

Audited Financial Statements

**ADMINISTRATIVE OFFICE OF
THE REGIONAL UNIVERSITY
SYSTEM OF OKLAHOMA**

June 30, 2011

ADMINISTRATIVE OFFICE OF
THE REGIONAL UNIVERSITY
SYSTEM OF OKLAHOMA

June 30, 2011

AUDITED FINANCIAL STATEMENTS

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Independent Auditors' Report

Board of Regents of Regional University System of Oklahoma
Oklahoma City, Oklahoma

We have audited the accompanying statement of net assets of the Administrative Office of the Regional University System of Oklahoma (the "Office"), a component unit of the State of Oklahoma, as of and for the years ended June 30, 2011 and 2010, and the related statements of revenues, expenses and changes in net assets and cash flows for the years then ended. These financial statements are the responsibility of the Office'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, 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 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 respective financial position of the Administrative Office of the Regional University System of Oklahoma as of June 30, 2011 and 2010, and the respective changes in financial position and cash flows thereof for the years then ended in conformity with accounting principles generally accepted in the United States of America.

The Office has not presented management's discussion and analysis that accounting principles generally accepted in the United States of America has determined is necessary to supplement, although not required to be a part of, the basic financial statements.

In accordance with *Government Auditing Standards*, we have also issued our report dated October 28, 2011, on our consideration of the Office'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 important for assessing the results of our audit.

The Schedule of Funding Progress for the Supplemental Retirement Annuity Plan and Other Postemployment Insurance Benefits, as presented in the Table of Contents, is not a required part of the basic financial statements, but is supplementary information required by accounting principles generally accepted in the United States of America. 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.

Cole & Reed P.C.

Oklahoma City, Oklahoma
October 28, 2011

STATEMENTS OF NET ASSETS

ADMINISTRATIVE OFFICE OF THE REGIONAL
UNIVERSITY SYSTEM OF OKLAHOMA

	June 30,	
	<u>2011</u>	<u>2010</u>
ASSETS		
CURRENT ASSETS		
Cash	\$ 88,048	\$ 241,373
Accounts receivable	43,111	-
TOTAL CURRENT ASSETS	<u>131,159</u>	<u>241,373</u>
NONCURRENT ASSETS		
Capital assets, net of accumulated depreciation of \$64,445 and \$80,801 , respectively	5,391	11,628
OPEB asset	26,636	18,298
Prepaid pension asset	98,342	94,006
TOTAL NONCURRENT ASSETS	<u>130,369</u>	<u>123,932</u>
TOTAL ASSETS	<u>\$ 261,528</u>	<u>\$ 365,305</u>
LIABILITIES		
CURRENT LIABILITIES		
Accounts payable	\$ 26,395	\$ 30,179
Accrued salaries	76	4,435
Accrued compensated absences	19,445	19,527
TOTAL CURRENT LIABILITIES	<u>45,916</u>	<u>54,141</u>
NONCURRENT LIABILITIES		
Accrued compensated absences, net of current portion	19,445	19,527
TOTAL NONCURRENT LIABILITIES	<u>19,445</u>	<u>19,527</u>
TOTAL LIABILITIES	65,361	73,668
NET ASSETS		
Invested in capital assets, net of related debt	5,391	11,628
Unrestricted	190,776	280,009
TOTAL NET ASSETS	<u>\$ 196,167</u>	<u>\$ 291,637</u>

See notes to financial statements.

