Murray State College

Financial Statements
with Independent Auditors' Reports

June 30, 2011

Murray State College
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June 30, 2011

HINKLE & COMPANY
PC
Strategic
Business Advisors

Independent Auditors' Report on Financial Statements and Supplementary Information

Board of Regents
Murray State College
Tishomingo, Oklahoma

We have audited the accompanying basic financial statements of Murray State College (the College) and its discretely presented component unit, collectively a component unit of the state of Oklahoma, as of and for the year ended June 30, 2011, as listed in the table of contents. These financial statements are the responsibility of the College's management. Our responsibility is to express opinions on these financial statements based on our audit. Murray State College Foundation, Inc. (the Foundation), a not-for-profit Oklahoma corporation organized to support the College, is a component unit of the College as defined by GASB Statement No. 39, *Determining Whether Certain Organizations are Component Units*. The financial statements referred to above do not include the financial statements of the Foundation. Rather, a complete set of financial statements of the Foundation are presented separately. We did not audit the separately presented financial statements of the Foundation. Those statements were audited by other auditors whose report has been included in that separate set of financial statements.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. 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 respective financial position of the College and of its discretely presented component unit as of June 30, 2011, and the respective changes in financial position and cash flows thereof for the year then ended in conformity with accounting principles generally accepted in the United States of America.

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In accordance with *Government Auditing Standards*, we have also issued our report dated December 16, 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.

The accompanying management's discussion and analysis as listed in the table of contents is not a required part of the basic financial statements but is supplementary information required by the Governmental Accounting Standards Board. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the College's basic financial statements. The accompanying supplementary information, including the schedule of expenditures of federal awards required by U.S. Office of Management and Budget Circular A-133, *Audit of States, Local Governments and Non-Profit Organizations*, as listed in the table of contents, is presented for purposes of additional analysis and is not a required part of the College's basic financial statements. Such information has been subjected to the auditing procedures applied in the audits of the College's basic financial statements and, in our opinion, is fairly stated, in all material respects, in relation to the College's basic financial statements taken as a whole.

Hinkle & Company, PC

Tulsa, Oklahoma
December 16, 2011

Management's Discussion and Analysis
Murray State College
For Year Ended June 30, 2011

OVERVIEW

The discussion and analysis of Murray State College's financial statements provides an overview of the financial activities for the year ended June 30, 2011. Since the management's discussion and analysis is designed to focus on current activities, resulting change and current known fact, it should be read in conjunction with the transmittal letters, the basic financial statements and the notes to the financial statements from the annual independent auditor's report. FY2010 financial data is provided in some cases along with FY2011 for comparison purposes.

As a whole, the financial position for Murray State College has remained stable for fiscal year ended June 2011 due to the continuation of aggressive cost control measures, conservative spending, increased tuition rates and increased student enrollment.

USING THIS REPORT

In June 1999, the Government Accounting Standards Board (GASB) released statement No. 34 "Basic Financial Statements and Management's Discussion and Analysis for State and Local Governments". Changes in statement No. 34 require a comprehensive one-line look at the entity as a whole and capitalization of assets and depreciation. In November 1999, GASB issued statement No. 35 "Basic Financial Statements and Management's Discussion and Analysis for Public Colleges and Universities" which applies these standards to public colleges and universities. The State of Oklahoma and its agencies adopted these standards early in preparation for the actual required date of fiscal year ending 2003. The GASB standards require several changes to the basic financial statements as well as the requirement for the recording of depreciation expense for fixed assets.

Report statements include all assets and liabilities using the accrual basis of accounting, which is consistent with the accounting used by private sector institutions. All of the current year's revenues and expenses are recognized when earned or incurred, regardless of when cash is received or paid.

FINANCIAL HIGHLIGHTS

The report that follows consists mainly of three basic financial statements:

1. **Statement of Net Assets**
2. **Statement of Revenues, Expenses, and Changes in Net Assets**
3. **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 will reflect whether the institution is better off or worse off as a result of the year's activities. When revenues and other support exceed expenses, the result is an increase in net assets. When the reverse occurs, the result is a decrease in net assets. The relationship between revenues and expenses reflect the College's operating results. These two statements report the College's net assets and changes in them.

Current assets represent resources that are available to meet current operational needs. Non-current assets represent resources that are not available to meet current obligations. Cash and investments designated for construction or other capital projects are included in this category. The major component of this category is the College's investment in property, buildings and equipment. The financial statements contain a summary of capital asset activity.

Liabilities are also separated into current and non-current classifications. Current liabilities are those obligations that are due within the current year and will be paid from current resources. Non-current liabilities are primarily made up of long-term debt. The financial statements provide detail related to Long-term liabilities.

Net Assets – the difference between assets and liabilities – reflect one way to measure the institution's financial health, or financial position. Over time, increases or decreases in the net assets are one indicator of whether financial health is improving or deteriorating. Other non-financial factors including freshman class size, student retention, programmatic offerings, etc. must be considered as well to assess the **overall** health of the institution.

The Statement of Cash Flows is another way to assess the financial health of an institution. The primary purpose of the statement is to provide relevant information about the cash receipts and cash payments of an entity during a period. The Statement of Cash Flows also helps users assess an entity's ability to generate future net cash flow, its ability to meet obligations as they come due and its need for external financing.

Statement of Net Assets

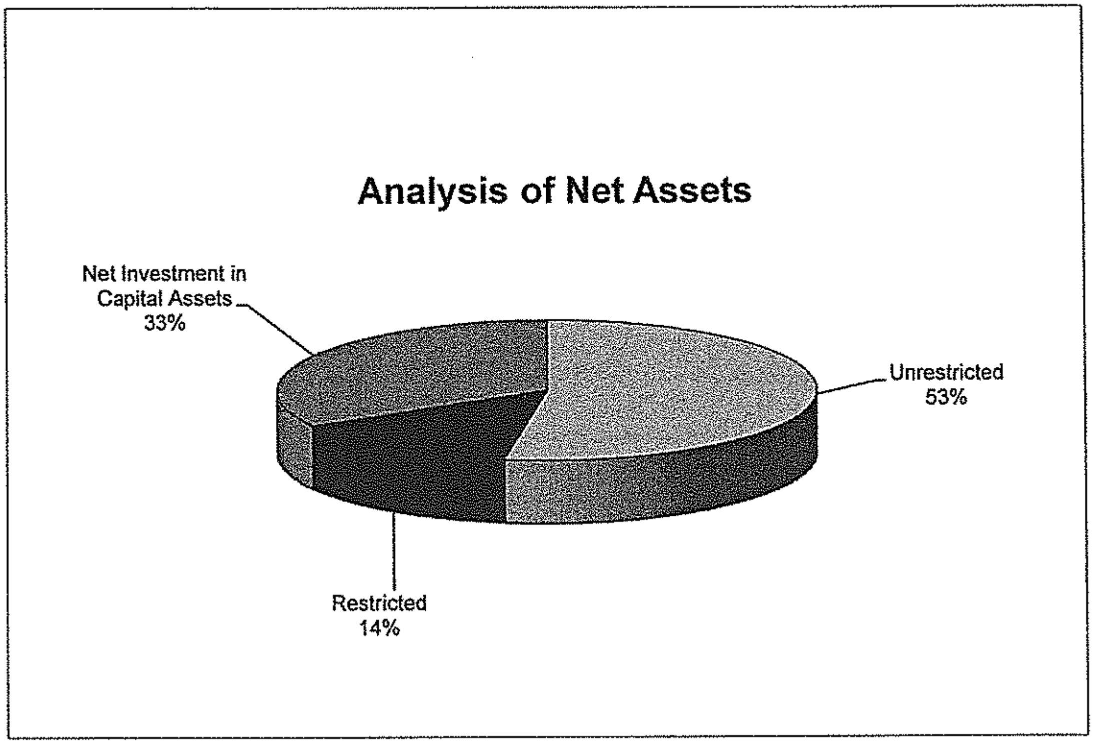
Schedule A is prepared from the College's Statement of Net Assets and summarizes the assets, liabilities and net assets as of June 30. Comparative data for preceding years is provided.

Schedule A
Condensed Statement of Net Assets
As of June 30, 2011 and 2011

		2011	2010
Current Assets		22,748,566	18,308,981
Non Current Assets			
	Capital Assets, Net of Depreciation	13,231,346	13,299,459
	Other	749,496	133,816
Total Assets		36,729,408	31,742,256
Current Liabilities		1,250,780	7,787,862
Noncurrent Liabilities			
	Compensated Absences	23,523	23,522
	Lease Payable	9,148,569	5,909,493
Total Liabilities		10,422,872	13,720,877
Net Assets			
	Invested in Capital Assets, net of related debt	8,777,329	10,152,538
	Restricted	3,700,392	2,223,806
	Unrestricted	13,828,815	5,645,035
Total Net Assets		26,306,536	18,021,379
Total Liabilities and Net Assets		36,729,408	31,742,256

Current assets increased by 21% in FY11 due to an increase in cash and cash equivalents. Other non-current assets increased by 460% in FY11 over FY10 primarily as a result of deferred refinancing charges associated with the College's participation in the Oklahoma Capital Improvement Authority capital lease program. Current Liabilities decreased significantly by 84% as a result of reclassification of prior year accounts payable. Lease payable increased by 55% due to the issuance of new ODFA debt. Net assets invested in capital assets, net of related debt decreased by 14% due to the issuance of the new ODFA debt as well.

The following graph indicates that the bulk of the College's net assets are unrestricted.



Statement of Revenues, Expenses and Changes in Net Assets

The Statement of Revenues, Expenses and Changes in Net Assets present the College's results of operation for the year and the effect on net assets. Operating revenues and expenses are generated from exchange transactions that arise in the course of normal activity for the organization. Tuition and fees, sales of services and merchandise, and similar transactions are considered operating revenues and all of the expenses required to provide these services are considered operating expenses. Nonoperating revenue and expenses are characterized as non-exchange and include such items as gifts and contributions, investment income or expense, Federal Pell grants, and most significantly, state appropriations.

