CONNORS STATE COLLEGE

June 30, 2012

COLE + REED P.C.
CERTIFIED PUBLIC ACCOUNTANTS

CONNORS STATE COLLEGE

June 30, 2012

AUDITED FINANCIAL STATEMENTS

Independent Auditors' Report

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

We have audited the accompanying statement of net assets of Connors State College (the "College") (the Primary Government) as of June 30, 2012 and the related statement of revenues, expenses and change in net assets and statement of cash flows for the year then ended. The financial statements of the College as of and for the year ended June 30, 2011 were audited by another auditor whose report, dated November 14, 2011, expressed an unqualified opinion on those financial statements. The financial statements of the separate discretely presented component unit, Connors Development Foundation, Inc. (the "Foundation") (presented as Exhibits I and II) as of June 30, 2012 and 2011 were audited by other auditors, whose reports dated November 15, 2012 and September 22, 2011, respectively, expressed unqualified opinions on those statements. The financial statements of the College and the Foundation collectively comprise the College's basic financial statements. These financial statements are the responsibility of the College's management. Our responsibility is to express an opinion on these financial statements based on our audit. Our opinion, insofar as it relates to the amounts included for the Foundation, is based on the report of the other auditors.

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

In our opinion, based on our audit 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 separate discretely presented component unit, Connors Development Foundation, Inc., as of June 30, 2012, and the respective change in net assets and, where applicable, cash flows for the year then ended, in conformity with accounting principles generally accepted in the United States of America.

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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.

In accordance with *Government Auditing Standards*, we have also issued our report dated November 19, 2012, on our consideration of the College's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

Cole & Reed P.C.

Oklahoma City, Oklahoma
November 19, 2012

MANAGEMENT'S DISCUSSION AND ANALYSIS

CONNORS STATE COLLEGE

For The Years Ended June 30, 2012, 2011 and 2010

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, 2012, with fiscal years 2011 and 2010 data presented for comparative purposes. This analysis is intended to provide you, the reader, with 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, 2012, the College's net assets changed to $17,221,092 from $18,920,715 in 2011 and $17,280,343 in 2010. Resulting in a decrease of $1,699,623 for the fiscal year.

Total revenues decreased to $21,814,874 in 2012, $23,674,856 in 2011 and $21,474,881 in 2010. The College experienced a 3.5% decrease in enrollment, leading to a decrease in tuition and fees, bookstore revenue, and federal grant revenue. Furthermore, state appropriations decreased during the current year.

Total expenses increased to $23,514,497 in 2012 and $22,034,484 in 2011 from $19,781,444 in 2010. The current year's expenses increased in the areas of contractual services, supplies and materials, other operating expenses, and depreciation expense during the current year. The College has been performing extensive changes which have caused an increase in expenditures during the year.

USING THIS ANNUAL REPORT

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

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

USING THIS ANNUAL REPORT--Continued

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

These statements include all assets and liabilities using the accrual basis of accounting, which is the accounting method used by most private-sector institutions. All of the current year's revenues and expenses are taken into account, regardless of when cash is received or paid.

FINANCIAL ANALYSIS OF THE COLLEGE AS A WHOLE

A comparative schedule of the College's net assets, for the years ended June 30, 2012, 2011 and 2010 is shown below, and includes the percentage of annual change. The amounts are from the statements of net assets, and are presented on an accrual basis of accounting, whereby capital assets are capitalized and depreciated.

CONDENSED STATEMENTS OF NET ASSETS

	June 30 2012	June 30 2011	Increase (Decrease)	Percent Change
CURRENT ASSETS	$ 11,594,494	$ 11,674,101	$ (79,607)	-0.7%
NONCURRENT ASSETS				
Capital Assets, net	21,728,004	13,431,978	8,296,026	61.8%
Restricted cash and cash equivalents	795,919	1,121,077	(325,158)	-29.0%
Investments	-	209,300	(209,300)	-100.0%
Bond issuance cost	183,818	-	183,818	100.0%
Deferred charge on debt restructure	193,921	263,760	(69,839)	-26.5%
Receivable from state agency	812,832	1,807,642	(994,810)	-55.0%
TOTAL ASSETS	$ 35,308,988	$ 28,507,858	$ 6,801,130	23.9%
CURRENT LIABILITIES	$ 1,885,260	$ 1,117,736	$ 767,524	68.7%
NONCURRENT LIABILITIES	15,423,111	8,469,407	6,953,704	82.1%
TOTAL LIABILITIES	$ 17,308,371	$ 9,587,143	$ 7,721,228	80.5%
NET ASSETS				
Investment in Capital Assets, net of debt	$ 6,297,882	$ 7,118,473	$ (820,591)	-11.5%
Restricted for Expendable	590,197	888,257	(298,060)	-33.6%
Unrestricted	10,333,013	10,913,985	(580,972)	-5.3%
TOTAL NET ASSETS	$ 17,221,092	$ 18,920,715	$ (1,699,623)	-9.0%

FINANCIAL ANALYSIS OF THE COLLEGE AS A WHOLE--Continued

CONDENSED STATEMENTS OF NET ASSETS

	June 30 2011	June 30 2010	Increase (Decrease)	Percent Change
CURRENT ASSETS	$ 11,674,101	$ 8,891,565	$ 2,782,536	31.3%
NONCURRENT ASSETS				
Capital Assets, net	13,431,978	12,702,738	729,240	5.7%
Restricted cash and cash equivalents	1,121,077	1,152,431	(31,354)	-2.7%
Investments	209,300	209,330	(30)	0.0%
Deferred charge on debt restructure	263,760	-	263,760	100.0%
Receivable from state agency	1,807,642	3,285,339	(1,477,697)	-45.0%
Receivable from CDF Student Housing, LLC	-	350,000	(350,000)	-100.0%
TOTAL ASSETS	$ 28,507,858	$ 26,591,403	$ 1,916,455	7.2%
CURRENT LIABILITIES	$ 1,117,736	$ 1,308,028	$ (190,292)	-14.5%
NONCURRENT LIABILITIES	8,469,407	8,003,002	466,405	5.8%
TOTAL LIABILITIES	$ 9,587,143	$ 9,311,030	$ 276,113	3.0%
NET ASSETS				
Investment in Capital Assets, net of debt	$ 7,118,473	$ 7,783,277	$ (664,804)	-8.5%
Restricted for Expendable	888,257	1,212,613	(324,356)	-26.7%
Unrestricted	10,913,985	8,284,453	2,629,532	31.7%
TOTAL NET ASSETS	$ 18,920,715	$ 17,280,343	$ 1,640,372	9.5%

During fiscal year 2012, the College's net assets decreased by $1,699,623, after an increase of $1,640,372 in 2011 and an increase of $1,693,437 in fiscal year 2010 of revenue over expenses. This decrease in net assets for 2012 is made up largely of the increase in expenditures and decrease in revenues from decline in number of students and state appropriations.

FINANCIAL ANALYSIS OF THE COLLEGE AS A WHOLE--Continued

CONDENSED STATEMENTS OF REVENUES, EXPENSES AND CHANGES IN NET ASSETS

	Years Ended June 30 2012	2011	Increase (Decrease)	Percent Change
OPERATING REVENUES				
Tuition and fees, net	$ 2,055,349	$ 2,150,663	$ (95,314)	-4.4%
Federal grants and contracts	1,087,155	941,388	145,767	15.5%
State grants and contracts	403,794	883,459	(479,665)	-54.3%
Auxiliary	3,020,239	2,610,864	409,375	15.7%
Other	198,229	169,599	28,630	16.9%
TOTAL OPERATING REVENUES	6,764,766	6,755,973	8,793	0.1%
Less: Operating expenses	22,985,008	21,607,247	1,377,761	6.4%
NET OPERATING LOSS	(16,220,242)	(14,851,274)	(1,368,968)	9.2%
NONOPERATING REVENUE (EXPENSES)				
State appropriations	6,784,319	6,821,043	(36,724)	0.5%
ARRA Funds	-	478,807	(478,807)	-100.0%
OTRS on-behalf contributions	514,390	477,583	36,807	7.7%
Federal grants and contracts	6,261,522	7,558,651	(1,297,129)	-17.2%
State grants and contracts	820,843	806,776	14,067	1.7%
Investment income	31,258	121,203	(89,945)	-74.2%
Interest expenses	(529,489)	(427,237)	(102,252)	23.9%
TOTAL NONOPERATING REVENUES (EXPENSES)	13,882,843	15,836,826	(1,953,983)	12.3%
State appropriations for capital	521,596	548,988	(27,392)	-5.0%
OCIA on-behalf contributions	116,180	105,832	10,348	9.8%
NET INCREASE (DECREASE) IN NET ASSETS	(1,699,623)	1,640,372	(3,339,995)	-203.6%
NET ASSETS, BEGINNING OF YEAR	18,920,715	17,280,343	1,640,372	9.5%
NET ASSETS, END OF YEAR	$ 17,221,092	$ 18,920,715	$ (1,699,623)	-9.0%

MANAGEMENT'S DISCUSSION AND ANALYSIS--Continued

CONNORS STATE COLLEGE

For The Years Ended June 30, 2012, 2011 and 2010

FINANCIAL ANALYSIS OF THE COLLEGE AS A WHOLE--Continued

CONDENSED STATEMENTS OF REVENUES, EXPENSES AND CHANGES IN NET ASSETS

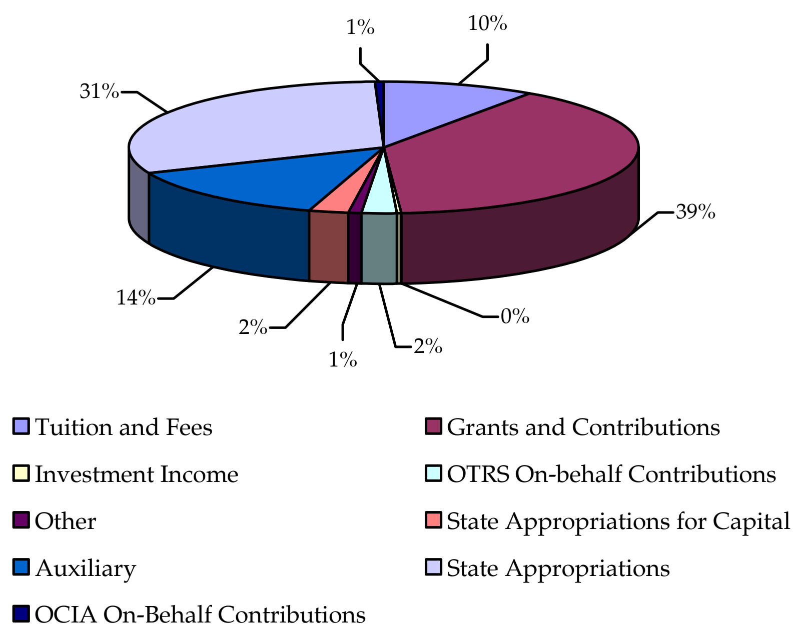
	Years Ended June 30 2011	2010	Increase (Decrease)	Percent Change
OPERATING REVENUES				
Tuition and fees, net	$ 2,150,663	$ 1,757,782	$ 392,881	22.4%
Federal grants and contracts	941,388	1,434,769	(493,381)	-34.4%
State grants and contracts	883,459	171,987	711,472	413.7%
Auxiliary	2,610,864	2,268,622	342,242	15.1%
Other	169,599	247,521	(77,922)	-31.5%
TOTAL OPERATING REVENUES	6,755,973	5,880,681	875,292	14.9%
Less: Operating expenses	21,607,247	19,369,134	2,238,113	11.6%
NET OPERATING LOSS	(14,851,274)	(13,488,453)	(1,362,821)	10.1%
NONOPERATING REVENUE (EXPENSES)				
State appropriations	6,821,043	6,799,986	21,057	0.3%
ARRA Funds	478,807	550,854	(72,047)	-13.1%
OTRS on-behalf contributions	477,583	381,365	96,218	25.2%
Federal grants and contracts	7,558,651	5,729,703	1,828,948	31.9%
State grants and contracts	806,776	719,153	87,623	12.2%
Investment income	121,203	181,204	(60,001)	-33.1%
Interest expenses	(427,237)	(412,310)	(14,927)	3.1%
TOTAL NONOPERATING REVENUES (EXPENSES)	15,836,826	13,949,955	1,886,871	13.5%
State appropriations for capital	548,988	467,266	81,722	17.5%
OCIA on-behalf contributions	105,832	764,669	(658,837)	-86.2%
NET INCREASE IN NET ASSETS	1,640,372	1,693,437	(53,065)	-3.1%
NET ASSETS, BEGINNING OF YEAR	17,280,343	15,586,906	1,693,437	10.9%
NET ASSETS, END OF YEAR	$ 18,920,715	$ 17,280,343	$ 1,640,372	9.5%

FINANCIAL ANALYSIS OF THE COLLEGE AS A WHOLE--Continued

During the year ended June 30, 2012, total revenues decreased by $1,859,982 state appropriations decreased by $542,923, net tuition revenues decreased $95,314, auxiliary revenues increased $409,375, grants and contracts decreased $1,616,960, OTRS contributions and OCIA on behalf contributions increased $47,155.

