standards*, we have also issued our report dated October 31, 2013, 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* in considering Carl Albert State College's internal control over financial reporting and compliance.

BKD, LLP

Fort Smith, Arkansas
October 31, 2013

# Carl Albert State College
## A Component Unit of the State of Oklahoma
## Management's Discussion and Analysis
## Years Ended June 30, 2013 and 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, 2013 and 2012. 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 auditor's report, financial statements, notes to financial statements, and required supplemental information.

The statements of net position and statements of revenues, expenses and changes in net position 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 position and cash and changes in them. The reader can think of the College's net position – the difference between assets plus deferred outflows of resources and liabilities plus deferred inflows of resources – as one way to measure the College's financial health, or financial position. Over time, increases or decreases in the College's net position 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, 2013, CASC's net position increased by $256,603 to $22,124,468. Operating expenses for the fiscal year ended June 30, 2013, were $21,598,876, an increase of $291,621 from fiscal year 2012 due in large part to inflationary changes. Operating revenue totaled $11,002,789, an increase of $1,050,821 from fiscal 2012. 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 increased by $54,842 and net nonoperating revenues (expenses) as a whole decreased $374,393 over fiscal 2012.

As of June 30, 2012, CASC's net position decreased by $143,984 to $21,867,865. Operating expenses for the fiscal year ended June 30, 2012, were $21,307,255, an increase of $588,185 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 $9,951,968, a decrease of $772,587 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.

## Financial Analysis of the College as a Whole (Continued)

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 Position

The statement of net position reports CASC's financial position. Net position – 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 position 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 position as of June 30:

### Statement of Net Position at June 30

| | 2013 | 2012 (as Restated) | 2011 |
|---|---|---|---|
| Current Assets | $ 11,667,371 | $ 11,183,235 | $ 13,783,736 |
| Noncurrent Assets | 25,676,390 | 26,061,998 | 24,535,312 |
| Total Assets | 37,343,761 | 37,245,233 | 38,319,048 |
| Total Deferred Outflows of Resources | 438,433 | 584,578 | - |
| Current Liabilities | 1,251,078 | 1,279,172 | 1,036,565 |
| Noncurrent Liabilities | 14,406,648 | 14,682,774 | 15,154,474 |
| Total Liabilities | 15,657,726 | 15,961,946 | 16,191,039 |
| Net Investment in Capital Assets | 10,808,230 | 11,132,472 | 7,801,936 |
| Restricted | 5,442,415 | 5,555,699 | 5,162,653 |
| Unrestricted | 5,873,823 | 5,179,694 | 9,163,420 |
| Total Net Position | $ 22,124,468 | $ 21,867,865 | $ 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 3* to the financial statements.

### *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 for 2013 have decreased slightly from fiscal year 2012. Current liabilities for 2012 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 4* to the financial statements. Noncurrent liabilities for 2013 decreased $276,126 from 2012, while 2012 noncurrent liabilities decreased $470,700 from 2011.

## The Statement of Revenues, Expenses, and Changes in Net Position

The statement of revenues, expenses, and changes in net position reports the results of CASC's activities and their effect on net position. 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 position for the years ending June 30:

### Operating Results for Years Ended June 30

| | 2013 | 2012 (as Restated) | 2011 |
|---|---|---|---|
| **Operating Revenues** | | | |
| Tuition and fees, net | $ 5,135,415 | $ 4,306,750 | $ 2,254,921 |
| Federal grants and contracts | 2,293,118 | 1,780,302 | 3,217,017 |
| State and private grants | 118,898 | 546,816 | 1,281,043 |
| Auxiliary enterprises | 2,648,025 | 3,024,507 | 3,887,518 |
| Other | 807,333 | 293,593 | 84,056 |
| Total operating revenues | 11,002,789 | 9,951,968 | 10,724,555 |
| Operating expenses | (21,598,876) | (21,307,255) | (20,719,070) |
| Operating loss | (10,596,087) | (11,355,287) | (9,994,515) |
| **Nonoperating Revenues (Expenses)** | | | |
| State appropriations | 6,369,478 | 6,314,636 | 6,333,751 |
| Federal and state grants | 3,464,761 | 3,814,488 | 4,216,237 |
| State payments from federal ARRA funds | - | - | 440,740 |
| On-behalf payments for OTRS | 705,646 | 684,522 | 592,213 |
| Interest income | 69,000 | 56,546 | 32,456 |
| Interest on capital asset-related debt | (354,746) | (242,059) | (383,542) |
| Other nonoperating expenses | (399) | - | - |
| Net nonoperating revenues (expenses) | 10,253,740 | 10,628,133 | 11,231,855 |
| **Income (Loss) Before Other Revenues** | (342,347) | (727,154) | 1,237,340 |
| **Other Revenues** | 598,950 | 583,170 | 954,022 |
| **Net Increase (Decrease) in Net Position** | 256,603 | (143,984) | 2,191,362 |
| **Net Position, Beginning of Year, as restated** | 21,867,865 | 22,011,849 | 19,936,647 |
| **Net Position, End of Year** | $ 22,124,468 | $ 21,867,865 | $ 22,128,009 |

### *Revenues*

Revenues are classified as either operating or nonoperating. Operating revenues for 2013 increased by $1,050,821 from 2012 while nonoperating revenues decreased $374,393 over 2012. Federal, state, and private grants and contracts made up 21% of total operating revenues in 2013. Tuition and fees accounted for 45% of total operating revenues. Auxiliary revenue accounts for 28% of operating revenues. The primary source of nonoperating revenues is state appropriations, which accounted for 29% of all revenues in 2012. Federal and state grants comprised 34% of nonoperating revenues. Operating revenues increased primarily due to increase in tuition and federal grants and the nonoperating revenue decrease is primarily due to federal grant revenue decreases.

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

Operating revenues for 2012 decreased by $772,587 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 60% of total operating expenses for 2013, and 63% for 2012 and 2011. The $291,621 and $588,185 increases in operating expenses for 2013 and 2012, respectively, are primarily due to increases 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 and from 2012 to 2013 was the use of revenue bond funds in 2012 to complete the Deanna J. Reed Science and Math Center. The College maintains a healthy cash flow and is able to adequately meet its financial obligations.

