



# CONNORS

— STATE COLLEGE —

As of and for the Years Ended  
JUNE 30, 2014 AND 2013

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Financial Statements and Schedule of Expenditures of Federal Awards  
**WITH REPORTS OF INDEPENDENT AUDITORS**



CONNORS STATE COLLEGE

June 30, 2014

AUDITED FINANCIAL STATEMENTS

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## Independent Auditors' Report

Board of Regents for the  
Oklahoma Agricultural and Mechanical Colleges  
Connors State College  
Oklahoma City, Oklahoma

### **Report on the Financial Statements**

We have audited the accompanying financial statements of Connors State College (the "College"), a component unit of the State of Oklahoma, which comprise the statements of net position as of June 30, 2014 and 2013, and the related statements of revenues, expenses, and changes in net position, 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.

### **Auditors' Responsibility**

Our responsibility is to express an opinion on these financial statements based on our audits. We did not audit the financial statements of the College's discretely presented component unit, Connors Development Foundation, Inc. (the "Foundation"). Those financial statements were audited by another auditor, whose report has been furnished to us, and our opinion, insofar as it relates to the amounts included for the Foundation, is based solely on the report of the other auditors. We conducted our audits in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. The financial statements of the Foundation were 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, based on our audits and the report of the other auditor, the financial statements referred to above present fairly, in all material respects, the respective financial position of Connors State College and its discretely presented component unit, Connors Development Foundation, Inc., as of June 30, 2014 and 2013, and the respective changes in financial position and, where applicable, cash flows thereof for the years then ended in accordance with accounting principles generally accepted in the United States of America.

## Other Matters

### *Required Supplementary Information*

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis and the required supplementary information, as listed in the table of contents, be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context.

We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

### **Other Reporting Required by Government Auditing Standards**

In accordance with *Government Auditing Standards*, we have also issued our report dated October 27, 2014 on our consideration of the College's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on 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 the College's internal control over financial reporting and compliance.

Cole & Reed P.C.

Oklahoma City, Oklahoma  
October 27, 2014

## MANAGEMENT'S DISCUSSION AND ANALYSIS

### CONNORS STATE COLLEGE

For The Years Ended June 30, 2014, 2013, and 2012

#### INTRODUCTION

The following management's discussion and analysis of the financial performance of Connors State College (the "College") provides an overview of the College's financial activities for the fiscal year ended June 30, 2014, with fiscal years 2013 and 2012 data presented for comparative purposes. This analysis is intended to provide a summary of significant financial activities and information and should be read in conjunction with the College's financial statements and footnotes.

#### FINANCIAL HIGHLIGHTS

For the year ended June 30, 2014, the College's net assets changed to \$14,866,830 from \$16,710,380 in 2013 and \$17,037,274 in 2012, resulting in a decrease of \$1,843,550 for the fiscal year.

Total revenues decreased to \$20,171,045 in 2014, from \$22,431,295 in 2013, and \$21,597,794 in 2012. The College experienced a decrease in tuition and fees and overall financial aid revenue due to a decrease in enrollment and in bookstore revenue due to the outsourcing of the bookstore in fiscal year 2014.

Total expenses decreased to \$22,014,595 in 2014 and \$22,758,189 in 2013 from \$23,481,235 in 2012. The current year's expenses decreased in the areas of supplies and materials and scholarships expenses. The largest portion of the decrease is in supplies and materials, which is due to the outsourcing of the bookstore in fiscal year 2014.

#### USING THIS ANNUAL REPORT

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

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

These two statements report the College's net position and changes in it. The College's net position - assets, plus deferred outflows of resources, less liabilities, less deferred inflows of resources, equals net position - is one way to measure to 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 many other non-financial factors, such as the trend and quality of applicants, freshman class size, student retention, condition of the buildings, and the safety of the campus, to assess the overall health of the institution.

These statements include all assets, deferred outflows of resources, liabilities and deferred inflows of resources using the accrual basis of accounting. All of the current year's revenues and expenses are taken into account, regardless of when cash is received or paid.

MANAGEMENT'S DISCUSSION AND ANALYSIS--Continued

CONNORS STATE COLLEGE

For The Years Ended June 30, 2014, 2013, and 2012

FINANCIAL ANALYSIS OF THE COLLEGE AS A WHOLE

A comparative schedule of the College's net position, for the years ended June 30, 2014, 2013, and 2012, is shown below, and includes the percentage of annual change. The amounts are from the statements of net position and are presented on an accrual basis of accounting, whereby capital assets are capitalized and depreciated.

CONDENSED STATEMENTS OF NET POSITION

	June 30		Increase	Percent
	2014	2013	(Decrease)	Change
<b>ASSETS</b>				
Current assets	\$ 8,007,322	\$ 8,826,686	\$ (819,364)	-9.3%
Noncurrent assets:				
Capital assets, net	28,350,154	22,028,128	6,322,026	28.7%
Restricted cash				
and cash equivalents	<u>9,676,421</u>	<u>2,148,948</u>	<u>7,527,473</u>	<u>350.3%</u>
TOTAL ASSETS	<u>\$ 46,033,897</u>	<u>\$ 33,003,762</u>	<u>\$ 13,030,135</u>	<u>39.5%</u>
<b>DEFERRED OUTFLOWS</b>	<u>\$ 96,961</u>	<u>\$ 145,441</u>	<u>\$ (48,480)</u>	<u>-33.3%</u>
<b>LIABILITIES</b>				
Current liabilities	\$ 4,938,456	\$ 2,255,666	\$ 2,682,790	118.9%
Noncurrent liabilities	<u>26,173,891</u>	<u>14,183,157</u>	<u>11,990,734</u>	<u>84.5%</u>
TOTAL LIABILITIES	<u>\$ 31,112,347</u>	<u>\$ 16,438,823</u>	<u>\$ 14,673,524</u>	<u>89.3%</u>
<b>DEFERRED INFLOWS</b>	<u>\$ 151,681</u>	<u>\$ -</u>	<u>\$ 151,681</u>	<u>100.0%</u>
<b>NET POSITION</b>				
Net investment in capital assets	\$ 8,506,449	\$ 7,451,811	\$ 1,054,638	14.2%
Restricted for expendable	2,011,023	2,668,972	(657,949)	-24.7%
Unrestricted	<u>4,349,358</u>	<u>6,589,597</u>	<u>(2,240,239)</u>	<u>-45.1%</u>
TOTAL NET POSITION	<u>\$ 14,866,830</u>	<u>\$ 16,710,380</u>	<u>\$ (1,843,550)</u>	<u>-11.0%</u>

MANAGEMENT'S DISCUSSION AND ANALYSIS--Continued

CONNORS STATE COLLEGE

For The Years Ended June 30, 2014, 2013, and 2012

FINANCIAL ANALYSIS OF THE COLLEGE AS A WHOLE--Continued

CONDENSED STATEMENTS OF NET POSITION

	June 30 2013	2012	Increase (Decrease)	Percent Change
<b>ASSETS</b>				
Current assets	\$ 8,826,686	\$ 11,594,494	\$ (2,767,808)	-23.9%
Noncurrent assets:				
Capital Assets, net	22,028,128	21,728,004	300,124	1.4%
Restricted cash and cash equivalents	2,148,948	795,919	1,353,029	170.0%
Receivable from state agency	-	812,832	(812,832)	-100.0%
TOTAL ASSETS	<u>\$ 33,003,762</u>	<u>\$ 34,931,249</u>	<u>\$ (1,927,487)</u>	<u>-5.5%</u>
DEFERRED OUTFLOWS	<u>\$ 145,441</u>	<u>\$ 193,921</u>	<u>\$ (48,480)</u>	<u>-25.0%</u>
<b>LIABILITIES</b>				
Current liabilities	\$ 2,255,666	\$ 2,664,785	\$ (409,119)	-15.4%
Noncurrent liabilities	<u>14,183,157</u>	<u>15,423,111</u>	<u>(1,239,954)</u>	<u>-8.0%</u>
TOTAL LIABILITIES	<u>\$ 16,438,823</u>	<u>\$ 18,087,896</u>	<u>\$ (1,649,073)</u>	<u>-9.1%</u>
<b>NET POSITION</b>				
Net investment in capital assets	\$ 7,451,811	\$ 6,114,064	\$ 1,337,747	21.9%
Restricted for expendable	2,668,972	590,197	2,078,775	352.2%
Unrestricted	<u>6,589,597</u>	<u>10,333,013</u>	<u>(3,743,416)</u>	<u>-36.2%</u>
TOTAL NET POSITION	<u>\$ 16,710,380</u>	<u>\$ 17,037,274</u>	<u>\$ (326,894)</u>	<u>-1.9%</u>

During fiscal year 2014, the College's net position decreased by \$1,843,550, after a decrease of \$326,894 in 2013 and a decrease of \$1,883,441 in fiscal year 2012. While the College did experience a decrease in overall revenue, it also had a decrease in overall expenses, which resulted in the College's financial position decreasing significantly in fiscal year 2014 when compared to fiscal year 2013.

MANAGEMENT'S DISCUSSION AND ANALYSIS--Continued

CONNORS STATE COLLEGE

For The Years Ended June 30, 2014, 2013, and 2012

FINANCIAL ANALYSIS OF THE COLLEGE AS A WHOLE--Continued

CONDENSED STATEMENTS OF REVENUES, EXPENSES, AND CHANGES IN NET POSITION

	Years Ended		Increase (Decrease)	Percent Change
	2014	2013		
<b>OPERATING REVENUES</b>				
Tuition and fees, net	\$ 2,131,216	\$ 2,581,611	\$ (450,395)	-17.4%
Federal grants and contracts	696,224	994,371	(298,147)	-30.0%
State grants and contracts	158,674	129,061	29,613	22.9%
Auxiliary	2,329,770	2,815,296	(485,526)	-17.2%
Other	213,218	231,105	(17,887)	-7.7%
<b>TOTAL OPERATING REVENUES</b>	<b>5,529,102</b>	<b>6,751,444</b>	<b>(1,222,342)</b>	<b>-18.1%</b>
Less: Operating expenses	21,394,653	21,999,013	(604,360)	-2.7%
<b>NET OPERATING LOSS</b>	<b>(15,865,551)</b>	<b>(15,247,569)</b>	<b>(617,982)</b>	<b>4.1%</b>
<b>NONOPERATING REVENUE (EXPENSES)</b>				
State appropriations	6,924,019	6,829,427	94,592	1.4%
OTRS on-behalf contributions	495,000	509,000	(14,000)	-2.8%
Federal grants and contracts	5,333,636	6,295,770	(962,134)	-15.3%
State grants and contracts	837,689	784,185	53,504	6.8%
Investment income	12,744	33,071	(20,327)	-61.5%
Interest expenses	(619,942)	(759,176)	139,234	-18.3%
<b>TOTAL NONOPERATING REVENUES (EXPENSES)</b>	<b>12,983,146</b>	<b>13,692,277</b>	<b>(709,131)</b>	<b>-5.2%</b>
Capital contributions	44,268	98,614	(54,346)	100.0%
State appropriations for capital	436,941	481,941	(45,000)	-9.3%
OCIA on-behalf contributions	557,646	647,843	(90,197)	-13.9%
<b>NET DECREASE IN NET POSITION</b>	<b>(1,843,550)</b>	<b>(326,894)</b>	<b>(1,516,656)</b>	<b>464.0%</b>
<b>NET POSITION, BEGINNING OF YEAR</b>	<b>16,710,380</b>	<b>17,037,274</b>	<b>(326,894)</b>	<b>-1.9%</b>
<b>NET POSITION, END OF YEAR</b>	<b>\$ 14,866,830</b>	<b>\$ 16,710,380</b>	<b>\$ (1,843,550)</b>	<b>-11.03%</b>