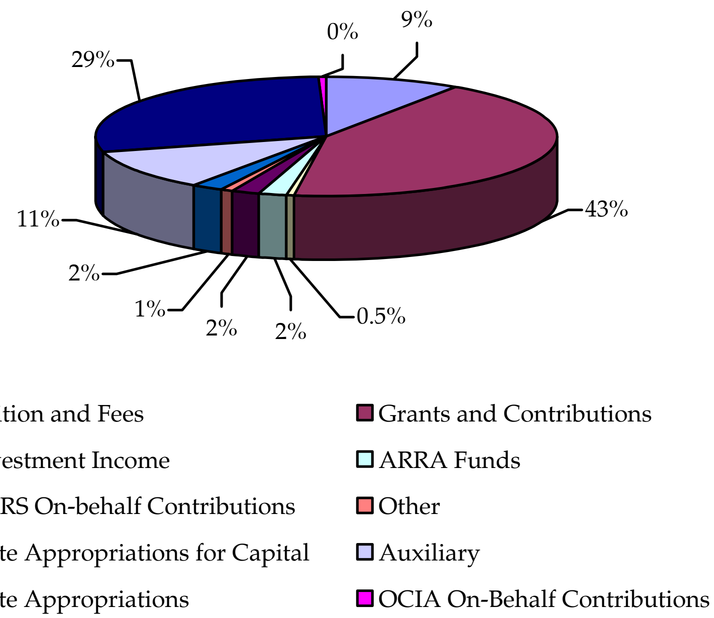
During the two-year period, the percentage of revenue furnished by state appropriation was 32% for 2012, 30% for 2011 and 33% in 2010. Net tuition and fees percentage of total revenues changed in 2012 to 13%, in 2011 to 12% from 11% in 2010 while Auxiliary Enterprises accounted for 13% in 2012, 11% in 2011, and 10% in 2010. Following is a graphic illustration of the College's revenues for the years ended June 30, 2012, 2011 and 2010:

TOTAL REVENUES 2012

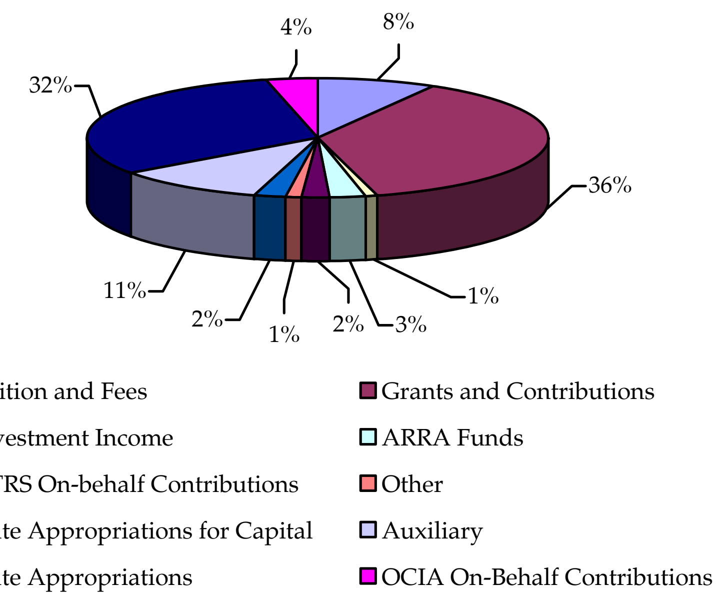


FINANCIAL ANALYSIS OF THE COLLEGE AS A WHOLE--Continued

TOTAL REVENUES 2011

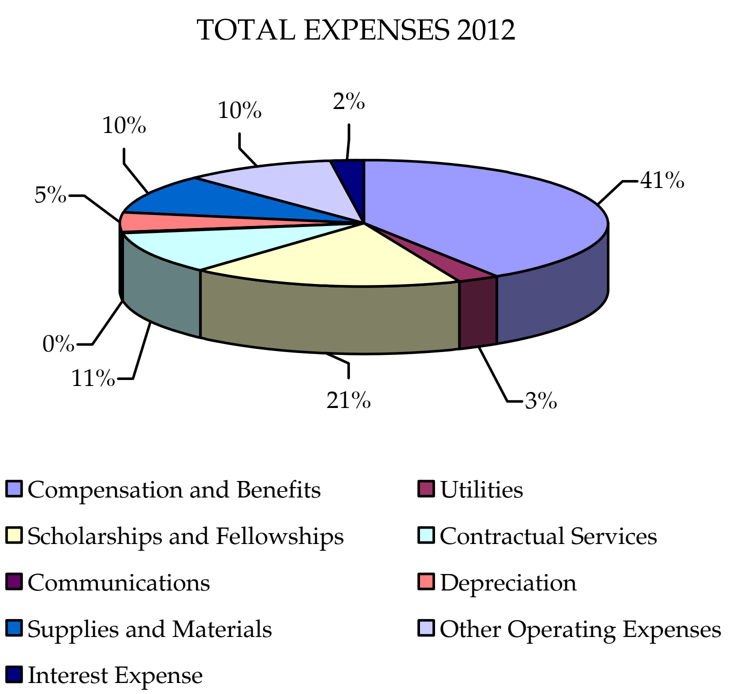


TOTAL REVENUES 2010



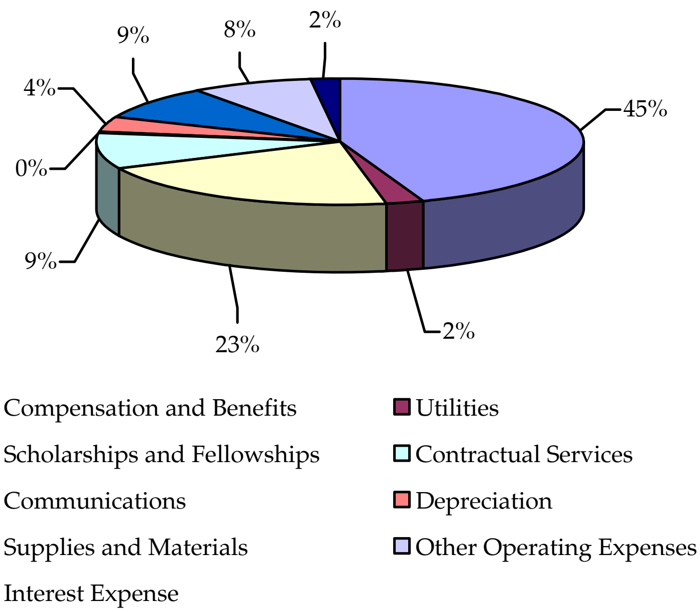
FINANCIAL ANALYSIS OF THE COLLEGE AS A WHOLE--Continued

The College's total expenses for the year ended June 30, 2012 increased by $1,480,013, due to an increase in the overall operations of the College. The College concentrated on deferred maintenance in FY12 and increased spending to paint buildings and fences, repair facilities on all campuses and on farm and ranch properties. Student activities on all campuses increased significantly to address the historically underfunded activity needs of our students. All campuses in FY12 participated in fall/springs festivals, health fairs, and various other activities. The Warner campus hosted a haunted house and a free concert to end the spring semester, featuring red dirt music favorite Stoney LaRue.

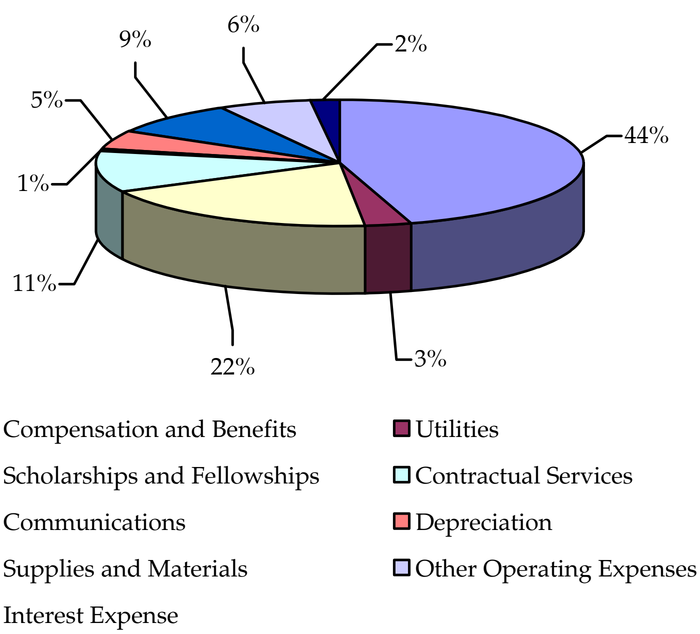


FINANCIAL ANALYSIS OF THE COLLEGE AS A WHOLE--Continued

TOTAL EXPENSES 2011



TOTAL EXPENSES 2010



FINANCIAL ANALYSIS OF THE COLLEGE AS A WHOLE--Continued

During the period July 1, 2011 to June 30, 2012, the College's net assets decreased overall by $1,699,623. For fiscal year 2012, the net investment in capital assets decreased by $820,591, compared to a decrease of $664,804 in 2011. Unrestricted net assets decreased by $580,972 while restricted net assets decreased by $298,060 in 2012. In 2011, unrestricted net assets increased by $2,629,532 while restricted net assets decreased by $324,356.

ANALYSIS OF NET ASSETS

	June 30 2012	June 30 2011	Increase (Decrease)	Percent Change
NET ASSETS				
Capital Assets, net	$ 6,297,882	$ 7,118,473	$ (820,591)	-11.5%
Restricted Cash:				
Expendable	590,197	888,257	(298,060)	-33.6%
Unrestricted	10,333,013	10,913,985	(580,972)	-5.3%
TOTAL ASSETS	$ 17,221,092	$ 18,920,715	$ (1,699,623)	-9.0%

ANALYSIS OF NET ASSETS

	June 30 2011	June 30 2010	Increase (Decrease)	Percent Change
NET ASSETS				
Capital Assets, net	$ 7,118,473	$ 7,783,277	$ (664,804)	-8.5%
Restricted Cash:				
Expendable	888,257	1,212,613	(324,356)	-26.7%
Unrestricted	10,913,985	8,284,453	2,629,532	31.7%
TOTAL ASSETS	$ 18,920,715	$ 17,280,343	$ 1,640,372	9.5%

FINANCIAL ANALYSIS OF THE COLLEGE AS A WHOLE--Continued

During the period ended June 30, 2012, the College's overall cash and cash equivalents increased by $1,304,235. This change was largely due to an increase in auxiliary fees revenue and collection of ground lease receivables from CDF Student Housing, L.L.C. This increase compares to an increase in cash and cash equivalents of $763,997 in 2011.

CONDENSED STATEMENTS OF CASH FLOWS

	Years Ended June 30 2012	Years Ended June 30 2011	Increase (Decrease)	Percent Change
CASH PROVIDED BY (USED IN)				
Operating Activities	$ (12,333,728)	$ (14,552,329)	$ 2,218,601	-15.2%
Non-Capital Financing Activities	14,411,016	16,279,261	(1,868,245)	-11.5%
Capital and Related Financing Activities	(773,053)	(962,935)	189,882	-19.7%
NET INCREASE IN CASH	1,304,235	763,997	540,238	70.7%
CASH AND CASH EQUIVALENTS, BEGINNING OF YEAR	7,720,120	6,956,123	763,997	11.0%
CASH AND CASH EQUIVALENTS, END OF YEAR	$ 9,024,355	$ 7,720,120	$ 1,304,235	16.9%

CONDENSED STATEMENTS OF CASH FLOWS

	Years Ended June 30 2011	Years Ended June 30 2010	Increase (Decrease)	Percent Change
CASH PROVIDED BY (USED IN)				
Operating Activities	$ (14,552,329)	$ (12,066,222)	$ (2,486,107)	20.6%
Non-Capital Financing Activities	16,279,261	13,660,548	2,618,713	19.2%
Capital and Related Financing Activities	(962,935)	(366,736)	(596,199)	162.6%
NET INCREASE IN CASH	763,997	1,227,590	(463,593)	-37.8%
CASH AND CASH EQUIVALENTS, BEGINNING OF YEAR	6,956,123	5,728,533	1,227,590	21.4%
CASH AND CASH EQUIVALENTS, END OF YEAR	$ 7,720,120	$ 6,956,123	$ 763,997	11.0%

MANAGEMENT'S DISCUSSION AND ANALYSIS--Continued

CONNORS STATE COLLEGE

For The Years Ended June 30, 2012, 2011 and 2010

CAPITAL ASSETS AND DEBT ADMINISTRATION

As of June 30, 2012, 2011 and 2010, the College had recorded $36,633,121, $27,178,885 and $26,266,414, respectively, in capital assets and $14,905,117, $13,746,907 and $13,563,676, respectively, in accumulated depreciation on those capital assets. In fiscal year 2012, the College took possession of the Miller's Crossing building from CDF Student Housing L.L.C which represents $7,681,325 of the current year increase in capital assets. Furthermore, in fiscal year 2006 the College began receiving the benefit of Capital Bonds issued by the State of Oklahoma for capital expenditures. The total amount allocated for the College was $7,025,000. Of this amount, $7,163,456, which includes interest, had been drawn to date and expended on projects specified for funding under the bond issue as of June 30, 2012.