### Cash Flows for the Years Ended June 30

| | 2013 | 2012 (as Restated) | 2011 |
|---|---|---|---|
| **Cash Flows Provided (Used) By** | | | |
| Operating activities | $ (9,105,063) | $ (9,458,518) | $ (9,278,637) |
| Noncapital financing activities | 10,539,885 | 10,813,646 | 11,008,976 |
| Investing activities | 69,000 | 56,546 | 3,650 |
| Capital and related financing activities | (1,060,005) | (4,122,845) | 2,987,444 |
| **Net Increase (Decrease) in Cash** | 443,817 | (2,711,171) | 4,721,433 |
| **Cash and Equivalents, Beginning of Year** | 9,373,886 | 12,085,057 | 7,363,624 |
| **Cash and Equivalents, End of Year** | $ 9,817,703 | $ 9,373,886 | $ 12,085,057 |

## 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 small increase in state appropriations, the CASC Board of Regents voted for minimal increases in tuition and fees for the FY 13 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: James Hurst, 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

## Statements of Net Position

## June 30, 2013 and 2012

| | 2013 | 2012 (as Restated) |
|---|---|---|
| **Assets** | | |
| **Current Assets** | | |
| Cash and cash equivalents | $ 5,881,990 | $ 5,250,141 |
| Restricted cash and cash equivalents | 3,935,713 | 4,123,745 |
| Accounts receivable, net | 523,725 | 476,346 |
| Grants receivable | 650,443 | 558,083 |
| Inventory | 331,431 | 367,317 |
| Loans to students, net | 134,957 | 220,901 |
| Interest receivable - student loans | 209,112 | 186,702 |
| Total current assets | 11,667,371 | 11,183,235 |
| **Noncurrent Assets** | | |
| Loans to students, net | 512,190 | 466,268 |
| Capital assets, net | 25,164,200 | 25,595,730 |
| Total noncurrent assets | 25,676,390 | 26,061,998 |
| **Deferred Outflows of Resources** | | |
| Deferred cost on OCIA lease restructure | 438,433 | 584,578 |
| Total deferred outflows of resources | 438,433 | 584,578 |
| **Liabilities** | | |
| **Current Liabilities** | | |
| Accounts payable and accrued liabilities | 351,718 | 423,434 |
| Accrued compensated absences | 150,137 | 152,678 |
| Deferred revenue | 254,988 | 226,678 |
| Bonds payable - current portion | 215,000 | 209,000 |
| Capital lease payable – current portion | 279,235 | 267,382 |
| Total current liabilities | 1,251,078 | 1,279,172 |
| **Noncurrent Liabilities** | | |
| Bonds payable | 6,332,083 | 6,547,083 |
| Capital lease payable | 8,074,565 | 8,135,691 |
| Total noncurrent liabilities | 14,406,648 | 14,682,774 |
| Total liabilities | 15,657,726 | 15,961,946 |
| **Net Position** | | |
| Net investment in capital assets | 10,808,230 | 11,132,472 |
| Restricted for | | |
| Expendable | | |
| Grants and other contracts | 650,443 | 558,083 |
| Student loans | 856,259 | 873,871 |
| Capital projects | 3,935,713 | 4,123,745 |
| Unrestricted | 5,873,823 | 5,179,694 |
| Total net position | $ 22,124,468 | $ 21,867,865 |

# Carl Albert State College
## A Component Unit of the State of Oklahoma
## Statements of Revenues, Expenses and Changes in Net Position
## Years Ended June 30, 2013 and 2012

| | 2013 | 2012 (as Restated) |
|---|---|---|
| **Operating Revenues** | | |
| Tuition and fees, net of scholarship allowances and bad debt expense | $ 5,135,415 | $ 4,306,750 |
| Federal grants and contracts | 2,293,118 | 1,780,302 |
| State grants and contracts | 118,898 | 546,816 |
| Auxiliary enterprises | 2,648,025 | 3,024,507 |
| Other operating revenues | 807,333 | 293,593 |
| Total operating revenues | 11,002,789 | 9,951,968 |
| **Operating Expenses** | | |
| Compensation and benefits | 13,966,536 | 13,705,188 |
| Contractual services | 244,805 | 146,133 |
| Supplies and materials | 4,860,658 | 4,705,483 |
| Scholarships | 373,201 | 248,753 |
| Depreciation and amortization | 1,477,067 | 1,862,089 |
| Utilities | 619,957 | 612,328 |
| Other | 56,652 | 27,281 |
| Total operating expenses | 21,598,876 | 21,307,255 |
| **Operating Loss** | (10,596,087) | (11,355,287) |
| **Nonoperating Revenues (Expenses)** | | |
| State appropriations | 6,369,478 | 6,314,636 |
| Federal and state grants | 3,464,761 | 3,814,488 |
| On-behalf payments for OTRS | 705,646 | 684,522 |
| Interest income | 69,000 | 56,546 |
| Interest on capital asset-related debt | (354,746) | (242,059) |
| Other nonoperating revenues (expenses) | (399) | - |
| Net nonoperating revenues (expenses) | 10,253,740 | 10,628,133 |
| **Loss Before Other Revenues, Expenses, Gains or Losses** | (342,347) | (727,154) |
| **Other Revenues, Expenses, Gains or Losses** | | |
| Capital appropriations – State | 436,941 | 436,941 |
| On-behalf payments for OICA capital lease | 162,009 | 146,229 |
| Total other revenues, expenses, gains or losses | 598,950 | 583,170 |
| **Increase (Decrease) in Net Position** | 256,603 | (143,984) |
| **Net Position, Beginning of Year, Before Restatement** | 21,867,865 | 22,128,009 |
| **Adjustment for Change in Accounting Principle** ***(Note 8)*** | - | (116,160) |
| **Net Position, Beginning of Year, After Restatement** | - | 22,011,849 |
| **Net Position, End of Year** | $ 22,124,468 | $ 21,867,865 |

# Carl Albert State College
## A Component Unit of the State of Oklahoma
## Statements of Cash Flows
## Years Ended June 30, 2013 and 2012

| | 2013 | 2012 (as Restated) |
|---|---|---|
| **Operating Activities** | | |
| Tuition and fees | $ 5,086,141 | $ 4,439,441 |
| Grants and contracts | 2,367,473 | 2,167,691 |
| Payments to suppliers | (5,617,646) | (5,402,528) |
| Payments to employees | (13,966,536) | (13,705,188) |
| Auxiliary enterprises | 2,648,025 | 3,024,507 |
| Other payments | 377,480 | 17,559 |
| Net cash used in operating activities | (9,105,063) | (9,458,518) |
| **Noncapital Financing Activities** | | |
| State appropriations | 7,075,124 | 6,999,158 |
| Federal grants and contracts | 3,464,761 | 3,814,488 |
| Net cash provided by noncapital financing activities | 10,539,885 | 10,813,646 |
| **Capital and Related Financing Activities** | | |
| State appropriations for construction of assets | 436,941 | 436,941 |
| Purchase of capital assets | (1,045,936) | (4,108,059) |
| Principal paid on capital debt and leases | (209,000) | (189,253) |
| Interest paid on capital debt and leases | (242,010) | (262,474) |
| Net cash used in capital and related financing activities | (1,060,005) | (4,122,845) |
| **Investing Activities** | | |
| Interest income received | 69,000 | 56,546 |
| Net cash provided by investing activities | 69,000 | 56,546 |
| **Increase (Decrease) in Cash and Cash Equivalents** | 443,817 | (2,711,171) |
| **Cash and Cash Equivalents, Beginning of Year** | 9,373,886 | 12,085,057 |
| **Cash and Cash Equivalents, End of Year** | $ 9,817,703 | $ 9,373,886 |