MANAGEMENT'S DISCUSSION AND ANALYSIS--Continued

CONNORS STATE COLLEGE

For The Years Ended June 30, 2014, 2013, and 2012

CONDENSED STATEMENTS OF REVENUES, EXPENSES, AND CHANGES IN NET POSITION

	Years Ended		Increase (Decrease)	Percent Change
	2013	2012		
<b>OPERATING REVENUES</b>				
Tuition and fees, net	\$ 2,581,611	\$ 2,294,359	\$ 287,252	12.5%
Federal grants and contracts	994,371	1,087,155	(92,784)	-8.5%
State grants and contracts	129,061	403,794	(274,733)	-68.0%
Auxiliary	2,815,296	2,564,149	251,147	9.8%
Other	231,105	198,229	32,876	16.6%
<b>TOTAL OPERATING REVENUES</b>	<b>6,751,444</b>	<b>6,547,686</b>	<b>203,758</b>	<b>3.1%</b>
Less: Operating expenses	21,999,013	22,767,928	(768,915)	-3.4%
<b>NET OPERATING LOSS</b>	<b>(15,247,569)</b>	<b>(16,220,242)</b>	<b>972,673</b>	<b>-6.0%</b>
<b>NONOPERATING REVENUE (EXPENSES)</b>				
State appropriations	6,829,427	6,784,319	45,108	0.7%
OTRS on-behalf contributions	509,000	514,390	(5,390)	-1.0%
Federal grants and contracts	6,295,770	6,261,522	34,248	0.5%
State grants and contracts	784,185	820,843	(36,658)	-4.5%
Investment income	33,071	31,258	1,813	5.8%
Interest expenses	(759,176)	(713,307)	(45,869)	6.4%
<b>TOTAL NONOPERATING REVENUES (EXPENSES)</b>	<b>13,692,277</b>	<b>13,699,025</b>	<b>(6,748)</b>	<b>0.0%</b>
Capital contributions	98,614	-	98,614	100.0%
State appropriations for capital	481,941	521,596	(39,655)	-7.6%
OCIA on-behalf contributions	647,843	116,180	531,663	457.6%
<b>NET DECREASE IN NET POSITION</b>	<b>(326,894)</b>	<b>(1,883,441)</b>	<b>1,556,547</b>	<b>-82.6%</b>
<b>NET POSITION, BEGINNING OF YEAR</b>	<b>17,037,274</b>	<b>18,920,715</b>	<b>(1,883,441)</b>	<b>-10.0%</b>
<b>NET POSITION, END OF YEAR</b>	<b>\$ 16,710,380</b>	<b>\$ 17,037,274</b>	<b>\$ (326,894)</b>	<b>-1.92%</b>

MANAGEMENT'S DISCUSSION AND ANALYSIS--Continued

CONNORS STATE COLLEGE

For The Years Ended June 30, 2014, 2013, and 2012

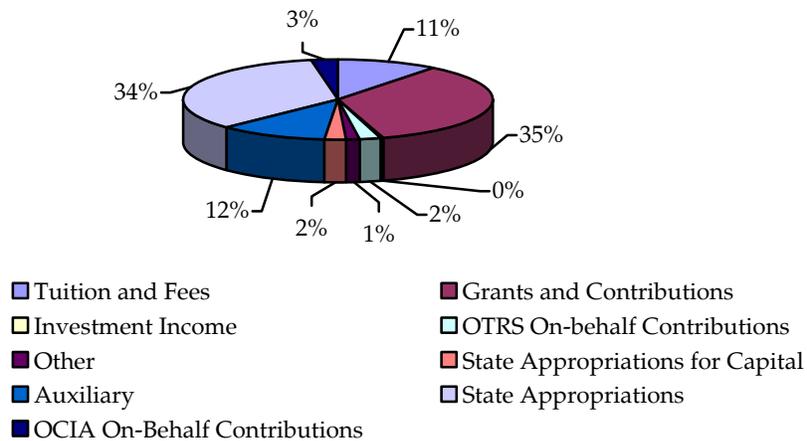
FINANCIAL ANALYSIS OF THE COLLEGE AS A WHOLE--Continued

During the year ended June 30, 2014, total revenues decreased by \$2,260,250, state appropriations increased by \$94,592, net tuition revenues decreased by \$450,395, auxiliary revenues decreased by \$485,526, grants and contracts decreased by \$1,177,164, OTRS contributions and OCIA on behalf contributions decreased by \$104,197, and other revenues decreased by \$92,560.

Total liabilities increased from \$16,438,823 in fiscal year 2013 to \$31,112,347 in fiscal year 2014. The majority of this, approximately \$13,306,000 was due to the master lease obligations acquired for the renovation of the student union and the construction of the nursing and allied health building. Current liabilities increased by nearly \$2,700,000 from fiscal year 2013 to fiscal year 2014, of which approximately \$2,300,000 were invoices related to the construction/renovation of the new buildings and were paid shortly after the end of the fiscal year.

During the two-year period, the percentage of revenue furnished by state appropriation was 34% for 2014, 30% for 2013, and 32% in 2012. Net tuition and fees percentage of total revenues changed in 2014 to 11% and in 2013 to 12% from 13% in 2012, while Auxiliary Enterprises accounted for 12% in 2014, 13% in 2013, and 13% in 2012. Following is a graphic illustration of the College's revenues for the years ended June 30, 2014, 2013, and 2012:

TOTAL REVENUES 2014



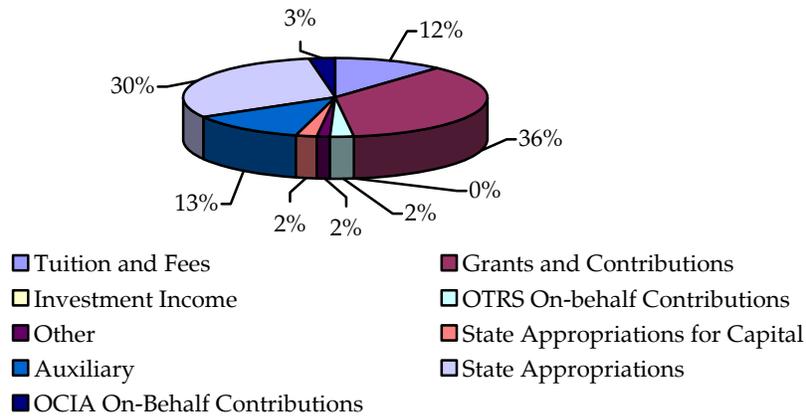
MANAGEMENT'S DISCUSSION AND ANALYSIS--Continued

CONNORS STATE COLLEGE

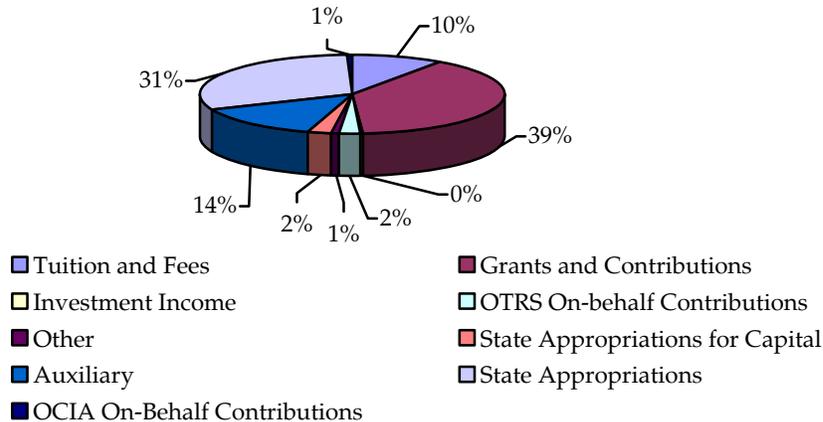
For The Years Ended June 30, 2014, 2013, and 2012

FINANCIAL ANALYSIS OF THE COLLEGE AS A WHOLE--Continued

TOTAL REVENUES 2013



TOTAL REVENUES 2012



The College's total expenses for the year ended June 30, 2014, decreased by \$743,594, primarily due to a decrease in the expenses associated with the bookstore operations that were outsourced in fiscal year 2014. The College experienced a decrease in overall grant revenue in fiscal year 2014, which resulted in a corresponding decrease in scholarship expense during the fiscal year.

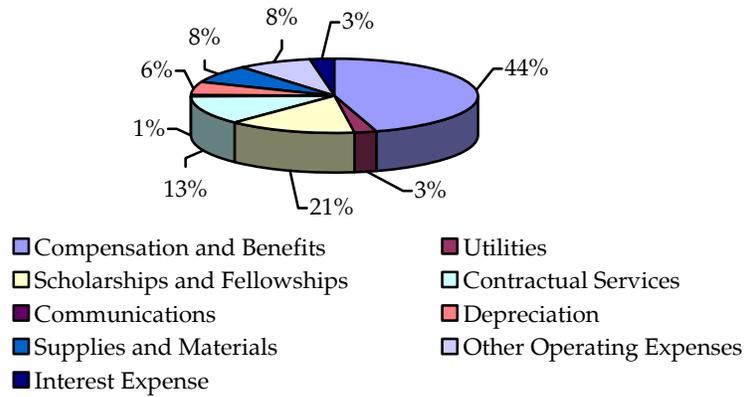
MANAGEMENT'S DISCUSSION AND ANALYSIS--Continued

CONNORS STATE COLLEGE

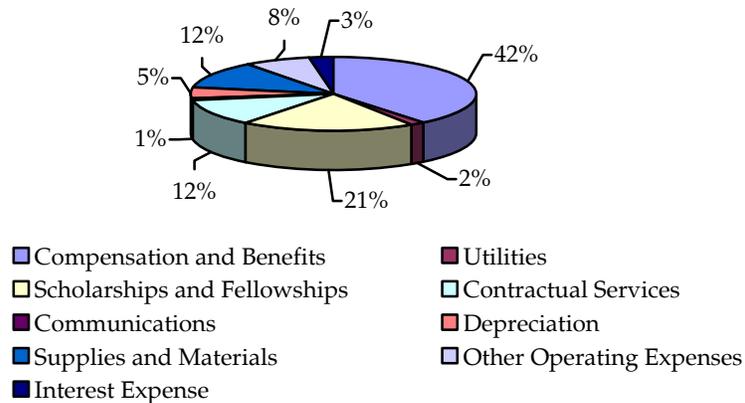
For The Years Ended June 30, 2014, 2013, and 2012

FINANCIAL ANALYSIS OF THE COLLEGE AS A WHOLE--Continued

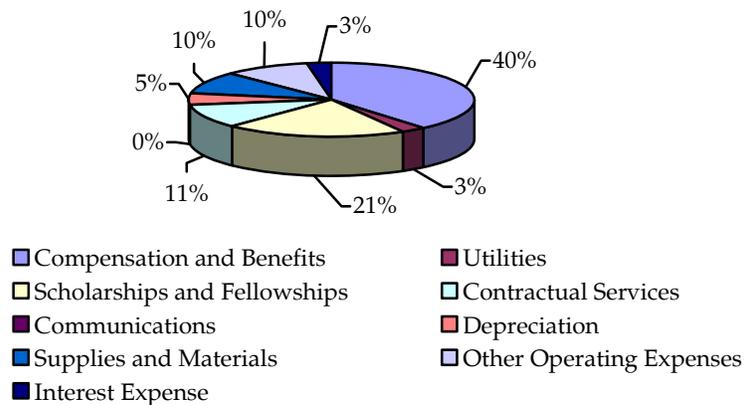
TOTAL EXPENSES 2014



TOTAL EXPENSES 2013



TOTAL EXPENSES 2012



MANAGEMENT'S DISCUSSION AND ANALYSIS--Continued

CONNORS STATE COLLEGE

For The Years Ended June 30, 2014, 2013, and 2012

FINANCIAL ANALYSIS OF THE COLLEGE AS A WHOLE--Continued

During the period July 1, 2013 to June 30, 2014, the College's net position decreased overall by \$1,843,550. For fiscal year 2014, the net investment in capital assets increased by \$1,054,638 compared to an increase of \$1,337,747 in 2013. Unrestricted net position decreased by \$2,240,239, while restricted net position decreased by \$657,949 in 2014. In 2013, unrestricted net position decreased by \$3,743,416, while restricted net position increased by \$2,078,775.

ANALYSIS OF NET POSITION

	June 30		Increase	Percent
	2014	2013	(Decrease)	Change
NET POSITION				
Net investment in capital assets	\$ 8,506,449	\$ 7,451,811	\$ 1,054,638	14.0%
Restricted cash:				
Expendable	2,011,023	2,668,972	(657,949)	-24.7%
Unrestricted	<u>4,349,358</u>	<u>6,589,597</u>	<u>(2,240,239)</u>	<u>-34.0%</u>
TOTAL POSITION	<u>\$ 14,866,830</u>	<u>\$ 16,710,380</u>	<u>\$ (1,843,550)</u>	<u>-11.0%</u>

	June 30		Increase	Percent
	2013	2012	(Decrease)	Change
NET POSITION				
Net investment in capital assets	\$ 7,451,811	\$ 6,114,064	\$ 1,337,747	22.0%
Restricted cash:				
Expendable	2,668,972	590,197	2,078,775	352.2%
Unrestricted	<u>6,589,597</u>	<u>10,333,013</u>	<u>(3,743,416)</u>	<u>36.2%</u>
TOTAL POSITION	<u>\$ 16,710,380</u>	<u>\$ 17,037,274</u>	<u>\$ (326,894)</u>	<u>-1.9%</u>

During the period ended June 30, 2014, the College's overall cash and cash equivalents increased by \$7,010,721. This change was largely due to the proceeds received with the issuance of the new ODFA 2014C debt.