Schedule B is prepared from the College's Statement of Revenues, Expenses and Changes in Net Assets.

Schedule B
Condensed Statement of Revenues, Expenses and Changes in Net Assets
As of June 30, 2011 and 2010

Operating Revenue		**2011**	**2010**
	Tuition and Fees	3,405,897	4,165,436
	Sales, service, and other revenue	1,582,910	3,088,753
	Operating gifts, grants and contract	3,829,498	5,068,368
Total		8,818,305	12,322,557
Less Operating Expense		(17,761,652)	(23,963,672)
Net Operating Loss		(8,943,347)	(11,641,115)
Non Operating Revenue & Expense			
	Governmental appropriations	6,805,905	7,302,881
	On-behalf payment for OCIA Bond	845,283	670,719
	On-behalf payment for OTRS	389,000	338,214
	Interest Income	151,096	99,928
	Interest Expense	(563,537)	(317,645)
	Non Operating Grants	9,600,757	4,090,328
Total		17,228,504	12,184,425
Change in Net Assets		8,285,157	543,310
Net Assets, Beginning of Year		18,021,379	17,478,069
Net Assets, End of Year		26,306,536	18,021,379

Operating gifts, grants, and contracts decreased by 24% due to a reclassification between operating and non-operating revenues in FY11. Interest expense increased 77% due primarily to the amortization of the OCIA deferred refinancing costs in the current year. Non-operating grants increased by 135% in FY11 due to a reclassification between operating and non-operating revenues in FY11. Net assets increased significantly in the current year due to a reclassification of an inter-agency payable from prior year.

Schedule C is prepared from the College's Statement of Revenues, Expenses and Changes in Net Assets.

Schedule C
Operating Expenses Detail
As of June 30, 2011 and 2010

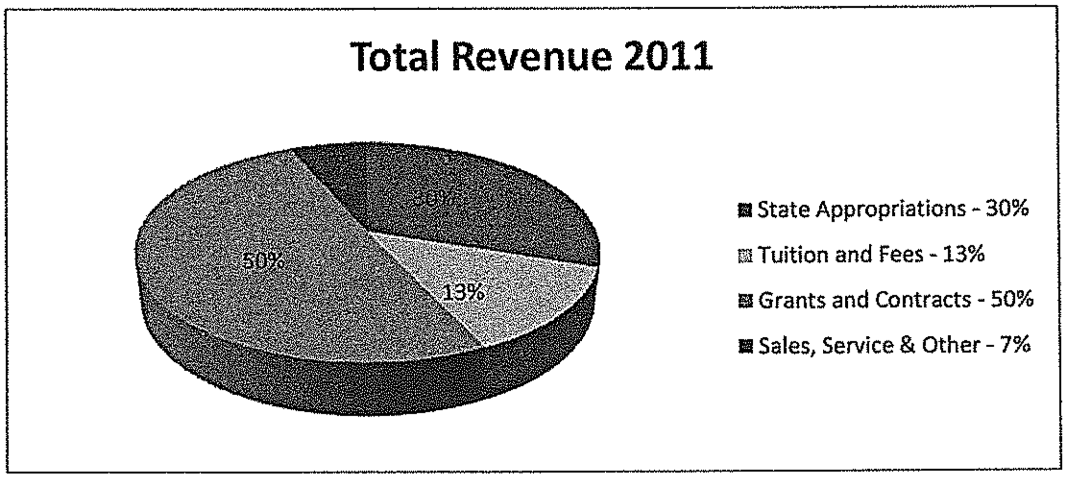
Operating Expense		2011	2010
	Salaries	7,043,635	6,872,941
	Fringe Benefits	2,235,105	2,203,267
	Professional Services	262,367	221,893
	Contractual Services	1,084,660	899,212
	Supplies & Materials	2,051,303	2,994,746
	Travel	174,928	160,223
	Miscellaneous	2,579,934	1,695,035
	Communication	81,451	83,357
	Scholarships & Student Aid	1,230,915	7,553,191
	Utilities	422,923	438,269
	Depreciation	594,431	841,538
Total		17,761,652	23,963,672

Miscellaneous expenses increased by 52% due primarily to the reclassification interest that had been capitalized in prior years. Scholarships and student aid decreased by 84% during the fiscal year due primarily to a reclassification of prior year accounts payable.

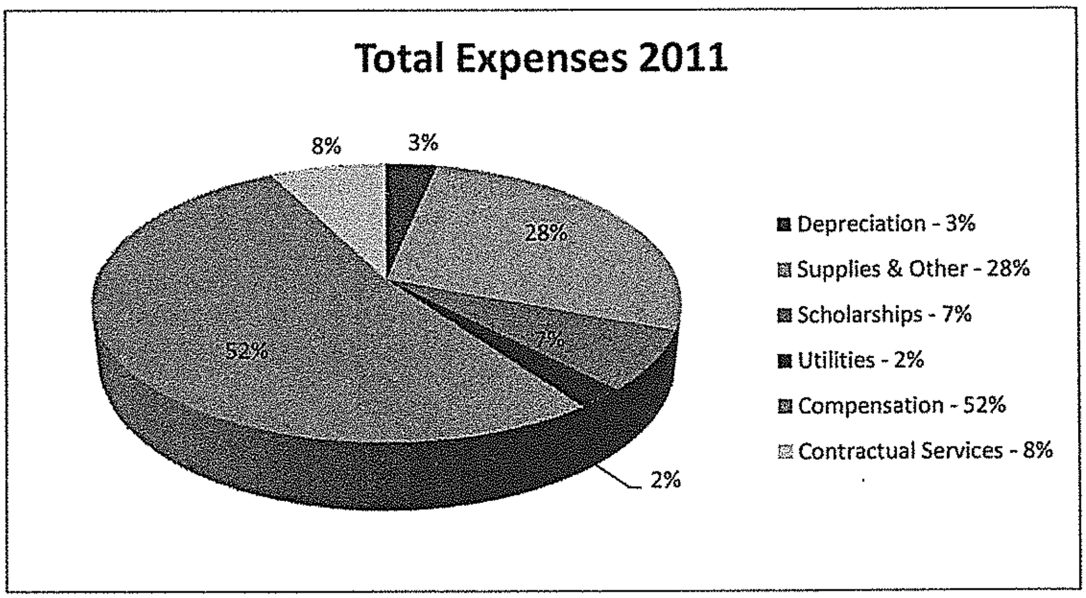
Revenues and Expenses

Revenues and Expenses impact total Net Assets. Operating revenue which includes Tuition/Fees, Auxiliary operations, Gifts/Grants/Other Contracts plus non-operating revenue which includes state appropriations, on-behalf payments and interest less expenses will result in a change to total net assets. As a result of continued aggressive cost control measures, conservative spending, increased tuition rates and increased enrollment, Net Assets at the end of the year reflect a 3% increase over the previous year.

The following graph represents sources and percentages of revenue during the year.



The following graph represents sources and percentages of expenses during the year.



Statement of Cash Flows

The primary purpose of the Statement of Cash Flows is to provide information about the cash receipts and distributions of an entity during a period. This statement also aids in the assessment of an entity's ability to generate future net cash flows, ability to meet obligations as they come due, and needs for external financing.

Schedule D is a summary of the cash flows for the year compared to the previous year and is prepared from the Statement of Cash Flows.

Schedule D
Statement of Cash Flows
As of June 30, 2011 and 2010

		2011	2010
Cash provided (used) by			
	Operating Activities	(7,685,549)	(7,235,752)
	Non Capital Financing Activities	15,873,174	7,302,881
	Capital and Related Financing	(596,252)	(583,701)
	Investing Activities	116,388	-
Net Increase (Decrease) in Cash		7,707,761	(516,572)
Cash, Beginning of Year		6,882,780	7,399,352
Cash, End of Year		14,590,541	6,882,780

Capital Assets

At year-end, the College had over $13 million invested in capital assets, net of accumulated depreciation of more than $12 million. Details of balances of capital assets are shown below in Schedule D.

Schedule E
Capital Assets, Net
As of June 30, 2011 and 2010

		2011	2010
Capital Assets			
	Land and Improvements	23,038	8,038
	Building	15,304,795	15,261,439
	Equipment	6,686,667	6,149,115
	Library Materials	363,125	360,014
	Livestock	155,520	170,150
	Infrastructure	1,264,050	1,233,408
	Construction In Progress	1,344,611	1,433,322
Total		25,141,806	24,615,486
Less Accumulated Depreciation		(11,910,460)	(11,316,029)
Net Capital Assets		13,231,346	13,299,457

COMPONENT UNIT

The Murray State College Foundation is a nonprofit organization incorporated in the State of Oklahoma in 1979 to promote the education, scientific and benevolent purposes of Murray State College. It is considered a component unit of Murray State College and the financials are presented discreetly in the audit of the college. The Murray State College Foundation Student Housing LLC is a nonprofit limited liability organization organized in 2003. The sole member of the LLC is the Murray State College Foundation. The LLC was formed for the purpose of constructing student housing on property owned by Murray State College. The LLC financials are also presently discreetly as a component unit in the audit of the college.

ECONOMIC OUTLOOK

Even though the current financial position of Murray State College is positive, the economic position of all state agencies is closely tied to that of the State of Oklahoma. State appropriated funds make up a large portion of the Murray State College operating budget. Appropriation cuts in FY2003 totaled almost 10%; FY2004 cuts totaled 3%; FY2005 budget included the first increase in several years and allowed us to make some much overdue salary adjustments as well as fill a few critical positions that had been frozen for a period of time. The FY 2006 appropriation included an increase of 8% including a base increase of over $300,000 as a result of being in the lower percentile of budget needs funded. FY 2007 budget appropriations provided funding necessary to cover anticipated mandatory cost increases. FY 2008 and FY 2009 funding increased only slightly with differences in revenue and expense offset by increases in tuition and fees. Mid-year reductions were made to state appropriations with the expectation funds would be replaced in the next fiscal year.

