

EAST CENTRAL UNIVERSITY

June 30, 2011

EAST CENTRAL UNIVERSITY

June 30, 2011

AUDITED FINANCIAL STATEMENTS

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Independent Auditors' Report

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

We have audited the accompanying statement of net assets of East Central University (the "University"), a component unit of the State of Oklahoma, as of June 30, 2011, and the related statements of revenues, expenses and changes in net assets and cash flows for the year then ended. These financial statements are the responsibility of the University's management. Our responsibility is to express an opinion on these financial statements based on our audit. We did not audit the financial statements of the University's discretely presented component unit East Central University Foundation, Inc. (the "Foundation"). Those financial statements were audited by other auditors whose report thereon has been furnished to us, and our opinion, insofar as it relates to the amounts included for the Foundation, is based on the report of the other auditors.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. The financial statements of the Foundation were audited by other auditors and were not audited in accordance with *Government Auditing Standards*. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and 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, based on our audit and the report of the other auditors, the financial statements referred to above present fairly, in all material respects, the respective financial position of East Central University and its discretely presented component unit, East Central University Foundation, Inc. as of June 30, 2011, and the respective changes in financial position and, where applicable, cash flows thereof for the year then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued our report dated October 25, 2011, on our consideration of the University's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, 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 is important in assessing the results of our audit.

Management's Discussion and Analysis and the Schedules of Funding Progress for the Supplemental Retirement Annuity Plan and Other Post-Employment Insurance Benefits Plan are not a required part of the basic financial statements but are 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 25, 2011

**East Central University
Management's Discussion and Analysis
Year Ended June 30, 2011
(Unaudited)**

OVERVIEW OF FINANCIAL STATEMENTS AND FINANCIAL ANALYSIS

East Central University presents its financial statements for fiscal year 2011. Presented separately from the University are East Central University Foundation (The Foundation) financial statements. The Foundation is a discretely presented component unit of East Central University and has trustees that are independently elected. The Foundation also issues its financial statements in a separate report. Emphasis of discussions concerning these statements will be for the 2011 fiscal year data in comparison with the 2010 fiscal year data. While the 2010 data is not a part of the financial statements, significant fluctuations between the 2011 and 2010 data will be discussed. The Foundation statements will not be a part of this discussion and analysis. The three financial statements, prepared in accordance with Governmental Accounting Standards Board (GASB) principles, are: the Statement of Net Assets; the Statement of Revenues, Expenses, and Changes in Net Assets; and the Statement of Cash Flows. Since changes reflected in the Statement of Cash Flows will be discussed in the analysis of the other two statements, the Statement of Cash Flows will not be presented in this discussion and analysis. Dollar amounts presented in table and graph formats are in thousands of dollars and those presented in the discussion are rounded to thousands. This discussion and analysis of the University's financial statements is designed to assist the readers in understanding the accompanying financial statements and to summarily quantify the status, sources and uses of resources. The University will also utilize these statements in conjunction with prior year data to focus on trends and establish benchmark comparisons.

Statement of Net Assets

The statement of Net Assets presents the Assets (current and non-current), Liabilities (current and non-current), and Net Assets (assets minus liabilities) at the end of the fiscal year. The purpose of the Statement of Net Assets is to allow readers of the financial statements to determine the assets available to continue the operations of the University. They are also able to determine how much the University owes vendors, investors and lending institutions. Finally, the Statement of Net Assets provides a picture of the net assets (assets minus liabilities) and their availability for expenditure by the University. The change in net assets is an indicator of the overall financial condition of the University.

Net assets are divided into three major categories. The first category, Invested in Capital Assets, Net of Debt, provides the institution's equity in property, plant and equipment owned by the institution and is recorded at historical cost less accumulated depreciation. The next category, Restricted-Expendable Net Assets, measured in current value, is available for expenditure by the institution, but must be spent for purposes as determined by donors and/or external entities that have placed time or purpose restrictions on the use of the assets. The final category is Unrestricted Net Assets, also measured in current value. Unrestricted assets are available to the institution for any lawful purpose of the institution.

East Central University
Management's Discussion and Analysis (Continued)
Year Ended June 30, 2011
(Unaudited)

OVERVIEW OF FINANCIAL STATEMENTS AND FINANCIAL ANALYSIS (Continued)

Statement of Net Assets--Continued

Statement of Net Assets (Thousands of Dollars)	June 30	
	2011	2010
Assets:		
Current assets	\$ 25,273	\$ 21,018
Capital assets, net	58,919	59,484
Other assets	6,217	5,443
Total Assets	90,409	85,945
Liabilities		
Current Liabilities	4,592	5,119
Noncurrent Liabilities	26,946	26,823
Total Liabilities	31,538	31,942
Net Assets		
Invested in capital assets, net of debt	34,609	33,115
Restricted-expendable	2,848	3,186
Unrestricted	21,413	17,702
Total Net Assets	\$ 58,870	\$ 54,003

**East Central University
Management's Discussion and Analysis (Continued)
Year Ended June 30, 2011
(Unaudited)**

OVERVIEW OF FINANCIAL STATEMENTS AND FINANCIAL ANALYSIS (Continued)

Statement of Net Assets--Continued

Current assets increased \$4,255,000 due to an on-going management initiative to increase the cash reserve and increased enrollment. The initiative to increase cash reserve was implemented by maintaining unfilled positions where possible and conservative processes in computing tuition and fee revenues on the annual budget. The slight decrease in capital assets was from a larger annual surplus auction. A retaining wall with a cost of \$54,600, the art incubator with a cost of \$113,900 and the Horace Mann renovation with a cost of \$1,393,000 were completed in the 2011 fiscal year. The University is currently in the process of renovating the band room at a current cost of \$121,800 and the Education Building first floor at a current cost of \$63,800. The University has begun a window replacement project on Pesagi and the Education Building with an estimated cost of \$160,000. East Central University has plans to construct a new School of Business and Conference Center with an estimated cost of \$10-\$12 million in fiscal year 2012. The three story 62,000 square foot facility will provide new technology and innovative approaches to students in the School of Business. As a conference center, it will be one of the largest venues for community events in the area. It will be capable of seating 500 at banquets and can be divided into three breakout rooms. With the use of FEMA funds, the banquet room will also serve as a community safe room. The increase in other assets is mainly due to the refinance of the 2005F series bonds by OCIA with the 2010 A/B series bonds. The refinance resulted in an addition to deferred cost in the amount of \$963,000 to be amortized over six years beginning in fiscal year 2011.

Total liabilities as of June 30, 2011 decreased minimally from June 30, 2010 based on normal debt retirement. In the fiscal year ending June 30, 2011 the University retired \$872,000 of long-term debt and increased the liability to OCIA by \$963,000 due to the refinancing of the 2005F series bonds with the 2010A/B series bonds.

East Central University
Management's Discussion and Analysis (Continued)
Year Ended June 30, 2011
(Unaudited)

OVERVIEW OF FINANCIAL STATEMENTS AND FINANCIAL ANALYSIS (Continued)

Statement of Revenues, Expenses, and Changes in Net Assets

Another measure of an institution's fiscal stability is how operating revenues compare to operating expenses. Operating revenues are earned in exchange for providing goods and services and operating expenses are incurred in the normal operations of the University. While public institutions will not normally have an excess of operating revenues over operating expenses (State Appropriations, some federal and state grants, gifts and investment income are required to be reported as non-operating Revenues by GASB principles) the excess of operating revenues and non-operating revenues over expenses is normally an indication of the University's ability to operate within its available resources.

Statement of Revenues, Expenses and Changes in Net Assets
(Thousands of dollars)

	June 30	
	2011	2010
Operating Revenues		
Tuition, fees, housing & food service	\$ 20,966	\$ 19,154
Grants and contracts	10,406	10,954
Other operating revenues	1,469	1,381
Total operating revenues	32,841	31,489
Operating expenses		
Compensation	33,684	32,444
Contractual services	4,951	4,389
Supplies & materials	4,552	6,120
Depreciation	2,907	2,415
Other operating expenses	20,452	19,255
Total operating expenses	66,546	64,623
Net operating income (loss)	(33,705)	(33,134)
Non-operating revenues (expenses)		
State appropriations	17,586	17,533
ARRA funds	1,277	1,427
Grants and contracts	17,260	16,466
Other revenues	2,089	2,857
Interest expense	(1,037)	(1,113)
Total non-operating	37,175	37,170
Other revenues and gains	1,397	1,774
Change in net assets	4,867	5,810
Net assets		
Net assets, beginning of year	54,003	48,193
Net assets, end of year	\$ 58,870	\$ 54,003

East Central University
Management's Discussion and Analysis (Continued)
Year Ended June 30, 2011
(Unaudited)

OVERVIEW OF FINANCIAL STATEMENTS AND FINANCIAL ANALYSIS (Continued)

Statement of Revenues, Expenses, and Changes in Net Assets--Continued

The University realized a steady increase in enrollment each semester of fiscal year 2011 resulting in an increase in tuition, fee, housing and food service revenues of \$1,812,000 from fiscal year 2010. While the tuition and fee revenue increase for fiscal year 2011 is consistent with the approximate 7% increase in enrollment, the bookstore, housing and food service increase of \$490,000 or 10% is a result of a three year program to streamline the processes of housing and food service accountability, substantial increases in housing and food service charges, as well as the enrollment increase.