MANAGEMENT'S DISCUSSION AND ANALYSIS--Continued

CONNORS STATE COLLEGE

For The Years Ended June 30, 2014, 2013, and 2012

CONDENSED STATEMENTS OF CASH FLOWS

	Years Ended June 30		Increase (Decrease)	Percent Change
	2014	2013		
CASH PROVIDED BY (USED IN)				
Operating activities	\$ (11,549,339)	\$ (13,217,765)	\$ 1,668,426	-12.6%
Noncapital financing activities	13,109,612	13,909,382	(799,770)	-5.7%
Investing activities	7,373	246,987	(239,614)	-97.0%
Capital and related financing activities	<u>5,443,075</u>	<u>(1,981,960)</u>	<u>7,425,035</u>	<u>-374.6%</u>
NET INCREASE (DECREASE) IN CASH	7,010,721	(1,043,356)	8,054,077	-771.9%
CASH AND CASH EQUIVALENTS, BEGINNING OF YEAR	<u>7,980,999</u>	<u>9,024,355</u>	<u>(1,043,356)</u>	<u>-11.6%</u>
CASH AND CASH EQUIVALENTS, END OF YEAR	<u>\$ 14,991,720</u>	<u>\$ 7,980,999</u>	<u>\$ 7,010,721</u>	<u>87.8%</u>

	Years Ended June 30		Increase (Decrease)	Percent Change
	2013	2012		
CASH PROVIDED BY (USED IN)				
Operating activities	\$ (13,217,765)	\$ (12,627,896)	\$ (589,869)	4.7%
Noncapital financing activities	13,909,382	13,866,684	42,698	0.3%
Investing activities	246,987	22,736	224,251	986.3%
Capital and related financing activities	<u>(1,981,960)</u>	<u>42,711</u>	<u>(2,024,671)</u>	<u>-4740.4%</u>
NET INCREASE (DECREASE) IN CASH	(1,043,356)	1,304,235	(2,347,591)	-180.0%
CASH AND CASH EQUIVALENTS, BEGINNING OF YEAR	<u>9,024,355</u>	<u>7,720,120</u>	<u>1,304,235</u>	<u>16.9%</u>
CASH AND CASH EQUIVALENTS, END OF YEAR	<u>\$ 7,980,999</u>	<u>\$ 9,024,355</u>	<u>\$ (1,043,356)</u>	<u>-11.6%</u>

MANAGEMENT'S DISCUSSION AND ANALYSIS--Continued

CONNORS STATE COLLEGE

For The Years Ended June 30, 2014, 2013, and 2012

CAPITAL ASSETS AND DEBT ADMINISTRATION

As of June 30, 2014, 2013, and 2012, the College had recorded \$44,591,549, \$37,608,217, and \$36,633,121, respectively, in capital assets and \$16,241,395, \$15,580,089, and \$14,905,117, respectively, in accumulated depreciation on those capital assets. In fiscal year 2014, the College performed multiple non-structural improvements totaling \$504,366 had multiple CIP projects outstanding at June 30 totaling \$6,513,107, including the Student Union Project and the Nursing and Allied Health Building Project.

	Years Ended		Increase (Decrease)	Percent Change
	June 30 2014	2013		
<b>CAPITAL ASSETS</b>				
Land	\$ 769,729	\$ 769,729	\$ -	0.0%
Buildings and improvements	28,138,858	28,004,362	134,496	0.5%
Non-structural improvements	3,569,035	3,016,934	552,101	18.3%
Equipment	4,557,320	4,519,788	37,532	0.8%
Library materials	810,000	810,000	-	0.0%
Livestock	233,500	205,078	28,422	14.0%
Construction in-progress	6,513,107	282,326	6,230,781	2206.9%
<b>TOTAL CAPITAL ASSETS</b>	<b>44,591,549</b>	<b>37,608,217</b>	<b>6,983,332</b>	<b>18.6%</b>
Less: accumulated depreciation	(16,241,395)	(15,580,089)	(661,306)	4.2%
<b>NET CAPITAL ASSETS</b>	<b>\$ 28,350,154</b>	<b>\$ 22,028,128</b>	<b>\$ 6,322,026</b>	<b>28.7%</b>

	Years Ended		Increase (Decrease)	Percent Change
	June 30 2013	2012		
<b>CAPITAL ASSETS</b>				
Land	\$ 769,729	\$ 761,729	\$ 8,000	1.1%
Buildings and improvements	28,004,362	27,561,074	443,288	1.6%
Non-structural improvements	3,016,934	2,833,984	182,950	6.5%
Equipment	4,519,788	4,487,964	31,824	0.7%
Library materials	810,000	810,000	-	0.0%
Livestock	205,078	137,175	67,903	50.0%
Construction in-progress	282,326	41,195	241,131	585.3%
<b>TOTAL CAPITAL ASSETS</b>	<b>37,608,217</b>	<b>36,633,121</b>	<b>975,096</b>	<b>2.7%</b>
Less: accumulated depreciation	(15,580,089)	(14,905,117)	(674,972)	4.5%
<b>NET CAPITAL ASSETS</b>	<b>\$ 22,028,128</b>	<b>\$ 21,728,004</b>	<b>\$ 300,124</b>	<b>1.4%</b>

MANAGEMENT'S DISCUSSION AND ANALYSIS--Continued

CONNORS STATE COLLEGE

For The Years Ended June 30, 2014, 2013, and 2012

CAPITAL ASSETS AND DEBT ADMINISTRATION--Continued

During 2014, the College issued the ODFA 2014C debt with the proceeds to be used to renovate the Student Union and the construction of the Nursing Allied Health Building on the Muskogee campus. During 2013, the College paid off the revenue bond early, thus causing the 10.5% decrease in long-term liabilities from fiscal year 2012. During 2012, the College entered into two new ODFA Capital Leases for a capital improvement project and for taking possession of Miller's Crossing from CDF Student Housing, L.L.C. At June 30, 2014, 2013, and 2012, the College had long-term liabilities of \$27,303,119, \$15,141,329 and \$16,918,889, respectively.

LONG-TERM LIABILITIES

	Years Ended		Increase (Decrease)	Percent Change
	June 30			
	2014	2013		
OCIA Capital Lease	\$ 173,159	\$ 202,711	\$ (29,552)	-14.6%
OCIA Series Bonds	5,073,044	5,670,702	(597,658)	-10.5%
ODFA Capital Lease	22,056,916	9,267,916	12,789,000	138.0%
<b>TOTAL</b>	<b>\$ 27,303,119</b>	<b>\$ 15,141,329</b>	<b>\$ 12,161,790</b>	<b>80.3%</b>

	Years Ended		Increase (Decrease)	Percent Change
	June 30			
	2013	2012		
OCIA Capital Lease	\$ 202,711	\$ 230,851	\$ (28,140)	-12.2%
OCIA Series Bonds	5,670,702	5,930,538	(259,836)	-4.4%
Revenue Bonds Payable	-	1,050,000	(1,050,000)	-100.0%
ODFA Capital Lease	9,267,916	9,707,500	(439,584)	-4.5%
<b>TOTAL</b>	<b>\$ 15,141,329</b>	<b>\$ 16,918,889</b>	<b>\$ (1,777,560)</b>	<b>-10.5%</b>

CONTACTING THE COLLEGE'S FINANCIAL MANAGEMENT

This financial report is designed to provide a general overview of the College's finances and to show the accountability for the monies it receives. If there are any questions about this report or if additional information is needed, contact the Fiscal Services Department at Connors State College Warner, Oklahoma.

STATEMENTS OF NET POSITION

CONNORS STATE COLLEGE

	College		Component Unit	
	June 30		June 30	
	2014	2013	2014	2013
<b>CURRENT ASSETS</b>				
Cash and cash equivalents	\$ 4,621,334	\$ 5,586,186	\$ 1,197,204	\$ 1,124,590
Restricted cash and cash equivalents	693,965	245,865	-	-
Investments	1,352,921	1,347,550	39,380	33,391
Accounts receivable, net	1,083,646	892,802	650	-
Grants and contracts receivable	255,456	140,380	-	-
Inventories	-	536,773	-	-
Other current assets	-	77,130	-	-
TOTAL CURRENT ASSETS	<u>8,007,322</u>	<u>8,826,686</u>	<u>1,237,234</u>	<u>1,157,981</u>
<b>NONCURRENT ASSETS</b>				
Restricted cash and cash equivalents	9,676,421	2,148,948	-	-
Capital assets, net	<u>28,350,154</u>	<u>22,028,128</u>	-	-
TOTAL NONCURRENT ASSETS	<u>38,026,575</u>	<u>24,177,076</u>	-	-
TOTAL ASSETS	<u>\$ 46,033,897</u>	<u>\$ 33,003,762</u>	<u>\$ 1,237,234</u>	<u>\$ 1,157,981</u>
<b>DEFERRED OUTFLOWS OF RESOURCES</b>				
Deferred charge on				
OCIA lease restructure	<u>\$ 96,961</u>	<u>\$ 145,441</u>	<u>\$ -</u>	<u>\$ -</u>

STATEMENTS OF NET POSITION--Continued

CONNORS STATE COLLEGE

	College		Component Unit	
	June 30		June 30	
	2014	2013	2014	2013
<b>LIABILITIES AND NET POSITION</b>				
<b>CURRENT LIABILITIES</b>				
Accounts payable	\$ 2,894,978	\$ 769,229	\$ 18,626	\$ 12,796
Accrued liabilities	17,698	12,952	-	-
Other current liabilities	17,614	11,077	-	-
Unearned revenues	142,450	145,832	-	-
Student and other deposits	82,597	30,156	-	-
Current portion of noncurrent liabilities	1,783,119	1,286,420	-	-
<b>TOTAL CURRENT LIABILITIES</b>	<b>4,938,456</b>	<b>2,255,666</b>	<b>18,626</b>	<b>12,796</b>
<b>NONCURRENT LIABILITIES, net of current portion</b>				
Accrued pension benefit and OPEB obligation	83,591	107,414	-	-
Accrued compensated absences	154,637	109,579	-	-
Premium on capital lease obligation	272,874	18,900	-	-
ODFA capital lease obligation	21,174,249	8,818,916	-	-
OCIA capital lease obligation	4,488,540	5,128,348	-	-
<b>TOTAL NONCURRENT LIABILITIES</b>	<b>26,173,891</b>	<b>14,183,157</b>	<b>-</b>	<b>-</b>
<b>TOTAL LIABILITIES</b>	<b>\$ 31,112,347</b>	<b>\$ 16,438,823</b>	<b>\$ 18,626</b>	<b>\$ 12,796</b>
<b>DEFERRED INFLOWS OF RESOURCES</b>				
Deferred credit on OCIA lease restructure	\$ 151,681	\$ -	\$ -	\$ -
<b>NET POSITION</b>				
Net investment in capital assets	8,506,449	7,451,811	-	-
Restricted for:				
Nonexpendable - scholarships and other	-	-	663,769	644,661
Expendable:				
Scholarships, research, instruction, and other	451,634	957,165	287,577	347,313
Loans	3,187	3,164	-	-
Capital projects	1,556,202	1,708,643	-	-
Unrestricted	4,349,358	6,589,597	267,262	153,211
<b>TOTAL NET POSITION</b>	<b>\$ 14,866,830</b>	<b>\$ 16,710,380</b>	<b>\$ 1,218,608</b>	<b>\$ 1,145,185</b>

See notes to financial statements.