CAPITAL ASSETS, NET

	Years Ended June 30 2012	2011	Increase (Decrease)	Percent Change
Land	$ 761,729	$ 761,729	$ -	0.0%
Buildings and improvements	27,561,074	17,074,268	10,486,806	61.4%
Non-structural improvements	2,833,984	2,732,818	101,166	3.7%
Equipment	4,487,964	3,671,040	816,924	22.3%
Library materials	810,000	810,000	-	0.0%
Livestock	137,175	137,770	(595)	-0.4%
Construction in-progress	41,195	1,991,260	(1,950,065)	-97.9%
TOTAL	36,633,121	27,178,885	9,454,236	34.8%
Less: accumulated depreciation	(14,905,117)	(13,746,907)	(1,158,210)	8.4%
TOTAL CAPITAL ASSETS, NET	$ 21,728,004	$ 13,431,978	$ 8,296,026	61.8%

CAPITAL ASSETS, NET

	Years Ended June 30 2011	2010	Increase (Decrease)	Percent Change
Land	$ 761,729	$ 761,729	$ -	0.0%
Buildings and improvements	17,074,268	16,694,568	379,700	2.3%
Non-structural improvements	2,732,818	3,295,980	(563,162)	-17.1%
Equipment	3,671,040	4,221,312	(550,272)	-13.0%
Library materials	810,000	806,075	3,925	0.5%
Livestock	137,770	154,340	(16,570)	-10.7%
Construction in-progress	1,991,260	332,410	1,658,850	499.0%
TOTAL	27,178,885	26,266,414	912,471	3.5%
Less: accumulated depreciation	(13,746,907)	(13,563,676)	(183,231)	1.4%
TOTAL CAPITAL ASSETS, NET	$ 13,431,978	$ 12,702,738	$ 729,240	5.7%

CAPITAL ASSETS AND DEBT ADMINISTRATION--Continued

The College shows a long-term liability during fiscal year 2011 for the debt incurred by issuance of bonds or capital expenditures. The State of Oklahoma will be making the payments on these bonds for the benefit of the College as they were used for each of five specified projects listed below:

- Gatlin Hall One Stop Enrollment - Center Warner Campus
- Classroom and Lab Renovation - Warner Campus
- Roof replacement and asbestos abatement - Warner Campus
- Fine Arts Building Renovation - Warner Campus
- Expansion and Renovation - Muskogee Campuses

During the current year the College entered into two new ODFA Capital Leases for a capital improvement project and taking possession of Miller's Crossing from CDF Student Housing, L.L.C. During 2011, the State of Oklahoma partially refunded a portion of the 2005 series bonds, this restructure meant that no payments were due in 2012 and 2013, which caused an increase in debt for 2011. At June 30, 2012, 2011 and 2010, the College had long-term liabilities of $15,423,111, $8,425,207 and $8,003,343, respectively.

LONG TERM LIABILITIES

	Years Ended June 30			
	2012	2011	Increase (Decrease)	Percent Change
OCIA Capital Lease	$ 230,851	$ 257,669	$ (26,818)	-10.4%
OCIA Series Bonds	5,930,538	5,930,538	-	0.0%
Revenue Bonds Payable	-	1,195,000	(1,195,000)	-100.0%
ODFA Capital Lease	9,707,500	1,042,000	8,665,500	831.6%
TOTAL	$ 15,423,111	$ 8,425,207	$ 6,997,904	83.1%

LONG TERM LIABILITIES

	Years Ended June 30			
	2011	2010	Increase (Decrease)	Percent Change
OCIA Capital Lease	$ 257,669	$ 283,436	$ (25,767)	-9.1%
OCIA Series Bonds	5,930,538	5,287,907	642,631	12.2%
Revenue Bonds Payable	1,195,000	1,330,000	(135,000)	-10.2%
ODFA Capital Lease	1,042,000	1,102,000	(60,000)	-5.4%
TOTAL	$ 8,425,207	$ 8,003,343	$ 421,864	5.3%

THE COLLEGE'S FUTURE

2012 has been a year of significant changes for the College. The atmosphere is one of renewed optimism for our students, our faculty, our staff, the communities we serve and our supporters. The new senior leadership of the College is credited for setting expectations of peak performance, as well as encouraging and rewarding standards of excellence in academics, student services and fiscal responsibility as it relates to the success of the College. The fundamental principle used to determine excellence is that learning happens everywhere on our campuses and everyone associated with our College is learning. As such, we must take responsibility and strive to provide a quality learning experience in every aspect and function of the College. This is not just our strategy for success, but our responsibility as a state supported institution of higher learning.

Leadership

Fiscal Year 2012 marked a significant shift in leadership of the College. Key leadership personnel in the position of Vice President for Fiscal Services, Vice President for Academic and Student Affairs, Executive Director of the Connors State College Development Foundation, Controller, and Director of College and Community Relations were all hired in fiscal year 2012.

Planning

The College's Campus Master Plan was completed in fiscal year 2012 with the assistance of Oklahoma State University Long Range Facilities Planning. The first of its kind here at the College, the plan included a comprehensive assessment of the college's infrastructure resulting in a lengthy list of recommendations for ways to improve, repurpose, repair, and replace the current infrastructure of the College. This plan is designed to be a tool for the leadership of the College with the support of the OSU A&M Board of Regents to set priorities and make logical financial and human resource decisions to ensure that the College remains a relevant and viable institution of higher learning.

Additionally, the College began a comprehensive and inclusive strategic planning process designed to solidify the mission, goals and objectives of the institution so that the actions of leadership consistently reinforce and support the values and vision of the College.

2012 also marked a significant shift in the budgeting process for the College. A concerted effort to decentralize the budgeting process, investing a lot of responsibility to the director and coordinator level of the College's leadership, as well as tie all budget requests to the strategic goals of the College was implemented. This transition in the first year of implementation was not exactly smooth, but it produced a workable budget that supports and is rooted in the mission of the College.

Academic Programs

Fiscal year 2012 marked the beginning of what has been established as a continual assessment and refinement of the academic program offerings at the College. The main goal is to ensure that all of the academic programs at the College remain relevant and viable to both students seeking workforce credentials as well as students seeking university transfer degrees. Creating sustainable enrollment growth by providing points of access for students to pursue their degree with purpose and confidence is our standard of excellence. Political and economic factors have changed the standard measurement of success for public colleges and universities, shifting the emphasis from enrollment to graduates. Beginning in 2012, the Oklahoma State Regents for Higher Education implemented a performance based funding formula that focuses on graduate production. The College has responded by developing an Enrollment Management strategy that emphasizes graduate production. The leadership of the college uses this model in their decision making regarding financial and human resources.

Offering degrees and certificates that give students a reason to choose the College is a primary emphasis in our effort to increase graduation rates. This doesn't mean that the College is not interested in students seeking a career path; it does mean that our goal is to ensure that when a student chooses a major, they are getting state of the art education that will maximize their potential to connect with their goals and be more productive in the future.

Given the fact that over 80% of the incoming College students come to our College with a developmental deficiency in reading, writing, or mathematics, we have implemented College Success Centers that connect students of all skill levels with the support and tools they need to build positive educational momentum and succeed in the classroom. Tutors, peer mentors, study skills and time management training, technology, and targeted instruction are available to students on every College campus.

In 2012, the College invested resources in new degree offerings in agriculture, science and healthcare, while we began to delete obsolete degrees from our degree inventory. In addition, the College has invested in technology to shift from the increasingly outdated ITV course delivery modality to a significantly enhanced list of online courses available to our students and community.

The College also elected to not renew a contract with the Eastern Oklahoma Workforce Investment Board funded by the Federal Workforce Investment Act. The contract amount was $1,918,794 for 22 months and had begun in November of 2009. The program was designed to provide employment services to dislocated workers. At the time the decision was made to not renew the contract, the program was operating at an annual net loss of $71,000 to the College. The spirit and idea behind administering the contract, while very valuable, was ultimately overshadowed by the financial reality that administering the contract was draining valuable financial resources from the College at a time when there were not any extra funding sources to make up the difference for the financial loss.

Academic Programs--Continued

On a more positive note, the Student Support Services federal grant was funded again in the amount of $271,435 in 2012. Student Support Services serves low income and disabled first generation college students with tutoring, career advisement, transfer assistance, and cultural enrichment. The overall goal of this program is to improve retention and completion for low income and disabled first generation college students.

The College continued its partnership with area correctional centers offering degree programs at Eddie Warrior Correctional Center and Jess Dunn Correctional Center in Muskogee County. The total student enrollment at the respective facilities was 276 students.

The College also continued to expand and refine concurrent enrollment with area secondary school districts. 16 schools in six counties within the College's service area participated in a concurrent enrollment program with the college. The total student enrollment was 279.

Student Activities

Similarly to academic programming, student activities also create sustainable enrollment growth by providing points of access for students to pursue their educational goals. Often students choose a college or university because of an activity, but realize their educational and career passion along the way. Often these learning opportunities have the potential to instill the value of lifelong learning as well as reinforce an individual's passion in a particular field of study or career field. Recognizing that such situations are also opportunities to educate students, the college has invested financial and human resources in providing meaningful and viable student as well as community activities in 2012.

College Policies

Believing that our policies and procedures are key to remaining relevant and viable in all facets of the College's business, the College began a comprehensive review of our policies and procedures. This effort is being led by the College's Vice Presidents and is supported by various taskforces comprised of people from all walks of campus life. We have done our best to be inclusive and comprehensive as well as communicate that to be effective, policy review must be continual and consistent.

College Policies--Continued

By far the most popular and talked about taskforce that was begun in 2012 is the one tasked with making recommendations on a comprehensive faculty and staff salary compensation schedule. The final recommendations to the leadership of the College by the salary taskforce are anticipated in early 2013, with a goal to phase in implementation during the FY2014 budget process. Given that the College is currently ranked ninth out of the 12 Oklahoma two-year colleges in compensation for employees, such a review is welcomed by the leadership of the College. Leadership has been clear that a phased in approach is the only way to accomplish significant and sustainable wage improvement and that such recommendations will not be implemented to the detriment of the day to day function of the College or to any one individual associated with the College. Final approval of the salary recommendations rests with the OSU A&M Board of Regents.

Campus Rejuvenation

The most noticeable change in 2012 was implementation of the comprehensive campus rejuvenation effort on all of the College's campuses. Guided by safety, efficiency, function, student and community comfort and aesthetic value as it relates to attracting and retaining students, our campus rejuvenation has been widely praised. From cosmetic changes, to more in-depth infrastructure and mechanical repair and replacement, the leadership of the College has been cautious in spending one-time resources wisely so as to ensure that rejuvenation efforts support the mission and vision of the College.

Community and Industry Relationships

A concerted effort to be more engaged with the communities we serve was made by the College in 2012. Financial and human resources were used and will continue to be used in this effort because a strong working relationship with our community leads to opportunities and additional resources for our students, faculty, staff and supporters. The College continues to be active in the Warner and Muskogee communities by actively participating in civic organizations, community development activities, charitable organization events and activities, councils as well as municipal, county, state and regional boards and commissions. In Muskogee the College hosts over 3000 participants in internal and external meetings on our campuses and in Warner the total is over 2000 participants.

Connors Development Foundation

As of June 30, 2012, Connors Development Foundation, Inc. (the "Foundation") has total net assets of $894,321 and $905,434 in 2011. Of this amount $52,661 is unrestricted funds, $229,139 temporarily restricted and $612,522 is permanently restricted funds. The amount of earned interest on investments for fiscal year 2012 was $7,454. The Foundation continues to support scholarship opportunities to students in various disciplines. For the fiscal year ending June 30, 2012, the Foundation provided 16 scholarships for a total of $17,760. The Foundation is actively supporting the students, faculty and staff of the College.

The Foundation and the College have also engaged various economic development partners in all the communities we serve as well as regionally. The Executive Director of the Foundation is an active member of the Warner Economic Development Committee and the Warner Chamber of Commerce, serving as chair of several committees for local events. He also serves on the Muskogee Greater Manufactures Alliance, the Muskogee Established Business Committee, the Muskogee Business Accelerator Committee, was an active leader in the Action in Muskogee Economic and Community Visioning program, and completed Leadership Muskogee Class XVIII. Additionally, the Executive Director serves as the College's member on the Oklahoma Regents for Higher Education Economic Development Council and recently completed their Economic Development Institute's Economic Development Session for Higher Education Administrators through the University of Oklahoma Outreach. The Executive Director is also a member on the Northeastern Oklahoma Regional Alliance Workforce and Education Action Teams and the Haskell County Coalition.

Enrollment and Graduate Production

Fall headcount is 2,358 students with an FTE of 1754.4 and minority enrollment percentage of 45%. Annual enrollment trends of the previously reported enrollment data show a decrease, with the following enrollment: 2011-2012 3,344; 2010-2011 3,604; 2009-2010, 3,363. During the period of 2011-2012 361 degrees were conferred; 2010-2011, 331 degrees were conferred; 2009-2010, 319 degrees were conferred.