FY 2010 funding decreased statewide by approximately 6% and was offset by allocation of federal stimulus funds. Stimulus funds allocated for FY 2010 totaled $462,132. No tuition and fee increases were implemented for FY 2010 as a compromise between the legislative and state regents staff to hold budget reductions to a minimum so that tuition would not have to be increased for the year. As a result of this decision and appropriation of stimulus funds, Murray State received a net increase of 4.47% for operational expenses.

FY 2011 funding was reduced 2% which was less than other state agencies budgets were cut. Projections for FY 2012 and 2013 are more optimistic as the State's economy has seen a slight improvement. It is anticipated that no stimulus funds will be available for FY 2012 and beyond. Recovery will continue to be slow and extended over a period of several years. Mandatory costs including utility costs and insurance for property, tort and medical are escalating dramatically and will continue to have a big impact on current budgets and in the years to come.

ECONOMIC OUTLOOK, cont.

The current budgetary climate is challenging and the College is relying on the experience of our management team and our team approach to problem solving to meet these challenges. We believe that many of the actions that have been taken in the recent past and those planned for the future will help us weather the current crisis and result in a stronger more efficient and effective organization. We realize that serving our students and maintaining quality academic programs is dependent on receiving an adequate level of state and federal appropriations in the future and we plan to work diligently toward that objective.

Murray State College
Statements of Net Assets
June 30, 2011

	2011
Assets	
Current Assets	
Cash and cash equivalents	$ 13,919,302
Accounts receivable, net of allowance for doubtful accounts	495,320
Federal and state grants receivable	2,976,461
Other asset	1,022,530
Receivable from OCIA	1,367,009
Receivable from ODFA	2,487,597
Inventories	480,347
Total Current Assets	22,748,566
Noncurrent Assets	
Restricted cash and cash equivalents	671,239
Restricted investments	25,142
Bond issuance costs	53,115
Capital assets, net of accumulated depreciation	13,231,346
Total Noncurrent Assets	13,980,842
Total Assets	36,729,408
Liabilities	
Current Liabilities	
Accounts payable and accrued liabilities	793,015
Accrued compensated absences	181,327
Deferred revenue	96,773
Room deposits payable	54,488
Current portion of long-term debt	125,177
Total Current Liabilities	1,250,780
Noncurrent Liabilities, net of current portion	
Accrued compensated absences	23,523
Long-term debt	9,148,569
Total Noncurrent Liabilities	9,172,092
Total Liabilities	10,422,872
Net Assets	
Invested in capital assets, net of related debt	8,777,329
Restricted expendable for	
Scholarships	3,029,152
Capital projects	671,240
Unrestricted	13,828,815
Total Net Assets	$ 26,306,536

Murray State College
Statements of Revenues, Expenses, and Changes in Net Assets
June 30, 2011

	2011
Operating Revenues	
Tuition and fees, net	$ 3,405,897
Federal grants and contracts	3,135,828
State and private grants and contracts	673,400
Sales and services of auxiliary enterprise, net	968,914
Other operating revenues	613,996
Total Operating Revenues	8,798,035
Operating Expenses	
Compensation and benefits	9,278,740
Contractual services	1,347,027
Supplies and materials	2,051,303
Scholarships and fellowships	1,230,915
Communications	81,451
Depreciation	594,431
Utilities	422,923
Travel	174,928
Other	2,579,934
Total Operating Expenses	17,761,652
Operating Loss	(8,963,617)
Non-operating Revenues (Expenses)	
State appropriations	5,870,728
State appropriations – ARRA Funds	401,689
Federal grants	2,923,509
State grants	1,104,557
OTRS on-behalf contributions	389,000
Investment income	151,096
Interest on capital asset-related debt	(563,537)
Net Non-operating Revenues	10,277,042
Income Before Other Revenues, Expenses, Gains, Losses and Transfers	1,313,425
State appropriations restricted for capital purposes	533,488
OCIA on-behalf state appropriations	845,283
Net Increase in Net Assets	2,692,196
Net Assets, Beginning of Year, as originally restated	18,021,379
Restatement	5,592,961
Net Assets, Beginning of Year	23,614,340
Net Assets, at End of Year	$ 26,306,536

Murray State College
Statements of Cash Flows
Year Ended June 30, 2011

	2011
Cash Flows from Operating Activities	
Tuition and fees	$ 5,583,584
Grants and contracts	6,658,584
Auxiliary enterprises sales and services	1,299,423
Payments to suppliers	(12,805,764)
Payments to employees	(8,892,482)
Other operating receipts	471,106
Net Cash Used in Operating Activities	(7,685,549)
Cash Flows from Non-capital Financing Activities	
State appropriations	6,272,417
Non-operating grants	9,600,757
Net Cash Provided by Noncapital Financing Activities	15,873,174
Cash Flows from Capital and Related Financing Activities	
Cash paid for capital assets	(2,011,755)
Receipts from OCIA & ODFA for capital purchases	1,137,688
Principal paid on capital leases and bonds	(183,167)
Interest paid on capital leases and bonds	(72,506)
Capital appropriations - state	533,488
Net Cash used in capital and related financing activities	(596,252)
Cash Flows from Investing Activities	
Interest received on investments	116,388
Net Cash Provided by Investing Activities	116,388
Net Increase in Cash and Cash Equivalents	7,707,761
Cash and Cash Equivalents, Beginning of Year	6,882,780
Cash and Cash Equivalents, End of Year	$14,590,541

Murray State College
Statements of Cash Flows
Year Ended June 30, 2011

(Continued)

	2011
Reconciliation of Operating Loss to Net Cash Used in Operating Activities	
Operating loss	$ (8,963,617)
Adjustments to reconcile operating loss to net cash used in operating activities	
Depreciation expense	594,431
Net loss on disposal of fixed assets	52,115
Net loss on expense of non-CIP	1,433,322
State of Oklahoma on-behalf contributions to teachers' retirement system	389,000
Changes in net assets and liabilities	
Student accounts receivables	2,411,423
Other receivables	2,708,594
Other assets	(2,128)
Inventories	(83,260)
Accounts payable and other accrued liabilities	(6,198,220)
Deferred revenue	96,773
Room deposits payable	(99,869)
Compensated absences	(24,113)
Net Cash Used in Operating Activities	$ (7,685,549)
Noncash Investing, Noncapital Financing and Capital and Related Financing Activities	—
Principal and interest on capital debt paid by state agency on behalf of the College	$ 845,283
Reconciliation of Cash and Cash Equivalents to the Statement of Net Assets	
Current Assets	
Cash and cash equivalents	13,919,302
Restricted cash and cash equivalents	—
Noncurrent assets	
Restricted cash and cash equivalents	$ 671,239
	$ 14,590,541

Note 1: Summary of Significant Accounting Policies

Nature of Operations
Murray State College (the "College") is a two-year, state supported college operating under the jurisdiction of the Board of Regents of Murray State College (the Board of Regents) and the Oklahoma State Regents for Higher Education. The College is a component unit of the State of Oklahoma and is included in the general-purpose financial statements of the State of Oklahoma. The College has two campuses located in Tishomingo and in Ardmore at the Ardmore Higher Education Center.

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

The Murray State College Foundation, Inc. (the "Foundation") and Murray State College Foundation Student Housing, LLC (the "LLC") are reported as legally separate, tax-exempt component units of the College. The Foundation is organized for the purpose of receiving and administering gifts intended for the College. Although the College does not control the timing or amount of receipts from the Foundation, the majority of resources, or income thereon, which the Foundation holds and invests, is restricted to the activities of the College by the donors. Because these restricted resources held by the Foundation can only be used by, or for the benefit of, the College, the Foundation is considered a component unit of the College and is discretely presented in the College's financial statements. The LLC is organized for the purpose of constructing and financing housing facilities for the benefit of the College. The sole member of the LLC is the Foundation. Separate financial statements of the Foundation and the LLC are presented at the end of this report.

The Foundation and the LLC are private nonprofit organizations that report under the Financial Accounting Standards Board ("FASB") standards over accounting for Not-for-Profit Organizations. As such, certain revenue recognition criteria and presentation features are different from GASB revenue recognition criteria and presentation features. No modifications have been made to the Foundation's financial information in the College's financial reporting entity for these differences.

Note 1: 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 statement of revenues, expenses, and changes in net assets.

Inventories
Inventories consist of books and supplies held for resale at the bookstore, which are valued at the lower of cost (first-in, first-out basis) or market.

Accounts Receivable and Other Receivables
Accounts receivable consists of tuition and fee charges to students and to auxiliary enterprise services provided to students, faculty and staff, the majority of each residing in the State of Oklahoma. Student accounts receivable are carried at the unpaid balance of the original amount billed to students and student loans receivable are carried at the amount of unpaid principal. Both receivables are less an estimate made for doubtful accounts based on a review of all outstanding amounts. Management determines the allowance for doubtful accounts by identifying troubled accounts and by using historical experience applied to an aging of accounts. Student accounts are written off for financial reporting purposes when deemed uncollectible. Recoveries of student accounts receivable previously written off are recorded when received.

A student account receivable and student loan receivable is considered to be past due if any portion of the receivable balance is outstanding after the end of the semester. Interest and late

Note 1: Summary of Significant Accounting Policies (Continued)

Accounts Receivable and Other Receivables (Continued)
charges are not generally assessed and, if they are assessed, are not included in income until received.

Other receivables include amounts due from federal, state and local governments, or private sources, in connection with reimbursement of allowable expenditures made pursuant to the College's grants and contracts. Other accounts receivable also include amounts due from the Oklahoma Development Finance Authority ("ODFA") and Oklahoma Capital Improvement Authority ("OCIA") for proceeds from the capital bond improvement program allocated to the College. No allowance for doubtful accounts has been provided for other receivables.