STATEMENTS OF REVENUES, EXPENSES, AND CHANGES IN NET POSITION

CONNORS STATE COLLEGE

	College		Component Unit	
	Year Ended June 30		Year Ended June 30	
	2014	2013	2014	2013
<b>OPERATING REVENUES</b>				
Student tuition and fees, net of scholarship allowances of \$2,472,000 and \$2,083,000 in 2014 and 2013, respectively	\$ 2,131,216	\$ 2,581,611	\$ -	\$ -
Federal grants and contracts	696,224	994,371	-	-
State and local grants and contracts	158,674	129,061	-	-
Sales and services of education departments	20,761	25,082	-	-
Auxiliary enterprise charges:				
Housing, net of scholarship allowances of \$540,000 and \$448,000 in 2014 and 2013, respectively	465,233	555,832	-	-
Food services, net of scholarship allowances of \$346,000 and \$261,000 in 2014 and 2013, respectively	298,213	329,431	-	-
Bookstore, net of scholarship allowances of \$356,000 and \$882,000 in 2014 and 2013, respectively	306,936	851,469	-	-
Student Union	584,153	497,430	-	-
All other	675,235	581,134	-	-
Gifts and contributions	-	-	402,130	508,326
Other operating revenues	192,457	206,023	-	-
<b>TOTAL OPERATING REVENUES</b>	<b>5,529,102</b>	<b>6,751,444</b>	<b>402,130</b>	<b>508,326</b>
<b>OPERATING EXPENSES</b>				
Compensation and employee benefits	9,949,430	9,542,592	-	-
Contractual services	2,763,300	2,731,490	-	-
Supplies and materials	1,712,631	2,658,893	30,122	14,016
Utilities	550,930	489,712	-	-
Communications	113,960	105,108	-	-
Other operating expenses	1,849,778	1,861,948	186,618	204,957
Scholarships and fellowships	3,185,587	3,394,854	118,473	46,650
Depreciation	1,269,037	1,214,416	-	-
<b>TOTAL OPERATING EXPENSES</b>	<b>21,394,653</b>	<b>21,999,013</b>	<b>335,213</b>	<b>265,623</b>
<b>OPERATING INCOME (LOSS)</b>	<b>(15,865,551)</b>	<b>(15,247,569)</b>	<b>66,917</b>	<b>242,703</b>
<b>NONOPERATING REVENUES (EXPENSES)</b>				
State appropriations	6,924,019	6,829,427	-	-
OTRS on-behalf contributions	495,000	509,000	-	-
Federal grants and contracts	5,333,636	6,295,770	-	-
State grants and contracts	837,689	784,185	-	-
Investment income	12,744	33,071	6,506	8,161
Interest expense	(619,942)	(759,176)	-	-
<b>NET NONOPERATING REVENUES (EXPENSES)</b>	<b>12,983,146</b>	<b>13,692,277</b>	<b>6,506</b>	<b>8,161</b>
<b>INCOME (LOSS) BEFORE OTHER REVENUES, EXPENSES, GAINS AND LOSSES</b>	<b>(2,882,405)</b>	<b>(1,555,292)</b>	<b>73,423</b>	<b>250,864</b>
Capital contributions	44,268	98,614	-	-
State appropriations restricted for capital purposes	436,941	481,941	-	-
OCIA on-behalf payments	557,646	647,843	-	-
<b>CHANGE IN NET POSITION</b>	<b>(1,843,550)</b>	<b>(326,894)</b>	<b>73,423</b>	<b>250,864</b>
<b>NET POSITION, BEGINNING OF YEAR</b>	<b>16,710,380</b>	<b>17,037,274</b>	<b>1,145,185</b>	<b>894,321</b>
<b>NET POSITION, END OF YEAR</b>	<b>\$ 14,866,830</b>	<b>\$ 16,710,380</b>	<b>\$ 1,218,608</b>	<b>\$ 1,145,185</b>

See notes to financial statements.

STATEMENTS OF CASH FLOWS

CONNORS STATE COLLEGE

	Years Ended June 30	
	2014	2013
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>		
Tuition and fees	\$ 2,248,084	\$ 2,519,366
Grants and contracts	739,822	1,387,149
Auxiliary enterprise charges	2,018,676	2,651,221
Other operating receipts	290,348	231,673
Payments to employees for salaries and benefits	(9,391,583)	(9,083,576)
Payments to suppliers	<u>(9,681,260)</u>	<u>(10,923,598)</u>
NET CASH USED IN OPERATING ACTIVITIES	(13,775,913)	(13,217,765)
<b>CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES</b>		
State appropriations	6,924,019	6,829,427
Federal grants and contracts	5,333,636	6,295,770
State grants and contracts	837,689	784,185
Miscellaneous	14,268	
Federal direct student loan receipts	4,554,202	5,484,005
Federal direct student loan disbursements	<u>(4,554,202)</u>	<u>(5,484,005)</u>
NET CASH PROVIDED BY NONCAPITAL FINANCING ACTIVITIES	13,109,612	13,909,382
<b>CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES</b>		
Cash paid for capital assets	(5,334,489)	(1,418,157)
Capital appropriations received	436,941	481,941
Proceeds of capital debt and leases	13,578,503	812,832
Repayments of capital debt and leases	(517,000)	(1,489,584)
Interest paid on capital debt and leases	<u>(494,306)</u>	<u>(368,992)</u>
NET CASH PROVIDED BY (USED IN) CAPITAL AND RELATED FINANCING ACTIVITIES	7,669,649	(1,981,960)
<b>CASH FLOWS FROM INVESTING ACTIVITIES</b>		
Purchase of investments	(8,684)	(16,909)
Proceeds from sales and maturities of investments	-	209,300
Interest received on investments	<u>16,057</u>	<u>54,596</u>
NET CASH PROVIDED BY INVESTING ACTIVITIES	<u>7,373</u>	<u>246,987</u>
<b>NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS</b>		
	7,010,721	(1,043,356)
CASH AND CASH EQUIVALENTS, BEGINNING OF YEAR	<u>7,980,999</u>	<u>9,024,355</u>
CASH AND CASH EQUIVALENTS, END OF YEAR	<u>\$ 14,991,720</u>	<u>\$ 7,980,999</u>

STATEMENTS OF CASH FLOWS--Continued

CONNORS STATE COLLEGE

	Years Ended June 30	
	<u>2014</u>	<u>2013</u>
RECONCILIATION OF OPERATING LOSS TO NET CASH USED IN OPERATING ACTIVITIES		
Operating loss	\$ (15,865,551)	\$ (15,247,569)
Adjustments to reconcile operating loss to net cash used in operating activities:		
Depreciation and amortization	1,269,037	1,214,416
Loss on disposal of asset	-	2,231
On-behalf contributions to teachers' retirement system	495,000	509,000
Changes in net assets and liabilities:		
Accounts and other receivables	(305,920)	37,099
Inventories	536,773	119,840
Other assets	77,130	568
Accounts payable and accrued expenses	(113,365)	167,655
Unearned revenues	(3,382)	298
Student and other deposits	52,441	14,878
Compensated absences	<u>81,924</u>	<u>(36,181)</u>
NET CASH USED IN OPERATING ACTIVITIES	<u>\$ (13,775,913)</u>	<u>\$ (13,217,765)</u>
NONCASH CAPITAL AND RELATED FINANCING ACTIVITIES		
Interest on capital debt paid by state agency on behalf of the College	<u>\$ 84,475</u>	<u>\$ 359,867</u>
Principal on capital debt paid by state agency on behalf of the College	<u>\$ 473,171</u>	<u>\$ 287,976</u>
Capital assets received as gifts and contributions	<u>\$ 30,000</u>	<u>\$ 98,614</u>
RECONCILIATION OF CASH AND CASH EQUIVALENTS TO THE STATEMENTS OF NET POSITION		
Current assets:		
Cash and cash equivalents	\$ 4,621,334	\$ 5,586,186
Restricted cash and cash equivalents	693,965	245,865
Noncurrent assets:		
Restricted cash and cash equivalents	<u>9,676,421</u>	<u>2,148,948</u>
TOTAL CASH AND CASH EQUIVALENTS	<u>\$ 14,991,720</u>	<u>\$ 7,980,999</u>

See notes to financial statements.

## NOTES TO FINANCIAL STATEMENTS

### CONNORS STATE COLLEGE

June 30, 2014

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

Nature of Operations: Connors State College (the "College") is an associate degree granting institution established by an act of the Oklahoma State Legislature in 1908. The College's mission is to provide higher education primarily for people of eastern Oklahoma and surrounding areas through academic programs, cultural enrichment, lifelong learning experiences, and public service activities.

Reporting Entity: The financial reporting entity, as defined by Governmental Accounting Standards Board ("GASB") Statement No. 14, *The Financial Reporting Entity*, and as amended by GASB Statement No. 39, *Determining Whether Certain Organizations Are Component Units* and GASB Statement No. 61, *The Financial Reporting Entity: Omnibus*, consists of the primary government, organizations for which the primary government is financially accountable, and other organizations for which the nature and significance of their relationship with the primary government are such that exclusion could cause the financial statements to be misleading.

The accompanying financial statements include the accounts and funds of the College. The College is part of the State of Oklahoma Higher Education System, which is under the governance of the Oklahoma State Regents for Higher Education (the "OSRHE"). The College is a component unit of the State of Oklahoma and is included in the general-purpose financial statements of the State as part of the Higher Education component unit.

Discretely Presented Component Unit: Connors Development Foundation, Inc. (the "Foundation"), is a legally separate, tax-exempt component unit of the College. The Foundation is organized for the purpose of receiving and administering gifts intended for the College. Although the College does not control the timing or amount of receipts from the Foundation, the majority of resources, or income thereon, which the Foundation holds and invests, is restricted to the activities of the 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 its financial statements are discretely presented in the College's financial statements.

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

NOTES TO FINANCIAL STATEMENTS--Continued

CONNORS STATE COLLEGE

June 30, 2014

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

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

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

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

Accounts Receivable: Accounts receivable consist of tuition and fee charges to students and fees for auxiliary enterprise services provided to students, faculty, and staff, the majority of each residing in the State of Oklahoma. Accounts receivable are recorded net of estimated uncollectible amounts. The College determines its allowance by considering a number of factors, including the length of time accounts receivable are past due, the College's previous loss history, and the condition of the general economy and the industry as a whole. The College writes off specific accounts receivable when they become uncollectible, and payments subsequently received on such receivable are credited to the allowance for doubtful accounts.

A student account receivable and student loan receivable is considered to be past due if any portion of the receivable balance is outstanding for more than 90 days after the end of the semester. Interest and late charges are not generally assessed and, if they are assessed, are not included in income or trade accounts receivables. Students may be granted a deferment, forbearance, or cancellation of their student loan receivable based on eligibility requirements defined by the College. Accounts receivable also include amounts due from the federal, state, and local governments, or private sources, in connection with reimbursement of allowable expenditures made pursuant to the College's grant and contracts.

Inventories: Inventories consist primarily of books and supplies held for resale. Inventories are carried at the lower of cost (first-in, first-out) or market. Effective August 1, 2013, a third party took over ownership and operation of the bookstore. This transaction did not constitute a service concession arrangement in accordance with GASB Statement No. 60.

NOTES TO FINANCIAL STATEMENTS--Continued

CONNORS STATE COLLEGE

June 30, 2014

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

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

Capital Assets: Capital assets are recorded at cost at the date of acquisition, or fair market value at the date of donation in the case of gifts. For equipment, the College's capitalization policy includes all items with a unit cost of \$5,000 or more and an estimated useful life of greater than one year. Renovations to buildings, infrastructure, and land improvements that significantly increase the value or extend the useful life of the structure are capitalized. Routine repairs and maintenance are charged to operating expense in the year in which the expense was incurred.

Depreciation is computed using the straight-line method over the estimated useful lives of the assets, generally 25 to 40 years for buildings, infrastructure, and land improvements and 7 years for library materials and equipment.

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

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

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

Net Position: The College's net position is classified as follows:

Net Investment in Capital Assets: The net investment in capital assets component of net position consists of capital assets, net of accumulated depreciation, reduced by the outstanding balances of bonds, notes, or other borrowings that are attributable to the acquisition, construction, or improvement of those assets. Deferred outflows of resources and deferred inflows of resources that are attributable to the acquisition, construction, or improvement of those assets or related debt are also included in this component of net position. To the extent debt has been incurred but not yet expended for capital assets, such amounts are not included as a component of net investment in capital assets.

NOTES TO FINANCIAL STATEMENTS--Continued

CONNORS STATE COLLEGE

June 30, 2014

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

Net Position--Continued:

Restricted Net Position - Expendable: Restricted expendable net position includes resources in which the College is legally or contractually obligated to spend resources in accordance with restrictions imposed by external third parties.

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

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

Use of Estimates: The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect certain reported amounts and disclosures; accordingly, actual results could differ from those estimates.

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

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

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

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

NOTES TO FINANCIAL STATEMENTS--Continued

CONNORS STATE COLLEGE

June 30, 2014

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

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

Deferred Outflows of Resources: Deferred outflows are the consumption of net position by the College that are applicable to a future reporting period. At June 30, 2014 and 2013, the College's deferred outflows of resources were comprised of deferred charges on an OCIA lease restructure.

Deferred Inflows of Resources: Deferred inflows are the acquisition of net position by the College that are applicable to a future reporting period. At June 30, 2014, the College's deferred inflows of resources were comprised of a deferred credit on an OCIA lease restructure. At June 30, 2013, the College had no deferred inflows of resources.