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 ASSETS

CONNORS STATE COLLEGE

	June 30 2012	June 30 2011
CURRENT ASSETS		
Cash and cash equivalents	$ 7,845,246	$ 6,580,569
Restricted cash and cash equivalents	383,190	18,474
Investments	1,561,466	1,343,644
Accounts receivable, net	666,184	643,069
Accounts receivable - CDF Student Housing, L.L.C.	-	97,522
Grants and contracts receivable	404,097	1,451,940
Ground lease receivable from CDF Student Housing, L.L.C.	-	1,045,511
Inventories	656,613	482,872
Other current assets	77,698	10,500
TOTAL CURRENT ASSETS	11,594,494	11,674,101
NONCURRENT ASSETS		
Restricted cash and cash equivalents	795,919	1,121,077
Investments	-	209,300
Bond issuance cost	183,818	-
Deferred charge on debt restructure	193,921	263,760
Receivable from state agency	812,832	1,807,642
Capital assets, net	21,728,004	13,431,978
TOTAL NONCURRENT ASSETS	23,714,494	16,833,757
TOTAL ASSETS	$ 35,308,988	$ 28,507,858

See notes to financial statements.

STATEMENTS OF NET ASSETS--Continued

CONNORS STATE COLLEGE

	June 30 2012	June 30 2011
LIABILITIES AND NET ASSETS		
CURRENT LIABILITIES		
Accounts payable	$ 596,017	$ 472,149
Accrued liabilities	4,402	33,829
Other current liabilities	2,831	38,536
Deferred revenue	145,534	155,692
Student and other deposits	15,278	12,571
Accrued interest payable	15,463	25,616
Current portion of noncurrent liabilities	1,885,260	379,343
TOTAL CURRENT LIABILITIES	2,664,785	1,117,736
NONCURRENT LIABILITIES, net of current portion		
Accrued pension benefit obligation	129,767	152,120
Accrued compensated absences	130,415	127,668
Revenue bonds payable	-	1,050,000
Premium on capital lease obligation	21,600	-
ODFA capital lease obligation	9,267,916	979,000
OCIA capital lease obligation	5,873,413	6,160,619
TOTAL NONCURRENT LIABILITIES	15,423,111	8,469,407
TOTAL LIABILITIES	18,087,896	9,587,143
NET ASSETS		
Invested in capital assets, net of debt	6,297,882	7,118,473
Restricted for:		
Expendable:		
Scholarships, research, instruction and other	43,473	12,380
Loans	3,156	3,144
Capital projects	151,705	663,030
Debt service	391,863	209,703
Unrestricted	10,333,013	10,913,985
TOTAL NET ASSETS	17,221,092	18,920,715
TOTAL LIABILITIES AND NET ASSETS	$ 35,308,988	$ 28,507,858

See notes to financial statements.

STATEMENTS OF REVENUES, EXPENSES AND CHANGES IN NET ASSETS

CONNORS STATE COLLEGE

	Years Ended June 30	
	2012	2011
OPERATING REVENUES		
Student tuition and fees, net of scholarship allowances of $2,465,000 and $2,394,000 in 2012 and 2011, respectively	$ 2,055,349	$ 2,150,663
Federal grants and contracts	1,087,155	941,388
State and local grants and contracts	403,794	883,459
Sales and services of education departments	22,204	21,187
Auxiliary enterprise charges:		
Housing, net of scholarship allowances of $299,000 and $73,000 in 2012 and 2011, respectively	495,589	104,161
Food services, net of scholarship allowances of $112,000 and $290,000 in 2012 and 2011, respectively	433,960	307,866
Bookstore, net of scholarship allowances of $859,000 and $870,000 in 2012 and 2011, respectively	865,900	984,440
Student Union	516,452	478,179
All other	708,338	736,218
Other operating revenues	176,025	148,412
TOTAL OPERATING REVENUES	6,764,766	6,755,973
OPERATING EXPENSES		
Compensation and employee benefits	9,644,990	9,867,508
Contractual services	2,539,895	2,025,154
Supplies and materials	2,345,390	1,924,285
Utilities	654,156	540,017
Communications	102,716	102,901
Other operating expenses	2,379,565	1,778,908
Scholarships and fellowships	4,160,086	4,526,572
Depreciation	1,158,210	841,902
TOTAL OPERATING EXPENSES	22,985,008	21,607,247
OPERATING LOSS	(16,220,242)	(14,851,274)
NONOPERATING REVENUES (EXPENSES)		
State appropriations	6,784,319	6,821,043
State appropriations - ARRA	-	478,807
OTRS on-behalf contributions	514,390	477,583
Federal grants and contracts	6,261,522	7,558,651
State grants and contracts	820,843	806,776
Investment income	31,258	121,203
Interest expense	(529,489)	(427,237)
NET NONOPERATING REVENUES (EXPENSES)	13,882,843	15,836,826
INCOME (LOSS) BEFORE OTHER REVENUES, EXPENSES, GAINS AND LOSSES	(2,337,399)	985,552
State appropriations restricted for capital purposes	521,596	548,988
OCIA on-behalf payments	116,180	105,832
CHANGE IN NET ASSETS	(1,699,623)	1,640,372
NET ASSETS, BEGINNING OF YEAR	18,920,715	17,280,343
NET ASSETS, END OF YEAR	$ 17,221,092	$ 18,920,715

See notes to financial statements.

STATEMENTS OF CASH FLOWS

CONNORS STATE COLLEGE

	Years Ended June 30 2012	Years Ended June 30 2011
CASH FLOWS FROM OPERATING ACTIVITIES		
Tuition and fees	$ 2,022,076	$ 2,060,460
Grants and contracts	2,538,792	643,152
Auxiliary enterprise charges	2,955,748	2,611,216
Other operating receipts	1,534,406	8,088
Payments to employees for salaries and benefits	(9,213,085)	(9,444,631)
Payments to suppliers	(12,171,665)	(10,430,614)
NET CASH USED IN OPERATING ACTIVITIES	(12,333,728)	(14,552,329)
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES		
State appropriations	6,784,319	6,821,043
State appropriations - ARRA	-	478,807
Federal grants and contracts	6,261,522	7,558,651
State grants and contracts	820,843	806,776
Other nonoperating revenue and income	544,332	613,984
Federal Direct Student Loan receipts	5,297,896	5,134,974
Federal Direct Student Loan disbursements	(5,297,896)	(5,134,974)
NET CASH PROVIDED BY NONCAPITAL FINANCING ACTIVITIES	14,411,016	16,279,261
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES		
Cash paid for capital assets	(1,820,726)	(2,146,596)
Cash received from sale of capital assets	47,815	-
Capital appropriations received	1,667,810	1,477,697
Repayments of capital debt and leases	(290,500)	(195,000)
Interest paid on capital debt and leases	(377,452)	(99,036)
NET CASH USED IN CAPITAL AND RELATED FINANCING ACTIVITIES	(773,053)	(962,935)
NET INCREASE IN CASH AND CASH EQUIVALENTS	1,304,235	763,997
CASH AND CASH EQUIVALENTS, BEGINNING OF YEAR	7,720,120	6,956,123
CASH AND CASH EQUIVALENTS, END OF YEAR	$ 9,024,355	$ 7,720,120

See notes to financial statements.

STATEMENTS OF CASH FLOWS--Continued

CONNORS STATE COLLEGE

	Years Ended June 30 2012	2011
RECONCILIATION OF OPERATING LOSS TO NET CASH USED IN OPERATING ACTIVITIES		
Operating loss	$ (16,220,242)	$ (14,851,274)
Adjustments to reconcile operating loss to net cash used in operating activities:		
Depreciation and amortization	1,158,210	846,261
Loss on disposal of asset	-	571,095
On-behalf contributions to teachers' retirement system	514,390	477,583
Changes in net assets and liabilities:		
Accounts and other receivables	1,122,250	(1,262,701)
Inventories	(173,741)	(196,322)
Other assets	(67,198)	403
Ground lease receivable	1,336,177	(161,511)
Accounts payable and accrued expenses	36,383	62,630
Deferred revenue	(10,158)	158
Other current liabilities and student deposits	(7,446)	(14,973)
Accrued pension obligation	(22,353)	(23,678)
NET CASH USED IN OPERATING ACTIVITIES	$ (12,333,728)	$ (14,552,329)
NONCASH CAPITAL AND RELATED FINANCING ACTIVITIES		
Principal and interest paid by OCIA and ODFA	$ 116,180	$ 105,832
Amortization of bond issuance cost	$ 9,190	$ -
Capital assets purchased via the issuance of bonds	$ 8,811,000	$ -
Deferred cost on OCIA lease restructure	$ -	$ 642,631
RECONCILIATION OF CASH AND CASH EQUIVALENTS TO THE STATEMENTS OF NET ASSETS		
Current assets:		
Cash and cash equivalents	$ 7,845,246	$ 6,580,569
Restricted cash and cash equivalents	383,190	18,474
Noncurrent assets:		
Restricted cash and cash equivalents	795,919	1,121,077
TOTAL CASH AND CASH EQUIVALENTS	$ 9,024,355	$ 7,720,120

See notes to financial statements.

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. 39, *Determining Whether Certain Organizations are Component Units*, requires the inclusion of Connors Development Foundation, Inc., (the "Foundation") as a component unit of the College. Although the College does not control the timing or amount of receipts from the Foundation, the majority of resources, or income thereon, which the Foundation holds and invests, is restricted to the activities governed by donors, bond documents and/or trustees. Accordingly, resources received and 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 under the definition of GASB Statement No. 39, and its financial statements are separately presented as a component unit of the College.

As of the year ended June 30, 2011, CDF Student Housing, L.L.C. (the "LLC") was considered a component unit of the College. As discussed in Note J, in September 2011, the College took ownership of Miller's Crossing and the LLC ceased to exist.

The College is a component unit of the State of Oklahoma and is included in the general-purpose financial statements of the State as a part of the higher education component unit.

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 assets classified between current and noncurrent assets and liabilities, a statement of revenues, expenses and changes in net assets, with separate presentation for operating and nonoperating revenues and expenses, and a statement of cash flows using the direct method.

The Foundation's financial statements are presented in accordance with FASB standards. Therefore, certain revenue recognition criteria and presentation features are different from GASB revenue recognition criteria and presentation features.

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.

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

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

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

Accounts Receivable: Accounts receivable consists of tuition and fee charges to students and fees for auxiliary enterprise services provided to students, faculty and staff, the majority of each residing in the State of Oklahoma. Accounts receivable are recorded net of estimated uncollectible amounts. The 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.

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

Accounts Receivable--Continued: 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.

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

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.

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

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

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.

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

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

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

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

Unrestricted Net Assets: Unrestricted net assets represent resources derived from student tuition and fees, state appropriations, and sales and services of educational departments and auxiliary enterprises. These resources are used for transactions relating to the educational and general operations of the 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).

Reclassifications: Certain amounts in the 2011 financial statements have been reclassified to conform to the current year presentation.

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

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.

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

New Accounting Pronouncements: The GASB has issued several new accounting pronouncements, which will be effective to the College in subsequent years. A description of the new accounting pronouncements, the fiscal year in which they are effective, and the College's consideration of the impact of these pronouncements are described below:

Fiscal Year Ended June 30, 2013

- Statement No. 60, *Accounting and Financial Reporting for Service Concession Arrangements*. GASB Statement No. 60 addresses issues related to service concession arrangements ("SCAs"), which are a type of public-private or public-public partnership. This Statement applies only to those arrangements in which specific criteria determining whether a transferor has control over the facility are met. The College will only be required to adopt the provisions of GASB Statement No. 60 if it enters into an SCA, and it currently has not entered into any such arrangements.

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

New Accounting Pronouncements--Continued:

Fiscal Year Ended June 30, 2013--Continued

- Statement No. 61, *The Financial Reporting Entity: Omnibus – An Amendment of GASB Statements No. 14 and No. 34.*
  GASB Statement No. 61 modifies certain requirements for inclusion of component units in the financial reporting entity and also amends the criteria for reporting component units as if they were part of the primary government (that is, blending) in certain circumstances. Earlier application is encouraged. The College does not believe that the adoption of GASB Statement No. 61 will have a significant impact on its financial statement presentation.

- Statement No. 62, *Codification of Accounting and Financial Reporting Guidance Contained in Pre-November 30, 1989 FASB and AICPA Pronouncements*.

  GASB Statement No. 62 is intended to enhance the usefulness of its Codification by incorporating guidance that previously could only be found in certain FASB and AICPA pronouncements. The College does not believe that the adoption GASB Statement No. 62 will have a significant impact on its financial position, activities or cash flows, or its financial statement presentation.

- Statement No. 63, *Financial Reporting of Deferred Outflows of Resources, Deferred Inflows of Resources, and Net Position*.

  GASB Statement No. 63 provides financial reporting guidance for deferred outflows of resources and deferred inflows of resources. Previous financial reporting standards do not include guidance for reporting those financial statement elements, which are distinct from assets and liabilities. Adoption of this statement will require the College to make changes in its financial statement presentation.

Fiscal Year Ended June 30, 2014

- Statement No. 65, *Items Previously Reported as Assets and Liabilities*.
  GASB Statement No. 65 establishes accounting and financial reporting standards that reclassify, as deferred outflows of resources or deferred inflows of resources, certain items that were previously reported as assets and liabilities and recognizes, as outflows of resources (expenses) or inflows of resources (revenues), certain items that were previously recognized as assets and liabilities. The College has not quantified the effects of adoption of GASB Statement No. 65 on its net position.