*See Notes to Financial Statements*

| | 2013 | 2012 (as Restated) |
|---|---|---|
| **Reconciliation of Cash and Cash Equivalents to the Statements of Net Position** | | |
| Cash and cash equivalents | $ 5,881,990 | $ 5,250,141 |
| Restricted cash and cash equivalents | 3,935,713 | 4,123,745 |
| Total cash and cash equivalents | $ 9,817,703 | $ 9,373,886 |
| **Reconciliation of Net Operating Revenues (Expenses) to Net Cash Used in Operating Activities** | | |
| Operating loss | $ (10,596,087) | $ (11,355,287) |
| Depreciation and amortization expense | 1,623,212 | 1,862,089 |
| Changes in operating assets and liabilities | | |
| Receivables, net | (122,127) | 129,730 |
| Inventories | 35,886 | (102,632) |
| Accounts payable and accrued liabilities | (74,257) | 164,048 |
| Deferred revenue | 28,310 | (156,466) |
| **Net Cash Used in Operating Activities** | $ (9,105,063) | $ (9,458,518) |
| **Supplemental Cash Flows Information** | | |
| Principal on capital debt paid by state agency on behalf of the college | $ 39,397 | $ 37,545 |
| Interest on capital debt paid by state agency on behalf of the college | $ 122,612 | $ 108,684 |

## 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.

### *Measurement Focus, Basis of Accounting and Presentation*

The financial statements of the College have been prepared using the economic resources measurement focus and the accrual basis of accounting. Revenues are recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows. 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. The College distinguishes *operating* revenues and expenses from *nonoperating* items. 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 position when an expense or outlay is incurred for purposes for which both restricted and unrestricted net position 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).

### *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 position 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, 2013 and 2012, cash equivalents consisted primarily of funds invested through the State Treasurer's Cash Management Program.

### *Restricted Cash and Cash Equivalents*

At June 30, 2013 and 2012, restricted cash and cash equivalents consisted of monies restricted by the State Board of Regents for capital improvements on the College's campus.

### *Receivables*

Approximately 55% and 54% of accounts receivable at June 30, 2013 and 2012, respectively, is due from governmental and other entities for reimbursements under grants and other programs. The remaining 45% and 46% of accounts receivable at June 30, 2013 and 2012, respectively, 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 and $63,729 at June 30, 2013 and 2012, respectively. 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.

### *Deferred Outflows of Resources and Deferred Inflows of Resources*

A deferred inflow of resources is an acquisition of net position by the college that is applicable to a future reporting period and a deferred outflow of resources is a consumption of net position by the college that is applicable to a future reporting period. Both deferred inflows and outflows are reported in the statement of net position but are not recognized in the financial statements as revenues and expenses until the period(s) to which they relate. Deferred outflows of resources of the college consist of the deferred cost on lease restructure.

### *Deferred Cost on OCIA Lease Restructure*

The deferred costs incurred on the OCIA lease restructure are being amortized over the life of the lease using the effective interest method. Total amortization for the years ended June 30, 2013 and 2012 were $146,145 and $199,681, respectively.

### *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 and $191,564 at June 30, 2013 and 2012, respectively

### *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:

| | 2013 | 2012 |
|---|---|---|
| Interest capitalized | $ - | $ 118,627 |
| Interest charged to expense | 354,746 | 242,059 |
| Total interest incurred | $ 354,746 | $ 360,686 |

### *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 position 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 Position*

Net position of the College is classified in three components. Net investment in capital assets, 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 position is 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 position is remaining assets less remaining liabilities that do not meet the definition of net investment in capital assets or restricted net position.

### *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.

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 position. 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 years ended June 30, 2013 and 2012 were $3,266,170 and $3,310,564, respectively.

### *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's primary function is to raise and hold funds to support the College and 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 and the 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.

During the years ended June 30, 2013 and 2012, the Foundation provided $260,111 and $257,920 respectively, of support to the College for scholarships. The College provided $508,461 and $371,259 to the Foundation for maintenance and upkeep of the Foundation owned dormitories, of which $7,426 and $3,965 was included in accounts payable at June 30, 2013 and 2012, respectively.

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.

## 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 statues 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 as follows:

| | 2013 | 2012 |
|---|---|---|
| Carrying value | | |
| Cash on hand | $ 14,522 | $ 14,522 |
| Deposits | 9,803,181 | 9,359,364 |
| | $ 9,817,703 | $ 9,373,886 |

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

| | 2013 | 2012 |
|---|---|---|
| Cash and cash equivalents | $ 5,881,990 | $ 5,250,141 |
| Restricted cash and cash equivalents | 3,935,713 | 4,123,745 |
| | $ 9,817,703 | $ 9,373,886 |

## Note 3: Capital Assets

Capital assets activity for the years ended June 30, 2013 and 2012 was:

| | 2013 | | | | |
|---|---|---|---|---|---|
| | Beginning Balance | Additions | Disposals | Transfers | Ending Balance |
| Nondepreciable capital assets | | | | | |
| Land | $ 1,867,052 | $ - | $ - | $ - | $ 1,867,052 |
| Total nondepreciable capital assets | 1,867,052 | - | - | - | 1,867,052 |
| Depreciable capital assets | | | | | |
| Buildings and improvements | 33,025,283 | 450,312 | - | - | 33,475,595 |
| Infrastructure | 1,318,904 | - | - | - | 1,318,904 |
| Furniture, fixtures and equipment | 6,275,327 | 516,685 | (284,398) | - | 6,507,614 |
| Library materials | 1,673,860 | 78,939 | (4,114) | - | 1,748,685 |
| Total depreciable capital assets | 42,293,374 | 1,045,936 | (288,512) | - | 43,050,798 |
| Less accumulated depreciation | | | | | |
| Buildings and improvements | 10,270,069 | 858,657 | - | - | 11,128,726 |
| Infrastructure | 1,202,799 | 17,683 | - | - | 1,220,482 |
| Furniture, fixtures and equipment | 5,480,443 | 556,867 | (283,999) | - | 5,753,311 |
| Library materials | 1,611,385 | 43,860 | (4,114) | - | 1,651,131 |
| Total accumulated depreciation | 18,564,696 | 1,477,067 | (288,113) | - | 19,753,650 |
| Total depreciable capital assets, net | 23,728,678 | (431,131) | (399) | - | 23,297,148 |
| Net capital assets | $ 25,595,730 | $ (431,131) | $ (399) | $ - | $ 25,164,200 |