New Accounting Pronouncements Adopted in Fiscal Year 2014: The College adopted the following new accounting pronouncement during the year ended June 30, 2014:

- *Statement No. 70, Accounting and Financial Reporting for Nonexchange Financial Guarantees*

GASB No. 70 requires a government that extends a nonexchange financial guarantee to recognize a liability when qualitative factors and historical data, if any, indicate that it is more likely than not that the government will be required to make a payment on the guarantee. The government is required to report the guaranteed obligation until it is legally released as an obligor, and when it is legally released, it should recognize revenue as a result of this release. The provisions of this Statement are effective for reporting periods beginning after June 15, 2013. Earlier application is encouraged. Except for certain disclosure requirements which may be applied prospectively, the provisions of this Statement are required to be applied retroactively. The adoption of GASB No. 70 did not have an impact on the College's financial position, or changes in financial position or cash flows, or its financial statement presentation.

NOTES TO FINANCIAL STATEMENTS--Continued

CONNORS STATE COLLEGE

June 30, 2014

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

New Accounting Pronouncements Issued Not Yet Adopted: The GASB has also issued several new accounting pronouncements which will be effective to the College in the fiscal year ending June 30, 2015. A description of the new accounting pronouncements and the College's consideration of the impact of these pronouncements are described below:

*Fiscal Year Ended June 30, 2015*

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

GASB No. 68 establishes standards for measuring and recognizing liabilities, deferred outflows of resources, deferred inflows of resources, and pension expenses. GASB No. 68 also details the recognition and disclosure requirements for employers with liabilities to a defined benefit pension plan and for employers whose employees are provided with defined contribution pensions. Defined benefit pensions are further classified by GASB No. 68 as single employer plans, agent employer plans and cost-sharing plans, and recognition and disclosure requirements are addressed for each classification. GASB No. 68 was issued in June 2012, and implementation guidance was issued in November 2013. Although the College has not yet quantified the impact that GASB No. 68 will have on its financial statements, it believes that adoption will result in a significant decrease in its net position.

- Statement No. 69, *Government Combinations and Disposals of Government Operations*

GASB No. 69 was issued in January 2013 and establishes accounting and financial reporting standards related to government combinations and disposals of government operations. Government combinations can include a variety of transactions, including mergers, acquisitions and transfers of operations. A disposal of a government's operations results in the removal of specific activities of a government. The requirements of this Statement are effective for government combinations and disposals of government operations occurring in financial reporting periods beginning after December 15, 2013, and should be applied on a prospective basis. Earlier application is encouraged.

NOTE B--DEPOSITS AND INVESTMENTS

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

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

NOTES TO FINANCIAL STATEMENTS--Continued

CONNORS STATE COLLEGE

June 30, 2014

NOTE B--DEPOSITS AND INVESTMENTS--Continued

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

The carrying amount of the College's deposits with the State Treasurer and other financial institutions at June 30, 2014 and 2013 was \$14,650,116 and \$7,570,886, respectively. These amounts consisted of deposits with the State Treasurer (\$4,835,002 and \$6,936,374), U.S. financial institutions (\$9,810,814 and \$586,612), and change funds (\$4,300 and \$47,900), respectively, as of June 30, 2014 and 2013.

At June 30, 2014 and 2013 the related balances of the College's deposits totaled \$14,991,720 and \$7,980,999, respectively.

Investments: At June 30, the College had the following investments:

		2014	2013
Money Fund		\$ 109,863	\$ 120,514
Trust Fund		1,243,058	1,227,036
	Total Investments	<u>\$ 1,352,921</u>	<u>\$ 1,347,550</u>

Investment maturities were as follows at June 30, 2014:

<u>Investment Type</u>	<u>Fair Value</u>	<u>Not Applicable</u>	<u>Less Than One</u>	<u>One to Five</u>	<u>Six to Ten</u>	<u>More Than Ten</u>
Money Funds	\$ 109,863	\$ 109,863	\$ -	\$ -	\$ -	\$ -
Trust Fund	1,243,058	-	106,384	1,002,898	41,833	91,943
	<u>\$ 1,352,921</u>	<u>\$ 109,863</u>	<u>\$ 106,384</u>	<u>\$ 1,002,898</u>	<u>\$ 41,833</u>	<u>\$ 91,943</u>

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

Credit Risk: All United States government obligations are held by the Federal Reserve Bank in the name of the College. The majority of the College's certificates of deposits were invested through the State Treasurer. The Board has authorized short-term funds to be invested in any security currently available through the Oklahoma State Treasurer's Office. Generally, these include direct obligations of the United States Government and its agencies, certificates of deposit, and demand deposits.

NOTES TO FINANCIAL STATEMENTS--Continued

CONNORS STATE COLLEGE

June 30, 2014

NOTE C--ACCOUNTS RECEIVABLE

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

	2014	2013
Student tuition and fees	\$ 1,050,774	\$ 927,677
Auxiliary enterprises and other student activities	1,033,012	721,918
Less: allowance for doubtful accounts	(1,000,140)	(756,793)
Accounts receivable, net	<u>\$ 1,083,646</u>	<u>\$ 892,802</u>

NOTE D--CAPITAL ASSETS

Following are the changes in capital assets for the year ended June 30, 2014:

	Balance June 30, 2013	Additions	Transfers	Retirements	Balance June 30, 2014
Capital assets not being depreciated:					
Land	\$ 769,729	\$ -	\$ -	\$ -	\$ 769,729
Livestock	205,078	138,172	-	(109,750)	233,500
Construction in progress	282,326	6,641,043	(410,262)	-	6,513,107
Total capital assets not being depreciated	<u>1,257,133</u>	<u>6,779,215</u>	<u>(410,262)</u>	<u>(109,750)</u>	<u>7,516,336</u>
Other capital assets:					
Buildings and improvements	28,004,362	248,332	362,527	(476,363)	28,138,858
Nonstructural improvements	3,016,934	504,366	47,735	-	3,569,035
Equipment	4,519,788	168,900	-	(131,368)	4,557,320
Library materials	810,000	-	-	-	810,000
Total other capital assets	<u>36,351,084</u>	<u>921,598</u>	<u>410,262</u>	<u>(607,731)</u>	<u>37,075,213</u>
Less: accumulated depreciation for:					
Buildings and improvements	(9,824,565)	(639,090)	-	476,363	(9,987,292)
Nonstructural improvements	(1,624,948)	(213,423)	-	-	(1,838,371)
Equipment	(3,320,576)	(416,524)	-	131,368	(3,605,732)
Library materials	(810,000)	-	-	-	(810,000)
Total accumulated depreciation	<u>(15,580,089)</u>	<u>(1,269,037)</u>	<u>-</u>	<u>607,731</u>	<u>(16,241,395)</u>
Capital assets, net	<u>\$ 22,028,128</u>	<u>\$ 6,431,776</u>	<u>\$ -</u>	<u>\$ (109,750)</u>	<u>\$ 28,350,154</u>

At June 30, 2014, the cost and related accumulated depreciation of assets held under capital lease obligations was as follows:

	Buildings	Nonstructural Improvements	Total
Cost	\$ 13,982,422	\$ 1,501,475	\$ 15,483,897
Less: accumulated depreciation	1,260,070	889,403	2,149,473
	<u>\$ 12,722,352</u>	<u>\$ 612,072</u>	<u>\$ 13,334,424</u>

NOTES TO FINANCIAL STATEMENTS--Continued

CONNORS STATE COLLEGE

June 30, 2014

NOTE D--CAPITAL ASSETS--Continued

Following are the changes in capital assets for the year ended June 30, 2013:

	Balance June 30, 2012	Additions	Transfers	Retirements	Balance June 30, 2013
Capital assets not being depreciated:					
Land	\$ 761,729	\$ 8,000	\$ -	\$ -	\$ 769,729
Livestock	137,175	184,169	-	(116,266)	205,078
Construction in progress	41,195	241,131	-	-	282,326
Total capital assets not being depreciated	<u>940,099</u>	<u>433,300</u>	<u>-</u>	<u>(116,266)</u>	<u>1,257,133</u>
Other capital assets:					
Buildings and improvements	27,561,074	492,189	-	(48,901)	28,004,362
Nonstructural improvements	2,833,984	182,950	-	-	3,016,934
Equipment	4,487,964	524,598	-	(492,774)	4,519,788
Library materials	810,000	-	-	-	810,000
Total other capital assets	<u>35,693,022</u>	<u>1,199,737</u>	<u>-</u>	<u>(541,675)</u>	<u>36,351,084</u>
Less: accumulated depreciation for:					
Buildings and improvements	(9,245,435)	(625,800)	-	46,670	(9,824,565)
Nonstructural improvements	(1,432,268)	(192,680)	-	-	(1,624,948)
Equipment	(3,438,379)	(374,971)	-	492,774	(3,320,576)
Library materials	(789,035)	(20,965)	-	-	(810,000)
Total accumulated depreciation	<u>(14,905,117)</u>	<u>(1,214,416)</u>	<u>-</u>	<u>539,444</u>	<u>(15,580,089)</u>
Capital assets, net	<u>\$ 21,728,004</u>	<u>\$ 418,621</u>	<u>\$ -</u>	<u>\$ (118,497)</u>	<u>\$ 22,028,128</u>

At June 30, 2013, the cost and related accumulated depreciation of assets held under capital lease obligations was as follows:

	Buildings	Nonstructural Improvements	Total
Cost	\$ 7,731,325	\$ 1,414,000	\$ 9,145,325
Less: accumulated depreciation	946,172	795,136	1,741,308
	<u>\$ 6,785,153</u>	<u>\$ 618,864</u>	<u>\$ 7,404,017</u>

NOTES TO FINANCIAL STATEMENTS--Continued

CONNORS STATE COLLEGE

June 30, 2014

NOTE E--LONG-TERM LIABILITIES

Long-term liability activity for the year ended June 30, 2014, was as follows:

	Balance June 30, 2013	Additions	Reductions	Balance June 30, 2014	Amounts due within one year
Bonds payable and capital lease obligations:					
OCIA capital lease obligation	\$ 202,711	\$ -	\$ (29,552)	\$ 173,159	\$ 30,980
OCIA 2005F Series	3,488,517	-	(2,930,158)	558,359	272,107
OCIA 2010A Series	1,420,030	-	-	1,420,030	135,827
OCIA 2010B Series	762,155	-	(443,406)	318,749	318,749
OCIA 2014A Series	-	2,775,906	-	2,775,906	-
ODFA 2004B Series	918,000	-	(63,000)	855,000	70,000
ODFA 2011A Series	531,999	-	(60,167)	471,832	62,167
ODFA 2011E Series	7,817,917	-	(325,833)	7,492,084	335,000
ODFA 2014C Series - Student Union	-	5,421,000	(27,692)	5,393,308	169,224
ODFA 2014C Series - Nursing Allied Health	-	7,885,000	(40,308)	7,844,692	246,276
Total bonds and capital leases	<u>15,141,329</u>	<u>16,081,906</u>	<u>(3,920,116)</u>	<u>27,303,119</u>	<u>1,640,330</u>
Other liabilities:					
Premium on lease obligation	21,600	272,503	(4,961)	289,142	16,268
Accrued pension obligation	107,414	-	(23,823)	83,591	-
Accrued compensated absences	199,234	164,896	(82,972)	281,158	126,521
Total other liabilities	<u>328,248</u>	<u>437,399</u>	<u>(111,756)</u>	<u>653,891</u>	<u>142,789</u>
Total long-term liabilities	<u>\$ 15,469,577</u>	<u>\$ 16,519,305</u>	<u>\$ (4,031,872)</u>	<u>\$ 27,957,010</u>	<u>\$ 1,783,119</u>

Long-term liability activity for the year ended June 30, 2013, was as follows:

	Balance June 30, 2012	Additions	Reductions	Balance June 30, 2013	Amounts due within one year
Bonds payable and capital lease obligations:					
Revenue bonds payable	\$ 1,050,000	\$ -	\$ (1,050,000)	\$ -	\$ -
OCIA capital lease obligation	230,851	-	(28,140)	202,711	29,552
OCIA 2005F Series	3,748,353	-	(259,836)	3,488,517	272,107
OCIA 2010A Series	1,420,030	-	-	1,420,030	-
OCIA 2010B Series	762,155	-	-	762,155	443,406
ODFA 2004B Series	979,000	-	(61,000)	918,000	63,000
ODFA 2011A Series	590,166	-	(58,167)	531,999	60,167
ODFA 2011E Series	8,138,334	-	(320,417)	7,817,917	325,833
Total bonds and capital leases	<u>16,918,889</u>	<u>-</u>	<u>(1,777,560)</u>	<u>15,141,329</u>	<u>1,194,065</u>
Other liabilities:					
Premium on lease obligation	24,300	-	(2,700)	21,600	2,700
Accrued pension obligation	129,767	-	(22,353)	107,414	-
Accrued compensated absences	235,415	100,102	(136,283)	199,234	89,655
Total other liabilities	<u>389,482</u>	<u>100,102</u>	<u>(161,336)</u>	<u>328,248</u>	<u>92,355</u>
Total long-term liabilities	<u>\$ 17,308,371</u>	<u>\$ 100,102</u>	<u>\$ (1,938,896)</u>	<u>\$ 15,469,577</u>	<u>\$ 1,286,420</u>

NOTES TO FINANCIAL STATEMENTS--Continued

CONNORS STATE COLLEGE

June 30, 2014

NOTE E--LONG-TERM LIABILITIES--Continued

Revenue Bonds Payable: The College issued its \$2,500,000 Student Facilities Revenue Bonds, Series 1998, on March 1, 1998, the proceeds of which were used for construction of a women’s residence hall and attendant equipment and furnishings. The bonds are payable in annual installments of \$45,000 to \$200,000, with interest payable each June 1 and December 1, at 4.50%t to 6.75%. The bonds mature June 1, 2018. The bonds are secured by a pledge of 1) net receipts of room and board, married student housing, student parking fees, vending machine receipts, and student union fees, and 2) earnings from the reserve account. The bonds do not represent a general obligation of the State of Oklahoma. Interest on the bonds is exempt from federal income taxes. The bonds were retired 5 years early and paid off in full in October 2012.