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

New Accounting Pronouncements--Continued:

Fiscal Year Ended June 30, 2015

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

  GASB Statement No. 68 establishes standards for measuring and recognizing liabilities, deferred outflows of resources, deferred inflows of resources, and pension expenses. GASB Statement 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 Statement No. 68 as single employer plans, agent employer plans and cost-sharing plans, and recognition and disclosure requirements are addressed for each classification. GASB Statement No. 68 was issued in June 2012, and the College has not yet determined the impact that implementation of GASB Statement No. 68 will have on its net position.

NOTE B--DEPOSITS AND INVESTMENTS

Custodial Credit Risk - 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.

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 or 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, 2012 and 2011 were $8,369,392 and $7,587,080, respectively. These amounts consisted of deposits with the State Treasurer ($7,687,662 and $7,578,280), U.S. financial institutions ($675,000 and $2,000), and change funds ($6,730 and $6,800), respectively, as of June 30, 2012 and 2011.

At June 30, 2012 and 2011, the related balances of the College's deposits totaled $9,024,355 and $7,720,120, respectively.

NOTE B--DEPOSITS AND INVESTMENTS--Continued

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

	2012	2011
Money Fund	$ 33,837	$ 119,025
Trust Fund	1,527,629	1,433,919
Total Investments	$ 1,561,466	$ 1,552,944

Investment maturities were as follows at June 30, 2012:

Investment Type	Fair Value	Not Applicable	Less Than One	One to Five	Six to Ten	More Than Ten
Money Funds	$ 33,837	$ 33,837	$ -	$ -	$ -	$ -
Trust Fund	1,527,629	209,300	1,003,927	6,739	307,663	-
	$ 1,561,466	$ 243,137	$ 1,003,927	$ 6,739	$ 307,663	$ -

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.

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:

	2012	2011
Student tuition and fees	$ 591,370	$ 586,162
Auxiliary enterprises and other student activities	568,781	546,398
Less allowance for doubtful accounts	(493,967)	(489,491)
Accounts receivable, net	$ 666,184	$ 643,069

The College has $812,832 and $1,807,642 of receivables restricted for capital projects as of June 30, 2012 and 2011, respectively, which relate to private gifts and governmental grants and contracts for ongoing and planned capital projects at the College. These receivable balances are classified as noncurrent assets in the statements of net assets as they are restricted for long-term purposes.

NOTE D--CAPITAL ASSETS

Following are the changes in capital assets for the year ended June 30, 2012:

	Balance June 30, 2011	Additions	Transfers	Retirements	Balance June 30, 2012
Capital assets not being depreciated:					
Land	$ 761,729	$ -	$ -	$ -	$ 761,729
Livestock	137,770	47,220	-	(47,815)	137,175
Construction in progress	1,991,260	41,195	(1,991,260)	-	41,195
Total capital assets not being depreciated	$ 2,890,759	$ 88,415	$ (1,991,260)	$ (47,815)	$ 940,099
Other capital assets:					
Buildings and improvements	17,074,268	8,495,546	1,991,260	-	27,561,074
Nonstructural improvements	2,732,818	101,166	-	-	2,833,984
Equipment	3,671,040	816,924	-	-	4,487,964
Library materials	810,000	-	-	-	810,000
Total other capital assets	24,288,126	9,413,636	1,991,260	-	35,693,022
Less accumulated depreciation for:					
Buildings and improvements	(8,560,284)	(685,151)	-	-	(9,245,435)
Nonstructural improvements	(1,300,901)	(131,367)	-	-	(1,432,268)
Equipment	(3,175,070)	(263,309)	-	-	(3,438,379)
Library materials	(710,652)	(78,383)	-	-	(789,035)
Total accumulated depreciation	(13,746,907)	(1,158,210)	-	-	(14,905,117)
Capital assets, net	$ 13,431,978	$ 8,343,841	$ -	$ (47,815)	$ 21,728,004

At June 30, 2012, 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	634,489	700,869	1,335,358
	$ 7,096,836	$ 713,131	$ 7,809,967

NOTE D--CAPITAL ASSETS--Continued

Following are the changes in capital assets for the year ended June 30, 2011:

	Balance June 30, 2010	Additions	Transfers	Retirements	Balance June 30, 2011
Capital assets not being depreciated:					
Land	$ 761,729	$ -	$ -	$ -	$ 761,729
Livestock	154,340	51,360	-	(67,930)	137,770
Construction in progress	332,410	1,658,850	-	-	1,991,260
Total capital assets not being depreciated	$ 1,248,479	$ 1,710,210	$ -	$ (67,930)	$ 2,890,759
Other capital assets:					
Buildings and improvements	16,694,568	375,123	4,577	-	17,074,268
Nonstructural improvements	3,295,980	-	(19,077)	(544,085)	2,732,818
Equipment	4,221,312	61,263	10,575	(622,110)	3,671,040
Library materials	806,075	-	3,925	-	810,000
Total other capital assets	25,017,935	436,386	-	(1,166,195)	24,288,126
Less accumulated depreciation for:					
Buildings and improvements	(8,213,184)	(353,264)	-	6,164	(8,560,284)
Nonstructural improvements	(1,179,373)	(127,506)	-	5,978	(1,300,901)
Equipment	(3,459,799)	(276,109)	-	560,838	(3,175,070)
Library materials	(711,320)	(89,382)	-	90,050	(710,652)
Total accumulated depreciation	(13,563,676)	(846,261)	-	663,030	(13,746,907)
Capital assets, net	$ 12,702,738	$ 1,300,335	$ -	$ (571,095)	$ 13,431,978

At June 30, 2011, the cost and related accumulated depreciation of assets held under capital lease obligations was as follows:

	Buildings	Nonstructural Improvements	Total
Cost	$ 500,000	$ 1,414,000	$ 1,914,000
Less: accumulated depreciation	322,806	606,602	929,408
	$ 177,194	$ 807,398	$ 984,592

NOTE E--LONG-TERM LIABILITIES

Long-term liability activity for the year ended June 30, 2012 was as follows:

	Balance June 30, 2011	Additions	Reductions	Balance June 30, 2012	Amounts due within one year
Bonds payable and capital lease obligations:					
Revenue bonds payable	$ 1,195,000	$ -	$ (145,000)	$ 1,050,000	$ 1,050,000
OCIA capital lease obligation	257,669	-	(26,818)	230,851	28,140
OCIA 2005F Series	3,748,353	-	-	3,748,353	259,836
OCIA 2010a Series	1,420,030	-	-	1,420,030	-
OCIA 2010b Series	762,155	-	-	762,155	-
ODFA 2004b Series	1,042,000	-	(63,000)	979,000	61,000
ODFA 2011a Series	-	646,000	(55,834)	590,166	58,167
ODFA 2011e Series	-	8,165,000	(26,666)	8,138,334	320,417
Total bonds and capital leases	8,425,207	8,811,000	(317,318)	16,918,889	1,777,560
Other liabilities:					
Premium on lease obligation	-	27,000	(2,700)	24,300	2,700
Accrued pension obligation	152,120	-	(22,353)	129,767	-
Accrued compensated absences	271,423	155,950	(191,958)	235,415	105,000
Total other liabilities	423,543	182,950	(217,011)	389,482	107,700
Total long-term liabilities	$ 8,848,750	$ 8,993,950	$ (534,329)	$ 17,308,371	$ 1,885,260

NOTE E--LONG-TERM LIABILITIES--Continued

Long-term liability activity for the year ended June 30, 2011 was as follows:

	Balance June 30, 2010	Additions	Reductions	Balance June 30, 2011	Amounts due within one year
Bonds payable and capital lease obligations:					
Revenue bonds payable	$ 1,330,000	$ -	$ (135,000)	$ 1,195,000	$ 145,000
OCIA capital lease obligation	283,436	-	(25,767)	257,669	27,588
OCIA 2005F Series	5,287,907	-	(1,539,554)	3,748,353	-
OCIA 2010a Series	-	1,420,030	-	1,420,030	-
OCIA 2010b Series	-	762,155	-	762,155	-
ODFA 2004b Series	1,102,000	-	(60,000)	1,042,000	63,000
Total bonds and capital leases	8,003,343	2,182,185	(1,760,321)	8,425,207	235,588
Other liabilities:					
Accrued pension obligation	175,798	-	(23,678)	152,120	-
Accrued compensated absences	261,143	10,280	-	271,423	143,755
Total other liabilities	436,941	10,280	(23,678)	423,543	143,755
Total long-term liabilities	$ 8,440,284	$ 2,192,465	$ (1,783,999)	$ 8,848,750	$ 379,343

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 to be 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 percent to 6.75 percent. 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.

NOTE E--LONG-TERM LIABILITIES--Continued

Revenue Bonds Payable--Continued

Pursuant to the bond indenture creating the bond issue, the College was required to establish various accounts with the bond trustee and the State Treasurer, as follows:

Revenue Fund - This fund is used for the deposit of pledged revenues, separate and apart from all other funds, to be maintained in the custody of the State Treasurer.

Bond Funds - The bond funds will be maintained by the bond trustee and will include the following accounts:

Principal and interest account: This account will be used to make bond principal and interest payments when due. The State Treasurer will transfer funds from the revenue account to the principal and interest account on a semi-annual basis.

Reserve account: The trustee shall set up a reserve account equal to the lesser of 1) maximum annual principal and interest on the bonds; 2) 125 percent of the average annual principal and interest on the bonds; or 3) 10 percent of the proceeds for the bonds. Monies in the reserve account shall be used to cover deficiencies in the principal and interest accounts for payment of bond principal and interest.

Project Account - A project account was established with the State Treasurer into which the proceeds from the sale of the bonds were deposited. Construction expenditures and costs of issuance were paid out of the account.

Funds on deposit for the reserve account as of June 30, 2012 and 2011 were $209,300.

The bond indenture requires net revenues pledged be at least 1.25 times the average annual debt service requirements of approximately $212,000 per fiscal year over 20 years. During the years ended June 30, the pledged revenues provided net revenues as follows:

	2012	2011
Revenues	$ 1,370,153	$ 1,400,269
Expenses	728,271	626,849
Net revenues	$ 641,882	$ 773,420
Debt service requirements	$ 198,670	$ 200,195
Rate covenant - 125 percent	1.25	1.25
Net revenue requirement	$ 248,338	$ 250,244

NOTE E--LONG-TERM LIABILITIES--Continued

Revenue Bonds Payable--Continued:

At June 30, 2012, future aggregate maturities of principal and interest requirements on the bonds payable are as follows:

Years Ending June 30:	Principal	Interest	Total
2013	$ 150,000	$ 48,670	$ 198,670
2014	160,000	41,770	201,770
2015	170,000	34,410	204,410
2016	180,000	26,505	206,505
2017	190,000	18,135	208,135
2018	200,000	9,300	209,300
	$ 1,050,000	$ 178,790	$ 1,228,790

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 will be 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, 2012, future aggregate maturities of principle and interest requirements on bonds payable are as follows:

Years Ending June 30:	Principal	Interest	Total
2013	$ 61,000	$ 47,789	$ 108,789
2014	63,000	45,349	108,349
2015	70,000	42,750	112,750
2016	70,000	39,250	109,250
2017	75,000	35,750	110,750
2018-2022	435,000	118,250	553,250
2023-2024	205,000	15,500	220,500
	$ 979,000	$ 344,638	$ 1,323,638

NOTE E--LONG-TERM LIABILITIES--Continued

Capital Lease Obligations--Continued

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. Lease payments to OCIA totaling $39,775 and $39,799 during the years ended June 30, 2012 and 2011, respectively, were made by the State of Oklahoma on behalf of the College. These payments have been recorded as on-behalf payments for OCIA capital leases in the statements of revenues, expenses, and changes in net assets.

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.

Through June 30, 2012, the College has drawn-down $7,163,456 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. The College has recorded a receivable totaling $812,832 at June 30, 2012, for its allotment not drawn-down as of that date (inclusive of $28,124 of interest earned during 2012). Lease payments to OCIA totaling $76,405 and $66,033 during the years ended June 30, 2012 and 2011, respectively, were made by the State of Oklahoma on behalf of the College. These payments have been recorded as on-behalf payments for OCIA capital leases in the statements of revenues, expenses, and changes in net assets.

NOTE E--LONG-TERM LIABILITIES--Continued

Capital Lease Obligations--Continued

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

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 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 cost that will be amortized over a period of six years. As of June 30, 2012 and 2011, the unamortized cost totaled $303,763 and $379,704, respectively. The premium on the bond of $109,842 and $115,944 at June 30, 2012 and 2011, respectively, is netted with the unamortized cost and recorded as deferred charge on debt restructure in the statements of net assets. 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.

At June 30, 2012, future aggregate maturities of principal and interest requirements on bonds payable are as follows:

Years Ending June 30:	Principal	Interest	Total
2013	$ 287,976	$ 359,865	$ 647,841
2014	745,065	343,880	1,088,945
2015	771,809	322,276	1,094,085
2016	503,132	211,508	714,640
2017	527,143	188,780	715,923
2018-2022	849,285	710,180	1,559,465
2023-2027	1,433,538	480,841	1,914,379
2028-2030	1,043,441	105,399	1,148,840
	$ 6,161,389	$ 2,722,729	$ 8,884,118

NOTE E--LONG-TERM LIABILITIES--Continued

Capital Lease Obligations--Continued

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 $104,466. 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 will be used for structural improvements to the College's waste management system. As of June 30, 2012, the college has $673,000 in restricted cash for the use of the project.