Additionally, the increased enrollment affected compensation expenses, a \$1,240,000 increase as adjunct faculty positions were utilized to accommodate the additional enrollment in fiscal year 2011. Supplies and materials expense decreased by \$1,568,000, which was due to expenses incurred in fiscal year 2010 for equipping the Fine Arts Center. Scholarship and fellowship expenses, the main component of other operating expenses, also increased almost \$583,000 due to the enrollment increase as students utilized more federal and state aid programs.

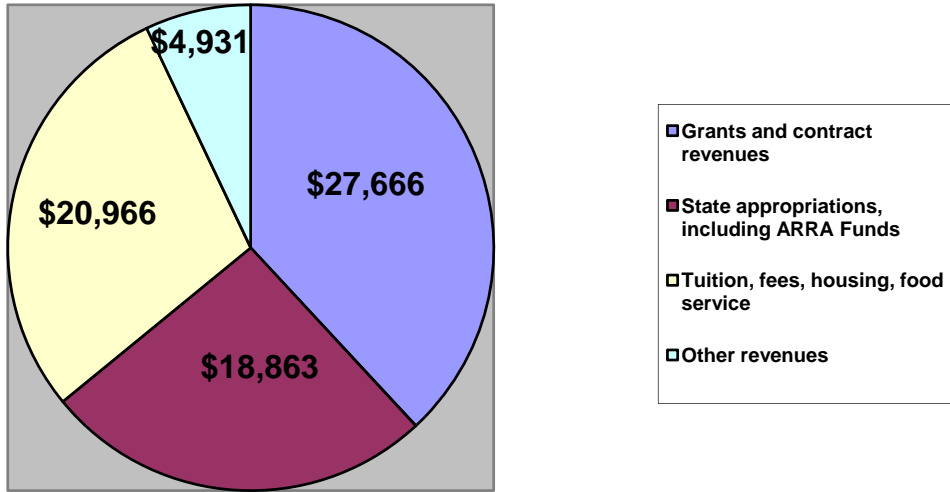
State appropriations are consistent with fiscal year 2010 as the State continued to utilize Federal ARRA funds to supplement the University appropriations as the state-wide economic downturn affected state funding sources and cash flow.

Overall, the University realized a \$4,867,000 growth in net assets.

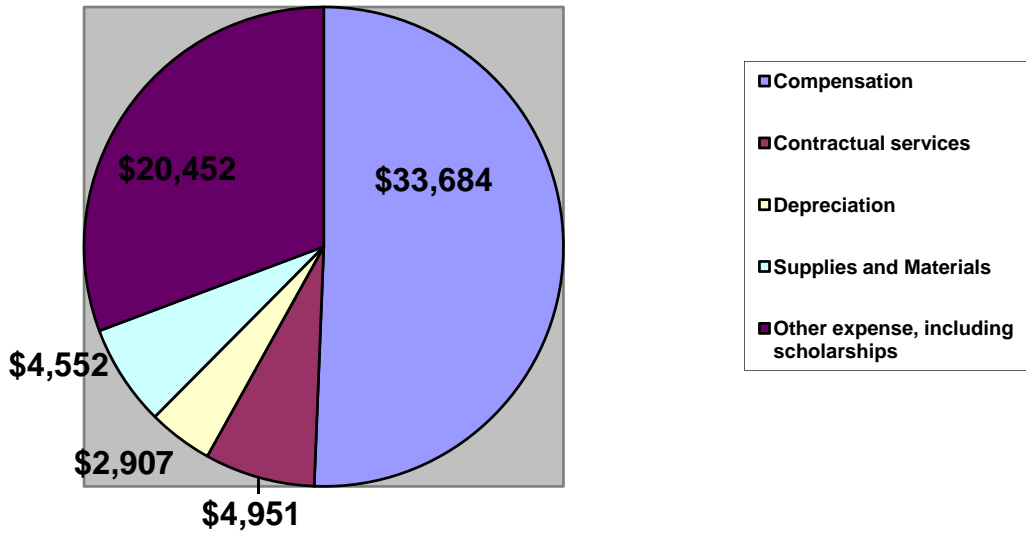
The major sources of revenues and expenditures (operating and non-operating) by the financial statement categories are summarized in the charts below (in thousands of dollars).

East Central University
 Management's Discussion and Analysis (Continued)
 Year Ended June 30, 2011
 (Unaudited)

Revenues



Expenditures



East Central University
Management's Discussion and Analysis (Continued)
Year Ended June 30, 2011
(Unaudited)

STATEMENT OF CASH FLOWS

The Statement of Cash Flows provides information about the University's financial results by reporting the major sources and uses of cash and cash equivalents. Cash flows from operating activities show the net cash used by the operating activities of the University. Cash flows from noncapital financing activities consist primarily of revenue sources that fund operations but are considered non-operating activities by definition. Cash flows from capital activities include capital asset and related long-term debt activities. Cash flows from investing activities show the proceeds and uses of cash related to purchasing or selling investments, and related investment earnings thereon. The University's Statement of Cash Flows is presented on pages 12 and 13 of the financial statements.

ECONOMIC OUTLOOK

During the 2011 fiscal year the University operated within its available resources as total revenues exceeded total expenses by \$4,868,000 and management's goal of increasing cash reserves has been effective. In fiscal year 2011 tuition, fee, housing and food service revenue accounted for 29% of the University's total revenue. A steady increase in enrollment has continued into the fall 2011 semester and the State Regents approved a 5% increase in tuition and fees for the 2011-2012 school years. The University did not raise any mandatory student fees for the 2011-2012 school years.

State appropriations, approximately 24% of total revenues without the ARRA funds and 26% including the ARRA funds, were consistent for fiscal year 2011 as compared to fiscal year 2010 as the state continues to experience a short-fall in state revenue collections. State appropriations to the University are expected to increase slightly utilizing other State revenue sources. The total State appropriations are still not expected to be at the fiscal year ending 2009 level, thereby negatively impacting the University's financial resources from this source.

Grant and contract revenues, currently representing 38% of total revenues for the University have continued to grow. Changes in the student loan and grant programs, have occurred during fiscal year 2011, but grant and contract resources have not been negatively impacted by the national economic down-turn as the University acquired replacement funding for grants and programs that were decreased. The University has prepared contingency plans based on state appropriation cuts and the national economic status, and has not incurred any significant new debt.

STATEMENT OF NET ASSETS

EAST CENTRAL UNIVERSITY

June 30, 2011

	University	Component Unit
ASSETS		
CURRENT ASSETS		
Cash and cash equivalents	\$ 21,470,395	\$ 751,533
Accounts receivable, net	1,394,316	95,488
Grants and contracts receivable	2,303,621	-
Interest receivable	9,446	116,454
Current portion of notes receivable, net	95,000	-
TOTAL CURRENT ASSETS	25,272,778	963,475
NONCURRENT ASSETS		
Restricted cash and cash equivalents	1,409,334	-
Restricted investments	487,085	-
Investments	-	23,822,556
Investments held by others	538,396	-
Receivable from OCIA	368,604	-
Receivable from OSRHE Endowment Trust Fund	260,513	-
Notes receivable, net	1,262,980	-
Net Pension Asset	296,392	-
Net OPEB Asset	142,073	-
Other assets	1,451,824	208,388
Capital assets, net	58,918,896	6,747
TOTAL NONCURRENT ASSETS	65,136,097	24,037,691
TOTAL ASSETS	\$ 90,408,875	\$ 25,001,166
LIABILITIES		
CURRENT LIABILITIES		
Accounts and scholarships payable	\$ 1,201,071	\$ 62,086
Accrued payroll	106,493	-
Accrued interest	163,464	-
Deferred revenue	1,492,935	4,270,274
Deposits held in custody for others	186,515	12,582
Current portion of non current liabilities	1,441,992	-
TOTAL CURRENT LIABILITIES	4,592,470	4,344,942
NONCURRENT LIABILITIES		
Accrued compensated absences	389,926	-
Federal loan program contributions refundable	1,358,507	-
Bonds payable	9,815,000	-
ODFA master lease obligations	4,008,000	-
Premium on Bonds	10,350	-
Lease obligations payable to OCIA	11,364,403	-
TOTAL NONCURRENT LIABILITIES	26,946,186	-
TOTAL LIABILITIES	31,538,656	4,344,942
NET ASSETS		
Invested in capital assets, net of debt	34,608,603	-
Restricted		
Nonexpendable		
Grants, bequests and contributions	-	14,559,999
Expendable		
Scholarships, instruction and other	647,836	5,291,614
Loans	178,193	-
Capital projects	1,230,614	-
Debt service	791,992	-
Unrestricted	21,412,981	804,611
TOTAL NET ASSETS	\$ 58,870,219	\$ 20,656,224

See notes to financial statements.