STATEMENTS OF REVENUES, EXPENSES AND CHANGES IN NET ASSETS

ADMINISTRATIVE OFFICE OF THE REGIONAL
UNIVERSITY SYSTEM OF OKLAHOMA

	Year Ended June 30,	
	2011	2010
OPERATING REVENUES		
University assessments	\$ 703,600	\$ 815,417
Other	5,574	2,781
	<u>709,174</u>	<u>818,198</u>
OPERATING EXPENSES		
Salaries and wages	367,691	365,982
Employee benefits	51,078	45,475
Payroll taxes	25,535	26,194
Retirement and other post employment benefits	97,874	93,639
Travel	33,451	30,129
Office and equipment rent	40,481	37,386
Office supplies	9,133	8,564
Professional services	158,182	143,974
Depreciation	6,237	10,314
Other	41,632	56,172
	<u>831,294</u>	<u>817,829</u>
OPERATING INCOME (LOSS)	(122,120)	369
NONOPERATING REVENUES		
OTRS on-behalf contributions	26,650	22,302
	<u>26,650</u>	<u>22,302</u>
CHANGE IN NET ASSETS	(95,470)	22,671
NET ASSETS, BEGINNING OF YEAR	<u>291,637</u>	<u>268,966</u>
NET ASSETS, END OF YEAR	<u>\$ 196,167</u>	<u>\$ 291,637</u>

See notes to financial statements.

STATEMENTS OF CASH FLOWS

ADMINISTRATIVE OFFICE OF THE REGIONAL
UNIVERSITY SYSTEM OF OKLAHOMA

	Year Ended June 30,	
	2011	2010
CASH FLOWS FROM OPERATING ACTIVITIES		
University assessments and other	\$ 666,063	\$ 818,198
Compensation and employee benefits	(532,725)	(515,058)
Payments to vendors	(286,663)	(262,778)
NET CASH FLOWS PROVIDED BY (USED IN) OPERATING ACTIVITIES	(153,325)	40,362
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES		
Purchases of capital assets	-	(10,713)
NET INCREASE (DECREASE) IN CASH	(153,325)	29,649
CASH, BEGINNING OF YEAR	241,373	211,724
CASH, AT END OF YEAR	<u>\$ 88,048</u>	<u>\$ 241,373</u>
RECONCILIATION OF OPERATING INCOME (LOSS) TO NET CASH PROVIDED BY (USED IN) OPERATING ACTIVITIES:		
Operating income (loss)	\$ (122,120)	\$ 369
Depreciation expense	6,237	10,314
OTRS on-behalf contributions	26,650	22,302
Change in assets and liabilities		
Accounts receivable	(43,111)	-
OPEB asset	(8,338)	(6,483)
Prepaid pension asset	(4,336)	(3,654)
Accounts payable	(3,784)	13,450
Accrued salaries	(4,359)	4,004
Compensated absences	(164)	60
NET CASH FLOWS PROVIDED BY (USED IN) OPERATING ACTIVITIES	<u>\$ (153,325)</u>	<u>\$ 40,362</u>

See notes to financial statements.

NOTES TO FINANCIAL STATEMENTS

ADMINISTRATIVE OFFICE OF THE REGIONAL UNIVERSITY SYSTEM OF OKLAHOMA

June 30, 2011

NOTE A--SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Nature of Organization: The Board of Regents of the Regional University System of Oklahoma (the "Board") is an agency of the State of Oklahoma created by the Oklahoma State Constitution. The Board has legislative powers and duties granted by Oklahoma Statutes to manage, supervise, and control operations of six regional state universities (the "Universities"), which are the University of Central Oklahoma, East Central University, Northwestern Oklahoma State University, Southwestern Oklahoma State University, Northeastern State University, and Southeastern Oklahoma State University. The Board, through its administrative office (the "Office"), is a self-sustaining agency and operates on revenues from assessments to the six regional universities.

Reporting Entity: As defined by Governmental Accounting Standards Board (GASB) Statement No. 14, The Financial Reporting Entity, and Governmental Accounting Standards Board (GASB) Statement No. 39, Determining whether Certain Organization Are Component Units--an amendment of GASB Statement No. 14, the Office is not financially accountable for any other entity, nor are there any other entities for which the nature and significance of their relationship with the Office are such that exclusion would cause the Office's financial statements to be misleading or incomplete. The Office is a component unit of the State of Oklahoma and is included in the general-purpose financial statements of the State of Oklahoma as part of the Higher Education component unit.