As of June 30, 2012, future aggregate maturities of principle and interest requirements on bonds payable are as follows:

Years Ending June 30:	Principal	Interest	Total
2013	$ 58,167	$ 20,315	$ 78,482
2014	60,167	18,570	78,737
2015	62,167	16,765	78,932
2016	64,167	14,900	79,067
2017	66,167	12,975	79,142
2018-2021	279,331	30,355	309,686
	$ 590,166	$ 113,880	$ 704,046

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 $3,462,827. 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, 2012, future aggregate maturities of principle and interest requirements on bonds payable are as follows:

Years Ending June 30:	Principal	Interest	Total
2013	$ 320,417	$ 268,698	$ 589,115
2014	325,833	262,290	588,123
2015	335,000	255,773	590,773
2016	335,833	249,073	584,906
2017	345,417	242,356	587,773
2018-2022	1,833,750	1,086,051	2,919,801
2023-2027	2,131,667	776,688	2,908,355
2028-2032	2,510,417	321,898	2,832,315
	$ 8,138,334	$ 3,462,827	$ 11,601,161

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.

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

The College's contributions to OTRS for the years ended June 30, 2012 and 2011, were approximately $1,029,000 and $1,244,000, 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.

NOTE F--RETIREMENT PLANS--Continued

Oklahoma Teachers' Retirement System--Continued

Funding Policy--Continued

The State of Oklahoma is also required to contribute to OTRS on behalf of the participating employers. For 2012 and 2011, 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, 2012 and 2011, the total amounts contributed to OTRS by the State of Oklahoma on behalf of the College were approximately $514,000 and $478,000, 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 assets.

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 employees 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 and $45,000 to retirees under the Plan during the years ended June 30, 2012 and 2011, respectively.

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, 2012 actuarial valuation using the projected unit credit method. The actuarial assumptions included (a) a discount rate of 8% per year to determine the present value of future benefit payments; (b) retirement at age 65; (c) an 8% rate of return on investments; (d) projected salary increases of 2.0% per year; and (e) a 5.25% 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:

	2012	2011
Annual required contributions	$ 27,759	$ 25,763
Interest on net pension obligation (asset)	11,637	13,662
Adjustment to annual contribution	(14,875)	(19,306)
Annual pension cost	24,521	20,119
Contributions made	(49,522)	(45,362)
Increase (decrease) in net pension obligation (asset)	(25,001)	(25,243)
Net pension obligation (asset) at beginning of year	143,286	168,529
Net pension obligation (asset) at end of year	$ 118,285	$ 143,286

Funded Status and Funding Progress

The funded status of the plan as of June 30, 2012 was as follows:

Actuarial accrued liability (AAL)	$ 222,884
Actuarial value of plan assets	-
Unfunded actuarial accrued liability (UAAL)	$ 222,884
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%

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
2010	$ 21,405	211.9%	$ 168,529
2011	$ 20,119	225.5%	$ 143,286
2012	$ 24,521	202.0%	$ 118,285

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, 2012, there were approximately 117 active employees and 90 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.

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

Annual Cost and Net Obligation

The annual required contribution for the current year was determined as part of the June 30, 2012 actuarial valuation using the projected unit credit method. The actuarial assumption included an 8% 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. The College's annual life insurance cost and net obligation of the Plan for the year ended June 30th were as follows:

	2012	2011
Annual required contribution	$ 4,315	$ 1,241
Adjustment to annual required contribution	-	1,747
Annual life insurance cost	4,315	2,988
Contributions made	1,667	1,423
Increase (decrease) in net obligation	2,648	1,565
Net obligation, beginning of year	8,834	7,269
Net obligation, end of year	$ 11,482	$ 8,834

The net obligation at June 30, 2012 is included in accrued pension obligation.

Funded Status and Funding Progress

The funded status of the plan as of June 30, 2012 was as follows:

Actuarial accrued liability (AAL)	$ 36,156
Actuarial value of plan assets	-
Unfunded actuarial accrued liability (UAAL)	$ 36,156
Funded ratio (actuarial value of plan assets/AAL)	0.00%
Annual covered payroll (active plan members)	$ 6,991,329
UAAL as a percentage of annual covered payroll	0.52%

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

Trend Information

Fiscal Year Ended June 30,	Annual Pension Cost	Percentage of APC Contributed	Net Pension Obligation
2010	$ 5,484	296%	$ 7,269
2011	$ 2,988	48%	$ 8,834
2012	$ 4,315	39%	$ 11,482

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, 2012 and 2011, the Foundation awarded scholarships to students totaling approximately $18,000 for both years.

The College received in-kind contributions of approximately $16,000 and $38,000 during the years ended June 30, 2012 and 2011, 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, 2012 and 2011 was approximately $149,000 and $151,000, 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.

NOTE I--RISK MANAGEMENT--Continued

During the course of ordinary business, the College may be subjected to various lawsuits and civil action claims. There was one pending lawsuits or claim against the College at June 30, 2012, that management believes will not result in a material loss to the College in the event of an adverse outcome.

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.

NOTE J--LEASING ARRANGEMENTS

The Board of Regents of the College has entered into a ground lease agreement with the LLC that owns and operates Miller's Crossing, a student housing facility located on the College campus. The LLC is a wholly owned subsidiary of the Foundation. The College is leasing to the LLC the property upon which Millers Crossing is located. The ground lease is effective through November 1, 2041. Under the terms of the ground lease, the College is entitled to receive annual rent each November 1st equal to the net available cash flow of the student housing facility, as defined in the ground lease. For the year ended June 30, 2011, the College recorded a ground lease receivable of $1,045,511. In September 2011, the College took ownership of Miller's Crossing and the LLC ceased to exist. All assets and liabilities were transferred to the College. See Note E for a discussion on the financing for this transaction.

NOTE K--SUBSEQUENT EVENTS

Subsequent to year end, the College has provided notice that the Student Facilities Revenue Bonds, Series 1998 (see Note E) will be called for the full redemption on November 15, 2012 all outstanding bonds totaling $1,050,000 in principal amount, plus applicable premium, if any will be paid in full.

REQUIRED SUPPLEMENTARY INFORMATION

REQUIRED SUPPLEMENTARY INFORMATION--UNAUDITED

CONNORS STATE COLLEGE

June 30, 2012

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)
6/30/2007	-	254,071	254,071	0.00%	-	0.00%
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%

The actuarial accrued liability is based on the projected unit credit method.
As permited under Govenmental Accounting Standards the College obtains an actuarial valuation every other year.

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

Actuarial Valuation Date	Acturial Accrued 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%

The actuarial liability is based on the projected unit credit cost method.
As permited under Govenmental Accounting Standards the College obtains an actuarial valuation every other year.

DISCRETELY PRESENTED COMPONENT UNIT

Exhibit I

CONNORS DEVELOPMENT FOUNDATION, INC.
June 30, 2012

Connors
Development Foundation, Inc.

Financial Statements
and
Report of Independent Certified Public Accountants

June 30, 2012

Contents

Stanfield & O'Dell PC
Beyond numbers. To solutions.
CONSULTANTS & CERTIFIED PUBLIC ACCOUNTANTS

Report of Independent Certified Public Accountants

To the Board of Directors
Connors Development Foundation, Inc.
Warner, Oklahoma

We have audited the accompanying statement of financial position of Connors Development Foundation, Inc., (the Foundation), as of June 30, 2012 and the related statement of activities and cash flows for the year then ended. These financial statements are the responsibility of the Foundation's management. Our responsibility is to express an opinion on these financial statements based on our audit.

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

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Connors Development Foundation, Inc. as of June 30, 2012, and the results of their operations and their cash flows for the year then ended, in conformity with accounting principles generally accepted in the United States of America.

As discussed in Note C, to the financial statements, certain amounts were improperly classified in net assets previously reported as of June 30, 2011 and were discovered by management of the Foundation during the current year. Beginning of year net assets classifications have been restated.

Tulsa, Oklahoma
November 15, 2012

Stanfield & O'Dell P.C.

Connors Development Foundation, Inc.

Statement of Financial Position

Year Ended June 30, 2012

Assets		
Cash		875,331
Investments		25,687
Total assets	$	901,018
Liabilities and Net Assets		
Liabilities		
Accounts payable		6,697
Net Assets		
Unrestricted		52,661
Temporarily restricted		229,139
Permanently restricted		612,521
		894,321
Total liabilities and net assets	$	901,018

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

Connors Development Foundation, Inc.

Statement of Activities

Year Ended June 30, 2012

	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Revenue and Support				
Contributions	$ -	$ 157,857	15,642	$ 173,499
In-kind Contributions	15,964	-	-	15,964
Investment income	-	6,709	745	7,454
Net assets released from restriction	203,089	(203,089)	-	-
Total Revenue and Support	219,053	(38,523)	16,387	196,917
Expenses				
Scholarships awarded	17,760	-	-	17,760
Other CSC programs and activities	164,727	-	-	164,727
Administration and general	12,826	-	-	12,826
Fundraising expenses	8,300	-	-	8,300
Miscellaneous Expense	4,418	-	-	4,418
Total Expenses	208,031	-	-	208,031
Change in Net Assets	11,022	(38,523)	16,387	(11,114)
Net Assets at Beginning of Year, as restated	41,639	267,662	596,134	905,435
Net Assets at End of Year	$ 52,661	$ 229,139	$ 612,521	$ 894,321

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

Connors Development Foundation, Inc.

Statement of Cash Flows

Year Ended June 30, 2012

Cash Flows From Operating Activities	
Contributions received	$ 173,499
Expense paid	(198,764)
Interest and dividends received	7,454
Other income received	4,461
Net cash used in operating activities	(13,350)
Cash Flows from Investing Activities	
Proceeds from sale of investments	472,837
Cash Flows From Financing Activities	
Contributions received for endowments	15,642
Investment income added to endowment	745
Net cash provided by financing activities	16,387
Net Increase in Cash	475,874
Cash at Beginning of Year	399,457
Cash at End of Year	$ 875,331
Reconciliation of Operating Loss To Net Cash Used In Operating Activities	
Decrease in net assets	$ (11,114)
Realized and unrealized (gains)/losses on investments	7,454
Contributions received for endowments	(15,642)
Investment income restricted for endowment fund growth	(745)
Increase (decrease) in accounts payable	6,697
Net cash used in operating activities	$ (13,350)

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

Note A – Summary of Significant Accounting Policies

1. *Organization*

The Connors Development Foundation, Inc., (the Foundation) was established for the benefit of Connors State College ("CSC" or the "College"). The Foundation awards scholarships to students and pays for goods and services on behalf of the College.

2. *Basis of Accounting*

The financial statements of the Foundation have been prepared on the accrual basis of accounting. Under this basis, revenues are recognized when earned rather than when received, and expenses are recognized when incurred rather than when the obligation is paid.

3. *Basis of Presentation*

Net assets, revenues, gains and losses are classified based on the existence or absence of donor-imposed restrictions as follows:

- Unrestricted – Net assets that are not subject to donor-imposed stipulations.
- Temporarily restricted – Net assets subject to donor-imposed stipulations that may or will be met, either by actions of the Foundation and/or the passage of time. When a restriction expires, temporarily restricted net assets are reclassified to unrestricted net assets and reported in the statements of activities as net assets released from restrictions.
- Permanently restricted – Net assets subject to donor-imposed stipulations that require they be maintained permanently by the Foundation. Generally, the donors of these assets permit the Foundation to use all or part of the income earned on related investments for general or specific purposes.

Investment income restricted for specific purposes is reported in temporarily restricted net assets if the restriction is not met in the same year the income is earned. If the restriction is met in the same year as the income is earned, the investment income is reported as a net release of assets.

4. *Contributions*

The Foundation reports gifts of cash and other assets as restricted contributions when they are received with donor stipulations that limit the use of the donated assets. When the intent of the donor is that the assets are to remain in perpetuity and the Foundation does not have the right to invade the original principal, the assets are reported as permanently restricted. When donor restrictions expire, such as when the Foundation expends the funds in accordance with the donor's wishes, temporarily restricted net assets are released to unrestricted net assets and reported in the statements of activities as net assets released from restrictions.

Note A – Summary of Significant Accounting Policies – Continued

5. Use of Estimates

Preparation of financial statements in conformity with accounting principles generally accepted in the United States of America includes the use of estimates that affect certain reported amounts and disclosures. Accordingly, actual results could differ from those estimates.

6. Cash Equivalents

For purposes of the statements of cash flows, 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.

7. Investments

The Foundation's investments consist of equity securities with quoted market prices in an activie 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.

8. Endowment 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 27 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.

Note A – Summary of Significant Accounting Policies – Continued

9. 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.

10. Income Taxes

The Internal Revenue Service has determined that the Foundation qualifies as an exempt organization under Section 501(c)(3) of the Internal Revenue Code. Accordingly, no provision for income taxes is reflected in the accompanying financial statements.

11. Subsequent Events

The Foundation has evaluated subsequent events through November 15, 2012, the date on which the financial statements were available to issue.

Note B – Related Party Transactions

During the years ended June 30, 2012, the Foundation awarded scholarships totaling $17,760 to students of the College.

The College employs the director of the Foundation. This individual spends 100 percent of their time supporting Foundation activities. The College pays the total salary and benefits for this individual.