STATEMENT OF REVENUES, EXPENSES, AND CHANGES IN NET ASSETS

EAST CENTRAL UNIVERSITY

Year Ended June 30, 2011

	<u>University</u>	<u>Component Unit</u>
OPERATING REVENUES		
Student tuition and fees, net of scholarship discounts and allowances of \$8,398,143 (revenues of \$579,944 pledged as security on University Center Revenue Bonds of 1993, revenues of \$382,998 pledged as security on Fine Arts Center Revenue Bonds of 2005).	\$ 15,572,427	\$ -
Federal grants and contracts	6,896,262	-
State and local grants and contracts	3,510,114	-
Bookstore operations	228,643	-
Housing and food service (revenues of \$2,917,558 pledged as security on Student Housing Revenue bonds of 2003).	5,164,575	-
Investment income	-	3,169,311
Contributions	-	1,450,913
Other operating revenues	1,469,293	3,547
TOTAL OPERATING REVENUES	<u>32,841,314</u>	<u>4,623,771</u>
OPERATING EXPENSES		
Compensation and employee benefits	33,683,929	-
Contractual services	4,951,478	-
Supplies and materials	4,551,879	-
Depreciation	2,907,310	3,084
Utilities	1,074,751	-
Communication expense	216,070	-
Scholarships and fellowships	13,221,775	315,910
Other operating expenses	5,939,086	1,208,215
TOTAL OPERATING EXPENSES	<u>66,546,278</u>	<u>1,527,209</u>
OPERATING INCOME (LOSS)	(33,704,964)	3,096,562
NONOPERATING REVENUES (EXPENSES)		
State appropriations	17,586,486	-
State appropriations - ARRA	1,276,758	-
On-behalf contributions for OTRS	1,506,000	-
Federal Grants	10,858,448	-
State Grants	6,401,414	-
Gifts and contributions	354,424	-
Investment income	206,884	-
Other non-operating revenues	21,912	-
Interest expense	(1,037,105)	-
NET NONOPERATING REVENUE (EXPENSES)	<u>37,175,221</u>	<u>-</u>
Income before other revenues, expenses, gains and losses	3,470,257	3,096,562
CAPITAL GIFTS AND GRANTS		
State appropriations restricted for capital purposes	1,025,562	-
OCIA on-behalf state appropriations	371,778	-
TOTAL CAPITAL GIFTS AND GRANTS	<u>1,397,340</u>	<u>-</u>
CHANGE IN NET ASSETS	4,867,597	3,096,562
NET ASSETS		
NET ASSETS, BEGINNING OF YEAR	<u>54,002,622</u>	<u>17,559,662</u>
NET ASSETS, END OF YEAR	<u>\$ 58,870,219</u>	<u>\$ 20,656,224</u>

See notes to financial statements.

STATEMENT OF CASH FLOWS

EAST CENTRAL UNIVERSITY

Year Ended June 30, 2011

CASH FLOWS FROM OPERATING ACTIVITIES

Tuition and fees	\$ 15,154,490
Grants and contracts	11,107,940
Auxiliary enterprise charges	5,413,736
Other operating receipts	1,452,684
Payments to employees for salaries and benefits, net of on-behalf payments	(32,035,449)
Payments to suppliers	<u>(30,075,865)</u>
NET CASH USED IN OPERATING ACTIVITIES	(28,982,464)

CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES

State appropriations	18,863,244
Non-operating grants	17,259,862
Contributions	34,505
Cash received from Non-Operating Revenues	4,274
Direct Loan receipts	21,175,310
Direct Loan payments	<u>(21,175,310)</u>
NET CASH PROVIDED BY NONCAPITAL FINANCING ACTIVITIES	<u>36,161,885</u>

CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES

Cash paid for capital assets	(2,118,777)
Capital appropriations received	1,025,562
Repayments of capital debt and leases	(823,000)
Interest paid on capital debt and leases	<u>(672,961)</u>
NET CASH USED IN CAPITAL AND RELATED FINANCING ACTIVITIES	<u>(2,589,176)</u>

CASH FLOWS FROM INVESTING ACTIVITIES

Purchases of investments	(1,896,334)
Proceeds from sales and maturities of investments	1,893,393
Interest received on investments	<u>206,884</u>
NET CASH PROVIDED BY INVESTING ACTIVITIES	<u>203,943</u>

NET CHANGE IN CASH AND CASH EQUIVALENTS 4,794,188

CASH AND CASH EQUIVALENTS AT BEGINNING OF YEAR 18,085,541

CASH AND CASH EQUIVALENTS AT END OF YEAR \$ 22,879,729

See notes to financial statements.

STATEMENTS OF CASH FLOWS--Continued

EAST CENTRAL UNIVERSITY

Year Ended June 30, 2011

RECONCILIATION OF OPERATING LOSS TO
NET CASH USED IN OPERATING ACTIVITIES

Operating loss	\$ (33,704,964)
Adjustments to reconcile operating loss to net cash used in operating activities:	
Depreciation expense	2,907,310
Allowance for bad debt expense	191,478
Loss on disposal of capital assets	24,358
On-behalf contributions to teachers' retirement system	1,506,000
Changes in assets and liabilities:	
Student accounts receivable	(498,555)
Other receivables	697,480
Net Pension and OPEB Assets	48,654
Accounts payable and accrued liabilities	(145,184)
Accrued payroll	25,751
Deferred revenue	(123,385)
Due to student organizations	20,518
Compensated absences	68,075
NET CASH USED IN OPERATING ACTIVITIES	<u>\$ (28,982,464)</u>

NONCASH INVESTING, NONCAPITAL FINANCING AND
CAPITAL AND RELATED FINANCING ACTIVITIES

Interest on capital debt paid by state agency on behalf of the University	\$ 50,954
Principal on capital debt paid by state agency on behalf of the University	48,571
Write-off of OCIA bond premium	<u>272,253</u>
Total noncash investing, noncapital financing and capital and related financing activities	<u>\$ 371,778</u>

RECONCILIATION OF CASH AND CASH
EQUIVALENTS TO STATEMENTS OF NET ASSETS

Current assets	
Cash and cash equivalents	\$ 21,470,395
Noncurrent assets	
Restricted cash and cash equivalents	<u>1,409,334</u>
	<u>\$ 22,879,729</u>

See notes to financial statements.

NOTES TO FINANCIAL STATEMENTS

EAST CENTRAL UNIVERSITY

June 30, 2011

NOTE A--SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Nature of Organization: East Central University (the "University") is a regional University operating under the jurisdiction of the Regional University System of Oklahoma and the Oklahoma State Regents for Higher Education.

Reporting Entity: The financial 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 Organizations Are Component Units-an amendment of GASB Statement No. 14*, includes the accounts and funds of the University and its discretely presented component unit, East Central University Foundation, Inc. (the "Foundation"). The University is a component unit of the State of Oklahoma and is included in the general-purpose financial statements of the state as part of the Higher Education component unit.

Discretely Presented Component Units: East Central University Foundation, Inc. (the "Foundation") is a component unit of the University under GASB 39 that is discretely presented with the financial statements of the University. The University is the beneficiary of the Foundation, a separate legal entity with their own Boards of Trustees. The Foundation is organized for the benefit of the University, and its faculty, student body and programs. The purposes for which the Foundation is organized are exclusively scientific, literary, charitable, educational, and artistic for the benefit of East Central University (the "University"), Ada, Oklahoma, its faculty, its student body, and its programs. Additional and selected disclosures for the Foundation are located in this report beginning with Note N. A complete report of the Foundation's financial statements and footnotes can be requested from the Foundation's director.

The Foundation is a private nonprofit organization that reports under the Financial Accounting Standards Board ("FASB") standards. 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 University's financial reporting entity for these differences.

Financial Statement Presentation: The University's financial statements are presented in accordance with the requirements of GASB Statement No. 34, *Basic Financial Statement 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 University 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.

NOTES TO FINANCIAL STATEMENTS--Continued

EAST CENTRAL UNIVERSITY

June 30, 2011

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

Basis of Accounting: For financial reporting purposes, the University is considered a special-purpose government engaged only in business-type activities. Accordingly, the University'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 University has the option to apply all Financial Accounting Standards Board (FASB) pronouncements issued after November 30, 1989, unless FASB conflicts with GASB. The University has elected to not apply FASB pronouncements issued after the applicable date.