Capital Lease Obligations:

*ODFA Higher Education Master Lease Program - Series 2004B*

On August 1, 2004, the College entered into a capital lease obligation Series 2004B in the amount of \$1,414,000. Lease payments over the term of the agreement, including interest, total \$2,201,603. Payments begin December 1, 2004, and go through June 1, 2024, and will be made semi-annually ranging from \$2,625 to \$107,625. Proceeds from the obligation were used for non-structural improvements to buildings and facilities. The College has pledged Section Thirteen revenues to support payments of this lease obligation.

As of June 30, 2014, future aggregate maturities of principal and interest requirements on bonds payable are as follows:

<u>Years Ending June 30:</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2015	\$ 70,000	\$ 42,750	\$ 112,750
2016	70,000	39,250	109,250
2017	75,000	35,750	110,750
2018	80,000	32,000	112,000
2019	85,000	28,000	113,000
2020 - 2024	475,000	73,750	548,750
	<u>\$ 855,000</u>	<u>\$ 251,500</u>	<u>\$ 1,106,500</u>

*ODFA Higher Education Master Lease Program - Series 2011A*

In July 2011, the College entered into a capital lease obligation Series 2011A in the amount of \$646,000. Lease payments over the term of the agreement, including interest, total \$779,803. Payments begin August 15, 2011, and go through May 15, 2021, and will be made monthly ranging from \$6,597 to \$7,094. Proceeds from the obligation were used for structural improvements to the College’s waste management system. As of June 30, 2014, the College has \$585,624 in restricted cash for the use of the project.

NOTES TO FINANCIAL STATEMENTS--Continued

CONNORS STATE COLLEGE

June 30, 2014

NOTE E--LONG-TERM LIABILITIES--Continued

Capital Lease Obligations--Continued:

*ODFA Higher Education Master Lease Program - Series 2011A--Continued*

As of June 30, 2014, future aggregate maturities of principal and interest requirements on bonds payable are as follows:

<u>Years Ending June 30:</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2015	\$ 62,167	\$ 16,765	\$ 78,932
2016	64,167	14,900	79,067
2017	66,166	12,975	79,141
2018	68,166	11,009	79,175
2019	70,166	9,160	79,326
2020 - 2021	141,000	10,187	151,187
	<u>\$ 471,832</u>	<u>\$ 74,996</u>	<u>\$ 546,828</u>

*ODFA Higher Education Master Lease Program - Series 2011E*

In September 2011, the College entered into a capital lease obligation Series 2011E in the amount of \$8,165,000. Lease payments over the term of the agreement, including interest, total \$11,837,229. Payments begin October 15, 2011, and go through May 15, 2032, and will be made monthly ranging from \$27,251 to \$49,820. Proceeds from the obligation were used in the purchase of the Miller's Crossing building from the LLC.

As of June 30, 2014, future aggregate maturities of principal and interest requirements on bonds payable are as follows:

<u>Years Ending June 30:</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2015	\$ 335,000	\$ 255,773	\$ 590,773
2016	335,833	249,073	584,906
2017	345,417	242,356	587,773
2018	350,833	235,375	586,208
2019	360,417	227,406	587,823
2020 - 2024	1,930,000	980,976	2,910,976
2025 - 2029	2,292,084	610,493	2,902,577
2030 - 2032	1,542,500	130,386	1,672,886
	<u>\$ 7,492,084</u>	<u>\$ 2,931,838</u>	<u>\$ 10,423,922</u>

NOTES TO FINANCIAL STATEMENTS--Continued

CONNORS STATE COLLEGE

June 30, 2014

NOTE E--LONG-TERM LIABILITIES--Continued

Capital Lease Obligations--Continued:

*ODFA Higher Education Master Lease Program - Series 2014C - Student Union*

In April 2014, the College entered into a capital lease obligation Series 2014C-Student Union in the amount of \$5,421,000. Lease payments over the term of the agreement, including interest, total \$7,749,763. Payments began May 15, 2014, and go through May 15, 2034, and will be made monthly ranging from \$29,525 to \$32,484. Proceeds from the obligation will be used to renovate the College's Student Union. As of June 30, 2014, the College has \$3,121,764 in restricted cash for the use of the project.

As of June 30, 2014, future aggregate maturities of principal and interest requirements on bonds payable are as follows:

<u>Years Ending June 30:</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2015	\$ 169,224	\$ 190,464	\$ 359,688
2016	203,417	184,213	387,630
2017	208,417	179,990	388,407
2018	213,333	174,126	387,459
2019	217,417	169,860	387,277
2020 - 2024	1,208,333	731,130	1,939,463
2025 - 2029	1,464,000	471,901	1,935,901
2030 - 2034	1,709,167	194,675	1,903,842
	<u>\$ 5,393,308</u>	<u>\$ 2,296,359</u>	<u>\$ 7,689,667</u>

*ODFA Higher Education Master Lease Program - Series 2014C - Nursing Allied Health*

In April 2014, the College entered into a capital lease obligation Series 2014C-Nursing Allied Health in the amount of \$7,885,000. Lease payments over the term of the agreement, including interest, total \$7,749,763. Payments began May 15, 2014, and go through May 15, 2034, and will be made monthly ranging from \$42,957 to \$47,100. Proceeds from the obligation will be used to build the College's Nursing Allied Health Building on the Muskogee Campus. As of June 30, 2014, the College has \$6,482,561 in restricted cash for the use of the project.

NOTES TO FINANCIAL STATEMENTS--Continued

CONNORS STATE COLLEGE

June 30, 2014

NOTE E--LONG-TERM LIABILITIES--Continued

Capital Lease Obligations--Continued:

*ODFA Higher Education Master Lease Program - Series 2014C - Nursing Allied Health--Continued*

As of June 30, 2014, future aggregate maturities of principal and interest requirements on bonds payable are as follows:

<u>Years Ending June 30:</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2015	\$ 246,276	\$ 277,000	\$ 523,276
2016	295,333	267,905	563,238
2017	299,917	261,777	561,694
2018	310,500	253,350	563,850
2019	316,583	247,140	563,723
2020 - 2024	1,755,333	1,063,575	2,818,908
2025 - 2029	2,131,833	687,170	2,819,003
2030 - 2034	2,488,917	283,438	2,772,355
	<u>\$ 7,844,692</u>	<u>\$ 3,341,355</u>	<u>\$ 11,186,047</u>

*Oklahoma Capital Improvement Authority Lease Obligations ("OCIA")*

In September 1999, the OCIA issued its OCIA Bond Issues, 1999 Series A, B, and C. Of the total bond indebtedness, the State Regents for Higher Education (the "State Regents") allocated \$500,612 to the College. Concurrently with the allocation, the College entered into a lease agreement with OCIA for the project being funded by the OCIA bonds. The lease agreement provides for the College to make specified monthly payments to OCIA over the respective terms of the agreements, which is for approximately 20 years. The proceeds for the bonds and subsequent leases are to provide for capital improvements at the College.

The College has drawn-down 100 percent of its total allotment for expenditures incurred in connection with the specific projects. These expenditures have been capitalized as investments in capital assets, in accordance with College policy.

In 2005, the OCIA issued its State Facilities Revenue Bonds (Higher Education Project) Series 2005F. Of the total bond indebtedness, the State Regents allocated \$7,025,000 to the College. Total lease payments over the term of the agreement including principal and interest, beginning July 1, 2006, through July 1, 2030, will be \$14,373,397. Payments will be made annually ranging from \$192,596 to \$1,676,268 by the State of Oklahoma on behalf of the College. Concurrently with the allocation, the College entered into a lease agreement with OCIA, for the projects being funded by the OCIA bonds. The proceeds of the bonds and subsequent leases are to provide for capital improvements at the College.

NOTES TO FINANCIAL STATEMENTS--Continued

CONNORS STATE COLLEGE

June 30, 2014

NOTE E--LONG-TERM LIABILITIES--Continued

*Oklahoma Capital Improvement Authority Lease Obligations ("OCIA")--Continued*

Capital Lease Obligations--Continued: Through June 30, 2014, the College has drawn-down all of its total allotment, which includes interest, for expenditures incurred in connection with the specific projects. These expenditures have been capitalized as investments in capital assets or recorded as operating expenses, in accordance with the College's policy.

In 2011, the College's 2005F lease agreement with OCIA was restructured through a partial refunding of OCIA's 2005F bond debt. OCIA issued two new bonds, Series 2010A and 2010B. The lease agreements with OCIA secure the OCIA bond debt and any future debt that might be issued to refund earlier bond issues. OCIA issued this new debt to provide budgetary relief for fiscal years 2011 and 2012 by extending and restructuring debt service. Consequently, the lease agreement with OCIA was automatically restructured to secure the new bond issues. This lease restructuring has extended certain principal payments into the future, resulting in a cost on restructuring. The College has recorded a charge of \$642,631 on restructuring as a deferred outflow of resources that will be amortized over a period of six years. As of June 30, 2014 and 2013, the unamortized cost totaled \$96,961 and \$145,441, respectively, and is recorded as a deferred charge on debt restructure in the statements of net position. This restructuring resulted in an aggregate debt service difference for principal and interest between the original lease agreement and the restructured lease agreement of \$521,564, which also approximates the economic cost of the lease. Although this restructuring resulted in a cost to the College, it is anticipated that the on-behalf payments provided to cover the original lease agreement will also cover the deferred lease restructuring charge.

During 2014, the College's remaining 2005 lease agreement with OCIA was restructured through a partial refunding of the Series 2005F bonds. OCIA issued new bonds, Series 2014A, to accomplish the refunding. The restructured lease agreement with OCIA secures the OCIA bond indebtedness and any future indebtedness that might be issued to refund earlier bond issues. The College's aforementioned lease agreement with OCIA was automatically restructured to secure the new bond issues. The lease restructuring resulted in a reduction of principal, thus the College has recorded a credit of \$154,039 on restructuring as a deferred inflow of resources that will be amortized over a period of eighteen years. As of June 30, 2014 the unamortized gain totaled \$151,681. This refinancing resulted in an aggregate difference in principal and interest between the original lease agreement and the refinanced lease agreement of \$407,408, which approximates the economic savings of the transaction.

Lease principal and interest payments to OCIA, totaling \$557,646 and \$647,843 during the years ended June 30, 2014, and 2013, respectively, were made by the State of Oklahoma on behalf of the University. These payments have been recorded as on-behalf payments for OCIA capital leases in the statements of revenues, expenses, and changes in net position.

NOTES TO FINANCIAL STATEMENTS--Continued

CONNORS STATE COLLEGE

June 30, 2014

NOTE E--LONG-TERM LIABILITIES--Continued

Capital Lease Obligations--Continued:

*Oklahoma Capital Improvement Authority Lease Obligations ("OCIA")--Continued*

At June 30, 2014, future aggregate maturities of principal and interest requirements on bonds payable are as follows:

<u>Years Ending June 30:</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2015	\$ 757,663	\$ 134,743	\$ 892,406
2016	605,946	284,006	889,952
2017	713,243	178,928	892,171
2018	539,667	150,696	690,363
2019	43,325	125,242	168,567
2020 - 2024	498,883	603,390	1,102,273
2025 - 2029	1,420,603	370,906	1,791,509
2030 - 2031	666,873	49,853	716,726
	<u>\$ 5,246,203</u>	<u>\$ 1,897,764</u>	<u>\$ 7,143,967</u>

NOTE F--RETIREMENT PLANS

The College's academic and non-academic personnel are covered by various retirement plans. The plans available to College personnel include the Oklahoma Teachers' Retirement System, which is a State of Oklahoma public employee's retirement system, and the Supplemental Retirement Plan, which is a single-employer public-employee retirement system. The College does not maintain the accounting records, hold the investments for, or administer these plans.