Note C – Prior Period Adjustment

The Foundation receives contributions for general scholarships and for other support to CSC. The Foundation has determined that a number of these contributions were improperly classified as permanently restricted and temporarily restricted net assets. Accordingly, the Foundation restated its financial statements for the year ended June 30, 2011.

The effect of which are as follows:

	Unrestricted	Temporarily Restricted	Permanently Restricted	Total Net Asset
June 30, 2011 net asseets, as previously reported	$ 21,510	$ 215,199	$ 668,726	$ 905,435
Prior period adjustement	20,129	52,463	(72,592)	-
June 30, 2011 net assets, as restated	$ 41,639	$ 267,662	$ 596,134	$ 905,435

Note D – Net Assets

During the years ended June 30, 2012, temporarily restricted net assets and net assets released from restrictions were as follows:

	Temporarily Restricted Net Assets	Released From Restriction
Scholarships to CSC students	$ 40,396	$ 17,760
Other support to CSC	188,743	185,329
	$ 229,139	$ 203,089

Note D – Net Assets - Continued

Temporarily restricted net assets are available for the support of CSC. 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.

Reconciliation of the change in permanently restricted net assets for the year ended June 30, 2012:

	Beginning Endowment Balance	Contributions and Earnings	Ending Endowment Balance
Scholarships	$ 556,643	$ 16,387	$ 573,030
Academic programs	39,491	-	39,491
	$ 596,134	$ 16,387	$ 612,521

Exhibit II

CONNORS DEVELOPMENT FOUNDATION, INC.
June 30, 2011

CONNORS DEVELOPMENT FOUNDATION, INC.

FINANCIAL STATEMENTS

AND

INDEPENDENT AUDITORS' REPORT

JUNE 30, 2011

cCCPA

Clothier & Company CPA's P.C.

P.O. Box 1495 * Muskogee, Ok 74402

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cccpa@yahoo.net

Connor's Development Foundation, Inc.
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June 30, 2011

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Clothier & Company CPA's P.C.
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P.O. Box 1495
Muskogee, Oklahoma 74402
918-687-0189 FAX 918-687-3594

INDEPENDENT AUDITORS' REPORT

We have audited the accompanying statement of financial position of Connors Development Foundation, Inc. (a non-profit organization) as of June 30, 2011, and the related statements of activities and cash flows for the year then ended. These financial statements are the responsibility of the Organization's management. Our responsibility is to express an opinion on these financial statements based on our audit.

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

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Connor's Development Foundation, Inc. as of June 30, 2011, and the changes in net assets and its cash flows for the year then ended in conformity with accounting principles generally accepted in the United States of America.

Clothier + Company CPA's

Clothier & Company CPA's, PC
September 22, 2011

CONNORS DEVELOPMENT FOUNDATION, INC.
STATEMENT OF ASSETS, LIABILITIES, AND NET ASSETS
JUNE 30, 2011

	Unrestricted Funds	Temporarily Restricted Funds	Permanently Restricted Funds	Totals
ASSETS				
Current Assets				
Cash and Cash Equivalents	$42,719	$184,825	$172,993	$400,537
Investments	0	0	482,633	482,633
Equity Securities	0	23,345	0	23,345
Total Current Assets	42,719	208,170	655,626	906,515
Total Assets	$42,719	$208,170	$655,626	$906,515
LIABILITIES AND NET ASSETS				
Current Liabilities				
Accounts Payable	$0	$0	$0	$0
Total Current Liabilities	0	0	0	0
Net Assets				
Unrestricted	42,719	0	0	42,719
Temporarily Restricted	0	208,170	0	208,170
Permanently Restricted	0	0	655,626	655,626
Total Net Assets	42,719	208,170	655,626	906,515
Total Liabilities and Net Assets	$42,719	$208,170	$655,626	$906,515

See accompanying footnotes and auditors' report.

CONNORS DEVELPMENT FOUNDATION, INC.
STATEMENTS OF ACTIVITIES
FOR THE YEAR ENDED JUNE 30, 2011

	Unrestricted Funds	Temporarily Restricted Funds	Permanently Restricted Funds	Totals
REVENUES				
Contributions	$18,299	$152,663	$47,675	$218,637
In-kind Contributions	37,870	0	0	37,870
Realized Gain (Loss) on Sales	0	0	0	0
Unrealized Gain (Loss) - Market Securities Value	0	6,261	0	6,261
Interest Income	0	19,442	0	19,442
Release of Temporaily Restricted Assets	180,181	(180,181)	0	0
Total Support and Revenues	236,350	(1,815)	47,675	282,210
EXPENSES				
Travel	8,448	0	0	8,448
Auxiliary Activities	153,498	0	0	153,498
Scholarships Awarded	18,235	0	0	18,235
	180,181	0	0	180,181
Decrease in Unrestricted Assets				
Transfer of In-kind Contributions to College	37,120	0	0	37,120
Bad Debt	416	0	0	416
General and Administrative	10,750	0	0	10,750
Total Expenses	228,467	0	0	228,467
Change in Net Assets	7,883	(1,815)	47,675	53,743
Transfers	14,129	(7,575)	(6,554)	0
Net Assets, Beginning of Year	(7,474)	334,293	525,953	852,772
Prior Period Adjustment	28,181	(116,198)	88,017	0
Net Assets, End of Year	$ 42,719	$ 208,705	$ 655,091	$ 906,515

See accompanying footnotes and auditors' report.

CONNORS DEVELPMENT FOUNDATION, INC.
STATEMENT OF CASH FLOWS
FOR THE YEAR ENDED JUNE 30, 2011

	2011
Net Cash Flows From Operating Activities:	
Contributions Received - Cash and Secuities	$256,924
Expense Paid	(228,467)
Interest and Dividends Received	19,442
Other Items Paid	0
Other Income Received	6,261
Net Cash Provided (Used) by Operating Activities	54,160
Net Cash Flows From Investing Activities:	
Transfers of Investments	165,190
Change in Value of Investments	(6,903)
Net Cash Provided (Used) by Investing Activities	158,287
Net Increase (Decrease) in Cash and Cash Equivalents	212,447
Cash and Cash Equivalents, Beginning of Year	188,090
Cash and Cash Equivalents, End of Year	$400,537
Reconciliation of Operating Income (Loss) to Net Cash Provided by Operating Activities:	
Change in Net Assets	$53,743
Adjustments to Reconcile Operating Income (Loss) to Net Cash Provided (Used) by Operating Activities	
(Increase) Decrease in Notes Receivable	417
(Increase) Decrease in Accounts Payable	0
Net Cash Provided (Used) by Operating Activities	$54,160

See accompanying footnotes and auditors' report.

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Organization and Nature of Activities

Connors Development Foundation Inc. (the "Foundation") was established for the benefit of Connors State College (the "College"). The foundation receives contributions from supporters of the College. The foundation awards scholarships to students and pays for goods and services on behalf of the College.

Basis of Accounting

The financial statements of the Foundation have been prepared on the accrual basis of accounting. Under this basis, revenues are recognized when earned rather than when received, and expenses are recognized when incurred rather than when the obligation is paid.

For restricted and permanently restricted funds, receipts are credited as revenue and support to the respective account when received by the Foundation, and expenses are charged to the respective account when an obligation has been incurred. In many cases, donor restrictions consist primarily of restrictions to a particular account within the restricted fund.

Basis of Presentation

Financial statement presentation follows the recommendations of the Financial Accounting Standards Board in its Statements of Financial Accounting Standards ("SFAS") No. 116, *Accounting for Contributions Received and Contributions Made,* and No. 117, *Financial Statements of Not-for-Profit Organizations.*

Under SFAS No. 116 and No. 117, the organization is required to report information regarding its financial position and activities according to three classes of net assets as follows:

Unrestricted Net Assets – Net assets that are not subject to donor-imposed stipulations. These funds are used to account for operating expenses of the foundation and unrestricted revenues financing those operations.

Temporarily restricted net assets – Net assets subject to donor-imposed stipulations that may or will be met, either by actions of the Organization and/or the passage of time. When a restriction expires, temporarily restricted net assets are reclassified to unrestricted net assets.

Permanently restricted net assets – Net assets subject to donor-imposed stipulations that they may be maintained permanently by the Organization. The donors of these assets permit the Organization to use all or part of the income earned on any related investments for general or specific purposes. In accordance with foundation policy, the foundation reserves the right to transfer 90% of all investment income from individual permanently restricted funds to temporarily restricted funds for scholarships. The remaining 10% of investment income are added to the individual permanently restricted account.

In-Kind Donations

Donations of in-kind goods are temporarily reported in this fund. The goods are then transferred to the College. Financial Accounting Standards Board pronouncement #116 requires that in-kind contributions should be reported as contribution revenue and measured at fair value when originally received. The organization records the receipt of these in-kind items however the items are immediately transferred to the College for which they benefit.

Fair Value Measurements

On January 1, 2008, the Foundation adopted Statement of Financial Accounting Standards No. 157, *Fair Value Measurements* ("FAS 157") with respect to financial assets and liabilities. FAS 157 defines fair value, establishes a framework for measuring fair value and expands disclosures about fair value measurements. Fair value under SFAS 157 is defined as the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. FAS 157 establishes a fair value hierarchy that prioritizes the inputs to valuation techniques used to measure fair value into three broad levels. The following is a brief description of those three levels:

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

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

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

Financial assets and liabilities carried at fair value on a recurring basis and therefore, currently subject to FAS 157 include investments and beneficial interest in assets, if any, held by others (see Note 12).

Income Tax Status

The Internal Revenue Service has determined that the Foundation qualifies as an exempt organization under Section 501(c)(3) of the Internal Revenue Code. Accordingly, no provision for income taxes is reflected in the accompanying financial statements.

NOTE 2 – CASH AND CASH EQUIVALENTS

Cash balances at year-end consist of the following:

Checking account at Armstrong Bank	$ 258,928
Money Market account at Stifel Nicolaus	141,609

These accounts are carried at cost, which approximates market value and are fully insured.

NOTE 3 – ACCOUNTS RECEIVABLE

During the fall of 1999, the Organization negotiated a note receivable from a nursing student living in Vian, Oklahoma, in the amount of $250. The terms of this note are as follows: Re-payments to occur monthly beginning January 31, 2000 at the rate of $50 per month. No interest was charged on this loan. The student had exhausted all means of student loan availability and requested the funds in order to attend classes at the Muskogee campus of the College. As of June 30, 2011, the student had made one payment on the loan.

In the spring semester, May 2006, the Connors State College Baseball Team won state Championship. To attend National playoffs, Connors Development Foundation, Inc. transferred $6,316 (six thousand three hundred sixteen dollars) from Miller's Crossing Account to the Baseball Account. This amount was to be repaid in full on or before November 2006, however, as of June 30, 2011; there was a remaining balance of $216. The monies to be repaid to Connors Development Foundation Inc. are to be paid by Connors State College.

Management has elected to write off both of these debts in the current year.

NOTE 4 – INVESTMENTS

Investments consist of seven certificates of deposit ranging in size from approximately $1,600 to $115,000. These certificates totaled $482,633 as of June 30, 2011. The investment rates vary from .70% to 1.35%. In accordance with board policy, investments exceeding FDIC insurance coverage limits at one financial institution are not required to be collateralized.

The following schedule summarizes the investment return and its classification in the statement of activities for the year ended June 30, 2011:

	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Interest and Dividends	$ 0	$ 672	$ 18,770	$ 19,442
Realized gain (loss)	0	0	0	0
Unrealized gain (loss)	0	6,261	0	6,261
Total investment return	$ 0	$ 6,933	$ 18,770	$ 25,703

NOTE 5 – EQUITY SECURITIES

Equity securities represent stocks and other forms of equity holdings that have been donated to the Foundation. At year-end they consisted of the following stocks at their market value:

OG&E: 443.9295 shares at $50.32 per share or $22,339
(BNY Mellon Shareholder Services)

OG&E: 20.00 shares at $50.32 per share or $1,006
(Stifel Nicolaus Financial Services, Inc)

NOTE 6 – RELATED PARTY TRANSACTIONS

During the year ended June 30, 2011, the Foundation awarded scholarships totaling $18,235 to students of Connors State College. In addition, the Foundation paid for goods and services on behalf of Connors State College totaling $153,498. There were no known related party transactions.

NOTE 7 – IN-KIND CONTRIBUTIONS

The organization records in-kind or non-cash contribution in its financial records, however, all tangible assets are transferred to Connors College prior to the end of each fiscal year. During the current fiscal year, the organization received the following contributions and recorded them prior to transfer to the College at the indicated values:

Miscellaneous items $37,120

There were no in-kind or non-cash items owned by the Foundation at year-end June 30, 2011.