Cash Equivalents: For purposes of the statement of cash flows, the University 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.

Investments: The University accounts for its investments at fair value in accordance with GASB Statement No. 31, *Accounting and Financial Reporting for Certain Investments and for External Investment Pools*. Changes in unrealized gain (loss) on the carrying value of investments are reported as a component of investment income in the statements of revenues, expenses and changes in net assets.

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

Accounts Receivable: Accounts receivable consists of tuition and fee charges to students and auxiliary enterprise services provided to students, faculty and staff, the majority of each residing in the State of Oklahoma. Accounts receivable also include amounts due from the federal government, state and local governments, or private sources, in connection with reimbursement of allowable expenditures made pursuant to the University's grant and contracts. Accounts receivable are recorded net of estimated uncollectible amounts.

Capital Assets: Capital assets are recorded at cost at the date of acquisition, or fair market value at the date of donation in the case of gifts. For equipment, the University's capitalization policy includes all items with a unit cost of \$2,500 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 was incurred.

NOTES TO FINANCIAL STATEMENTS--Continued

EAST CENTRAL UNIVERSITY

June 30, 2011

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

Capital Assets--Continued: Depreciation is computed using the straight-line method over the estimated useful lives of the assets, generally 40 to 60 years for buildings, 20 to 30 years for infrastructure and land improvements, and 5 to 10 years for library materials and equipment. Depreciation expense includes amortization of assets held under capital lease obligations.

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

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

Noncurrent liabilities: Noncurrent liabilities include (1) principal amounts of revenue bonds payable, notes payable, and capital lease obligations with contractual maturities greater than one year, (2) estimated amounts for accrued compensated absences and other liabilities that will not be paid within the next fiscal year, and (3) other liabilities that, although payable within one year, are to be paid from funds that are classified as noncurrent assets.

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

Invested in capital assets, net of related debt: This represents the University'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 University is legally or contractually obligated to spend resources in accordance with restrictions imposed by external third parties.

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

NOTES TO FINANCIAL STATEMENTS--Continued

EAST CENTRAL UNIVERSITY

June 30, 2011

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

Net Assets--Continued: When an expense is incurred that can be paid using either restricted or unrestricted resources, the University's policy is to first apply the expense towards restricted resources, and then toward unrestricted resources.

Income Taxes: The University, 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.

Use of 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.

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

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

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

NOTES TO FINANCIAL STATEMENTS--Continued

EAST CENTRAL UNIVERSITY

June 30, 2011

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

Use of Estimates: The preparation of the accompanying financial statements in conformity with accounting principles generally accepted in the United States requires management to make estimates and assumptions that affect the amounts reported in the financial statements and accompanying notes. Actual results could differ from those in the estimates.

NOTE B--DEPOSITS AND INVESTMENTS

Deposits: *Custodial credit risk* for deposits is the risk that in the event of a bank failure, the University's deposits may not be returned or the University will not be able to recover collateral securities in the possession of an outside party. Generally, the University deposits its funds with the Office of the State Treasurer (OST) and those funds are pooled with funds of other state agencies and then, 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. If the University deposits funds directly with financial institutions, those funds must be insured by Federal Deposit Insurance or collateralized by securities held by the cognizant Federal Reserve Bank in the University's name. Some deposits with the OST are placed in the OST'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; (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 OST, and (e) various other investments as allowed by law.

At June 30, 2011, the carrying amount of all University deposits with the OST and other financial institutions were \$22,879,729. This amount consists of deposits with the OST (\$22,864,480) and change funds (\$15,249). Of funds on deposit with the OST, amounts invested in *OK INVEST* total \$5,012,767 in 2011.

NOTES TO FINANCIAL STATEMENTS--Continued

EAST CENTRAL UNIVERSITY

June 30, 2011

NOTE B--DEPOSITS AND INVESTMENTS--Continued

Deposits--Continued: For financial reporting purposes, deposits with the OST that are invested in *OK INVEST* are classified as cash equivalents. The distribution of deposits in *OK INVEST* are as follows:

<u>OK INVEST Portfolio</u>	<u>Cost</u>	<u>Market Value</u>
U.S. Agency securities	\$ 1,830,838	\$ 1,845,516
Money market mutual funds	551,126	551,126
Certificates of deposits	236,689	236,689
Tri-party repurchase agreements	338,267	338,267
Mortgage backed agency securities	1,818,385	1,898,694
Municipal bonds	99,915	108,198
Foreign bonds	18,637	18,637
Commercial paper	46,588	46,593
U.S. Treasury Obligations	72,322	85,693
TOTAL	<u>\$ 5,012,767</u>	<u>\$ 5,129,413</u>

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 OST 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 probably 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 OST 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 no more than four years.

NOTES TO FINANCIAL STATEMENTS--Continued

EAST CENTRAL UNIVERSITY

June 30, 2011

NOTE B--DEPOSITS AND INVESTMENTS--Continued

Deposits--Continued: Participants in *OK INVEST* maintain an interest in its underlying investments and, accordingly, may be exposed to certain risks. As stated in the OST 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 of Oklahoma, the Federal Deposit Insurance Corporation or any other government agency.

Investments: Investment *credit risk* is the risk that an issuer or other counterparty to an investment will not fulfill its obligations. Generally, the University's investments are managed by the State Treasurer. In accordance with state statutes the State Treasurer may only purchase and invest in (a) obligations of the United States government, its agencies and instrumentalities; (b) prime banker's acceptances; (c) investment grade obligations of state and local governments; (d) money market funds; (e) collateralized or insured certificates of deposits; (f) negotiable certificates of deposits; (g) prime commercial paper; and (h) repurchase agreements. *Interest rate risk* is the risk that changes in interest rates will adversely affect the fair value of an investment. Investments that are held for longer periods of time are subject to increased risk of adverse interest changes. Neither the University nor state statutes limit investment maturities as a means of managing exposure to fair value losses arising from increasing interest rates; however, the OST Investment policy limits the average maturity on its portfolio to four (4) years, with certain individual securities having more restrictive limits as defined in the policy. *Concentration of credit risk* is the risk of loss attributed to the magnitude of the University's investment in a single issuer. Neither the University's investment policy nor state statutes place limits on amounts that can be invested in any one issuer; however, the OST Investment Policy states that, with the exception of U.S. Treasury securities, no more than 50% of the State's total funds may be invested in a single security type or with a single financial institution, with diversification percentages being more restrictive on individual securities.

NOTES TO FINANCIAL STATEMENTS--Continued

EAST CENTRAL UNIVERSITY

June 30, 2011

NOTE B--DEPOSITS AND INVESTMENTS--Continued

Investments--Continued: *Custodial credit risk* for investments is the risk that, in the event of failure of the counterparty, the University will not be able to recover the value of its investments or collateral securities in the possession of an outside party. As of June 30, 2011, none of the University's investments were subject to custody credit risk.

At June 30, 2011, the University had cash and cash equivalents totaling \$538,396 as a part of the ODFA Lease program. These funds had a fair market value of \$538,396 at June 30, 2011. These funds are labeled Investments Held By Other on the University's statement of net assets.

Bond fund cash and investments: Certain non-pooled cash and investments are restricted in purpose by policies incorporated in applicable bond indentures. *Credit risk* policy generally restricts investing to cash, investments fully insured by the FDIC and U.S. government and agency securities or mutual funds investing in these types of securities. There may be some variance among the investments authorized by the specific bond indentures of University bond issues. The OST and/or a trustee bank generally provide the management of restricted, non-pooled investments. *Custodial credit risk* is not addressed by bond indentures. *Interest rate risk* in bond indentures provide that investments mature in no more than six to sixty months depending on the purpose of the funds and the requirements of the account in which the funds are deposited (i.e. construction, reserve, operations and maintenance, etc.) *Concentration of credit risk* is not addressed.

At June 30, 2011, the University had cash and investments in restricted bond funds totaling \$2,264,277. The restricted investments in these bond funds amounted to \$487,085 at June 30, 2011. The investment funds had a fair market value of \$487,085 at June 30, 2011. The invested bond funds are not subject to maturity dates and are due on demand. The University, in association with various Trustees, has by law and in accordance with the trust indentures; obtained various security and investment accounts to pay bond indebtedness and secure funds for said future payments. These funds are invested at the discretion of the Trustee, with no input from the University. Invested bond funds of \$255,898 had an average credit rating of A, and the invested bond funds of \$231,187 had an average credit rating of AAAM at June 30, 2011, according to Standard and Poor's and Moody's.