# Carl Albert State College
## A Component Unit of the State of Oklahoma
## Notes to Financial Statements
## June 30, 2013 and 2012

| | 2012 | | | | |
|---|---|---|---|---|---|
| | Beginning Balance | Additions | Disposals | Transfers | Ending Balance |
| Nondepreciable capital assets | | | | | |
| Land | $ 1,867,052 | $ - | $ - | $ - | $ 1,867,052 |
| Construction in progress | 3,937,718 | 3,382,325 | - | (7,320,043) | - |
| Total nondepreciable capital assets | 5,804,770 | 3,382,325 | - | (7,320,043) | 1,867,052 |
| 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 | 1,596,890 | 77,574 | (604) | - | 1,673,860 |
| Total depreciable capital assets | 34,129,574 | 845,533 | (1,776) | 7,320,043 | 42,293,374 |
| 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 | 1,574,421 | 37,568 | (604) | - | 1,611,385 |
| Total accumulated depreciation | 16,902,892 | 1,662,408 | (604) | - | 18,564,696 |
| Total depreciable capital assets, net | 17,226,682 | (816,875) | (1,172) | 7,320,043 | 23,728,678 |
| Net capital assets | $ 23,031,452 | $ 2,565,450 | $ (1,172) | $ - | $ 25,595,730 |

## Note 4: Oklahoma State Regents for Higher Education Endowment Program

In connection with the Oklahoma State Regents for Higher Education (OSRHE) Endowment Program (the "Endowment Program"), the State of Oklahoma has matched contributions received under the Endowment Program. The State match amounts, plus retained accumulated earnings, totaled approximately $816,000 and $825,000 for June 30, 2013 and 2012, respectively, and is invested by the OSRHE on behalf of the College. The College is entitled to receive an annual distribution of 4.5% of the market value at year-end on these funds. Legal title of these endowment funds is retained by the OSRHE; only the funds available for distribution, or approximately $38,000 at June 30, 2013 and 2012, respectively are recognizable as assets of the College.

## Note 5: Noncurrent Liabilities

The following is a summary of noncurrent obligation transactions for the College for the years ended June 30, 2013 and 2012:

| | 2013 | | | | |
|---|---|---|---|---|---|
| | Beginning Balance | Additions | Deductions | Ending Balance | Current Portion |
| Bonds and capital leases | | | | | |
| Revenue bonds payable | $ 6,756,083 | $ - | $ 209,000 | $ 6,547,083 | $ 215,000 |
| Capital lease obligations | 8,231,476 | - | 39,397 | 8,192,079 | 269,359 |
| Premium | 171,599 | - | 9,876 | 161,723 | 9,876 |
| Total bonds and capital leases | 15,159,158 | - | 258,273 | 14,900,885 | 494,235 |
| Total noncurrent liabilities | $ 15,159,158 | $ - | $ 258,273 | $ 14,900,885 | $ 494,235 |

| | 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.

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 years ended June 30, 2013 and 2012, lease payments made by the State were $162,009 and $146,229, respectively.

The debt service requirements as of June 30, 2013, are as follows:

| Year Ending June 30, | Principal | Interest | Total to be Paid |
|---|---|---|---|
| 2014 | $ 484,359 | $ 586,095 | $ 1,070,454 |
| 2015 | 893,491 | 567,040 | 1,460,531 |
| 2016 | 917,040 | 542,033 | 1,459,073 |
| 2017 | 996,389 | 527,482 | 1,523,871 |
| 2018 | 1,036,921 | 487,078 | 1,523,999 |
| 2019 - 2023 | 2,522,389 | 1,990,696 | 4,513,085 |
| 2024 - 2028 | 3,682,128 | 1,430,916 | 5,113,044 |
| 2029 - 2033 | 3,393,361 | 557,245 | 3,950,606 |
| 2034 - 2036 | 813,084 | 51,769 | 864,853 |
| | $ 14,739,162 | $ 6,740,354 | $ 21,479,516 |

## Note 6: 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 statues 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 of behalf of active members. The employer contribution rate was 9.5% of annual covered payroll for 2013 and 2012. Employees' contributions are also determined by state statue. For all employees, the contribution rate was 7.5% of covered payroll for 2013 and 2012, respectively. The College's contributions to OTRS for the years ended June 30, 2013, 2012 and 2011, were $1,872,747, $1,666,977, and $1,492,174, 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 54.8% and 56.7% as of June 30, 2013 and 2012, respectively.

The State of Oklahoma is also required to contribute to OTRS on behalf of the participating employers. For 2013, 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 years ended June 30, 2013 and 2012, was approximately $705,646 and $684,522, respectively, 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 amended by action of the College's Board of Regents. The College does not make employer contributions to the Plan.

## Note 7: 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 years ended June 30, 2013 and 2012, approximately $1,980,688 and $1,942,920, respectively, of FFEL Program loans was provided to students.

## Note 8: 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.

## Note 9: Adoption of Accounting Principles

Effective July 1, 2012 the College implemented GASB No. 63, *Financial Reporting of Deferred Outflows of Resources, Deferred Inflows of Resources and Net Position*. The objective of GASB No. 63 is to provide guidance for reporting deferred outflows of resources, deferred inflows of resources and net position in a statement of financial position and related disclosures. Effective July 1, 2012, the College also implemented GASB No. 65, *Items Previously Reported as Assets and Liabilities*. The objective of GASB No. 65 is to (a) properly classify certain items that were previously reported as assets and liabilities as deferred outflows of resources or deferred inflows of resources and (b) recognize certain items that were previously reported as assets and liabilities as outflows of resources (expenses) or inflows of resources (revenues). In conjunction with the adoption of GASB No. 65, the College restated beginning net position as of July 1, 2011, to write-off $116,160 of unamortized bond issuance costs that had previously been reported in assets of the College and amortized through interest expense over the term of the bond issuance.

As a result of the implementation of these new standards the statements have been renamed and the new statements now report separate sections of deferred outflows of resources and deferred inflows of resources, if any. Deferred outflows of resources represents a consumption of net position that applies to a future period which will not be recognized as an outflow of resources until that time. Deferred inflows of resources represents an acquisition of net position that applies to a future period which will not be recognized as an inflow until that time. The government only has one item that qualifies for reporting in these categories. A deferred charge on refunding results from the difference in the carrying value of the refunded debt and its reacquisition price. This amount is deferred and amortized over the shorter of the life of the refunded or refunding debt.

# Carl Albert State College Development Foundation, Inc.

Auditor's Report and Financial Statements

June 30, 2013 and 2012

BKD LLP
CPAs & Advisors

# Carl Albert State College Development Foundation, Inc.
## June 30, 2013 and 2012

### Contents

BKD LLP
CPAs & Advisors

5000 Rogers Avenue, Suite 700
Fort Smith, AR 72903-2079
479.452.1040 Fax 479.452.5542 www.bkd.com

# Independent Auditor's Report on Financial Statements

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

We have audited the accompanying financial statements of Carl Albert State College Development Foundation, Inc. (the Foundation), which comprise the statements of financial position as of June 30, 2013 and 2012, and the related statements of activities and cash flows for the years then ended, and the related notes to the financial statements.

***Management's Responsibility for the Financial Statements***

Management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

***Auditor's Responsibility***

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 audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

***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, 2013 and 2012, and the changes in its net assets and its cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

***Correction of Errors in Prior Period***

As discussed in *Note 2* to the financial statements, the 2012 financial statements have been restated to correct misstatements. Our opinion is not modified with respect to this matter.