NOTE 8 – USE OF ESTIMATES

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

NOTE 9 – TEMPORARILY RESTRICTED NET ASSETS

Temporarily restricted net assets are available for the following purposes:

	2011
Temporarily Restricted Net Assets:	
The portion of perpetual endowment funds subject to time restrictions under SPMIFA:	
Without purpose restrictions	$ 0
With purpose restrictions:	
Awards and scholarships	0
Faculty, staff, and student development support	0
Total endowment funds classified as temporarily restricted net assets	0
Contributions received with donor restricted purpose:	
Awards and scholarships	14,023
Faculty, staff, and student development support	194,147
Total contribution held for donor restricted purpose	208,170
Total Temporarily Restricted Net Assets	$ 208,170

NOTE 10 – PERMANENTLY RESTRICTED NET ASSETS

Net assets were permanently restricted for the following purposes at June 30, 2011:

		2011
Permanently Restricted Net Assets:		
The portion of perpetual endowment funds that is required to be retained permanently		
Either by explicit donor stipulation or by SPMIFA:		
Awards and scholarships	$	655,626
Faculty, staff, and student development support		0
Total endowment funds classified as permanently restricted net assets	$	655,626

NOTE 11 – ENDOWMENT DISCLOSURES

The Connors Development Foundation's endowment consists of 30 individual donor-restricted funds which are managed and controlled by the Connors Development Foundation and were established for scholarships, programs, or capital projects. As required by generally accepted accounting principles ("GAAP"), net assets associated with endowment funds are classified and reported based on the existence or absence of donor-imposed restrictions. All of the endowment funds held by the Connors Development Foundation are managed and controlled by the Organization in accordance with the following policies:

Interpretation of Relevant Law

The Board of Trustees of the Connors Development Foundation, Inc. has interpreted the State Prudent Management of Institutional Funds Act ("SPMIFA") as requiring the preservation of the fair value of the original gift as of the gift date of the donor-restricted endowment funds absent explicit donor stipulations to the contrary. As a result of this interpretation, the Connors Development Foundation, Inc. classifies as permanently restricted net assets:

a. The original value of gifts donated to the permanent endowment,
b. The original value of subsequent gifts to the permanent endowment, and
c. Accumulations to the permanent endowment made in accordance with the direction of the applicable donor gift instrument at the time the accumulation is added to the fund.

In accordance with SPMIFA, the Connors Development Foundation, Inc. considers the following factors in making a determination to appropriate or accumulate donor-restricted endowment funds:

1. The duration and preservation of the fund
2. The purposes of the organization and the donor-restricted endowment fund
3. General economic conditions
4. The possible effect of inflation and deflation
5. The expected total return from income and the appreciation of investments
6. Other resources of the organization
7. The investment policies of the organization

Endowment net assets composition by type of fund as of June 30, 2011:

	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Donor-restricted endowment funds	$ 0	$ 0	$ 655,626	$ 655,626
Board-designated endowment funds	0	0	0	0
Total Funds Invested	$ 0	$ 0	$ 655,626	$ 655,626

Change in endowment net assets for the year ended June 30, 2011:

	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Endowment net assets,				
Beginning of year	$ 0	$ 0	$ 613,970	$ 613,970
Investment return:				
Investment income	0	0	18,770	18,770
Investment fees	0	0	0	0
Net realized and unrealized loss on investments	0	0	0	0
Total Investment Return	0	0	18,770	18,770
Contributions	0	0	47,675	47,675
Appropriation of endowment assets For expenditures	0	0	(18,235)	(18,235)
Transfer to remove board-designated endowment funds	0	0	(6,554)	(6,554)
Endowment Net Assets, end of year	$ 0	$ 0	$ 655,626	$ 655,626

From time to time, the fair value of assets associated with individual donor-restricted endowment funds may fall below the level that the donor or SPMIFA requires the Connors Development Foundation, Inc. to retain as a fund of perpetual duration. In accordance with GAAP, deficiencies of this nature that are reported in unrestricted net assets were $0 at June 30, 2011.

Risk Objectives and Risk Parameters

A true endowment scholarship (one for which the fund principal remains inviolate and only interest income is extended) may be named as a memorial for perpetuity if the principal of such fund is equal to or exceeds $1,500. A restricted fund (one for which principal and interest may be expended) may be named if the fund balance exceeds $100. In establishing a named scholarship, the Development Foundation will complete a scholarship agreement form with copies to the donor, Foundation Office, Scholarship Office, and the Office of College Relations. This form will state:

1. The scholarship's legal name,
2. Type of fund,

3. Scholarship account number,
4. Date established,
5. Biographical data or purpose of establishment,
6. Official contract person data,
7. Award criteria, and
8. Amount of fund at the time established.

Investment Policy:

1. All investment should protect and/or preserve the Foundation's assets while maintaining a satisfactory return. In some cases, the Foundation may choose not to maximize its return for the benefit of good community relation when such action would result in additional funds in the form of contributions.
2. Except in unusual circumstances, a minimum of $10,000 in unrestricted funds must be available before the foundation makes futures investments.
3. As additional funds become available, they should immediately be reinvested in a manner, which would maximize their returns as reflected in Item 1.
4. The Board reserves the right to obtain assistance from investment counsel or management, as circumstances warrant to be determined by the Board from time to time.

NOTE 12 – FAIR VALUE MEASUREMENTS

The Foundation has no liabilities measured at fair value on a recurring basis. Assets measured at fair value on a recurring basis are classified within the fair value hierarchy as follows:

	As of June 30, 2011			
	Level 1	Level 2	Level 3	Total
Assets				
Investments	$ 482,633	$ 0	$ 0	$ 482,633
Equity Securities	23,345	0	0	23,345
Total Assets Accounted for at Fair Value	$ 505,978	$ 0	$ 0	$ 505,978

Following is a description of methodologies used for instruments measured at fair value on a recurring basis:

Investments: When quoted prices are available in an active market, securities are classified within Level 1 of the hierarchy. Investments classified as Level 1 include cash and cash equivalents, common and preferred stocks, and mutual funds. Other investments, such as government agency, corporate bonds, and municipal securities are classified within Level 2 of the hierarchy and are independently valued by nationally recognized, third-party pricing services, and provided by the investment manager to the Organization. Certificate of deposit values are based on yield curves, interest rates, and other relevant factors. If there is no market for a similar asset, the Foundation classifies such investments as Level 3.

NOTE 13 – PRIOR PERIOD ADJUSTMENT

The auditor for the year ending June 30, 2010 moved some of the permanently restricted funds into temporarily restricted funds. According to the endowment contracts, they should be permanently restricted funds. A prior period adjustment has been made and is reflected in the Statement of Activities on page 3 correcting the unrestricted, temporarily restricted and permanently restricted net assets.

There was $116,198 in temporarily restricted funds that should not have been. Of these funds, $28,181 should have been in unrestricted funds and $88,017 in permanently restricted funds. The following are the permanently restricted funds:

General Scholarship	$ (8,394.65)
Phillip Vann Scholarship	10,838.30
M Lowder Memorial	128.15
Bushnell Science Scholarship	378.27
Sharpe Business Scholarship	301.07
Trinity Masonic Scholarship	350.82
Fenton Scholarship	92.17
BO & GA Baker Jan Entry Nursing Scholarship	29,336.15
Alumni and Friends Scholarship	35,986.41
CSC/Lloyd Patterson Scholarship	6,153.71
Soroptimist Scholarship	(766.77)
David Thompson Scholarship	552.50
Bernice Jiles Scholarship	117.75
Young Family Scholarship	8,624.67
DOC Scholarship	577.82
Joe Burnett Memorial Scholarship	3,741.05
Total Permanently Restricted Transferred	$ 88,017.45

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, as of June 30, 2012, and for the year then ended, and have issued our report thereon dated November 19, 2012. Our report includes a reference to other auditors. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits in *Government Auditing Standards*, issued by the Comptroller General of the United States of America. Other auditors audited the financial statements of Connors Development Foundation, Inc. (the "Foundation"), the College's separately presented component unit, as described in our report on the College's financial statements. The financial statements of the Foundation were not audited in accordance with *Government Auditing Standards*.

Internal Control Over Financial Reporting

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

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

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

Compliance and Other Matters

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

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

Cole & Reed P.C.

Oklahoma City, Oklahoma
November 19, 2012

Independent Auditors' Report on Compliance
With Requirements That Could Have a Direct and Material Effect on
Each Major Program and on Internal Control Over Compliance in Accordance
With OMB Circular A-133 and on the Schedule of Expenditures of Federal Awards

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

Compliance

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

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

In our opinion, the College complied, in all material respects, with the compliance requirements referred to above that could have a direct and material effect on its major federal programs for the year ended June 30, 2012. However, the results of our auditing procedures disclosed an instance of noncompliance with those compliance requirements, which is required to be reported in accordance with OMB Circular A-133 and which is described in the accompanying schedule of findings and questioned costs as Finding 2012-01.

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Internal Control Over Compliance

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

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 that might be deficiencies, significant deficiencies, or material weaknesses. However, as discussed below, we identified a deficiency in internal control over compliance that we consider to be a significant deficiency.

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

A *significant deficiency in internal control over compliance* is a deficiency, or a combination of deficiencies, in internal control over compliance with a type of compliance requirement of a federal program that is less severe than a material weakness in internal control over compliance, yet important enough to merit attention by those charged with governance. We consider the deficiency in internal control over compliance described in the accompanying schedule of findings and questioned costs as Finding 2012-01 to be a significant deficiency.

The College's response to the finding identified in our audit is described in the accompanying schedule of findings and questioned costs. We did not audit the College's response and, accordingly, we express no opinion on it.

Schedule of Expenditures of Federal Awards

We have audited the basic financial statements of the College as of and for the year ended June 30, 2012, and have issued our report thereon dated November 19, 2012. Our audit was performed for the purpose of forming an opinion on the basic financial statements taken as a whole. The accompanying schedule of expenditures of federal awards is presented for purposes of additional analysis, as required by the U.S. Office of Management and Budget Circular A-133, *Audits of States, Local Government, and Non-Profit Organizations,* and is not a required part of the basic financial statements.

Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the financial statements. The information has been subjected to the auditing procedures applied in the audit of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements or to the financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the information is fairly stated in all material respects in relation to the basic financial statements as a whole.

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

Cole & Reed P.C.

Oklahoma City, Oklahoma
November 19, 2012

SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS

CONNORS STATE COLLEGE

June 30, 2012

	CFDA Number	Amount Expended
U.S. Department of Education		
Student Financial Aid Cluster:		
Federal Pell Grant Program	84.063	$ 6,266,943
Federal Supplemental Education:		
Opportunity Grants	84.007	140,221
Federal Work Study Program	84.033	105,401
Federal Direct Student Loan	84.268	5,297,896
Academic competitiveness Grant	84.375	188
Total Student Financial Aid Cluster		11,810,649
Other Programs:		
TRIO Upward Bound	84.047	292,499
TRIO Veterans Upward Bound	84.047	278,538
TRIO Student Support Services	84.042	257,245
Total TRIO Cluster		828,282
Passed through from Oklahoma State Regents for Higher Education:		
Gaining Early Awareness and Readiness for Undergraduate Programs	84.334	39,359
Pass through from Department of Labor:		
Workforce Investment Act - Administration	17.260	170,739
Passed through from Oklahoma Department of Vocational and Technical Education:		
Carl D. Perkins Grant	84.048	168,899
TOTAL EXPENDITURES OF FEDERAL AWARDS		$ 13,017,928

See notes to schedule of expenditures of federal awards.

NOTES TO SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS

CONNORS STATE COLLEGE

June 30, 2012

NOTE A--BASIS OF PRESENTATION

The schedule of expenditures of federal awards 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, 2012, the College did not provide any federal awards to subrecipients.

SCHEDULE OF FINDINGS AND QUESTIONED COSTS

CONNORS STATE COLLEGE

Year Ended June 30, 2012

Section I--Summary of Auditors' Results

Financial statements

Type of auditors' report issued: *Unqualified*

Internal control over financial reporting:

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

Noncompliance material to financial statements noted? _____ yes __X__ no

Federal Awards

Internal control over major programs:

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

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

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

Identification of major programs:

Program	CFDA Number
Student Financial Aid Cluster	*

* See 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? __X__ yes _____ no

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

None to report for the June 30, 2012 period.

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

See Finding 2012-01.

FINDING 2012-01

Deficiency:
The College did not disclose in its Schedule of Expenditures of Federal Awards ('SEFA") federal funds expended under the Gear-Up Program CFDA #84.334 or Plus Student Loans CFDA #84.268.

Requirement:
OMB Circular A-133 section .310(b)(5) requires the auditee to prepare a SEFA that provides the total federal awards expended for each individual federal program and the CFDA number or other identifying number when the CFDA information is not available.

Effect of the Condition:
Total expenditures of federal awards as reported on the SEFA were understated by approximately $83,000. Although this amount is not in and of itself significant, by not properly identifying all federal awards on the SEFA a significant federal program could potentially go unaudited. As a result the auditee is not fulfilling its responsibility to ensure that the required audits are being properly performed in accordance with OMB Circular A-133 section .300(e).

Cause of the Condition:
Lack of internal control and review over preparation of the SEFA.

Recommendation:
We recommend that management of the College perform a detail review of the Statement of Revenues, Expenses, and Changes in Net Assets ("SRECNA") to ensure that all amounts expended in relation to federal awards are identified and properly reported on the SEFA. In addition, when grants and contracts are received management should make appropriate inquiries of the grantor to determine if the amounts are to be reported in accordance with OMB Circular A-133.

Views of a Responsible Official:
Management will develop procedures to perform periodic reviews of amounts expended in relation to federal awards to ensure yearend preparation of the SEFA is accurate. Management will also adopt procedures to verify that federal grants awarded to the College are identified and reported in accordance with OMB Circular A-133.

SUMMARY SCHEDULE OF PRIOR AUDIT FINDINGS

CONNORS STATE COLLEGE

Year Ended June 30, 2012

FINDING 2011-01: This finding was fully corrected in the current year.