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

Basis of Accounting: For financial reporting purposes, the Office is considered a special-purpose government engaged only in business-type activities. Accordingly, the Office'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.

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

NOTES TO FINANCIAL STATEMENTS--Continued

ADMINISTRATIVE OFFICE OF THE REGIONAL
UNIVERSITY SYSTEM OF OKLAHOMA

June 30, 2011

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

Cash Equivalents: For purposes of the statements of cash flows, the Office considers all highly liquid investments with an original maturity of three months or less to be cash equivalents. At June 30, 2011 and 2010, the Office had no investments that were considered cash equivalents.

Capital Assets: Furniture and equipment is stated at cost at the date of acquisition when purchased by the Office or at estimated value when acquired by other than purchase. For furniture and equipment, the Office's capitalization policy includes all items with a unit cost of \$2,500 or more, and an estimated useful life greater than one year. Depreciation is provided on the straight-line method over the estimated useful life for the furniture and equipment, which is three to five years.

Compensated Absences: Compensated absences are accrued at year-end for financial statement purposes. The liability and expense incurred are recorded at year-end as accrued compensated absences in the statements of net assets, and as a component of salaries and related employee benefits in the statements of revenues, expenses and changes in net assets.

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

Invested in capital assets, net of related debt: This represents the Office's total investment in capital assets, net of outstanding debt obligations, if any, related to those capital assets.

Unrestricted net assets: Unrestricted net assets represents resources derived from University assessments and other resources. These resources are used for transactions relating to compensation, benefits and other operating expenses of the Office, and may be used at the discretion of the governing board to meet current expenses for any purpose.

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 these estimates.

NOTES TO FINANCIAL STATEMENTS--Continued

ADMINISTRATIVE OFFICE OF THE REGIONAL
UNIVERSITY SYSTEM OF OKLAHOMA

June 30, 2011

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

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

Operating revenues: Operating revenues include activities that have the characteristics of exchange transactions, such as university assessments.

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

Tax Status: The Office, as an agency of the State of Oklahoma, is excluded from federal income taxes under Section 115 (1) of the Internal Revenue Code, as amended.

NOTE B--DEPOSITS AND INVESTMENTS

Deposits

Custodial credit risk for deposits is the risk that in the event of a bank failure, the Office's deposits may not be returned or the Office will not be able to recover collateral securities in the possession of an outside party. The Office deposits its funds with the Office of the State Treasurer (OST) and those funds are pooled with funds of other state agencies and, in accordance with statutory limitations, are placed in financial institutions or invested as the OST may determine, in the state's name. State statutes require the OST to ensure that all state funds are either insured by Federal Deposit Insurance, collateralized by securities held by the cognizant Federal Reserve Bank, or invested in U.S. government obligations. The OST's responsibilities include receiving and collateralizing the deposit of State funds, investing State funds in compliance with statutory requirements, and maintaining adequate liquidity to meet the cash flow needs of the State and all its funds and agencies.

At June 30, 2011 and 2010, the carrying amounts of all Office deposits with the OST were \$88,048 and \$241,373, respectively.

NOTES TO FINANCIAL STATEMENTS--Continued

ADMINISTRATIVE OFFICE OF THE REGIONAL
UNIVERSITY SYSTEM OF OKLAHOMA

June 30, 2011

NOTE C--CAPITAL ASSETS

A summary of the changes in capital assets for the year ended June 30, 2011 is as follows:

	<u>Balance at June 30, 2010</u>	<u>Additions</u>	<u>Retirements</u>	<u>Balance at June 30, 2011</u>
Furniture and equipment	\$ 92,429	\$ -	\$ (22,593)	\$ 69,836
Less accumulated depreciation	<u>(80,801)</u>	<u>(6,237)</u>	<u>22,593</u>	<u>(64,445)</u>
Furniture and equipment, net	<u>\$ 11,628</u>	<u>\$ (6,237)</u>	<u>\$ -</u>	<u>\$ 5,391</u>