NOTES TO FINANCIAL STATEMENTS--Continued

EAST CENTRAL UNIVERSITY

June 30, 2011

NOTE C--ACCOUNTS RECEIVABLE

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

Student tuition and fees	\$ 3,024,284
Auxiliary enterprises and other operating activities	<u>649,084</u>
	3,673,368
Less allowance for doubtful accounts	<u>(2,279,052)</u>
Net accounts receivable	<u>\$ 1,394,316</u>

NOTE D--NOTES RECEIVABLE

Student loans made through the Federal Perkins Loan Program (the "Program") comprise substantially all of the loans receivable at June 30, 2011. Under this Program, the federal government provides funds for approximately 75% of the total contribution for student loans with the University providing the balance. Under certain conditions such loans can be forgiven at annual rates of 10% to 30% of the original balance up to maximums of 50% to 100% of the original loan. The federal government reimburses the University to the extent of 10% of the amounts forgiven for loans originated prior to July 1, 1993 under the Federal Perkins Loan Program. No reimbursements are provided for loans originated after this date. The amount refundable to the U.S. Government upon cessation of the Program of \$1,358,507 at June 30, 2011, is reflected in the accompanying statement of net assets as noncurrent liabilities.

As the University determines loans are uncollectible and not eligible for reimbursement by the federal government, the loans are written off and assigned to the U.S. Department of Education. The allowance for uncollectible loans only applies to University funded loans and the University portions of federal student loans, as the University is not obligated to fund the federal portion of uncollected student loans. The University has provided an allowance for uncollectible loans that, in management's opinion, is sufficient to absorb loans that will ultimately be written off.

At June 30, loans receivable consisted of the following:

Perkins loans	\$ 1,394,921
Other loans	<u>34,367</u>
Total loans receivable	1,429,288
Less allowance for uncollectible loans	<u>(71,308)</u>
Net loans receivable	<u>\$ 1,357,980</u>

NOTES TO FINANCIAL STATEMENTS--Continued

EAST CENTRAL UNIVERSITY

June 30, 2011

NOTE E--CAPITAL ASSETS

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

	Balance June 30, 2010	Additions	Transfers	Retirements/ Adjustments	Balance June 30, 2011
Capital assets not being depreciated					
Land	\$ 3,809,063	\$ 140,187	\$ -	\$ -	\$ 3,949,250
Construction in progress	1,319,258	705,987	(1,561,008)	-	464,237
Total assets not being depreciated	<u>\$ 5,128,321</u>	<u>\$ 846,174</u>	<u>\$ (1,561,008)</u>	<u>\$ -</u>	<u>\$ 4,413,487</u>
Other capital assets					
Non-major infrastructure networks	\$ 222,646	\$ 65,782	\$ -	\$ -	\$ 288,428
Land improvements	983,044	165,770	54,600	-	1,203,414
Buildings	76,377,494	170,596	1,506,408	-	78,054,498
Furniture, fixtures and equipment	8,455,984	895,935	-	(1,495,497)	7,856,422
Software	868,644	-	-	-	868,644
Library materials	5,721,850	222,733	-	(51,015)	5,893,568
Total other capital assets	92,629,662	1,520,816	1,561,008	(1,546,512)	94,164,974
Less accumulated depreciation for					
Non-major infrastructure networks	(200,554)	(11,196)	-	-	(211,750)
Land improvements	(855,329)	(42,043)	-	-	(897,372)
Buildings	(24,882,610)	(1,707,657)	-	-	(26,590,267)
Furniture, fixtures and equipment	(6,296,798)	(854,584)	-	1,471,139	(5,680,243)
Software	(866,350)	(2,294)	-	-	(868,644)
Library materials	(5,172,768)	(289,536)	-	51,015	(5,411,289)
Total accumulated depreciation	(38,274,409)	(2,907,310)	-	1,522,154	(39,659,565)
Other capital assets, net	<u>\$ 54,355,253</u>	<u>\$ (1,386,494)</u>	<u>\$ 1,561,008</u>	<u>\$ (24,358)</u>	<u>\$ 54,505,409</u>
Capital asset summary:					
Capital assets not being depreciated	\$ 5,128,321	\$ 846,174	\$ (1,561,008)	\$ -	\$ 4,413,487
Other capital assets, at cost	<u>92,629,662</u>	<u>1,520,816</u>	<u>1,561,008</u>	<u>(1,546,512)</u>	<u>94,164,974</u>
Total cost of capital assets	97,757,983	2,366,990	-	(1,546,512)	98,578,461
Less accumulated depreciation	<u>(38,274,409)</u>	<u>(2,907,310)</u>	<u>-</u>	<u>1,522,154</u>	<u>(39,659,565)</u>
Capital assets, net	<u>\$ 59,483,574</u>	<u>\$ (540,320)</u>	<u>\$ -</u>	<u>\$ (24,358)</u>	<u>\$ 58,918,896</u>

Capital assets acquired with funds under capital lease programs are included in the above capital assets. The University maintains various collections of inexhaustible assets for which no value can be determined. Such collections include works of art, historical treasures, and literature.

NOTES TO FINANCIAL STATEMENTS--Continued

EAST CENTRAL UNIVERSITY

June 30, 2011

NOTE F--LONG-TERM LIABILITIES

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

	Balance June 30, 2010	Additions	Reductions	Balance June 30, 2011	Amounts due within one year
Bonds payable and capital lease obligations					
University Center - Series 1993	\$ 905,000	\$ -	\$ (210,000)	\$ 695,000	\$ 220,000
Student Housing - Series 2003	5,350,000	-	(140,000)	5,210,000	145,000
Fine Arts Center - Series 2005	4,500,000	-	(110,000)	4,390,000	115,000
ODFA Series 2002C lease obligation	4,440,000	-	(265,000)	4,175,000	275,000
ODFA Series 2008A lease obligation	309,000	-	(98,000)	211,000	103,000
OCIA lease obligations	10,500,927	1,146,197	(231,767)	11,415,357	50,954
Total bonds and capital lease	26,004,927	1,146,197	(1,054,767)	26,096,357	908,954
Other liabilities					
Accrued compensated absences	854,889	68,075	-	922,964	533,038
Federal loan program contributions	1,358,507	-	-	1,358,507	-
Total other liabilities	2,213,396	68,075	-	2,281,471	533,038
Total long-term liabilities	\$ 28,218,323	\$ 1,214,272	\$ (1,054,767)	\$ 28,377,828	\$ 1,441,992

During the year ended June 30, 2011, total interest costs were \$697,986.

Revenue Bonds Payable

Board of Regents of Oklahoma Colleges University Center Revenue Bonds, Series 1993

During 1993, the University issued the Board of Regents of Oklahoma Colleges University Center Revenue Bonds, Series 1993 (the "Bonds") for \$3,175,000 for the purpose of constructing a Student University Center. The Bonds are due in annual installments varying from \$85,000 to \$245,000 plus semiannual interest ranging from 4.2% to 10%, with the final installment being due in the year 2014. The Bonds are secured by the gross receipts from the University Center student fees and all monies in funds and accounts held by the trustee bank and available for debt service payments. Under the terms of the Trust Indenture, the University maintains debt service reserve funds totaling \$255,897 at June 30, 2011.

NOTES TO FINANCIAL STATEMENTS--Continued

EAST CENTRAL UNIVERSITY

June 30, 2011

NOTE F--LONG-TERM LIABILITIES--Continued

Revenue Bonds Payable--Continued:

Board of Regents of Oklahoma Colleges Student Housing Revenue Bonds, Series 2003

During 2003, the University issued the Board of Regents of Oklahoma Colleges Student Housing Revenue Bonds, Series 2003 (the "Bonds") for \$6,000,000 for the purpose of constructing and renovating certain Student Housing Facilities. The Bonds are due in annual installments varying from \$125,000 to \$350,000 plus semiannual interest ranging from 2% to 4.55%, with the final installment being due in the year 2034. The Bonds are secured by the revenues to be derived from the Student Housing and Food Services Department and all monies in funds and accounts held by the trustee bank and available for debt service payments. Under the terms of the Trust Indenture, the University maintains a reserve fund, which totals \$367,858 at June 30, 2011.

Board of Regents of Oklahoma Colleges Fine Arts Center Revenue Bonds, Series 2005

During 2005, the University issued the Board of Regents of Oklahoma Colleges Fine Arts Center Revenue Bonds, Series 2005 (the "Bonds") for \$5,000,000 for the purpose of constructing a Fine Arts Center. The Bonds are due in annual installments varying from \$95,000 to \$285,000 plus semiannual interest ranging from 3.0% to 4.6%, with the final installment being due in the year 2035. The Bonds are secured by the gross receipts from the Fine Arts Center student fees and all monies in funds and accounts held by the trustee bank and available for debt service payments.