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

Capital assets
Capital assets are stated at cost, or fair value if acquired by gift, less accumulated depreciation. For equipment, the College's capitalization policy includes all items with a unit cost of $500 or more and an estimated useful life of greater than one year. Renovations to buildings, infrastructure, and land improvements that significantly increase the value or extend the useful life of the structure are capitalized. Routine repairs and maintenance are charged to operating expense in the year in which the expense occurs. Livestock is stated at fair market value. Library books and livestock are not depreciated.

Depreciation is computed using the straight-line method over the estimated useful lives of the assets, generally 40 years for buildings, infrastructure and improvements, 4 to 10 years for equipment.

Costs incurred during construction of long-lived assets are recorded as construction in progress and are not depreciated until placed in service.

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.

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 compensated absences in the statement of net assets, and as a component of compensation and benefit expense in the statement of revenues, expenses and changes in net assets.

Note 1: Summary of Significant Accounting Policies (Continued)

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.

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.

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.

Restricted net asset nonexpendable
Nonexpendable restricted net assets consist of endowment and similar type funds in which donors or other outside sources have stipulated, as a condition of the gift instrument, that the principal is to be maintained inviolate and in perpetuity, and invested for the purpose of producing present and future income, which may either be expended or added to principal.

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 unrestricted resources, and then towards restricted resources.

Note 1: Summary of Significant Accounting Policies (Continued)

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

Classification of Revenues: The College has classified its revenues as either operating or non operating 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) federal, state and local grants and contracts, and (4) interest on institutional student loans.

Non operating revenues: Nonoperating revenues include activities that have the characteristics of nonexchange transactions, such as gifts and contributions, student aid revenues, 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 statement 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 non operating revenues in the College's financial statements. To the extent that revenues from such programs are used to satisfy tuition and fees and other student charges, the College has recorded a scholarship discount and allowance.

Subsequent Events
Subsequent events have been evaluated through December 16, 2011, which is the date the financial statements were issued.

Note 2: 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:

Note 2: Deposits and Investments (Continued)

Custodial Credit Risk – Deposits (Continued)

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 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 and related bank balances of the College's deposits was $14,142,257 at June 30, 2011.

Some deposits with the State Treasurer are placed in the State Treasurer's internal investment pool *OK INVEST*. *OK INVEST* pools the resources of all state funds and agencies and invests them in (a) U.S. treasury securities which are explicitly backed by the full faith and credit of the U.S. government; (b) U.S. agency securities which carry an implicit guarantee of the full faith and credit of the U.S. government; (c) money market mutual funds which participates in investments, either directly or indirectly, in securities issued by the U.S. treasury and/or agency and repurchase agreements relating to such securities; and (d) investments related to tri-party repurchase agreements which are collateralized at 102% and, whereby, the collateral is held by a third party in the name of the State Treasurer.

Of funds on deposit with the State Treasurer, amounts invested in *OK INVEST* total $21,792,321 at June 30, 2011.

For financial reporting purposes, deposits with the State Treasurer that are invested in *OK INVEST* are classified as cash equivalents. At June 30, 2011, the distribution of deposits in *OK INVEST* was as follows:

OK INVEST Portfolio	Cost	Market Value
U.S. Agency securities	$ 7,959,317	$ 8,023,130
Money market mutual funds	2,395,947	2,395,947
Certificates of deposit	1,028,972	1,028,972
Tri-party repurchase agreements	1,470,568	1,470,568
Mortgage backed agency securities	7,905,183	8,254,313
Municipal bonds	434,365	470,374
Foreign bonds	81,023	81,023
Commercial paper	202,536	202,555
U.S. Treasury Obligations	314,410	372,540
TOTAL	$ 21,792,321	$ 22,299,422

Custodial Credit Risk – Deposits (Continued)
Agencies and funds that are considered to be part of the State's reporting entity in the State's Comprehensive Annual Financial Report are allowed to participate in OK INVEST. Oklahoma statutes and the State Treasurer establish the primary objectives and guidelines governing the investment of funds in *OK INVEST*. Safety, liquidity, and return on investment are the objectives which establish the framework for the day to day *OK INVEST* management with an emphasis on safety of the capital and the probable income to be derived and meeting the State and its funds and agencies' daily cash flow requirements. Guidelines in the Investment Policy address credit quality requirements, diversification percentages and specify the types and maturities of allowable investments, and the specifics regarding these policies can be found on the State Treasurer's website at *http://www.treasurer.state.ok.us/*. The State Treasurer, at his discretion, may further limit or restrict such investments on a day to day basis. *OK INVEST* includes a substantial investment in securities with an overnight maturity as well as in U.S. government securities with a maturity of up to three years. *OK INVEST* maintains an overall weighted average maturity of less than 270 days.

Participants in *OK INVEST* maintain an interest in its underlying investments and, accordingly, may be exposed to certain risks. As stated in the State Treasurer information statement, the main risks are interest rate risk, credit/default risk, liquidity risk, and U.S. government securities risk. Interest rate risk is the risk that during periods of rising interest rates, the yield and market value of the securities will tend to be lower than prevailing market rates; in periods of falling interest rates, the yield will tend to be higher. Credit/default risk is the risk that an issuer or guarantor of a security, or a bank or other financial institution that has entered into a repurchase agreement, may default on its payment obligations. Liquidity risk is the risk that *OK INVEST* will be unable to pay redemption proceeds within the stated time period because of unusual market conditions, an unusually high volume of redemption requests, or other reasons. U.S. Government securities risk is the risk that the U.S. government will not provide financial support to U.S. government agencies, instrumentalities or sponsored enterprises if it is not obligated to do so by law. Various investment restrictions and limitations are enumerated in the State Treasurer's Investment Policy to mitigate those risks; however, any interest in *OK INVEST* is not insured or guaranteed by the State, the FDIC or any other government agency.

Investments
Investments are recorded at fair value, as determined by quoted market prices. At June 30, 2011, the College had recorded a restricted investment of $25,142 on the statement of net assets. This investment is a nonnegotiable certificate of deposit for an endowment fund on deposit at a local bank.

Investments in the State Treasurer's Internal Investment Pool are classified as cash equivalents in the accompanying statement of net assets. The underlying collateral for amounts invested with the State Treasurer's internal investment pool are U.S. Treasury obligations, U.S. Agency obligations, and Tri-Party repurchase agreements.

Note 2: Deposits and Investments (Continued)

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.

Concentration of Credit Risk: The College places no limit on the amount the College may invest in any one issuer. However, the majority of the investments are in mutual funds and investments guaranteed by the U.S. Government.

Note 3: Accounts Receivable

Accounts receivable consist of the following at June 30, 2011:

Student tuition and fees	$ 3,661,477
Auxiliary enterprises and other operating activities	175,800
Total accounts receivable	3,837,277
Less: Allowance for doubtful accounts	(3,341,957)
Net accounts receivable	$ 495,320

Note 4: Other Assets

Other assets consist of the following at June 30, 2011:

Deferred cost on OCIA lease restructure	$ 912,008
Cash value of life insurance policy	110,522
Total other assets	$ 1,022,530

Note 5: Capital Assets

Capital asset activity for the year ended June 30, 2011, was as follows:

	Beginning Balance	Additions	Retirements	Transfers	Ending Balance
Capital Assts not being depreciated:					
Land and Improvements	8,038	15,000	-	-	23,038
Livestock	170,150	-	(14,630)	-	155,520
Library Books	360,014	40,594	(37,483)	-	363,125
Construction in Progress	1,433,322	1,344,611	(1,433,322)	-	1,344,611
Total Capital Assts not being depreciated	1,971,524	1,400,205	(1,485,435)	-	1,886,294
Capital Assts being depreciated:					
Equipment	6,149,115	537,552	-	-	6,686,667
Buildings and Improvements	15,261,439	43,356	-	-	15,304,795
Infrastucture	1,233,408	30,642	-	-	1,264,050
Total Capital Assts being depreciated:	22,643,962	611,550	-	-	23,255,512
Less Accumulated Depreciation for:					
Equipment	(4,479,180)	(355,118)	-	-	(4,834,298)
Buildings and Improvements	(6,462,793)	(193,861)	-	-	(6,656,654)
Infrastucture	(374,056)	(45,452)	-	-	(419,508)
Total Accumulated Depreciation, net	(11,316,029)	(594,431)	-	-	(11,910,460)
Total Capital Assets being depreciated, net	11,327,933	17,119	-	-	11,345,052
Capital Assets, net	13,299,457	1,417,324	(1,485,435)	-	13,231,346
Capital Assets Summary:					
Total Capital Assts not being depreciated	1,971,524	1,400,205	(1,485,435)	-	1,886,294
Total Capital Assts being depreciated:	22,643,962	611,550	-	-	23,255,512
Total Capital Assets	24,615,486	2,011,755	(1,485,435)	-	25,141,806
Less Accumulated Depreciation	(11,316,029)	(594,431)	-	-	(11,910,460)
Capital Assets, net	13,299,457	1,417,324	(1,485,435)	-	13,231,346

Note 6: Long-Term Liabilities

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

	Beginning Balance	Additions	Reductions	Ending Balance	Due within one year
Capital lease obligations:					
OCIA Series 1999A / 2004A	287,181	-	(25,564)	261,617	26,818
OCIA Series 2005F / 2010A&B	5,780,854	1,094,409	(335,006)	6,540,257	-
ODFA Master Lease 2001B	82,500	-	(82,500)	-	-
ODFA Master Lease 2001C	18,417	-	(13,000)	5,417	5,417
ODFA Master Lease 2010A	-	2,530,000	(87,667)	2,442,333	91,667
Total capital lease obligations	6,168,952	3,624,409	(543,737)	9,249,624	123,902
Other liabilities					
Premium on Bonds					
OCIA Series 2005F	176,814		(176,814)	-	-
ODFA Master Lease 2010A	-	25,078	(956)	24,122	1,275
Compensated absences	228,963	181,327	(205,440)	204,850	181,327
Total other liabilities	405,777	206,405	(383,210)	228,972	182,602
Total long-term liabilities	6,574,729	3,830,814	(926,947)	9,478,596	306,504

Capital Lease Obligations

Oklahoma Capital Improvement Authority Lease Obligations

In 1999, the OCIA issued its OCIA Bond 1999 Series A, B and C. Of the total bond indebtedness, the State Regents allocated $600,000 to the College. Concurrently with the allocation, the College entered into a lease agreement with OCIA for capital improvements 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 agreement, which is for approximately 20 years. Lease principal and interest payments to OCIA totaling $39,799 during the year ended June 30, 2011, were made by the State of Oklahoma on behalf of the College. These on-behalf payments have been recorded as OCIA on-behalf state appropriations in the statement of revenues, expenses and changes in net assets.