A summary of the changes in capital assets for the year ended June 30, 2010 is as follows:

	<u>Balance at June 30, 2009</u>	<u>Additions</u>	<u>Retirements</u>	<u>Balance at June 30, 2010</u>
Furniture and equipment	\$ 91,578	\$ 10,713	\$ (9,862)	\$ 92,429
Less accumulated depreciation	<u>(80,349)</u>	<u>(10,314)</u>	<u>9,862</u>	<u>(80,801)</u>
Furniture and equipment, net	<u>\$ 11,229</u>	<u>\$ 399</u>	<u>\$ -</u>	<u>\$ 11,628</u>

NOTE D--LONG-TERM LIABILITIES

The following is a summary of long-term liability transactions of the Office for the year ended June 30, 2011:

	<u>Beginning Balance</u>	<u>Additions</u>	<u>Deductions</u>	<u>Ending Balance</u>	<u>Current Portion</u>
Accrued compensated absences	<u>\$ 39,054</u>	<u>\$ 31,146</u>	<u>\$ (31,310)</u>	<u>\$ 38,890</u>	<u>\$ 19,445</u>

The following is a summary of long-term liability transactions of the Office for the year ended June 30, 2010:

	<u>Beginning Balance</u>	<u>Additions</u>	<u>Deductions</u>	<u>Ending Balance</u>	<u>Current Portion</u>
Accrued compensated absences	<u>\$ 38,994</u>	<u>\$ 27,324</u>	<u>\$ (27,264)</u>	<u>\$ 39,054</u>	<u>\$ 19,527</u>

NOTES TO FINANCIAL STATEMENTS--Continued

ADMINISTRATIVE OFFICE OF THE REGIONAL
UNIVERSITY SYSTEM OF OKLAHOMA

June 30, 2011

NOTE E--RETIREMENT PLANS

The Office's personnel are covered by various retirement plans. The plans available to Office personnel include the Oklahoma Teachers' Retirement System (OTRS), which is a State of Oklahoma public employees' retirement system, the Teachers' Insurance and Annuity Association (TIAA), which is a defined contribution plan, and the Supplemental Retirement Annuity (SRA), a single employer defined benefit plan available to employees hired prior to July 1, 1995. The Office does not maintain the accounting records, hold the investments for, or administer these plans.

Oklahoma Teachers' Retirement System (OTRS)

Plan Description

The Office contributes to 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, 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, or by calling (405) 521-2387.

Funding Policy

The Office is required to contribute a fixed percentage of annual compensation on behalf of active members. The contribution rate was 9.5% during FY 2011. This rate is applied to annual compensation, and is determined by state statute.

Employees' contributions are also determined by state statute. For all employees, the contribution rate was 7% of covered salaries and fringe benefits in 2011 and 2010. For Office employees meeting the requirements of the Office's SRA, and other employees who opted to enroll in OTRS prior to July 1, 1993, the members' OTRS contributions are made directly by the Office.

NOTES TO FINANCIAL STATEMENTS--Continued

ADMINISTRATIVE OFFICE OF THE REGIONAL
UNIVERSITY SYSTEM OF OKLAHOMA

June 30, 2011

NOTE E--RETIREMENT PLANS--Continued

Oklahoma Teachers' Retirement System (OTRS)--Continued

The Office's contributions to the OTRS for the years ended June 30, 2011, 2010 and 2009, were approximately \$67,000, \$63,000, and \$63,000 respectively. These contributions included the Office's statutory contribution and the share of the employee's contribution are paid directly by the Office.