*Oklahoma Teachers' Retirement System*

Plan Description: The College contributes to the Oklahoma Teachers' Retirement System ("OTRS"), a cost-sharing multiple-employer defined benefit pension plan sponsored by the State of Oklahoma. OTRS provides defined retirement benefits based on members' final compensation, age, and term of service. In addition, the retirement program provides for benefits upon disability and to survivors upon the death of eligible members. The benefit provisions are established and may be amended by the legislature of the State of Oklahoma.

Title 70 of the Oklahoma Statutes, Sections 17-101 through 17-116.9, as amended, assigns the authority for management and operation of the plan to the Board of Trustees of OTRS. OTRS does not provide for a cost-of-living adjustment.

OTRS issues a publicly available financial report that includes financial statements and supplementary information. That report may be obtained by writing to Teachers' Retirement System of Oklahoma, P.O. Box 53524, Oklahoma City, Oklahoma 73152, by calling (405) 521-2387, or at the OTRS website at [www.trs.state.ok.us](http://www.trs.state.ok.us).

NOTES TO FINANCIAL STATEMENTS--Continued

CONNORS STATE COLLEGE

June 30, 2014

NOTE F--RETIREMENT PLANS--Continued

*Oklahoma Teachers' Retirement System--Continued*

Funding Policy: The College is required to contribute a fixed percentage of annual compensation on behalf of active members. The employer contribution rate of 9.5% of covered salaries and fringe benefits in 2014, 2013, and 2012, is applied to annual compensation and is determined by State Statute.

Employees' contributions are also determined by State Statute. For all employees, the contribution rate was 7% of covered salaries and fringe benefits in 2014, 2013, and 2012, respectively. These contributions were made directly by the College for 2014, 2013, and 2012.

The College's contributions to OTRS for the years ended June 30, 2014, 2013, and 2012, were approximately \$1,132,000, \$1,135,000, and \$1,029,000 respectively, equal to the required contributions for each year. These contributions include the College's statutory contribution and the share of the employee's contribution paid directly by the College.

The State of Oklahoma is also required to contribute to OTRS on behalf of the participating employers. For 2014 and 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.

For the years ended June 30, 2014 and 2013 the total amounts contributed to OTRS by the State of Oklahoma on behalf of the College were approximately \$495,000 and \$509,000, respectively. These on-behalf payments have been recorded as non-operating State appropriations revenues and operating compensation and employee benefits expenses in the statements of revenues, expenses, and changes in net position.

*Supplemental Retirement Plan*

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

Funding Policy: The Plan is not funded, and benefits do not vest to the participants until their retirement. The College has been funding the benefits on a "pay as you go" basis. Only certain employees are eligible to participate in the Plan, and the Plan has been discontinued. The College paid approximately \$50,000 to retirees under the Plan during the years ended June 30, 2014 and 2013.

NOTES TO FINANCIAL STATEMENTS--Continued

CONNORS STATE COLLEGE

June 30, 2014

NOTE F--RETIREMENT PLANS--Continued

*Supplemental Retirement Plan--Continued*

Annual Pension Cost and Net Pension Obligation: The annual required contribution for the current year was determined as part of the June 30, 2014, actuarial valuation using the projected unit credit method. The actuarial assumptions included (a) a discount rate of 6.5% per year to determine the present value of future benefit payments, (b) retirement at age 65, (c) a 6.5% rate of return on investments, (d) projected salary increases of 3.5% per year, and (e) a 6.5% interest rate for post-retirement individual annuity settlement benefits. The Plan is an unfunded Plan, and accordingly, no assets have been accumulated, and no investment income is earned. The unfunded actuarial accrued liability is being amortized using the level dollar amortization method on a closed basis over ten (10) years.

The annual pension cost and net pension obligation to the Plan were as follows at June 30:

	2014	2013
Annual required contributions	\$ 21,936	\$ 27,759
Interest on net pension obligation	7,369	11,637
Adjustment to annual contribution	(11,610)	(14,875)
Annual pension cost	17,695	24,521
Contributions made	(50,463)	(49,522)
Decrease in net pension obligation	(32,768)	(25,001)
Net pension obligation at beginning of year	93,284	118,285
Net pension obligation at end of year	\$ 60,516	\$ 93,284

Funded Status and Funding Progress: The funded status of the plan as of June 30, 2014, was as follows:

Actuarial accrued liability (AAL)	\$ 219,861
Actuarial value of plan assets	-
Unfunded actuarial accrued liability (UAAL)	\$ 219,861
Funded ratio (actuarial value of plan assets/AAL)	0.00%
Annual covered payroll (active plan members)	\$ -
UAAL as a percentage of annual covered payroll	0.00%

The schedule of funding progress, presented as required supplementary information following the notes to the financial statements, presents multi-year trend information, as available, about whether the actuarial value of plan assets are increasing or decreasing over time relative to the actuarial accrued liability for benefits.

NOTES TO FINANCIAL STATEMENTS--Continued

CONNORS STATE COLLEGE

June 30, 2014

NOTE F--RETIREMENT PLANS--Continued

*Supplemental Retirement Plan--Continued*

Trend Information

Fiscal Year Ended June 30,	Annual Pension Cost	Percentage of APC Contributed	Net Pension Obligation
2012	\$ 24,521	202.0%	\$ 118,285
2013	24,521	202.0%	93,284
2014	17,695	285.2%	60,516

NOTE G--OTHER POST-EMPLOYMENT INSURANCE BENEFITS

Plan Description: The College pays life insurance premiums for individuals who meet the specified criteria to be considered a retiree as of the last day of continuous regular employment. Eligible retirees must meet the OTRS guidelines. In addition, the individual must also have been enrolled in the College's life insurance program prior to retirement. Each retiree is eligible to receive \$6,000 of life insurance coverage at a cost to the College of \$.26 per \$1,000 of coverage. As of June 30, 2014, there were approximately 138 active employees and 102 retirees covered under the life insurance program. Authority to establish and amend benefit provisions rests with the Board of Regents. The Other Post-Employment Insurance Benefits ("OPEB") Plan does not issue a stand-alone financial report.

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

Annual Cost and Net Obligation: The annual required contribution for the current year was determined as part of the June 30, 2014, actuarial valuation using the projected unit credit method. The actuarial assumption included a 6.5% investment rate of return. The assumption also included postretirement benefit increases, which will be funded by the College when granted. The Plan is an unfunded plan, and accordingly, no assets have been accumulated, and no investment income is earned. The unfunded actuarial accrued liability is being amortized over fifteen years using the level dollar amortization method on a closed basis.

NOTES TO FINANCIAL STATEMENTS--Continued

CONNORS STATE COLLEGE

June 30, 2014

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

The College's annual life insurance cost and net obligation of the Plan for the years ended June 30 were as follows:

	2014	2013
Annual required contribution	\$ 1,421	\$ 4,315
Adjustment to annual required contribution	11,249	-
Annual life insurance cost	12,670	4,315
Contributions made	3,725	1,667
Increase in net obligation	8,945	2,648
Net OPEB obligation, beginning of year	14,130	11,482
Net OPEB obligation, end of year	\$ 23,075	\$ 14,130

The net obligation at June 30, 2014, is included in accrued pension and OPEB obligation in the statements of net position.

Funded Status and Funding Progress: The funded status of the plan as of June 30, 2014, was as follows:

Actuarial accrued liability (AAL)	\$ 23,075
Actuarial value of plan assets	-
Unfunded actuarial accrued liability (UAAL)	\$ 23,075
Funded ratio (actuarial value of plan assets/AAL)	0.00%
Annual covered payroll (active plan members)	\$ 4,813,389
UAAL as a percentage of annual covered payroll	0.48%

The schedule of funding progress, presented as required supplementary information following the notes to the financial statements, presents multi-year trend information, as available, about whether the actuarial value of plan assets are increasing or decreasing over time relative to the actuarial accrued liability for benefits.

Trend Information

Fiscal Year Ended June 30,	Annual OPEB Cost	Percentage of OPEB Cost Contributed	Net OPEB Obligation
2012	\$ 4,315	39%	\$ 11,482
2013	4,315	39%	14,130
2014	12,670	29%	23,075

NOTES TO FINANCIAL STATEMENTS--Continued

CONNORS STATE COLLEGE

June 30, 2014

NOTE H--RELATED PARTY TRANSACTIONS

The Foundation is a tax-exempt organization whose objective is the betterment of the College and its related activities. The College is the ultimate beneficiary of the Foundation. The College has entered into a written agreement with the Foundation whereby the College agrees to provide certain administrative services to the Foundation in exchange for scholarships, endowments, grants, bequests, and payment of services for the benefit of the College. During the years ended June 30, 2014 and 2013 the Foundation awarded scholarships to students totaling approximately \$118,000 and \$47,000 for 2014 and 2013, respectively.

The College received in-kind contributions of approximately \$44,000 and \$16,000 during 2014 and 2013, respectively.

The Foundation also services the funds of the various campus clubs and organizations. All receipts and disbursements of these funds are handled through the Foundation office. Payments for goods and services for the benefit of the College provided by the clubs and organizations for the years ended June 30, 2014 and 2013 were approximately \$175,000 and \$188,000, respectively.

NOTE I--RISK MANAGEMENT

The College participates in a number of other federally assisted grant and contract programs. These programs are subject to financial and compliance audits by the grantors or their representatives. Such audits could lead to requests for reimbursement to the grantor agency for expenditures disallowed under terms of the grant. The amount for expenditures that may be disallowed by the granting agencies cannot be determined at this time, although it is believed by the College that the amount, if any, would not be significant.

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

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

NOTES TO FINANCIAL STATEMENTS--Continued

CONNORS STATE COLLEGE

June 30, 2014

NOTE K--CONNORS DEVELOPMENT FOUNDATION, INC.

The following are significant disclosures of Connors Development Foundation, Inc.:

SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

CASH AND CASH EQUIVALENTS

The Foundation considers all highly liquid investments with an original maturity of three months or less to be cash equivalents. None of the Foundation's investments are considered to be cash equivalents.

INVESTMENTS

The Foundation's investments consist of equity securities with quoted market prices in an active market maintained with a brokerage company, all Level 1 investments. The Foundation uses the market approach to value marketable securities with readily determinable fair values based on quoted prices in active markets.

Restricted endowment investment income and losses are recorded as temporarily restricted revenues unless the terms of the gift require that they be added to the principal of a permanent or term endowment fund. If the funds are temporarily restricted, any expenditure is subject to the intended use of the funds as indicated in the gift instrument.

ENDOWMENTS FUNDS

Permanent endowment funds are subject to the restriction of gift instruments requiring that the principal be invested in perpetuity and only the earnings, or portions thereof, be utilized. Term endowment funds are similar to such funds except that, upon the passage of a stated period of time or the occurrence of a particular event, all or a part of the principal may be expended.

The Foundation's endowment consists of approximately 29 individual funds established primarily for scholarship and academic program support. As required by Generally Accepted Accounting Principles, net assets associated with endowment funds are classified and reported based on the existence or absence of donor-imposed restrictions.

The Foundation has adopted investment and spending policies for endowment assets that attempt to protect and/or preserve the Foundation's assets while maintaining a satisfactory return. To satisfy the Foundation's risk and return objectives, the majority of the Foundation's funds are invested in certificates of deposit and U.S. Treasury notes; hence, the Foundation's investment return is achieved through current yields (interest and dividends) and capital preservation.

NOTES TO FINANCIAL STATEMENTS--Continued

CONNORS STATE COLLEGE

June 30, 2014

NOTE K--CONNORS DEVELOPMENT FOUNDATION, INC.--Continued

NET ASSETS

In August 2008, the Financial Accounting Standards Board issued Staff Position No. FAS 117-1, *Endowments of Not-for-Profit Organizations: Net Assets Classification of Funds Subject to an Enacted Version of the Uniform Prudent Management of Institutional Funds Act, and Enhanced Disclosures for All Endowment Funds* (FAS 117-1). This statement provides guidance on the net asset classification of donor-restricted endowment funds for a not-for-profit organization that is subject to an enacted version of the Uniform Prudent Management of Institutional Funds Act of 2006 (UPMIFA).