BKD, LLP

Fort Smith, Arkansas
October 31, 2013

# Carl Albert State College Development Foundation, Inc.

## Statement of Financial Position

## June 30, 2013 and 2012

| Assets | 2013 | 2012 (Restated - Note 2) |
|---|---|---|
| Cash and cash equivalents | $ 213,552 | $ 114,567 |
| Receivable from CASC - Dormitories | 7,426 | 3,965 |
| Assets held by LCEA | - | 270 |
| Interest receivable | - | 34,421 |
| Investments | 5,838,991 | 5,832,105 |
| Property and equipment, net | 2,063,598 | 1,510,868 |
| Total assets | $ 8,123,567 | $ 7,496,196 |
| **Liabilities** | | |
| Accounts payable | $ 10,931 | $ 3,139 |
| Construction payable to LCEA | 90,025 | - |
| Note payable | 100,000 | 100,000 |
| Total liabilities | 200,956 | 103,139 |
| **Net Assets** | | |
| Unrestricted | 3,646,499 | 3,201,102 |
| Temporarily restricted | 2,429,066 | 2,354,485 |
| Permanently restricted | 1,847,046 | 1,837,470 |
| Total net assets | 7,922,611 | 7,393,057 |
| Total liabilities and net assets | $ 8,123,567 | $ 7,496,196 |

# Carl Albert State College Development Foundation, Inc.

## Statement of Activities

## Years Ended June 30, 2013 and 2012

| | 2013 | | | |
|---|---|---|---|---|
| | Unrestricted | Temporarily Restricted | Permanently Restricted | Total |
| **Support and Revenue** | | | | |
| Contributions | $ - | $ 290,296 | $ 8,000 | $ 298,296 |
| Investment income (loss) | 68,667 | 186,900 | 1,576 | 257,143 |
| Royalties | 289 | - | - | 289 |
| Rental income - dorms | 508,461 | - | - | 508,461 |
| Net assets released from restrictions | 402,615 | (402,615) | - | - |
| Total support and revenue | 980,032 | 74,581 | 9,576 | 1,064,189 |
| **Expenses** | | | | |
| Program Services | | | | |
| Scholarships | 260,111 | - | - | 260,111 |
| Facility and department support | 214,175 | - | - | 214,175 |
| Promotion and public relations | 35,370 | - | - | 35,370 |
| General and administrative | 24,979 | - | - | 24,979 |
| Total expenses | 534,635 | - | - | 534,635 |
| **Increase in Net Assets** | 445,397 | 74,581 | 9,576 | 529,554 |
| **Net Assets at Beginning of Year** | 3,201,102 | 2,354,485 | 1,837,470 | 7,393,057 |
| **Net Assets at End of Year** | $ 3,646,499 | $ 2,429,066 | $ 1,847,046 | $ 7,922,611 |

# Carl Albert State College Development Foundation, Inc.

## Statement of Activities (Continued)

## Years Ended June 30, 2013 and 2012

| | 2012 (Restated - Note 2) Unrestricted | Temporarily Restricted | Permanently Restricted | Total |
|---|---|---|---|---|
| **Support and Revenue** | | | | |
| Contributions | $ - | $ 248,141 | $ 25,000 | $ 273,141 |
| Investment income | 29,628 | 174,279 | 712 | 204,619 |
| Royalties | 220 | - | - | 220 |
| Rental income - dorms | 371,259 | - | - | 371,259 |
| Other | 165 | | | 165 |
| Net assets released from restrictions | 344,900 | (344,900) | - | - |
| Total support and revenue | 746,172 | 77,520 | 25,712 | 849,404 |
| **Expenses** | | | | |
| Program services | | | | |
| Scholarships | 257,920 | - | - | 257,920 |
| Faculty and department support | 135,560 | - | - | 135,560 |
| Promotion and public relations | 28,763 | - | - | 28,763 |
| General and administrative | 14,662 | - | - | 14,662 |
| Total expenses | 436,905 | - | - | 436,905 |
| **Increase in Net Assets** | 309,267 | 77,520 | 25,712 | 412,499 |
| **Net Assets at Beginning of Year As Previously Reported** | 2,284,723 | 2,276,965 | 2,662,406 | 7,224,094 |
| Adjustment applicable to prior years (*Note 2*) | 607,112 | - | (850,648) | (243,536) |
| **Net Assets at Beginning of Year, As Restated** | 2,891,835 | 2,276,965 | 1,811,758 | 6,980,558 |
| **Net Assets at End of Year** | $ 3,201,102 | $ 2,354,485 | $ 1,837,470 | $ 7,393,057 |

# Carl Albert State College Development Foundation, Inc.

## Statement of Cash Flows

## Years Ended June 30, 2013 and 2012

| | 2013 | 2012 (Restated - Note 2) |
|---|---|---|
| **Operating Activities** | | |
| Change in net assets | $ 529,554 | $ 412,499 |
| Items not providing cash | | |
| Depreciation | 66,404 | 66,404 |
| Unrealized gain on investments | (125,434) | (126,148) |
| Changes in | | |
| Interest receivable | 34,421 | (7,395) |
| Receivable from CASC-Dormitories | (3,461) | 18,695 |
| Accounts payable and other liabilities | 98,087 | (146,310) |
| Net cash provided by operating activities | 599,571 | 217,745 |
| **Investing Activities** | | |
| Purchase of property and equipment | (619,134) | - |
| Proceeds from sale of investments | 1,380,887 | 1,461,801 |
| Purchases of investments | (1,262,339) | (1,715,789) |
| Net cash used in investing activities | (500,586) | (253,988) |
| **Increase (Decrease) in Cash and Cash Equivalents** | 98,985 | (36,243) |
| **Cash and Cash Equivalents, Beginning of Year** | 114,567 | 150,810 |
| **Cash and Cash Equivalents, End of Year** | $ 213,552 | $ 114,567 |

## 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, 2013 and 2012, cash equivalents consisted primarily of money market accounts with brokers and certificates of deposit.

Beginning January 1, 2013, interest-bearing and noninterest-bearing transaction accounts are subject to the $250,000 limit on insurance per covered institution, at June 30, 2013, the Foundation's cash accounts did not exceed federally insured limits.

### *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.

### *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 it fair value.

No asset impairment was recognized during the years ended June 30, 2013 and 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.

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.

### *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 2010.

## Note 2: Restatement of Prior Years' Financial Statements

Fiscal year 2012 has been restated for cost and expenses related to certain dormitories owned by the Foundation that were incorrectly recorded as assets of the LeFlore County Educational Authority (See *Note 9*) and restated for assets incorrectly reported as held in trust by others that are held by and are assets of the Oklahoma State Regents' Endowment Trust Fund and in which the Foundation does not have a beneficial interest. The following financial statement line items as of June 30, 2012, and for the year then ended, were affected by the correction of these errors.