The State of Oklahoma is also required to contribute to the OTRS on behalf of the participating employers. For 2011 and 2010, the state of Oklahoma contributed 5% of state revenues from sales and use taxes and individual income taxes. The Office has estimated the amounts contributed to the OTRS by the State of Oklahoma on its behalf by multiplying the ratio of its covered salaries to total covered salaries for the OTRS for the year by the applicable percentage of taxes collected during the year. For the years ended June 30, 2011 and 2010, the total amounts contributed to the OTRS by the State of Oklahoma on behalf of the Office were approximately \$27,000 and \$22,000 respectively. These on-behalf payments have been recorded as both revenues and expenses in the statements of revenues, expenses and changes in net assets.

Defined Contribution Plan

For all eligible, full-time employees enrolled in the OTRS and who have attained twenty-three (23) years of age, the Office contributes to the TIAA, a defined contribution pension plan administered by the Board of Regents. If the employee was hired prior to July 1, 2001, the amount contributed by the Office is vested immediately. Employees hired after July 1, 2001, are subject to a one year vesting requirement for this benefit. Benefit provisions and contribution requirements are contained in the Plan document and were established and can be amended by action of the Board of Regents. As of January 1, 2008, the Office no longer makes contributions on behalf of employees.

Supplemental Retirement Annuity (SRA)

Plan Description

The Office's SRA plan is a single employer, defined benefit pension plan administered by the Board of Regents. The SRA was established by the Board to provide supplemental retirement and death benefits to Office employees who were hired prior to July 1, 1995, or to those eligible employees' beneficiaries. The authority to establish and amend the Plan's benefit provisions rests with the Board. The Plan does not issue a stand-alone financial report nor is it included in the financial report of another entity.

NOTES TO FINANCIAL STATEMENTS--Continued

ADMINISTRATIVE OFFICE OF THE REGIONAL
UNIVERSITY SYSTEM OF OKLAHOMA

June 30, 2011

NOTE E--RETIREMENT PLANS--Continued

Supplemental Retirement Annuity (SRA)--Continued

Funding Policy

The authority to establish and amend eligible employees' and employer contribution obligations to the SRA rests with the Board. All contributions are made by the Office. Eligible employees are not required to make contributions to the SRA. The Office is required to contribute to the SRA an actuarially determined amount on an annual basis.

Annual Pension Cost and Net Pension Obligation (Asset)

Annual pension cost and net pension obligation (asset) of the SRA for 2011 and 2010 are as follows:

	<u>2011</u>	<u>2010</u>
Annual required contribution	\$ 7,829	\$ 8,591
Interest on net pension obligation (asset)	(7,520)	(7,228)
Adjustment to annual required contribution	<u>9,575</u>	<u>9,203</u>
Annual pension cost	9,884	10,566
Contributions made	<u>(14,220)</u>	<u>(14,220)</u>
Increase in net pension obligation	(4,336)	(3,654)
Net pension obligation (asset) at beginning of year	<u>(94,006)</u>	<u>(90,352)</u>
Net pension obligation (asset) at end of year	<u>\$ (98,342)</u>	<u>\$ (94,006)</u>

The annual required contribution for 2011 was determined as part of an actuarial valuation on June 30, 2011 and 2010, using the projected unit credit cost method. The actuarial assumptions included (a) a discount rate of 8% per year to determine the present value of future benefit payments; (b) retirement at the later of age 65 or vesting age; (c) an 8% rate of return on investments; and (d) projected salary increases of 3.5% per year. The value of the SRA assets is based on the TIAA-CREF group annuity account asset value. The unfunded actuarial accrued liability is being amortized over twenty (20) years as a level dollar amount on a closed basis.