In 2004, the OCIA issued bond series 2004A that refunded a significant portion of the 1999A bonds. Consequently, the amortization of the 1999A bond issue ended in 2010. The lease agreement will no longer secure the 1999A bond issue but will now act as security for the 2004A bond issue over the term of the lease through the year 2020.

In 2005, the OCIA issued its State Facilities Revenue Bonds (Higher Education Project) Series 2005F. Of the total bond indebtedness, the State Regents allocated approximately $6,800,000 to the College. Concurrently with the allocation, the College entered into a lease agreement

Note 6: Long-Term Liabilities (Continued)

Capital Lease Obligations (Continued)

Oklahoma Capital Improvement Authority Lease Obligations (Continued)
with OCIA for capital improvements 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 agreement, which is for approximately 25 years. Lease principal and interest payments to OCIA totaling $628,670 during the year ended June 30, 2011, were made by the State of Oklahoma on behalf of the College. These on-behalf payments have been recorded as OCIA on-behalf state appropriations in the statement of revenues, expenses and changes in net assets.

In 2011, the OCIA issued Bond Series 2010A and 2010B to partially refund the Series 2005F Revenue Bonds. The advance partial refunding was to provide budgetary relief for fiscal years 2011 and 2012 by extending and restructuring the debt service. As a result, the total liability of the remaining 2005F bonds combined with the new 2010A and 2010B bond issues will be more than the original outstanding liability for the 2005F bonds. Consequently, the lease agreement with OCIA was automatically restructured to secure the new bond issues. This lease restructuring has extended certain principal payments into the future, resulting in a charge or cost on restructuring that has been recorded as a charge of $1,094,409 on restructuring as a deferred cost that will be amortized over a period of 6 years, beginning in fiscal year 2011.

This restructuring resulted in an aggregate debt service difference for principal and interest between the original lease agreement and the restructured lease agreement of $1,129,106, which also approximates the economic cost of the lease restructuring.

Oklahoma Development Finance Authority Lease Obligations

In 2002, the College entered into a capital lease obligation for the ODFA Master Lease Revenue Bonds, Series 2001B in the amount of $745,000. Total lease payments over the term of the agreement, beginning September 25, 2001 through May 25, 2011, were $913,723. Payments were made monthly ranging from approximately $7,700 to $8,300. Proceeds from the obligation were used for various capital projects.

Also in 2002, the College entered into a capital lease obligation for the ODFA Master Lease Revenue Bonds, Series 2001C in the amount of $113,000. Total lease payments over the term of the agreement, beginning January 25, 2002 through November 25, 2011, will be $135,619. Payments will be made monthly ranging from approximately $1,100 to $1,250. Proceeds from the obligation were used for various capital projects.

In 2011, the College entered into a capital lease obligation for the ODFA Master Lease Revenue Bonds, Series 2010A in the amount of $2,530,000. Total lease payments over the term of the agreement, beginning October 15, 2010 through May 15, 2030, will be $3,497,613. Payments will be made monthly ranging from approximately $14,800 to $17,200. Proceeds from the

Note 6: Long-Term Liabilities (Continued)

Capital Lease Obligations (Continued)

Oklahoma Development Finance Authority Lease Obligations (Continued)
obligation were used for various capital projects. A bond issuance premium of $25,078 is being amortized over the term of the agreement.

Future minimum lease payments under the College's obligations to the OCIA and ODFA for the year ended June 30, 2011, are as follows:

	Principal	Interest	Total
Years Ending June 30:			
2012	$ 124,152	$ 161,630	$ 285,782
2013	131,390	167,756	299,146
2014	467,219	509,599	976,818
2015	1,052,571	487,309	1,539,880
2016	1,089,023	460,512	1,549,535
2017-2021	2,250,366	1,141,334	3,391,700
2022-2026	1,791,216	812,252	2,603,468
2027-2031	2,343,687	323,233	2,666,920
Total	$ 9,249,624	$ 4,063,625	$ 13,313,249

Note 7: 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 (the "OTRS"), which is a State of Oklahoma public employee's retirement system. The College also sponsors a 403(b) annuity plan, a defined contribution plan. 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 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 116.9, as amended,

Note 7: Retirement Plans (Continued)

Oklahoma Teachers' Retirement System (Continued)

Plan Description (Continued)
assigns the authority for management and operation of the plan to the Board of Trustees of OTRS. OTRS does not provide for a cost-of-living adjustment. OTRS issues a publicly available financial report that includes financial statements and supplementary information for OTRS. That report may be obtained by writing to Teachers' Retirement System of Oklahoma, P.O. Box 53524, Oklahoma City, Oklahoma 73152, by calling (405) 521-2387, or at the OTRS website at www.trs.state.ok.us.

Funding Policy

The College is required to contribute a fixed percentage of annual compensation on behalf of active members. The employer contribution rates for 2011, 2010, and 2009, were 9.50%, 9.50%, and 9.00% respectively, and were applied to annual compensation, and are 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 2011, 2010, and 2009. These contributions were made directly by the College for all three years.

The College's contribution to OTRS for the years ended June 30, 2011, 2010, and 2009, were approximately $914,000, $790,000, and $862,000 respectively, equal to the required contribution for each year. These contributions included the College's statutory contribution and the share of the employees' contribution paid directly by the College.

The State of Oklahoma is also required to contribute to OTRS on behalf of the participating employers. For 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 year ended June 30, 2011, the total amount contributed to OTRS by the State of Oklahoma on behalf of the College was approximately $389,000. This on-behalf payment has been recorded as non-operating state appropriations revenue and as operating compensation and employee benefits expense in the statement of revenues, expenses and changes in net assets.

Note 8: Post-Employment Benefits

In addition to the pension benefits as described above, the College pays the group health insurance premiums for retired employees until age 65. A retiring employee must have been

Note 8: Post-Employment Benefits (Continued)

employed full-time in the Oklahoma State System of Higher Education for not less than twenty years immediately preceding the date of retirement, been a member of the Teachers' Retirement System of Oklahoma during this time, and elected to receive a vested benefit under the provisions of the Teachers' Retirement System of Oklahoma. The College is funding on a pay-as-you-go basis the payments for this benefit out of current operations. For the year ended June 30, 2011, the College's contributions for health insurance premiums for retired employees were approximately $19,000.

Note 9: Other Post-Employment Benefits

The College has a supplemental retirement benefit plan for a former President of the College which was funded upon his retirement effective June 30, 1994, through the purchase of an annuity. The College's Board of Regents subsequently extended the plan to cover the President's spouse as a co-beneficiary. To provide for this contingent liability, the College purchased a life insurance policy on the life of the former President with the College being the beneficiary of the policy. The proceeds of the policy will be used to purchase an annuity to the fulfill the College's agreement with the former President as agreed upon plus return most of the original purchase price to the College. The 2011 income from the increase in the cash surrender value of the policy is $2,128. The cash value of the life insurance policy at June 30, 2011 is $110,522, and is reported as other assets on the statement of net assets.

Note 10: 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 to College students totaling approximately $30,400 for the year ended June 30, 2011.

Note 11: Commitments and Contingencies

The College participates in a number of 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.

Through June 30, 2010, the College participated in the Federal Family Education Loan Program (the "FFEL Program"), which included the Federal Stafford Loan Program and Federal Parents Loans for Undergraduate Students Program. The FFEL Program did not require the College to

Note 11: Commitments and Contingencies (Continued)

draw down cash; however, the College was required to perform certain administrative functions under the FFEL Program. Failure to perform such functions may have required the College to reimburse the loan guarantee agencies.

In July 2010, the College began participating in the Federal Direct Student Loan Program (Direct Lending Program). For the year ended June 30, 2011, approximately $7,307,000 of Direct Lending Program loans were provided to College students.

During the course of ordinary business, the College may be subjected to various lawsuits and civil action claims. There were no pending lawsuits to claims against the College at June 30, 2011, that management believes would result in a material loss to the College in the event of an adverse outcome.

Note 12: Risk Management

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.

The College is self-insured for unemployment liabilities. Payments are made to the State Employment Security Commission on a claims paid basis. No reserve for potential liability for unemployment claims has been established. Any such liability would be paid from current operations.

Note 13: Restatement

The cash and unrestricted net assets as of June 30, 2010 has been restated for the correction of an error in the accounts receivable from federal grant programs. The effect of the correction was to increase accounts receivable and unrestricted net assets by $5,592,961. The correction increased changes in net assets by $4,208,535 and $1,384,426 for 2010 and 2009, respectively.

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

Board of Regents
Murray State College
Tishomingo, Oklahoma

We have audited the financial statements of Murray State College (the College) as of and for the year then ended June 30, 2011, and have issued our report thereon dated December 16, 2011. We conducted our audit in accordance with generally accepted auditing standards and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States.