# Carl Albert State College Development Foundation, Inc.

## Notes to Financial Statements

## June 30, 2013 and 2012

| | As Originally Reported | As Restated | Effect of Change |
|---|---|---|---|
| **Statement of Financial Position** | | | |
| **Assets** | | | |
| Assets held by LCEA | $ - | $ 270 | $ 270 |
| Funds held in trust by others | 860,643 | - | (860,643) |
| Property and equipment, net | 785,389 | 1,510,868 | 725,479 |
| Total assets | 7,631,090 | 7,496,196 | (134,894) |
| **Net Assets** | | | |
| Unrestricted | 2,478,109 | 3,201,102 | 722,993 |
| Permanently restricted | 2,695,357 | 1,837,470 | (857,887) |
| Total net assets | 7,527,951 | 7,393,057 | (134,894) |
| Total liabilities and net assets | 7,631,090 | 7,496,196 | (134,894) |
| **Statement of Activities** | | | |
| **Support and Revenue** | | | |
| Investment income | 214,614 | 204,619 | (9,995) |
| Other income | - | 165 | 165 |
| Total support and revenue | 859,234 | 849,404 | (9,830) |
| **Expenses** | | | |
| Facilities and equipment | 99,782 | 135,560 | (35,778) |
| Payments to LCEA | 156,000 | - | 156,000 |
| General and administrative expenses | 12,912 | 14,662 | (1,750) |
| Total expenses | 555,377 | 436,905 | 118,472 |
| Increase in net assets | 303,857 | 412,499 | 108,642 |
| **Statement of Cash Flows** | | | |
| Change in net assets | 303,857 | 412,499 | 108,642 |
| Depreciation | 35,592 | 66,404 | 30,812 |
| Funds held in trust by others | (9,995) | - | 9,995 |
| Accounts payable and other liabilities | 3,139 | (146,310) | (149,449) |

The net effect on the financial statements for periods prior to 2012 was recorded as an adjustment to beginning net assets as of July 1, 2011, in the amount of $243,536.

## Note 3: Investments and Investment Return

Investments at June 30 consisted of the following:

| | 2013 | 2012 |
|---|---|---|
| Equity securities | $ 329,625 | $ 449,793 |
| Certificates of deposit | 1,581,909 | 1,700,563 |
| Corporate debt | 2,201,739 | 1,973,682 |
| Mutual funds | 981,182 | 833,316 |
| Money market funds and other | 505,195 | 643,543 |
| Savings bonds | 239,341 | 231,208 |
| | $ 5,838,991 | $ 5,832,105 |

Total investment return is comprised of the following:

| | 2013 | 2012 |
|---|---|---|
| Interest and dividend income | $ 31,025 | $ 33,653 |
| Net realized and unrealized gains on investments reported at fair value | 226,118 | 170,966 |
| | $ 257,143 | $ 204,619 |

## Note 4: Property and Equipment

Property and equipment at June 30 consists of:

| | 2013 | 2012 |
|---|---|---|
| Dormitories | $ 1,881,185 | $ 1,881,185 |
| Building and improvements | 110,941 | 110,941 |
| Computer equipment | 38,011 | 38,011 |
| Construction in progress | 619,134 | - |
| | 2,649,271 | 2,030,137 |
| Less accumulated depreciation | (585,673) | (519,269) |
| | $ 2,063,598 | $ 1,510,868 |

## Note 5: 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, 2013. The loan carries 0% interest and is unsecured.

## Note 6: Net Assets

### *Temporarily Restricted Net Assets*

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

| | 2013 | 2012 |
|---|---|---|
| Scholarships | $ 1,821,945 | $ 1,780,394 |
| Facilities improvement | 237,275 | 221,290 |
| Other donor restrictions | 369,846 | 352,801 |
| | $ 2,429,066 | $ 2,354,485 |

### *Permanently Restricted Net Assets*

Permanently restricted net assets at June 30 are restricted to:

| | 2013 | 2012 |
|---|---|---|
| Investment in perpetuity, the income of which is expendable to support | | |
| Scholarships | $ 1,090,111 | $ 1,080,535 |
| Lectureships | 756,935 | 756,935 |
| | $ 1,847,046 | $ 1,837,470 |

### *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 7: 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
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 was:

| | 2013 | | | |
|---|---|---|---|---|
| | Unrestricted | Temporarily Restricted | Permanently Restricted | Total |
| Donor-restricted endowment funds | $ - | $ 2,429,066 | $ 1,847,046 | $ 4,276,112 |
| Board-designated endowment funds | 1,562,879 | - | - | 1,562,879 |
| Total endowment funds | $ 1,562,879 | $ 2,429,066 | $ 1,847,046 | $ 5,838,991 |

| | 2012 (Restated - Note 2) | | | |
|---|---|---|---|---|
| | Unrestricted | Temporarily Restricted | Permanently Restricted | Total |
| Donor-restricted endowment funds | $ - | $ 2,354,485 | $ 1,837,470 | $ 4,191,955 |
| Board-designated endowment funds | 1,544,879 | - | - | 1,544,879 |
| Total endowment funds | $ 1,544,879 | $ 2,354,485 | $ 1,837,470 | $ 5,736,834 |

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

| | 2013 | | | |
|---|---|---|---|---|
| | Unrestricted | Temporarily Restricted | Permanently Restricted | Total |
| Endowment net assets, beginning of year | $ 1,544,879 | $ 2,354,485 | $ 1,837,470 | $ 5,736,834 |
| Investment return | | | | |
| Investment income | - | 31,025 | - | 31,025 |
| Net appreciation | 68,667 | 155,875 | 1,576 | 226,118 |
| Total investment return | 68,667 | 186,900 | 1,576 | 257,143 |
| Contributions | - | 290,296 | 8,000 | 298,296 |
| Board designation of funds | 200,000 | - | - | 200,000 |
| Appropriations of endowment assets for expenditures | (250,667) | (402,615) | - | (653,282) |
| Endowment net assets, end of year | $ 1,562,879 | $ 2,429,066 | $ 1,847,046 | $ 5,838,991 |

| | 2012 (Restated - Note 2) | | | |
|---|---|---|---|---|
| | Unrestricted | Temporarily Restricted | Permanently Restricted | Total |
| Endowment net assets, beginning of year | $ 1,290,251 | $ 2,276,965 | $ 1,811,758 | $ 5,378,974 |
| Investment return | | | | |
| Investment income | - | 91,309 | - | 91,309 |
| Net appreciation | 29,628 | 82,970 | 712 | 113,310 |
| Total investment return | 29,628 | 174,279 | 712 | 204,619 |
| Contributions | - | 248,141 | 25,000 | 273,141 |
| Board designation of funds | 250,000 | - | - | 250,000 |
| Appropriations of endowment assets for expenditures | (25,000) | (344,900) | - | (369,900) |
| Endowment net assets, end of year | $ 1,544,879 | $ 2,354,485 | $ 1,837,470 | $ 5,736,834 |

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

| | 2013 | 2012 |
|---|---|---|
| Permanently restricted net assets - portion of perpetual endowment funds required to be retained permanently by explicit donor stipulation or OUPMIFA | $ 1,847,046 | $ 1,837,470 |
| Temporarily restricted net assets | | |
| Term endowment funds | $ 2,429,066 | $ 2,354,485 |
| Portion of perpetual endowment funds subject to a time restriction under OUPMIFA | | |
| With purpose restrictions | $ 2,155,175 | $ 2,080,594 |
| Without purpose restrictions | 273,891 | 273,891 |
| | $ 2,429,066 | $ 2,354,485 |

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's endowment includes match funds required in connection with the Oklahoma State Regents for Higher Education (OSRHE) Endowment Program (the Endowment Program). The matching funds held by the Foundation for endowed professorships totaled $1,101,060 and $1,087,868 at June 30, 2013 and 2012, respectively.