Trend Information

<u>Year Ended June 30</u>	<u>Annual Pension Cost (APC)</u>	<u>Percentage of APC Contributed</u>	<u>Net Pension Obligation (Asset)</u>
2011	\$ 9,884	143.87%	\$ (98,342)
2010	10,566	134.58%	(94,006)
2009	10,587	134.31%	(90,352)

NOTES TO FINANCIAL STATEMENTS--Continued

ADMINISTRATIVE OFFICE OF THE REGIONAL
UNIVERSITY SYSTEM OF OKLAHOMA

June 30, 2011

NOTE E--RETIREMENT PLANS--Continued

Supplemental Retirement Annuity (SRA)--Continued

Funded Status

The funded status of the plan as of June 30, 2011 and 2010, was as follows:

	2011	2010
Actuarial accrued liability (AAL)	\$ 129,768	\$ 132,741
Actuarial value of plan assets	<u>60,515</u>	<u>57,865</u>
Unfunded actuarial accrued liability (UAAL)	<u>\$ 69,253</u>	<u>\$ 74,876</u>
Funded ratio (actuarial value of plan assets/AAL)	46.6%	43.6%
Covered payroll (active plan members)	\$ 105,336	\$ 105,336
UAAL as a percentage of covered payroll	65.7%	71.1%

NOTE F--OTHER POSTEMPLOYMENT INSURANCE BENEFITS (OPEB)

Postemployment Healthcare Plan

Plan Description

The Office's postemployment healthcare plan is an agent multiple-employer defined benefit plan administered by the Regional University System of Oklahoma Board of Regents. The plan provides medical and life insurance benefits to eligible retired employees until age 65. A retiring employee must have been employed full-time in the Regional University System of Oklahoma for not less than ten years immediately preceding the date of retirement; been a member of the Oklahoma Teachers' Retirement System during that time; and elected to receive a vested benefit under the provision of the Oklahoma Teachers' Retirement System. As of June 30, 2011, there were a total of 3 participants, 1 active and 2 retired, in the plan. The retirement insurance program was adopted by the Board of Regents in 1985. In March of 2008, the Retiree Medical Trust for Regional University System of Oklahoma was established to hold assets and pay benefits on behalf of the Office's postemployment healthcare plan, and was administered by The Bank of Oklahoma, N.A.

NOTES TO FINANCIAL STATEMENTS--Continued

ADMINISTRATIVE OFFICE OF THE REGIONAL
UNIVERSITY SYSTEM OF OKLAHOMA

June 30, 2011

NOTE F--OTHER POSTEMPLOYMENT INSURANCE BENEFITS (OPEB)--Continued

Postemployment Healthcare Plan--Continued

Funding Policy

The contribution requirements of the Office are established and may be amended by the Regional University System of Oklahoma Board of Regents. The Office is required to contribute the *annual required contribution* (ARC) of the employer, in an amount actuarially determined in accordance with the parameters of GASB Statement 45. The ARC represents a level of funding that, if paid on an ongoing basis, is projected to cover normal cost each year and amortize any unfunded actuarial liabilities (or funding excess) over a period not to exceed thirty years.

Funded Status and Funding Progress

The funded status of the plan as of June 30, 2011 and 2010, was as follows:

	2011	2010
Actuarial accrued liability (AAL)	\$ 31,465	\$ 31,804
Actuarial value of plan assets	9,589	6,012
Unfunded actuarial accrued liability (UAAL)	<u>\$ 21,876</u>	<u>\$ 25,792</u>
Funded ratio (actuarial value of plan assets/AAL)	30.5%	18.9%
Covered payroll (active plan members)	\$ 367,691	\$ 365,982
UAAL as a percentage of covered payroll	5.9%	7.0%

Annual Cost and Net Obligation (Asset)

Annual OPEB cost and net OPEB obligation (asset) of the plan for 2011 and 2010 are as follows:

Annual required contribution	\$ 3,510	\$ 3,711
Interest on net OPEB obligation	(32)	(32)
Adjustment to annual required contribution	37	(37)
Annual OPEB cost	3,515	3,642
Contribution made	<u>(11,853)</u>	<u>(10,125)</u>
Decrease (Increase) in net OPEB obligation	(8,338)	(6,483)
Net OPEB obligation (asset) at beginning of year	<u>(18,298)</u>	<u>(11,815)</u>
Net OPEB obligation (asset) at end of year	<u>\$ (26,636)</u>	<u>\$ (18,298)</u>