The Foundation has interpreted UPMIFA, as passed by the State of Oklahoma, as requiring the preservation of the fair value of the original gift as of the gift date of the donor-restricted endowment funds absent explicit donor stipulations to the contrary. As a result, the Foundation classifies as permanently restricted net assets the following:

- Original value of gifts donated to the permanent endowment,
- Original value of subsequent gifts to the permanent endowment,
- Accumulations to the permanent endowment made with explicit direction from donor gift instrument.

The remaining portion of the donor-restricted endowment funds that is not classified in permanently restricted net assets 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 UPMIFA.

Temporarily restricted net assets are available for the support of the College. Substantially all restrictions can be met upon actions of the Foundation in accordance with donor's stipulation. Permanently restricted net assets consist primarily of endowment fund assets to be held indefinitely. The income from the assets can be used to support the Foundation's general activities.

NOTES TO FINANCIAL STATEMENTS--Continued

CONNORS STATE COLLEGE

June 30, 2014

NOTE K--CONNORS DEVELOPMENT FOUNDATION, INC.--Continued

NET ASSETS--Continued

Reconciliation of the change in permanently restricted net assets for the year ended June 30, 2014:

	Beginning Endowment Balance	Contributions and Earnings	Ending Endowment Balance
Scholarships	\$ 594,178	\$ 12,034	\$ 606,212
Academic Programs	50,483	7,074	57,557
	<u>\$ 644,661</u>	<u>\$ 19,108</u>	<u>\$ 663,769</u>

Reconciliation of the change in permanently restricted net assets for the year ended June 30, 2013:

	Beginning Endowment Balance	Contributions and Earnings	Ending Endowment Balance
Scholarships	\$ 573,030	\$ 21,148	\$ 594,178
Academic Programs	39,491	10,992	50,483
	<u>\$ 612,521</u>	<u>\$ 32,140</u>	<u>\$ 644,661</u>

## REQUIRED SUPPLEMENTARY INFORMATION

REQUIRED SUPPLEMENTARY INFORMATION--UNAUDITED

CONNORS STATE COLLEGE

June 30, 2014

**SCHEDULE OF FUNDING PROGRESS FOR SUPPLEMENTAL RETIREMENT PLAN**

Actuarial Valuation Date	Actuarial Value of Assets (a)	Actuarial Accrued Liability (AAL) (b)	Unfunded AAL (UAAL) (b-a)	Funded Ratio (a/b)	Covered Payroll (c)	UAAL as a percentage of Covered Payroll (b-a)/(c)
6/30/2008	\$ -	\$ 247,766	\$ 247,766	0.00%	\$ -	0.00%
6/30/2009	-	236,447	236,447	0.00%	-	0.00%
6/30/2010	-	229,415	229,415	0.00%	-	0.00%
6/30/2012	-	222,884	222,884	0.00%	-	0.00%
6/30/2014	-	219,861	219,861	0.00%	-	0.00%

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

The College obtains actuarial valuations biannually in accordance with the provisions of GASB No. 27.

**SCHEDULE OF FUNDING PROGRESS FOR OTHER POST-EMPLOYMENT LIFE INSURANCE BENEFITS**

Actuarial Valuation Date	Actuarial Value of Assets (a)	Actuarial Accrued Liability (AAL) (b)	Unfunded AAL (UAAL) (b-a)	Funded Ratio (a/b)	Covered Payroll (c)	UAAL as a percentage of Covered Payroll (b-a)/(c)
6/30/2010	\$ -	\$ 58,916	\$ 58,916	0.00%	\$ 6,686,250	0.88%
6/30/2012	-	36,156	36,156	0.00%	6,991,329	0.52%
6/30/2014	-	23,075	23,075	0.00%	4,813,389	0.48%

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

The College obtains actuarial valuations biannually in accordance with the provisions of GASB No. 45.

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

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

Board of Regents for the  
Oklahoma Agricultural and Mechanical Colleges  
Connors State College  
Oklahoma City, Oklahoma

We have audited the financial statements of Connors State College (the "College"), a component unit of the State of Oklahoma, which comprise the statement of net position as of June 30, 2014, and the related statements of revenues, expenses, and changes in net position and cash flows for the year then ended, and the related notes to the financial statements, and have issued our report thereon dated October 27, 2014. We conducted our audit in accordance with the 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. Our report includes a reference to other auditors who audited the financial statements of Connors Development Foundation, Inc. (the "Foundation"), the College's discretely presented component unit, as described in our report on the College's financial statements. The financial statements of the Foundation were not audited in accordance with *Government Auditing Standards* and accordingly this report does not include reporting on internal control over financial reporting or instances of reportable noncompliance associated with the Foundation.

**Internal Control Over Financial Reporting**

In planning and performing our audit of the financial statements, we considered the College's internal control over financial reporting (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 combination of deficiencies, in internal control, such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected on a timely basis. *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 preceding paragraph and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies and therefore, material weaknesses or significant deficiencies may exist that were not identified. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified. We did identify a deficiency in internal control, described in the accompanying schedule of findings and questioned costs as Finding 2014-01 that we consider to be a significant deficiency.

### **Compliance and Other Matters**

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

### **College's Response to Finding**

The College's response to the finding identified in our audit is described in the accompanying schedule of findings and questioned costs. The College's response was not subjected to the auditing procedures applied in the audit of the financial statements and, accordingly, we express no opinion on it.

### **Purpose of this Report**

The purpose of this report 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 College's internal control or on compliance. This report 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.

Cole & Reed P.C.

Oklahoma City, Oklahoma  
October 27, 2014

**Independent Auditors' Report on  
Compliance for Each Major Federal Program;  
Report on Internal Control Over Compliance; and Report on the  
Schedule of Expenditures of Federal Awards Required by OMB Circular A-133**

Board of Regents for the  
Oklahoma Agricultural and Mechanical Colleges  
Connors State College  
Oklahoma City, Oklahoma

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

We have audited Connors State College's (the "College") compliance with the types of compliance requirements described in the *OMB Circular A-133 Compliance Supplement* that could have a direct and material effect on the College's major federal program for the year ended June 30, 2014. The College's major federal program is identified in the summary of auditors' results section of the accompanying schedule of findings and questioned costs.

**Management's Responsibility**

Management is responsible for compliance with the requirements of laws, regulations, contracts, and grants applicable to its federal programs.

**Auditors' Responsibility**

Our responsibility is to express an opinion on compliance for the College's major federal program 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 Government, 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 the major federal program. However, our audit does not provide a legal determination of the College's compliance.

**Opinion on Each Major Federal Program**

In our opinion, the College complied, in all material respects, with the types of compliance requirements referred to above that could have a direct and material effect on its major federal program for the year ended June 30, 2014.



## Report on Internal Control Over Compliance

Management of the College is responsible for establishing and maintaining effective internal control over compliance with the types of compliance requirements referred to above. In planning and performing our audit of compliance, we considered the College's internal control over compliance with the types of requirements that could have a direct and material effect on its major federal program to determine the auditing procedures that are appropriate in the circumstances for the purpose of expressing an opinion on compliance for its major federal program and to test and report on the 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 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 or significant deficiencies. We did not identify any deficiencies in internal control over compliance that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

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.

## Report on Schedule of Expenditures of Federal Awards Required by OMB Circular A-133

We have audited the financial statements of the College as of and for the year ended June 30, 2014, and have issued our report thereon dated October 27, 2014, which contained an unmodified opinion on the financial statements. Our audit was conducted for the purpose of forming an opinion on the financial statements as a whole. The accompanying schedule of expenditures of federal awards is presented for the purposes of additional analysis as required by OMB Circular A-133 and is not a required part of the financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the financial statements. The information has been subjected to the auditing procedures applied in the audit of the financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements or to the financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the schedule of expenditures of federal awards is fairly stated in all material respects in relation to the financial statements as a whole.

Cole & Reed P.C.

Oklahoma City, Oklahoma  
October 27, 2014

SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS

CONNORS STATE COLLEGE

June 30, 2014

	<u>CFDA Number</u>	<u>Amount Expended</u>
U.S. Department of Education		
Student Financial Aid Cluster:		
Federal Pell Grant Program	84.063	\$ 5,179,121
Federal Supplemental Education Opportunity Grants	84.007	139,927
Federal Work Study Program	84.033	172,030
Federal Direct Student Loan	84.268	<u>4,554,202</u>
Total Student Financial Aid Cluster		10,045,280
 TRIO Cluster:		
TRIO Student Support Services	84.042	<u>250,001</u>
Total TRIO Cluster		250,001
 Passed through from Oklahoma State Regents for Higher Education:		
Gaining Early Awareness and Readiness for Undergraduate Programs	84.334	81,099
Temporary Assistance for Needy Families	93.558	134,357
 Passed through from Oklahoma Department of Vocational and Technical Education:		
Carl D. Perkins Grant	84.048	<u>182,635</u>
 TOTAL EXPENDITURES OF FEDERAL AWARDS		<u>\$ 10,693,372</u>

See notes to schedule of expenditures of federal awards.

## NOTES TO SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS

### CONNORS STATE COLLEGE

Year Ended June 30, 2014

#### NOTE A--BASIS OF ACCOUNTING

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

#### NOTE B--FEDERAL DIRECT STUDENT LOAN PROGRAM

Under the Federal Direct Student Loan Program ("Direct Loan Program"), the U.S. Department of Education makes loans to enable a student or parent to pay the costs of the student's attendance at a postsecondary school. The Direct Loan Program enables an eligible student or parent to obtain a loan to pay for the student's cost of attendance directly from the U.S. Department of Education rather than through private lenders. The College began participation in the Direct Loan Program on July 1, 2010. The College administers the origination and disbursement of the loans to eligible students or parents. The College is not responsible for the collection of these loans.

#### NOTE C--SUBRECIPIENTS

During the year ended June 30, 2014, the College did not provide any federal awards to subrecipients.

SCHEDULE OF FINDINGS AND QUESTIONED COSTS

CONNORS STATE COLLEGE

Year Ended June 30, 2014

**Section I--Summary of Auditors' Results**

*Financial statements*

Type of auditors' report issued: *Unmodified*

Internal control over financial reporting:

- Material weakness(es) identified?  yes  no
- Significant deficiency(ies) identified that are not considered to be material weakness(es)?  yes  none reported

Noncompliance material to financial statements noted?  yes  no

*Federal Awards*

Internal control over major programs:

- Material weakness(es) identified?  yes  no
- Significant deficiency(ies) identified that are not considered to be material weakness(es)?  yes  none reported

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

Any audit findings disclosed that are required to be reported in accordance with section 510(a) of Circular A-133?  yes  no

Identification of major programs:

<u>Program/Cluster</u>	<u>CFDA Number</u>
Student Financial Aid Cluster	*

\* See the Schedule of Expenditures of Federal Awards for identification of CFDA numbers applicable to the major programs.

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

Auditee qualified as low-risk auditee?  yes  no

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

See Finding 2014-01.

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

None to report for the June 30, 2014 period.

SCHEDULE OF FINDINGS AND QUESTIONED COSTS--Continued

CONNORS STATE COLLEGE

Year Ended June 30, 2014

FINDING 2014-01

Criteria: All bank accounts should be reconciled monthly and all suspicious reconciling items should be promptly investigated and adjusted with adequate explanations.

Condition: In prior years, reconciling items were not being reviewed and their subsequent disposition not accounted for in a timely manner.

Cause: In September 2011, the College recorded OHLAP revenue of \$224,064 that was not recorded by the State. Also in September 2011, the State recorded a cash deposit of \$209,087 for OHLAP revenue, but that revenue was not recorded by the College and created a difference of \$14,977 on the bank reconciliation starting in September 2011 and carrying forward. It was determined that the \$209,087 was the correct amount of OHLAP revenue and was properly recorded during fiscal year 2012. However, the \$224,064 was erroneously recorded by the College as revenue in 2012. During 2014, while cleaning up the cash reconciliations, the College recorded an entry to decrease cash and increase scholarships and fellowships expense in the amount of \$224,064, rather than adjusting beginning net position.

Effect: Scholarships and fellowships expense is overstated by \$224,064.

Recommendation: We suggest that a member of management review the bank reconciliations for any unusual items, investigate and fully resolve any such items and document his or her approval.

Views of a Responsible Official: During fiscal year 2014, management of the College recognized the need to improve bank reconciliation procedures and began the process of correcting prior years' past errors. This finding is due to the correction of the prior year mistake detailed above. Currently bank reconciliations are reviewed monthly and reconciling items are researched in a timely manner.

SUMMARY SCHEDULE OF PRIOR AUDIT FINDINGS

CONNORS STATE COLLEGE

Year Ended June 30, 2014

Finding 2012-01: This finding was fully corrected in the current year.

Finding 2013-01: This finding was fully corrected in the current year.

Finding 2013-02: This finding was fully corrected in the current year.