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.

## Note 8: Disclosures About Fair Value of Assets and Liabilities

Fair value is 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. Fair value measurements must maximize the use of observable inputs and minimize the use of unobservable inputs. There is a hierarchy of 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 supported by little or no market activity and significant to the fair value of the assets or liabilities

### *Recurring Measurements*

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, 2013 and 2012:

| | | Fair Value Measurements Using | | |
|---|---|---|---|---|
| | Fair Value | Quoted Prices in Active Markets for Identical Assets (Level 1) | Significant Other Observable Inputs (Level 2) | Significant Unobservable Inputs (Level 3) |
| **June 30, 2013** | | | | |
| Investments | | | | |
| Money market funds | $ 505,195 | $ 505,195 | $ - | $ - |
| Equity securities | 329,625 | 329,625 | - | - |
| Certificates of deposit | 1,581,909 | - | 1,581,909 | - |
| Corporate debt securities | 2,201,739 | 2,201,739 | - | - |
| Savings bonds | 239,341 | 239,341 | - | - |
| Mutual funds | 981,182 | 981,182 | - | - |
| Investment total | $ 5,838,991 | $ 4,257,082 | $ 1,581,909 | $ - |

| | | Fair Value Measurements Using | | |
|---|---|---|---|---|
| | Fair Value | Quoted Prices in Active Markets for Identical Assets (Level 1) | Significant Other Observable Inputs (Level 2) | Significant Unobservable Inputs (Level 3) |
| **June 30, 2012** | | | | |
| Investments | | | | |
| Money market funds | $ 643,543 | $ 643,543 | $ - | $ - |
| Equity securities | 449,793 | 449,793 | - | - |
| Certificates of deposit | 1,700,563 | - | 1,700,563 | - |
| Corporate debt securities | 1,973,682 | 1,973,682 | - | - |
| Savings bonds | 231,208 | 231,208 | - | - |
| Mutual funds | 833,316 | 833,316 | - | - |
| Investment total | $ 5,832,105 | $ 4,131,542 | $ 1,700,563 | $ - |

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. There have been no significant changes in the valuation techniques during the year ended June 30, 2013. For assets classified within Level 3 of the fair value hierarchy, the process used to develop the reported fair value is described below.

### *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. There were no type 3 investments.

## Note 9: Related Party Transactions

Carl Albert State College (the College) and the Foundation are financially interrelated organizations. 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 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 provided $260,111 and $257,920 to the College for scholarships during June 30, 2013 and 2012, respectively. The Foundation also owns a majority of the dormitories located at the college under a 99 year lease agreement with the College which provides the Foundation with access to the land to build these dormitories. 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. The College has agreed to transfer dormitory rental income to the Foundation for the upkeep and maintenance of the Foundation dormitories used by students of the College. During the years ended June 30, 2013 and 2012, the College transferred $508,461 and $371,259 to the Foundation from dormitory income, which includes a receivable from the College of $7,426 and $3,965 at June 30, 2013 and 2012, respectively.

LeFlore County Educational Authority ("the Authority") is a component unit of LeFlore County, Oklahoma, (the County) and the Authority currently has trustees in common with the Foundation. A memorandum of agreement (MOA) has been signed by the College, the Foundation, the Authority, and the County that states that the Foundation has always owned the dormitories built in conjunction with financing obtained through the Authority, and furthermore, the Foundation has always held all the revenue rights for these dormitories. The Foundation has permitted these rent revenues to be pledges to the Authority's lender and as a result, the MOA also states the Foundation will provide funding to the Authority to pay any debt incurred by the Authority to fund construction of dormitories. The Foundation provided $540,400 to the Authority during the fiscal year 2013 to pay towards the construction of a new dormitory. The Foundation provided $156,000 to the Authority during fiscal year 2012 which was used to pay remaining principal and interest on a note payable for dormitories built in prior years. As of June 30, 2013, the Foundation owed $90,025 for dormitory construction which is reflected as a liability in the accompanying financial statements. This amount will initially be paid by the Authority with loan proceeds under a $250,000 loan arrangement with a local bank. Upon completion of the new dormitory, the loan balance between the Authority and the local bank will be approximately $250,000 and the repayment of this balance plus interest costs will be funded by transfers from the Foundation to the Authority in future years. As a result, the outstanding balance of this loan will be reflected as a liability of the Foundation until the loan is repaid in full. As of June 30, 2013, the loan balance of $6,200 is included in the $90,025 liability noted above.

## Note 10: 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.

## Note 11: Subsequent Events

Subsequent to year end, the Foundation repaid the $100,000 notes payable with a related party.

Subsequent events have been evaluated through the date of the Independent Auditor's Report, which is the date the financial statements were issued.

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# Independent Auditor's 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, in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States, the financial statements of Carl Albert State College(the College) a component unit of the State of Oklahoma as of and for the year ended June 30, 2013, 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, 2013 which collectively comprise the College's basic financial statements and have issued our report thereon dated October 31, 2013, which contained emphasis of matter paragraphs for the College's adoption of Governmental Accounting Standards Board Statement No. 65, *Items Previously Reported as Assets and Liabilities* and for a restatement of the previously issued 2012 Foundation financial statements to correct material misstatements therein. 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.

### *Internal Control over Financial Reporting*

Management of the College is responsible for establishing and maintaining effective internal control over financial reporting (internal control). In planning and performing our audit, we considered the College's internal control to determine the audit procedures that are appropriate in the circumstances 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. Accordingly, we do not express an opinion on the effectiveness of the College's internal control.

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. A significant deficiency is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

Our consideration of internal control 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 material weaknesses at the College. Given these limitations, during our audit of the College we did not identify any deficiencies in internal control that we consider to be material weaknesses as defined above. However, material weaknesses may exist at the College that have not been identified.

### *Compliance*

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*.

### *Other Matters*

We noted certain matters that we reported to the College's management in a separate letter dated October 31, 2013.

The purpose of this communication is solely to describe the scope of our testing of internal control and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the entity's internal control or compliance. This communication is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the College's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

BKD, LLP

Fort Smith, Arkansas
October 31, 2013

BKD LLP
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# Independent Auditor's 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

## *Report on Compliance for Each Major Federal Program*

We have audited the compliance of Carl Albert State College (College), a component unit of the State of Oklahoma 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 its major federal programs for the year ended June 30, 2013. 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.