NOTES TO FINANCIAL STATEMENTS--Continued

ADMINISTRATIVE OFFICE OF THE REGIONAL
UNIVERSITY SYSTEM OF OKLAHOMA

June 30, 2011

NOTE F--OTHER POSTEMPLOYMENT INSURANCE BENEFITS (OPEB)--Continued

Postemployment Healthcare Plan--Continued

Actuarial methods and Assumptions

Projections of benefits for financial reporting purposes are based on the substantive plan and include the types of benefits provided at the time of each valuation. The actuarial methods and assumptions used include techniques that are designed to reduce short-term volatility in actuarial accrued liabilities and the actuarial value of assets, consistent with the long-term perspective of the calculations. For the June 30, 2011 and 2010 actuarial valuation, the projected unit credit cost method was used. The actuarial assumptions for June 30, 2011 and 2010 included a 7.0% investment rate of return and an annual healthcare cost inflationary increase of 8.5% and 9.0% respectively.

NOTE G--RISK MANAGEMENT

The Office is exposed to various risks of loss from torts; thefts of, damage to, and destruction of assets; errors and omissions; employee injuries and illnesses; natural disasters, and employee health, life, and accident benefits. Commercial insurance coverage is purchased for claims arising from health, life and long-term disability. Settled claims have not exceeded this commercial coverage in any of the three preceding years.

The Office, 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 Office pays an annual premium to the pools for its torts, property, workers' compensation, and liability insurance coverages. The Oklahoma Risk Management pool's governing agreement specifies the pool will be self-sustaining through member premiums and will reinsure through commercial carriers for claims in excess of specific stop-loss amounts.

NOTES TO FINANCIAL STATEMENTS--Continued

ADMINISTRATIVE OFFICE OF THE REGIONAL
UNIVERSITY SYSTEM OF OKLAHOMA

June 30, 2011

NOTE H--COMMITMENTS AND CONTINGENCIES

Operating leases for office space and copy equipment expire in years through 2014. Future minimum lease payments are as follows:

Year Ending <u>June 30</u>	
2012	\$ 29,411
2013	<u>5,454</u>
Total minimum lease payments	<u>\$ 34,865</u>

NOTE I--ACCOUNTING STANDARDS ISSUED NOT YET ADOPTED

GASB 60 – Accounting and Financial Reporting for Service Concession Arrangements:

In November 2010, GASB issued Statement No. 60, *Accounting and Financial Reporting for Service Concession Arrangements*. GASB No. 60 addresses issues related to service concession arrangements (SCAs), which are a type of public-private or public-public partnership. This Statement applies only to those arrangements in which specific criteria determining whether a transferor has control over the facility are met. The requirements of this Statement are effective for financial statements for periods beginning after December 15, 2011.

GASB 61 – Financial Reporting Entity Omnibus – an Amendment of GASB No. 14 and 34:

In November 2010, GASB issued Statement No. 61, *The Financial Reporting Entity: Omnibus – An Amendment of GASB Statements No. 14 and No. 34*. GASB No. 61 modifies certain requirements for inclusion of component units in the financial reporting entity. This Statement also amends the criteria for reporting component units as if they were part of the primary government (that is, blending) in certain circumstances. The requirements of this Statement are effective for financial statements for periods beginning after June 15, 2012. Earlier application is encouraged.

GASB 62 – Codification of Accounting and Financial Reporting Guidance Contained in Pre-November 30, 1989 Financial Statements:

In December 2010, the GASB issued Statement No. 62, *Codification of Accounting and Financial Reporting Guidance Contained in Pre-November 30, 1989 FASB and AICPA Pronouncements*. GASB No. 62 is intended to enhance the usefulness of its Codification by incorporating guidance that previously could only be found in certain FASB and AICPA pronouncements.