Internal Control over Financial Reporting

In planning and performing our audit, we considered the 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 misstatements on a timely basis. A material weakness is a deficiency, or combination of deficiencies, in internal control, such that there is a reasonable possibility that a material misstatement of the financial statements will not be presented or detected and corrected on a timely basis.

Our consideration of internal control over financial reporting was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over financial reporting that might be deficiencies, significant deficiencies or material weaknesses. We did not identify any deficiencies in Internal Control over financial reporting that considered to be material weaknesses, as defined above. However, we identified certain deficiencies in Internal Control over financial reporting, described in the accompanying schedule of findings and questioned costs that we consider to be significant deficiencies in Internal Control over financial

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

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the College's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grants, 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 use of the audit committee, management, and federal awarding agencies and pass-through entities and is not intended to be, and should not be, used by anyone other than these specified parties.

Hinkle & Company, PC

Tulsa, Oklahoma
December 16, 2011

Exhibit I

MURRAY STATE COLLEGE FOUNDATION, INC.

Financial Statements
June 30, 2011

RHJ

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RHJ

RAHHAL HENDERSON JOHNSON, PLLC
CERTIFIED PUBLIC ACCOUNTANTS

Independent Auditors' Report

Board of Directors
Murray State College Foundation, Inc.
Tishomingo, Oklahoma

We have audited the accompanying statement of financial position of Murray State College Foundation, Inc. (the Foundation) (a nonprofit corporation) 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 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 the 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 the Foundation as of June 30, 2011 and the changes in its net assets and its cash flows for the year then ended in conformity with accounting principles generally accepted in the United States of America.

Rahhal Henderson Johnson, PLLC

Ardmore, Oklahoma
October 31, 2011

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Telephone (580) 223-6454 | FAX 1-800-858-9329

MURRAY STATE COLLEGE FOUNDATION, INC.
Statement of Financial Position
June 30, 2011

ASSETS	
Current Assets	
Cash and Cash Equivalents	$ 144,166
Investments	1,059,715
Accrued Interest Receivable	866
Total Current Assets	$ 1,204,747
Non-Current Assets	
Investments	1,898,995
Property, net of accumulated depreciation	23,536
Total Non-Current Assets	$ 1,922,531
TOTAL ASSETS	$ 3,127,278
LIABILITIES AND NET ASSETS	
LIABILITIES	
Deposits Payable	$ 1,175
Total Liabilities	1,175
NET ASSETS	
Unrestricted	121,434
Temporarily Restricted	1,296,147
Permanently Restricted	1,708,522
Total Net Assets	3,126,103
TOTAL LIABILITIES AND NET ASSETS	$ 3,127,278

See accompanying notes to the financial statements.

	Unrestricted	Temporarily Restricted	Permanently Restricted	Totals
REVENUES, GAINS, AND OTHER SUPPORT				
Contributions	$ 31,292	$ 71,944	$ 52,779	$ 156,015
Investment Return	50,353	224,998	-	275,351
Rent	13,660	-	-	13,660
Net Assets Released From Restrictions	111,722	(111,722)	-	-
TOTAL REVENUES, GAINS, AND OTHER SUPPORT	207,027	185,220	52,779	445,026
EXPENSES				
Program Services				
Scholarships and other	98,770	-	-	98,770
Supporting Services				
General and Administrative	59,904	-	-	59,904
TOTAL EXPENSES	158,674	-	-	158,674
CHANGE IN NET ASSETS	48,353	185,220	52,779	286,352
NET ASSETS, BEGINNING OF YEAR	73,081	1,110,927	1,655,743	2,839,751
NET ASSETS, END OF YEAR	$ 121,434	1,296,147	1,708,522	$ 3,126,103

See accompanying notes to the financial statements.

Cash Flows from Operating Activities	
Change in Net Assets	$ 286,352
Adjustments to Reconcile Change in Net Assets to Net Cash Provided by Operating Activities	
Depreciation	5,043
Realized and Unrealized (Gain) on Investments	(206,819)
Decrease in Accounts Receivable	54,269
Net Cash Provided by Operating Activities	138,845
Cash Flows from Investing Activities	
Purchase of Investments	(939,267)
Proceeds on Sale of Investments	838,709
Net Cash Used by Investing Activities	(100,558)
Net Increase (Decrease) in Cash and Cash Equivalents	38,287
Cash and Cash Equivalents at Beginning of Year	105,879
Cash and Cash Equivalents at End of Year	$ 144,166

See accompanying notes to the financial statements.

Note 1—The Organization and Summary of Significant Accounting Policies

Nature of Organization
The Murray State College Foundation, Inc. (the Foundation) is a nonprofit organization incorporated in the State of Oklahoma in 1979 to promote the education, scientific, and benevolent purposes of Murray State College (the College).

The Foundation acts, largely, as a fund-raising organization, soliciting and receiving contributions and pledges to benefit the College—a financially interrelated organization.

Murray State College Foundation Student Housing, LLC (LLC) is a nonprofit limited liability organization organized in August 2003 for the purpose of constructing and financing housing facilities for the benefit of the College. The sole member of the LLC is Murray State College Foundation. The College manages, collects revenues and pays all expenses of the LLC including debt service expenditures. In addition, the revenues and expenses of the housing project are recorded in the accounting records of the College. Due to the fact that the LLC is not controlled by the Foundation, it is not consolidated in these financial statements.

Basis of Accounting
The financial statements of the Foundation have been prepared on the accrual basis of accounting in accordance with generally accepted accounting principles.

Income Taxes and Tax Exempt Status
The Foundation is exempt from federal income taxes under Section 501(c)(3) of the Internal Revenue Code and, therefore, has made no provision for federal income taxes in the accompanying financial statements. In addition, the Foundation has been determined by the Internal Revenue Service to not be a "private foundation" within the meaning of Section 509 (a) of the Internal Revenue Code.

There was no unrelated business income during the fiscal year ended June 30, 2011.

Cash and Cash Equivalents
Cash and cash equivalents include cash in the bank and investments with original maturities of three months or less. Excluded from this definition of cash equivalents are such amounts that represent funds that have been designated by the Board for investment.

Investments
Investments with readily determinable fair values are measured at fair value based on quoted prices in active markets. Investments in annuity are recorded based on fair values estimated by the insurance issuer. Investment income, including realized and unrealized gains on investments, interest, and dividends, is included in the statement of activities as increases or decreases in the appropriate category of unrestricted, temporarily restricted, or permanently restricted net assets.

Note 1—The Organization and Summary of Significant Accounting Policies (Continued)

Contributions
All contributions are considered to be available for unrestricted use unless specifically restricted by the donor. Amounts received that are designated for future periods or restricted by the donor for specific purposes are reported as temporally restricted or permanently restricted support that increases those net asset classes. When a temporary restriction expires, temporarily restricted net assets are reclassified to unrestricted net assets and are reported in the statement of activities as net assets released from restrictions.

The Foundation reports gifts of land, buildings, and equipment as unrestricted support unless explicit donor stipulations specify how the donated assets must be used. Gifts of long-lived assets with explicit restrictions that specify how the assets are to be used and gifts of cash or other assets that must be used to acquire long-lived support are reported as restricted support. Absent of explicit donor stipulations about how long those long-lived assets must be maintained, the Foundation reports expirations of donor restrictions when the donated or acquired long-lived assets are placed in service.

Contributions of non-monetary assets are recorded at their estimated fair market value at the date of gift, as determined by outside appraisal.

Contributed Services
Donated services are recognized as contributions if the services (a) create or enhance nonfinancial assets or (b) require specialized skills, are performed by people with those skills, and would otherwise be purchased by the Foundation. During fiscal 2011, the services of the Executive Director and her staff were provided by Murray State College (College). The value of these services was $16,466. Volunteers provided various services throughout the year that are not recognized as contributions in the financial statements since the recognition criteria were not met.

Property and Equipment
Foundation expenditures for items in excess of $500 and useful lives of five years or longer are capitalized at cost if purchased or fair value if contributed. Depreciation is provided using the straight-line method over the following estimated useful lives of the assets. Depreciation expense for the year ended June 30, 2011 was $5,043.

Type of Asset	*Years*
Structures	20
Furniture & Fixtures	5

Note 1—The Organization and Summary of Significant Accounting Policies (Continued)

Financial Statement Presentation

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

- Unrestricted net assets - Net assets that are not subject to donor-imposed stipulations.
- Temporarily restricted net assets - Net assets subject to donor-imposed stipulations that can be fulfilled by actions of the Foundation pursuant to those stipulations or that expire with the passage of time. Such net assets are maintained in cash and cash equivalents, investments, and property and are generally restricted by the donor as to intended use.
- Permanently restricted net assets - Net assets subject to donor-imposed stipulations that they be maintained permanently by the Foundation. Such assets are maintained in investment securities and are classified as non-current on the statement of financial position.

Estimates

The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect certain reported amounts and disclosures. Accordingly, actual results could differ from those estimates.

Subsequent Events

The Foundation evaluated subsequent event through October 31, 2011 the date which financial statement were available to be issued.

Note 2—Investments
Investments are stated at fair value and consist primarily of mutual funds and certificates of deposit as of June 30, 2011, as follows:

	2011		
	Cost	Fair Value	Unrealized Gain/(Loss)
Mutual Funds	$ 1,243,576	$ 1,349,067	$ 105,491
Variable Annuity	100,000	132,844	32,844
Certificates of Deposit	1,476,800	1,476,800	-
	$ 2,820,375	$ 2,958,710	$ 138,335

The investment return for the year ended June 30, 2011 is summarized as follows:

Interest and Dividends	$ 68,532
Realized Gain (Loss)	32,037
Unrealized Gain (Loss)	174,782
	$ 275,351

Investment fees of $12,952 were paid in fiscal 2011.

At June 30, 2011, the fair value of invested assets assigned to individual donor-restricted endowment net asset balances required to be maintained in perpetuity had recovered previous deficit.