## *Management's Responsibility*

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.

## *Auditor's Responsibility*

Our responsibility is to express an opinion on the compliance of Carl Albert State College based on our audit of the types of compliance requirements referred to above.

We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. Those standards and OMB Circular A-133 require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about the College's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances.

We believe that our audit provides a reasonable basis for our opinion on compliance for each major federal program. Our audit does not provide a legal determination on the College's compliance with those requirements.

### *Basis for Qualified Opinion on the Student Financial Aid Cluster*

As described in item 2013-001 in the accompanying schedule of findings and questioned costs, Carl Albert State College did not comply with requirements regarding special tests-enrollment reporting (loan programs) for its student financial aid cluster program. Compliance with such requirements is necessary, in our opinion, for Carl Albert State College to comply with requirements applicable to that program.

### *Qualified Opinion on the Student Financial Aid Cluster*

In our opinion, except for the noncompliance described in the preceding paragraph, 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 its student financial aid cluster program for the year ended June 30, 2013.

### *Unmodified Opinion on the Other Major Federal Program*

In our opinion, the College complied, in all material respects, with the compliance requirements referred to above that could have a direct and material effect on its other major federal program for the year ended June 30, 2013.

### *Report on Internal Control Over Compliance*

The management of the College is responsible for establishing and maintaining effective internal control over compliance with the requirements referenced above. In planning and performing our audit of compliance, 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 to determine the auditing procedures that are appropriate in the circumstances 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. A significant deficiency in internal control over compliance is a deficiency, or a combination of deficiencies, in internal control over compliance with a type of compliance requirement of a federal program that is less severe than a material weakness in internal control over compliance, yet important enough to merit attention by those charged with governance.

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 material weaknesses and therefore, material weaknesses may exist that were not identified. We consider the deficiency in internal control over compliance described in the accompanying schedule of findings and questioned costs as item 2013-001 to be a material weaknesses.

The purpose of this report on internal control over compliance is solely to describe the scope of our testing of internal control over compliance and the results of that testing based on the requirements of OMB Circular A-133. Accordingly, this report is not suitable for any other purpose.

BKD, LLP

Fort Smith, Arkansas
October 31, 2013

# Supplementary Information

# Carl Albert State College
## A Component Unit of the State of Oklahoma
## Schedule of Expenditures of Federal Awards
## Year Ended June 30, 2013

| Cluster/Program | Federal Agency/Pass-Through Entity | CFDA Number | Amount |
|---|---|---|---|
| Federal Pell Grant Program | U.S. Department of Education | 84.063 | $ 6,751,500 |
| Federal Supplemental Educational Opportunity Grants | U.S. Department of Education | 84.007 | 80,968 |
| Federal Direct Student Loans | U.S. Department of Education | 84.268 | 1,980,688 |
| Federal Work-Study Program | U.S. Department of Education | 84.033 | 203,506 |
| Federal Perkins Loans | U.S. Department of Education | 84.038 | 21,360 |
| Total Student Financial Aid Cluster | | | 9,038,022 |
| Title III | U.S. Department of Education | 84.031 | 129,329 |
| TRIO - Educational Opportunity Center | U.S. Department of Education | 84.066 | 359,077 |
| TRIO – Upward Bound | U.S. Department of Education | 84.047A | 486,645 |
| TRIO - Upward Bound Math and Science | U.S. Department of Education | 84.047A | 172,754 |
| TRIO – Student Support Services | U.S. Department of Education | 84.042A | 300,585 |
| TRIO – Talent Search | U.S. Department of Education | 84.044A | 392,619 |
| Total TRIO Cluster | | | 1,841,009 |
| Career and Technical Education – Basic Grants to States | U.S. Department of Education | 84.048 | 55,305 |
| Child Care Development Block Grant | U.S. Department of Health and Human Serivces/Oklahoma Department of Education | 93.575 | 81,046 |
| Temporary Assistance for Needy Families | U.S. Department of Health and Human Services/Oklahoma Department of Human Services | 93.558 | 218,579 |
| Indian Education Higher Education Grant Program | U.S. Deparment of the Interior/Oklahoma Department of Indian Affairs | 15.114 | 439,510 |
| | | | $ 11,673,471 |

# Carl Albert State College
## A Component Unit of the State of Oklahoma
## Schedule of Expenditures of Federal Awards (Continued)
## Year Ended June 30, 2013

### *Notes to Schedule*

1. This schedule includes the federal awards activity of Carl Albert State College and is presented on the cash 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 |
|---|---|---|---|

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, 2013

***Summary of Auditor's Results***

1. The opinion expressed in the independent auditor's report was:

   ☒ Unmodified ☐ Qualified ☐ Adverse ☐ Disclaimer

2. The independent auditor's report on internal control over financial reporting disclosed:

   Significant deficiency(ies)? ☐ Yes ☒ None reported

   Material weakness(es)? ☐ Yes ☒ No

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

4. The independent auditor's 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 ☒ None reported

   Material weakness(es)? ☒ Yes ☐ No

5. The opinion expressed in the independent auditor's report on compliance with requirements that could have a direct and material effect on major federal awards was:

   ☒ Unmodified ☒ Qualified ☐ Adverse ☐ Disclaimer

   Unmodified: Indian Education Higher Education Grant

   Qualified: Student Financial Aid Cluster

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

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 |
| Indian Education Higher Education Grant Program | 15.114 |

8. The threshold used to distinguish between Type A and Type B programs as those terms are defined in OMB Circular A-133 was $300,000.

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.

### Findings Required to be Reported by OMB Circular A-133

| Reference Number | Finding | Questioned Costs |
|---|---|---|
| 13-001 | Student Financial Aid Cluster, U.S. Department of Education | None |

Criteria or Specific Requirement - Special Test - Enrollment Reporting (loan programs) - Under the loan programs, schools must complete and return within 30 days the Enrollment Reporting roster file, updating the file for changes in student status, report the date the enrollment status was effective, enter the new anticipated completion date, and submit the changes electronically through the batch method or the NSLDS website.

Condition - Even though the College uploaded status information on graduated students, the NSLDS Enrollment Reporting Summary Report is not showing the correct status for 22 of the 25 graduated students selected for testing.

Effect - Loan programs that are not aware of a students graduated status may not be properly determining the grace period before the students loan enters repayment status.

Cause - Proper monitoring of student status shown on the Enrollment Reporting roster file is not being maintained.

Recommendation - Management should monitor the student status shown on the Enrollment Reporting roster file to ensure all status changes have been properly reported and are correct on the NSLDS Enrollment Reporting Summary Report.

Views of Responsible Officials and Planned Corrective Action - The College will implement a monitoring process to ensure the NSLDS Enrollment Reporting Summary Report contains the correct status information for graduated students.

# Carl Albert State College
## A Component Unit of the State of Oklahoma
## Summary Schedule of Prior Audit Findings
## Year Ended June 30, 2013

| Reference Number | Finding | Status |
|---|---|---|

No matters are reportable.