Future aggregate maturities of principal and interest requirements on the Bonds payable at June 30, are as follows:

Year Ending June 30:	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2012	\$ 480,000	\$ 441,479	\$ 921,479
2013	490,000	421,991	911,991
2014	515,000	401,575	916,575
2015	280,000	379,676	659,676
2016	295,000	369,331	664,331
2017-2021	1,645,000	1,663,072	3,308,072
2022-2026	2,015,000	1,282,287	3,297,287
2027-2031	2,500,000	786,407	3,286,407
2032-2036	2,075,000	193,282	2,268,282
	<u>\$ 10,295,000</u>	<u>\$ 5,939,100</u>	<u>\$ 16,234,100</u>

NOTES TO FINANCIAL STATEMENTS--Continued

EAST CENTRAL UNIVERSITY

June 30, 2011

NOTE F--LONG-TERM LIABILITIES--Continued

Capital Lease Obligations

Oklahoma Development Finance Authority Master Lease Program

In December 2002, the Oklahoma Development Finance Authority ("ODFA") issued the ODFA Master Lease Revenue Bonds, Series 2002C ("2002 Bonds"). The 2002 Bonds were issued to fund capital improvements at several state colleges and universities in Oklahoma. ODFA allocated the 2002 Bond proceeds to colleges and universities in the form of financing leases. East Central University's portion of this allocation totaled \$5,880,000. The University has recorded capital improvements funded by the lease and the resulting capital lease obligation in its statement of net assets.

The lease agreement calls for monthly payments to ODFA in an amount that equal debt service requirements on the portion of the bonds used to finance the lease. The final payment on the lease is due December 1, 2022.

After payment of bond closing costs, the net 2002 Bond proceeds were deposited into ODFA trust accounts as required by the bond indenture. At June 30, 2011, trust accounts balances total \$536,095 and are captioned Investments Held By Others on the University's statement of net assets.

In December 2008, the University entered into a 15 year lease agreement with the ODFA and the State Regents as beneficiary of a portion of the proceeds from the Oklahoma Development Finance Authority Oklahoma State Regents for Higher Education Master Equipment Lease Revenue Bonds, Series 2008A (the "Master Equipment Lease"). The University financed \$500,000, (includes \$23,000 of bond premium) for improvements to the University's equipment.

Oklahoma Capital Improvement Authority Leases

In September 1999, the Oklahoma Capital Improvement Authority (OCIA) issued is OCIA Bond Issues, 1999 Series A, B and C. Of the total bond indebtedness, the State Regents for Higher Education allocated \$1,100,000 to the University. Concurrently with the allocation, the University entered into a lease agreement with OCIA, which includes the two projects being funded by the OCIA bonds. The lease agreement provides for the University to make specified monthly payments to OCIA over the term of the agreement. One of the projects has a twenty (20) year repayment term, and the other project has a five (5) year repayment term. The proceeds of the bonds and subsequent leases are to provide for capital improvements at the University.

NOTES TO FINANCIAL STATEMENTS--Continued

EAST CENTRAL UNIVERSITY

June 30, 2011

NOTE F--LONG-TERM LIABILITIES--Continued

Capital Lease Obligations--Continued

Oklahoma Capital Improvement Authority Leases--Continued

In 2004, the OCIA issued bond series 2004A that refunded a significant portion of the 1999A bonds. The amortization of the 1999A bond issue ended in 2010. Consequently, the lease agreement no longer secures the 1999A bond issue but now acts as security for the 2004A bond issue over the term of the lease through the year 2020. The outstanding balance of the 2004A lease obligation is \$497,073 at June 30, 2011.

In November 2005, the Oklahoma Capital Improvement Authority (OCIA) issued its OCIA Bond Issues, 2005 Series F and G. Of the total bond indebtedness, the State Regents For Higher Education allocated \$10,810,182 to the University. Concurrently with the allocation, the University entered into a lease agreement with OCIA, which includes the two projects being funded by the OCIA bonds. The lease agreement provides for the University to make specified monthly payments to OCIA over the term of the agreement. Both projects have a thirty (30) year repayment term. The proceeds of the bonds and subsequent leases are to provide for capital improvements at the University.

In August 2010, 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 \$963,001 on restructuring as a deferred cost that will be amortized over a period of six 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 \$47,593 which also approximates the economic cost of the lease restructuring. The outstanding balance of the remaining lease obligations totals \$10,918,284 at June 30, 2011.

NOTES TO FINANCIAL STATEMENTS--Continued

EAST CENTRAL UNIVERSITY

June 30, 2011

NOTE F--LONG-TERM LIABILITIES--Continued

Oklahoma Capital Improvement Authority Leases--Continued

Capital Lease Obligations--Continued

Through June 30, 2011, the University has drawn down \$11,108,118 of its total allotment plus interest earned for the specific project's allotment. There were no draw downs during the year ended June 30, 2011 for expenses incurred in connection with the specific projects. Expenses earned for those projects have been capitalized as investments in capital assets or recorded as operating expenses, in accordance with the University's policy. The University has recorded a receivable totaling \$368,604 at June 30, 2011 for its allotment not drawn down, plus interest allocated by OSRHE (including \$13,445 earned in fiscal year 2011) which is also available for draw downs. Lease payments to OCIA totaling \$99,525 during the year ended June 30, 2011 were made by the State of Oklahoma on behalf of the University. Premiums previously reported as \$272,253 were removed during 2011 and recognized as OCIA on behalf payments. Total OCIA on behalf payments in fiscal year 2011 were \$371,778. These on-behalf payments have been recorded as restricted state appropriations in the statement of revenues, expenses and changes in net assets.

Future minimum lease payments under the University's obligations to the OCIA and ODFA are as follows:

Year Ending June 30:	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2012	\$ 428,954	\$ 346,861	\$ 775,815
2013	446,467	350,776	797,243
2014	644,497	640,090	1,284,587
2015	1,177,148	612,297	1,789,445
2016	1,212,694	570,643	1,783,337
2017-2021	5,223,638	2,245,521	7,469,159
2022-2026	3,130,899	1,347,895	4,478,794
2027-2031	3,537,060	544,796	4,081,856
	<u>\$ 15,801,357</u>	<u>\$ 6,658,879</u>	<u>\$ 22,460,236</u>

NOTES TO FINANCIAL STATEMENTS--Continued

EAST CENTRAL UNIVERSITY

June 30, 2011

NOTE G--RETIREMENT PLANS

The University's academic and nonacademic personnel are covered by various retirement plans. The plans available to University personnel include the Oklahoma Teachers' Retirement System, which is a State of Oklahoma public employees retirement system, the Teachers' Insurance Annuity Association, which is a defined contribution plan, and the Supplemental Retirement Annuity (SRA), a single employer defined benefit pension plan available to employees hired prior to July 1, 1987. The University does not maintain the accounting records, hold the investments for, or administer these plans.

Oklahoma Teachers' Retirement System (OTRS)

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

Title 70 of the Oklahoma Statutes, Sections 17-101 through 116.9, as amended, assigns the authority for management and operations 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 University is required to contribute a fixed percentage of annual compensation on behalf of active members. The employer contribution rate was 8.55% from January 1, 2010 through June 30, 2011, 8.05% from January 1, 2009 through December 31, 2009, and 7.55% from July 1, 2008 through December 31, 2008 they were applied to annual compensation, which 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, respectively. For compensation in excess of \$25,000, the employee's contributions are paid directly by the University to the OTRS.

The University's contributions to the OTRS for the years ended June 30, 2011, 2010 and 2009, were approximately \$3,633,000, \$3,582,000 and \$3,456,000, respectively. These contributions included the University's statutory contribution and the share of the employee's contribution paid directly by the University.

NOTES TO FINANCIAL STATEMENTS--Continued

EAST CENTRAL UNIVERSITY

June 30, 2011

NOTE G--RETIREMENT PLANS--Continued

Oklahoma Teachers' Retirement System (OTRS)--Continued

Funding Policy--Continued: The State of Oklahoma is also required to contribute to the 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 the OTRS on behalf of participating employers. The University 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 year ended June 30, 2011, the total amount contributed to the OTRS by the State of Oklahoma on behalf of the University was approximately \$1,506,000. These on behalf payments have been recorded as both revenues and expenses in the statement of revenues, expenses and changes in net assets.

Defined Contribution 403(b) Plan

The University also has a defined contribution 403(b) plan (DCP) available to full-time employees. The DCP is administered by the RUSO System, and the plan provisions are established and may be amended by the Board of Regents. Plan members may make voluntary contributions in accordance with IRS regulations. The University has no contribution requirements, and no contributions were made during the years ended June 30, 2011, 2010 and 2009.

Supplemental Retirement Annuity (SRA)

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

Funding Policy: The authority to establish and amend eligible employees' and employer contribution obligations to the SRA rests with the University's Board of Regents. Eligible employees are not required to make contributions to the SRA. The University is required to contribute to the SRA an actuarially determined amount on an annual basis. Under a policy adopted by the University's Board of Regents in December 2002, the Plan must achieve 80% funding of the pension benefit obligation by December 1, 2022.