Note 3— Conditional Pledges Receivable
During 2011, the Foundation received restricted grant totaling $2,000,000 for building expansion of Murray State College's Nursing/Allied health/Child development programs that contained donor conditions (primarily matching funds requirements). Since these grants represent conditional promises to give, they are not recorded as contributions revenue until donor conditions are met. The commitment will expire on May 31, 2013, if sufficient funds have not been raised by that time.

Note 4—Property and Equipment
Foundation property at June 30, 2011 consists of dwellings and land received from donors and is classified as "temporarily restricted." The gross book value of the dwellings and land as of June 30, 2011 was $130,850 and $2,500, respectively. Additionally, the Foundation has furniture and fixtures as of June 30, 2011 in the amount of $1,589. Accumulated depreciation for buildings and furniture and fixtures at June 30, 2011 was $111,403.

Note 5—Concentrations of Credit Risk

Financial instruments that potentially expose the Foundation to concentrations of credit and market risk consist primarily of cash and investments. Certificates of deposit are maintained at high-quality financial institutions. In addition, pursuant to Foundation policy, certificates of deposit exceeding federally insured limits are collateralized by the institution with Irrevocable Letters of Credit from Federal Agencies, which are backed by the full faith and credit of the United States government. As of June 30, 2011, the collateral was held by the depository financial institution in the Foundation's name. The Foundation has no access to collateral. Investments in mutual funds are uninsured and uncollateralized.

Note 6—Related Party Transactions

The College's personnel provide accounting and administrative services for the Foundation. All salaries, payroll taxes, and related personnel benefits for Foundation employees are paid by the College. The total amount recorded for these services was $16,466. In addition, the office space and equipment used by the Foundation are the property of the College. The value of this space is not significant so has not been recorded.

Note 7—Net Assets

Temporarily restricted net assets are available for the following purposes:

Scholarships/Grants	$ 1,067,777
Program Development	95,694
Centennial Campaign	49,802
Athletics	82,874
	$ 1,296,147

Permanently restricted net assets are restricted endowments in which the principal is invested in perpetuity with the income expendable for specific purposes stipulated by the donors, primarily scholarships and grants. Permanently restricted net assets were $1,708,522.

Note 8—Donor-designated Endowments
The Foundation's endowment consists of individual funds established primarily for scholarships. Net assets associated with endowments are classified and reported based on the existence or absence of donor-imposed restrictions.

The Foundation has interpreted the Uniform Prudent Management of Institutional Funds Act of 2006 (UPMIFA) as requiring the preservation of the fair value of the original gift as of the gift date of the donor restricted endowment funds. As a result, the Foundation classifies as permanently restricted net assets the original value of gifts donated to the permanent endowment plus the original value of subsequent gifts to the permanent endowment. The remaining portion of the donor-restricted endowment fund 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. The Foundation considers the following factors in making a determination to appropriate or accumulate donor-restricted endowment funds: (1) the duration and preservation of the various funds, (2) the purposes of the donor-restricted endowment funds, (3) the Foundation's investment policies.

Investment Return Objectives, Risk Parameters and Strategies. The Foundation has adopted investment and spending policies, approved by the Foundation's investment committee, for endowment assets that attempt to provide a predictable stream of funding to programs supported by its endowment funds while also maintaining the purchasing power of those endowment assets over the long-term. Accordingly, the investment process seeks to achieve an after-cost total real rate of return, including investment income as well as capital appreciation, which exceeds the annual distribution with acceptable levels of risk. Endowment assets are invested in a well diversified asset mix, which includes equity securities and mutual funds that are intended to result in a consistent inflation-protected rate of return that has sufficient liquidity to make annual distributions, while growing the funds if possible. Therefore, the Foundation expects its endowment assets, over time, to produce an average rate of return to retain the purchasing power of the assets. Actual returns in any given year may vary. Investment risk is measured in terms of the total endowment fund; investment assets and allocation between asset classes and strategies are managed to not expose the fund to unacceptable levels of risk.

Spending Policy. The Organization has a policy of appropriating for distribution each year amounts necessary to fund donor-designated uses. In establishing this policy, the Foundation considered the long-term expected return on its investment assets, the nature and duration of the individual endowment funds, many of which must be maintained in perpetuity because of donor-restrictions, and the possible effects of inflation. The Foundation expects the current spending policy to allow its endowment funds to maintain the purchasing power of the endowment assets as well as to provide additional real growth through investment return.

Note 8—Donor-designated Endowments (continued)
Endowment net asset composition and changes in net assets as of June 30, 2011, is as follows:

		Unrestricted	Temporarily Restricted	Permanently Restricted	Total Endowment Net Assets
Endowment Net assets	**6/30/2008**	**-**	**81,155**	**1,611,952**	**1,693,107**
Investment Income		-	57,473	-	57,473
(depreciation) Realized and Unrealized		(187,038)	(58,081)	-	(245,119)
Contributions		-		20,325	20,325
Appropriation for Expenditure		-	(36,924)	-	(36,924)
Endowment Net assets	**6/30/2009**	**(187,038)**	**43,623**	**1,632,277**	**1,488,862**
Investment Income		-	27,194	-	27,194
(depreciation) Realized and Unrealized		136,685	(21,650)	-	115,035
Contributions		-		23,466	27,466
Appropriation for Expenditure			(31,915)	-	(31,915)
Endowment Net assets	**6/30/2010**	**$ (50,353)**	**$ 17,252**	**$1,655,743**	**$ 1,622,642**
Investment Income		-	39,930	-	39,930
(depreciation) Realized and Unrealized		50,353	156,466	-	206,819
Contributions		-		52,779	52,779
Appropriation for Expenditure			(23,175)	-	(23,175)
Endowment Net assets	**6/30/2011**	**$ -**	**$ 190,473**	**$1,708,522**	**$ 1,898,995**

Note 9—Fair Value Measurements
Fair values of assets measured on a recurring basis at June 30, 2011, are as follows:

	Fair Value	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
Securities	$ -	$ -	$ -	$ -
Mutual Funds	1,349,067	1,349,067	-	-
Variable Annuity	132,844	-	-	132,844
	$ 1,481,910	$ 1,349,067	$ -	$ 132,844

Note 9—Fair Value Measurements (Continued)
Assets measured at fair value on a recurring basis using significant unobservable inputs (Level 3)

	Variable Annuity
June 30, 2010	$ 128,975
Total Gains/Losses	3,869
June 30, 2011	$ 132,844

Gains and losses (realized and unrealized) included in net assets are reported in unrestricted and temporarily restricted net assets for the year ended June 30, 2011 as follow:

	Unrestricted	Temporarily Restricted
Realized Gains(Losses)	$ -	$ 32,037
Change in Unrealized Gains(Losses) relating to assets still held at year-end	50,353	124,429
	$ 50,353	$ 156,466

All assets have been valued using a market approach except for Level 3 assets. Level 3 assets are valued using the income approach. There were no changes in the valuation techniques during the current year.

Exhibit II

MURRAY STATE COLLEGE FOUNDATION STUDENT HOUSING, L.L.C.

FINANCIAL STATEMENTS

FOR THE YEARS ENDED JUNE 30, 2011 AND 2010

KNOL & MINNEY, PLLC
50 PENN PLACE, SUITE 850
OKLAHOMA CITY, OK 73118
(405) 840-3279

MURRAY STATE COLLEGE FOUNDATION
STUDENT HOUSING, L.L.C.

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KNOL & MINNEY, PLLC
CERTIFIED PUBLIC ACCOUNTANTS

INDEPENDENT AUDITORS' REPORT

Board of Directors
Murray State College Foundation Student Housing, L.L.C.
Tishomingo, Oklahoma

We have audited the accompanying statements of financial position of Murray State College Foundation Student Housing, L.L.C. as of June 30, 2011 and 2010, and the related statements of activities and cash flows for the years 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 audits.

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

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Murray State College Foundation Student Housing, L.L.C. as of June 30, 2011 and 2010, and the results of its operations and its cash flows for the years then ended in conformity with accounting principles generally accepted in the United States of America.

Knol & Minney, PLLC

November 1, 2011

1900 NORTHWEST EXPRESSWAY, 50 PENN PLACE, SUITE 850 OKLAHOMA CITY, OKLAHOMA 73118-1804
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MURRAY STATE COLLEGE FOUNDATION
STUDENT HOUSING, L.L.C.
STATEMENTS OF FINANCIAL POSITION
JUNE 30, 2011 AND 2010

	2011	2010
ASSETS		
Cash	$ 947	$ 947
Total Current Assets	947	947
Property and Equipment, at cost:		
Building	3,939,631	3,939,631
Furniture and fixtures	60,520	60,520
	4,000,151	4,000,151
Less: Accumulated depreciation	(567,569)	(462,767)
Net Property and Equipment	3,432,582	3,537,384
Total Assets	$ 3,433,529	$ 3,538,331
LIABILITIES AND MEMBER'S EQUITY		
Long-term Debt	$ 3,858,858	$ 3,905,405
Total Liabilities	3,858,858	3,905,405
Member's Equity:		
Unrestricted	(425,329)	(367,074)
Total Member's Equity	(425,329)	(367,074)
Total Liabilities and Member's Equity	$ 3,433,529	$ 3,538,331

See accompanying notes to financial statements.

MURRAY STATE COLLEGE FOUNDATION
STUDENT HOUSING, L.L.C.
STATEMENTS OF ACTIVITIES
FOR THE YEAR ENDED JUNE 30, 2011 AND 2010

	2011	2010
Revenue and Support:		
Transfers from Murray State College	$ 217,408	$ 217,408
Operating Expenses:		
Depreciation	104,802	104,802
Interest	170,861	172,813
Total operating expenses	275,663	277,615
Change in equity - excess of transfers over expenses	(58,255)	(60,207)
Member's equity – Beginning of year	(367,073)	(306,866)
Member's equity – End of year	$ (425,328)	$ (367,073)

See accompanying notes to financial statements.