NOTES TO FINANCIAL STATEMENTS--Continued

ADMINISTRATIVE OFFICE OF THE REGIONAL
UNIVERSITY SYSTEM OF OKLAHOMA

June 30, 2011

NOTE I--ACCOUNTING STANDARDS ISSUED NOT YET ADOPTED--Continued

GASB 62 – Codification of Accounting and Financial Reporting Guidance Contained in Pre-November 30, 1989 Financial Statements--Continued:

The requirements of this Statement are effective for financial statements for periods beginning after December 15, 2011. Earlier application is encouraged.

GASB 63 – Financial Reporting of Deferred Outflow of Resources, Deferred Inflow of Resources and Net Position:

In June 2011, the GASB issued Statement No. 63, *Financial Reporting of Deferred Outflows of Resources, Deferred Inflows of Resources, and Net Position*. GASB No. 63 provides financial reporting guidance for deferred outflows of resources and deferred inflows of resources. Previous financial reporting standards do not include guidance for reporting those financial statement elements, which are distinct from assets and liabilities. The requirements of this Statement are effective for financial statements for periods beginning after December 15, 2011. Earlier application is encouraged.

The Office is currently evaluating the effects that the above GASB Pronouncements will have on its financial statements.

REQUIRED SUPPLEMENTARY
INFORMATION

REQUIRED SUPPLEMENTARY INFORMATION

ADMINISTRATIVE OFFICE OF THE REGIONAL
UNIVERSITY SYSTEM OF OKLAHOMA

June 30, 2011

SCHEDULE OF FUNDING PROGRESS FOR SUPPLEMENTAL RETIREMENT ANNUITY PLAN

Actuarial Valuation Date	Actuarial Value of Assets (a)	Actuarial Accrued Liability (AAL) (b)	Unfunded AAL (UAAL) (b-a)	Funded Ratio (a/b)	Covered Payroll (c)	UAAL as a percentage of Covered Payroll (b-a)/(c)
6/30/2006	\$ 45,191	\$ 120,894	\$ 75,703	37%	\$ 136,953	55%
6/30/2007	49,465	133,135	83,670	37%	94,552	88%
6/30/2008	52,327	136,839	84,512	38%	103,336	82%
6/30/2009	55,255	136,972	81,717	40%	105,336	78%
6/30/2010	57,865	132,741	74,876	44%	105,336	71%
6/30/2011	60,515	129,768	69,253	47%	105,336	66%

SCHEDULE OF FUNDING PROGRESS FOR OTHER POSTEMPLOYMENT INSURANCE BENEFITS

Actuarial Valuation Date	Actuarial Value of Assets (a)	Actuarial Accrued Liability (AAL) (b)	Unfunded AAL (UAAL) (b-a)	Funded Ratio (a/b)	Covered Payroll (c)	UAAL as a percentage of Covered Payroll (b-a)/(c)
6/30/2008	\$ 3,000	\$ 24,000	\$ 21,000	12.5%	\$ 399,714	5.25%
6/30/2009	3,000	20,688	17,688	14.5%	371,679	4.76%
6/30/2010	6,012	31,804	25,792	18.9%	365,982	7.05%
6/30/2011	9,589	31,465	21,876	30.5%	367,691	5.95%

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

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

Boards of Regents of Regional University System of Oklahoma
Oklahoma City, Oklahoma

We have audited the financial statements of the Administrative Office of the Regional University System of Oklahoma (the "Office"), a component unit of the State of Oklahoma, as of and for the year ended June 30, 2011 and have issued our report thereon dated October 28, 2011. Our report was modified to include an explanatory paragraph stating that the Office has not presented Management's Discussion and Analysis. We conducted our audits in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered the Office'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 Office's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the Office's internal control over financial reporting.

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

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

Compliance And Other Matters

As part of obtaining reasonable assurance about whether the Office's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, non-compliance 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 non-compliance or other matters that are required to be reported under *Government Auditing Standards*.

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

Cole & Reed P.C.

Oklahoma City, Oklahoma
October 28, 2011