NOTES TO FINANCIAL STATEMENTS--Continued

EAST CENTRAL UNIVERSITY

June 30, 2011

NOTE G--RETIREMENT PLANS--Continued

Supplemental Retirement Annuity (SRA)--Continued

Actuarial Method and Assumptions: The annual required contribution for 2011 was determined as part of an actuarial valuation on June 30, 2011, using the projected unit credit actuarial 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 age 65; (c) an 8% rate of return on investments; (d) projected salary increases of 3.5% per year; and (e) a 6% interest rate for post-retirement individual annuity settlement benefits. 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 fifteen years as a level dollar amount on a closed basis.

Annual Pension Cost and Net Pension Obligation (Asset)

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

Annual required contribution	\$ 584,611
Interest on net pension obligation	(27,482)
Adjustment to annual required contribution	<u>34,989</u>
Annual pension cost	592,118
Contributions made	<u>(544,984)</u>
Increase (decrease) in net pension obligation	47,134
Net pension obligation (asset) at beginning of year	<u>(343,526)</u>
Net pension obligation (asset) at end of year	<u><u>\$ (296,392)</u></u>

Funded Status and Funding Progress: The funded status of the plan as of June 30, 2011 was as follows:

Actuarial accrued liability (AAL)	\$ 7,886,466
Actuarial value of plan assets	<u>2,506,521</u>
Unfunded actuarial accrued liability (UAAL)	<u><u>\$ 5,379,945</u></u>
Funded ratio (actuarial value of plan assets/AAL)	31.78%
Annual covered payroll (active plan members)	\$ 4,304,858
UAAL as a percentage of annual covered payroll	124.97%

NOTES TO FINANCIAL STATEMENTS--Continued

EAST CENTRAL UNIVERSITY

June 30, 2011

NOTE G--RETIREMENT PLANS--Continued

Supplemental Retirement Annuity (SRA)--Continued

Trend Information: Three-year trend information on the percentage of the annual pension cost funded through contributions and the change in the net pension obligation (asset) is as follows:

Year Ended June 30	Annual Pension Cost (APC)	Percentage of APC Contributed	Net Pension Obligation (Asset)
2011	\$ 592,118	92.0%	\$ (296,392)
2010	\$ 607,843	88.6%	\$ (343,526)
2009	\$ 586,294	85.4%	\$ (413,055)

NOTE H--OTHER POST-EMPLOYMENT INSURANCE BENEFITS

Postemployment Healthcare Plan

Plan Description: The University's postemployment healthcare plan is an agent multiple-employer defined benefit plan administered by the Regional University System of Oklahoma Board of Regents (the RUSO Board). 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 478 active participants in the plan. The retirement insurance program was adopted by the RUSO Board 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 University's postemployment healthcare plan, and was administered by The Bank of Oklahoma, N.A.

Prior to the establishment of the trust, the insurance benefits were accounted for on a pay-as-you-go basis so that premiums were made from current operating funds. The plan does not issue a stand-alone financial report nor is it included in the financial report of another entity.

Funding Policy: The contribution requirements of the University are established and may be amended by the RUSO Board. The University is required to contribute the annual required contribution 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. For the year ended June 30, 2011, the ARC is \$289,541 and represents 1.3% (percent) of covered payroll.

NOTES TO FINANCIAL STATEMENTS--Continued

EAST CENTRAL UNIVERSITY

June 30, 2011

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

Postemployment Healthcare Plan--Continued

Actuarial Method and Assumptions: Actuarial valuation of an ongoing plan involves estimates of the value of reported amounts and assumptions about the probability of occurrence of events far into the future. Examples include assumptions about future employment, mortality, and the healthcare cost trend. Amounts determined regarding the funded status of the plan and the annual required contributions of the employer are subject to continual revision as actual results are compared with past expectations and new estimates are made about the future. The schedule of funding progress, presented below for the most recent valuation and further presented as trends in required supplementary information following the notes to the financial statements, presents multiyear trend information that shows whether the actuarial value of plan assets is increasing or decreasing over time relative to the actuarial accrued liabilities for benefits.

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 actuarial valuation, the projected unit credit cost method was used. The actuarial assumptions included a 7.0% investment rate of return and an annual healthcare cost inflationary increase of 8.5%.

Annual OPEB Cost and Net OPEB Obligation (Asset)

Annual OPEB cost and net OPEB obligation (asset) for 2011 is as follows:

Annual required contribution	\$ 289,541
Interest on prior year net OPEB obligation (asset)	1,520
Adjustment to annual required contribution	-
Annual OPEB cost	<u>291,061</u>
Contributions made	<u>(289,541)</u>
Increase (decrease) in net OPEB obligation	1,520
OPEB obligation (asset) at beginning of year	<u>(143,593)</u>
OPEB obligation (asset) at end of year	<u><u>\$ (142,073)</u></u>

NOTES TO FINANCIAL STATEMENTS--Continued

EAST CENTRAL UNIVERSITY

June 30, 2011

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

Postemployment Healthcare Plan--Continued

Funded Status and Funding Progress

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

Actuarial accrued liability (AAL)	\$ 2,937,054
Actuarial value of plan assets	1,345,835
Unfunded actuarial accrued liability (UAAL)	<u>\$ 1,591,219</u>
Funded ratio (actuarial value of plan assets/AAL)	45.82%
Annual covered payroll (active plan members)	\$ 23,129,972
UAAL as a percentage of annual covered payroll	6.88%

Trend Information

Three-year trend information on the percentage of the annual OPEB cost funded through contributions and the change in the net OPEB obligation (asset) is as follows:

Year Ended June 30	Annual OPEB Cost	Percentage of Annual OPEB Cost Contributed	Net OPEB Obligation (Asset)
2011	\$ 291,061	99%	\$ (142,073)
2010	\$ 286,443	99%	\$ (143,593)
2009	\$ 279,760	103%	\$ (145,130)

NOTES TO FINANCIAL STATEMENTS--Continued

EAST CENTRAL UNIVERSITY

June 30, 2011

NOTE I--FUNDS HELD IN TRUST BY OTHERS

Beneficial Interest in State School Land Funds: The University has a beneficial interest in the "Section Thirteen Fund State Educational Institutions" and the "New College Fund" administered by the Commissioners of the Land Office as trustees for the various educational institutions entitled thereto. The University has the right to receive annually 3.7% of the distributions of income produced by "Section Thirteen Fund State Educational Institutions" assets and 100% of the distributions of income produced by East Central University's "New College Fund". The University received approximately \$971,515 during the year ended June 30, 2011, which is restricted to the construction or acquisition of buildings, equipment, or other capital items. These amounts are recorded as state appropriations restricted for capital purposes in the statement of revenues, expenses and changes in net assets. State law prohibits the distribution of any corpus of these funds to the beneficiaries. The total trust reserve for East Central University, held in trust by the commissioners of Land Office, was approximately \$15,982,000 at June 30, 2011.

Oklahoma State Regents Endowment Trust Fund: In connection with the Oklahoma State Regents' Endowment Program (the Endowment Program), the State of Oklahoma has matched contributions received under the program. The state match amounts, plus any retained accumulated earnings, totaled approximately \$3,628,000 at June 30, 2011, and is invested by the Oklahoma State Regents on behalf of the University. The University is entitled to receive an annual distribution of 4.5% of the three-year average of the June 30th market values on these funds. As legal title of the State Regents matching endowment funds is retained by the Oklahoma State Regents, only the funds available for distribution, or approximately \$261,000 at June 30, 2011, has been reflected as assets in the statement of net assets.

NOTE J--RELATED PARTY TRANSACTIONS

The Foundation is a not-for-profit corporation organized for the purpose of receiving and administering gifts for the benefit of the University. Distributions of amounts held by the Foundation are subject to the approval of the Foundation's Board of Trustees. The Foundation's primary function is to provide assistance to students of the University in the form of scholarships and awards, and during 2011 the Foundation provided approximately \$316,000 in scholarships to students. Additionally, the Foundation provides financial assistance to the faculty and staff of the University, as well as the University's programs and projects, and during 2011 the Foundation provided approximately \$544,000 in aid to programs, faculty and staff. Many of the contributions received by the Foundation are designated by the donors to be used for specific purposes or by specific departments. In these instances, the Foundation serves essentially as a conduit. Contributions that are not designated are used where the need is considered the greatest, as determined by the Foundation.

NOTES TO FINANCIAL STATEMENTS--Continued

EAST CENTRAL UNIVERSITY

June 30, 2011

NOTE K--COMMITMENTS AND CONTINGENCIES

The University conducts certain programs pursuant to various grants and contracts that are subject to audit by federal and state agencies from various sources of the University. Costs questioned as a result of these audits, if any, may result in refunds to these governmental agencies from various sources of the University.