MURRAY STATE COLLEGE FOUNDATION
STUDENT HOUSING, L.L.C.
STATEMENTS OF CASH FLOWS
FOR THE YEAR ENDED JUNE 30, 2011 AND 2010

	2011	2010
CASH FLOWS FROM OPERATING ACTIVITIES		
Change in equity - excess of transfers over expenditures	$ (104,802)	$ (104,802)
Adjustments to reconcile changes in net assets to net cash provided by operating activities:		
Depreciation	104,802	104,802
Net Cash Provided by Operations	-	-
CASH FLOWS FROM INVESTING ACTIVITIES		
Acquisition of property and equipment	-	-
Net Cash Used by Investing Activities	-	-
CASH FLOWS FROM INVESTING ACTIVITIES		
Proceeds from Notes payable	-	-
Repayment of notes payable	-	-
Net Cash Provided by Financing Activities	-	-
Net Change in Cash	-	-
Cash, Beginning of Year	947	947
Cash, End of Year	$ 947	$ 947

See accompanying notes to financial statements.

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Organization

Murray State College Foundation Student Housing, L.L.C. (LLC), is a not-for-profit limited liability organized August 23, 2003. The sole member of the LLC is Murray State College Foundation, a component unit of Murray State College. Murray State College Foundation is a 501 (c) (3) Organization. The LLC was formed for the purpose of constructing student housing on property owned by Murray State College pursuant to ground lease dated June 1, 2005, whereby Murray State College receives 99% of the net cash derived from rental revenue less operating expenses and debt service requirements.

The student housing is managed by Murray State College under a management agreement dated June 1, 2005.

Capital Assets

Capital assets, which include property and equipment, are recorded at historical cost. The costs of normal maintenance and repairs, that do not add to the value of the asset or materially extend the asset's life, are not capitalized.

Major outlays for capital assets and improvements are capitalized as projects are constructed. Interest incurred during the construction phase of capital assets of business-type activities is included as part of the capitalized value of the assets constructed. The Organization incurred interest expense of $154,151 for construction of capital assets during the year ended June 30, 2006 which has been included in the cost of the building.

Capital assets are depreciated using the straight-line method over the following useful lives:

Type of Asset	Years
Buildings	40
Furniture and Fixtures	10

Estimates

Management uses estimates and assumptions in preparing financial statements. Those estimates and assumptions affect the reported amounts of assets, liabilities, and fund equity, the disclosure of contingent assets and liabilities, and the reported revenues and expenditures. Actual results could differ from those estimates.

NOTE 2 – LONG-TERM DEBT

Long-term debt at June 30, 2011 consists of a promissory note payable to the United States of America acting through Rural Housing Service of the United States Department of Agriculture. The loan is payable in annual installments of principal and interest at 4.375% interest, matures June 30, 2046 and secured by a mortgage and security interest in the revenues collected from the housing project. The maturities are as follows:

Period Ending	Principal	Interest	Total
Year ended June 30,			
2012	48,583	168,825	217,408
2013	50,708	166,700	217,408
2014	52,927	164,481	217,408
2015	55,243	162,165	217,408
2016	57,659	159,749	217,408
2017-2021	328,417	758,623	1,087,040
2022-2026	406,825	680,215	1,087,040
2027-2031	503,953	583,087	1,087,040
2032-2036	624,270	462,770	1,087,040
2037-2041	773,313	313,727	1,087,040
2042-2046	956,960	130,080	1,087,040
Total	$3,858,858	$3,750,422	$ 7,609,280

NOTE 3 - PROPERTY AND EQUIPMENT

Depreciation expense for the years ended June 30, 2011 and 2010 was $104,802 and $104,802, respectively.

NOTE 4 – RELATED PARTY TRANSACTIONS

Murray State College Foundation Student Housing, L.L.C. received transfers from Murray State College in the amount of $217,408 and $217,408 during the years ended June 30, 2011 and 2010 respectively. These funds were used to pay the annual principal and interest payment on the loan payable to the U.S. Department of Agriculture during 2011 and 2010. Murray State College Foundation is the sole member of Murray State College Foundation Student Housing, L.L.C. and is also a component unit of Murray State College.

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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 the Schedule of Expenditures of Federal Awards

Board of Regents
Murray State College
Tishomingo, Oklahoma

Compliance

We have audited Murray State College's (the College) compliance with the types of compliance requirements described in the U.S. Office of Management and Budget (OMB) Circular A-133 *Compliance Supplement* that are applicable to each of its major federal programs for the year ended June 30, 2011. 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 compliance of the College based on our audit.

We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United of America; 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, Murray State College complied, in all material respects, with the requirements referred to above that are applicable to each of its major federal programs for the year ended June 30, 2011.

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Internal Control over Compliance

The management of Murray State 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 and to test and report on internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of the College's internal control over compliance

A control deficiency in internal control over compliance exist when the design or operation of a control over compliance does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect non-compliance 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 more than a reasonable possibility that non-compliance with a type of compliance requirement of a federal program will not be prevented, or detected and corrected, on a timely basis.

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

Schedule of Expenditures of Federal Awards

We have audited the basic financial statements of Murray State College as of and for the year ended June 30, 2011, and have issued our report thereon dated December 16, 2011. Our audit was performed for the purpose of forming an opinion on the basic financial statements taken as a whole. The accompanying schedule of expenditures of federal awards is presented for purposes of additional analysis as required by OMB Circular A-133 and is not a required part of the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, is fairly stated, in all material respects, in relation to the basic financial statements taken as a whole.

This report is intended solely for the 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.

Hinkle & Company, PC

Tulsa, Oklahoma
December 16, 2011

Murray State College
Schedule of Expenditures of Federal Awards
Year Ended June 30, 2011

Federal Grantor/Pass Through Grantor/Program Title	CFDA Number	Federal Expenditures
U.S. Department of Education		
Student Financial Aid Cluster		
Federal Pell Grant Program	84.063	$ 6,786,373
Federal Direct Loan Program	84.268	7,306,588
Academic Competitiveness Grant	84.375	176,430
Federal Supplemental Education Opportunity	84.007	62,100
Federal Work Study Program	84.033	89,818
Total Student Financial Aid Cluster		14,421,309
Office of Postsecondary Education		
Student Support Services	84.042	339,602
Pass-Through Program From		
Oklahoma State Department of Vocational Education C		
Vocational Education National Centers for Career and Technical Education	84.051	153,383
Pass-Through Program From		
State of Oklahoma		
State Fiscal Stabilization Fund		
Education State Grants, Recovery Act	84.394ARRA	401,689
Total U.S. Department of Education		15,315,983
U.S. Department of Health and Human Services		
National Institutes of Health		
Pass-Through Program From:		
Oklahoma State Department of Human Services		
Temporary Assistance for Needy Families (TANF)	93.558	343,478
Oklahoma State Regents for Higher Education		
Child Care Development Block Grant		
Scholars for Excellence Program	93.575	103,385
Total U. S. Department of Health and Human Services		446,863
Total Expenditures of Federal Awards		$ 15,762,846

See Notes to Schedule of Expenditures of Federal Awards.

Murray State College
Notes to Schedule of Expenditures of Federal Awards
Year Ended June 30, 2011

Note 1: Summary of Significant Accounting Policies

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

Note 2: Subrecipients

Murray State College provided no federal awards to subrecipients.

Murray State College
Schedule of Findings and Questioned Costs
Year Ended June 30, 2011

Summary of Auditors' Results

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

   ☒ Unqualified ☐ Qualified ☐ Adverse ☐ Disclaimed

2. The independent accountants' report on internal control over financial reporting described:

   Significant deficiency(ies) noted considered material weakness(es)? ☐ Yes ☒ No

   Significant deficiency(ies) noted that are not considered to be a material weakness? ☒ Yes ☐ No

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

4. The independent accountants' report on internal control over compliance with requirements applicable to major federal awards programs described:

   Significant deficiency(ies) noted considered material weakness(es)? ☐ Yes ☒ No

   Significant deficiency(ies) noted that are not considered to be a material weakness? ☐ Yes ☒ No

5. The opinion expressed in the independent accountants' report on compliance with requirements applicable to major federal awards was:

   ☒ Unqualified ☐ Qualified ☐ Adverse ☐ Disclaimed

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

7. The College's major program was:

Cluster/Program	CFDA Number
Student Financial Aid Cluster	
Federal Supplemental Education Opportunity Grants	84.007
Federal Direct Loan Program	84.268
Federal Work Study	84.033
Federal Pell Grant	84.063
Academic Competitiveness Grant	84.375
Student Support Services	84.042
Temporary Assistance for Needy Families	93.558

Summary of Auditors' Results (Continued)

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

9. The College qualified as a low-risk auditee as that term is defined in OMB Circular A-133. ☒ Yes ☐ No

Findings Required to be Reported by Government Auditing Standards

Finding 2011-1

Condition
The College did not reconcile the clearing account on a monthly basis. Additionally, reconciling items on the College's bank reconciliation are not being cleared and proper adjustments made to the accounting records.

Criteria
The College should have policies and procedures in place that maintain accurate accounting records. This includes reconciling all bank accounts monthly and making necessary adjustments timely.

Cause
The reconciling items listed on the monthly bank reconciling are not being addressed timely and required adjustments are not being made timely. Additionally, the agency clearing account is not being reconciled monthly.

Management Comment
Management agrees with the finding and stated that they will institute the necessary review procedures to ensure all accounts are reconciled and any necessary adjustments made on the accounting records timely.

Recommendation
To have controls and staff in place to reconcile the bank accounts on a monthly basis and to make the necessary adjustments as needed to keep the books current.

Findings Required to be Reported by OMB Circular A-133

No matters are reportable.

Murray State College
Summary Schedule of Prior Audit Findings
Year Ended June 30, 2011

No Item Reportable.