In July 2010, the University began participating in the Federal Direct Student Loan Program (Direct Lending Program) that replaced the Federal Family Education Loan Program. The Direct Lending Program requires the College to draw down cash from the U.S. Department of Education, as well as perform certain administrative functions under the Direct Lending Program. For the year ended June 30, 2011, approximately \$21,175,000 of Direct Lending Program loans were provided to College students.

During the ordinary course of business, the University may be subjected to various lawsuits and civil action claims. Management believes that resolution of any such matters pending at June 30, 2011, will not have material adverse impact to the University.

NOTE L--RISK MANAGEMENT

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

The University, 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 University pays annual premiums to the pools for tort, property, and liability insurance coverage. The Oklahoma Risk Management Pool's governing agreement specifies that the pool will be self-sustaining through member premiums and will reinsure through commercial carriers for claims in excess of specified stop-loss amounts.

The University also participates in the College Association of Liability Management (CALM) Workers' Compensation Plan for its workers' compensation coverage. CALM is an Interlocal Cooperative Act Agency that was organized to provide workers' compensation insurance coverage for participating colleges and universities through the State Insurance Fund. CALM is a political subdivision of the State of Oklahoma and is governed by a board of trustees elected from members of the participating colleges and universities.

NOTES TO FINANCIAL STATEMENTS--Continued

EAST CENTRAL UNIVERSITY

June 30, 2011

NOTE M--ACCOUNTING STANDARDS ISSUED NOT YET ADOPTED

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.

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.

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

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

NOTES TO FINANCIAL STATEMENTS--Continued

EAST CENTRAL UNIVERSITY

June 30, 2011

NOTE N--EAST CENTRAL UNIVERSITY FOUNDATION, INC.--DISCRETELY PRESENTED
COMPONENT UNIT

Nature of the Entity

General: The East Central University Foundation, Inc. (the "Foundation") is a nonprofit corporation. The purposes for which the Foundation is organized are exclusively scientific, literary, charitable, educational, and artistic for the benefit of East Central University (the "University"), Ada, Oklahoma, its faculty, its student body, and its programs. The Foundation may also serve as trustee of charitable lead trusts, charitable remainder trusts, and other private trusts of which the Foundation and/or University are beneficiaries notwithstanding the facts that the donors of such trusts retain a beneficial interest therein or that other charitable organizations are designated as beneficiaries of such trusts.

As gifts are received by the Foundation, they are placed into new or existing funds, as appropriate, in accordance with the stipulations of the donors. Distributions of amounts held by the Foundation are subject to the approval of the Board of Trustees (the "Board"). The purposes for which the Foundation is organized are exclusively for the benefit of the University, its faculty, its student body, and its programs. As such, the University and the Foundation are considered financially interrelated as defined by generally accepted accounting principles.

Summary of Significant Accounting Policies

Basis of Presentation: The financial statement presentation follows accounting principles generally accepted in the United States for not-for-profit entities. The statements have been prepared on the accrual basis of accounting. Under U.S. generally accepted accounting principles, net assets and revenues, gains and losses are classified based on the existence or absence of donor-imposed restrictions as follows:

Unrestricted net assets: Consists of gifts received by the Foundation without stipulation and accumulated earnings in which the Foundation uses for its operations.

Temporarily restricted net assets: Primarily consists of gifts received by the Foundation which will have been restricted by the donor for a particular project or activity and accumulated earnings from endowment funds. When a donor restriction is satisfied, temporarily restricted net assets are reclassified to unrestricted net assets.

Permanently restricted net assets: This category represents gifts received by the Foundation with donor restrictions which require principle to be invested in perpetuity. Generally, income earned from these assets is available to be used for purposes established by the donors in the year received unless restricted to future fiscal periods.

NOTES TO FINANCIAL STATEMENTS--Continued

EAST CENTRAL UNIVERSITY

June 30, 2011

NOTE N--EAST CENTRAL UNIVERSITY FOUNDATION, INC.--DISCRETELY PRESENTED
COMPONENT UNIT--Continued

Summary of Significant Accounting Policies--Continued

Contributions: Contributions, including unconditional promises to give, are recognized as revenues in the period received by the Foundation. Conditional promises to give are not recognized until the conditions on which they depend are substantially met. Contributions of assets other than cash are recorded at their estimated fair value at the date of the gift. Allowance is made for uncollectible contributions based upon management's judgment and analysis of the creditworthiness of the donors, past collection experience, and other relevant factors. As of June 30, 2011 no allowance was considered necessary.

Contributions are reported as increases in the appropriate category of net assets. Expenses are reported as decreases in unrestricted net assets. Temporary restrictions on gifts to acquire long-lived assets are considered met in the period in which the assets are acquired or placed in service. Gifts of property and equipment are recorded as unrestricted support unless explicit donor stipulations specify how the assets must be used, in which case the gift is recorded as restricted support. Expirations of temporary restrictions (i.e., the donor-stipulated purpose has been fulfilled and/or the stipulated time period has elapsed) are reported as net assets released from restrictions. Contributions which are received and whose restrictions are met in the same period are recognized as unrestricted contributions.

Income and gains on investments are reported as increases in permanently restricted net assets if the terms of the gift that gave rise to the investment of applicable law require such amounts be added to permanent endowment principal. Income and gains are reported as increases in temporarily restricted net assets if the of the gift or applicable law impose restrictions on the use of the income and as increases in unrestricted net assets in all other cases.

Generally, losses on investments of restricted endowments reduce temporarily restricted net assets to the extent donor-imposed temporary restrictions on the net appreciation of investments have not been met before the loss occurs. Any remaining losses reduce unrestricted net assets. Subsequent investment gains are applied first to unrestricted net assets to the extent that losses have previously been recognized, and then to temporarily restricted net assets. During the year ended June 30, 2011, \$178,637 of investment losses, realized and unrealized, that resulted in deficit balances of individual accounts of temporarily restricted net assets were reclassified to unrestricted net assets.

Cash and Cash Equivalents: The Foundation considers all highly liquid debt instruments with a maturity of 3 months or less when purchased to be cash equivalents.

NOTES TO FINANCIAL STATEMENTS--Continued

EAST CENTRAL UNIVERSITY

June 30, 2011

NOTE N--EAST CENTRAL UNIVERSITY FOUNDATION, INC.--DISCRETELY PRESENTED
COMPONENT UNIT--Continued

Summary of Significant Accounting Policies--Continued

Pledges: The Foundation generally records pledges as income in the period in which a written agreement to contribute cash investments or other assets is received.

Investments: The Foundation maintains the majority of its endowment assets in a pooled investment fund. Additional investments are maintained separately in accordance with the donor's instructions. Investments are presented in the financial statements of the Foundation at fair value. Investment securities with readily determinable market value information are adjusted to market value, with realized and unrealized appreciation and/or depreciation on investments to be recorded in the statement of activities. Investments included in the pool are certificates of deposits, common stock, corporate bonds, international bonds, and U.S. government securities. The Foundation's investment committee monitors the performance of all investments and instructs Foundation management as to the mix of assets maintained in the investment pool. Investments are made in accordance with the investment policies of the Foundation.

Earnings from investments are distributed quarterly from the pooled investment fund and are received by the separately maintained funds. Marketable and nonmarketable investments are marked to market in accordance with *Accounting Standards Codification* (ASC) Topic 958-320, "Investments-Debt and Equity Securities."

Real Estate Held for Investments: Real estate held as investments is stated at cost if purchased or at appraised value at date of gift. The real estate is reviewed periodically for impairment. Any impairment is recognized when known. The real estate can be revalued up to its original amounts based on appraised values.

Insurance Assets: Included in other assets is approximately \$90,000 of cash surrender value assets related to insurance policies owned by the Foundation as of June 30, 2011.

Investment Income: Investment earnings are allocated to the individual sub-funds of the Foundation on a quarterly basis. These earnings are allocated based upon the individual sub-fund's percentage of participation in the investment pool. Realized and unrealized gains and losses are determined using the specific identification method; however, these transactions are included in the pool's income for allocation purposes.

NOTES TO FINANCIAL STATEMENTS--Continued

EAST CENTRAL UNIVERSITY

June 30, 2011

NOTE N--EAST CENTRAL UNIVERSITY FOUNDATION, INC.--DISCRETELY PRESENTED
COMPONENT UNIT--Continued

Summary of Significant Accounting Policies--Continued

Investment Income--Continued: A portion of investment earnings is allocated to support the operations of the Foundation. The Foundation historically has allocated 25% of the realized investment earnings to operations. The amounts allocated are recorded in the unrestricted net asset classification in the accompanying statement of activities. Amounts so transferred in excess of the current operations requirements remain in the unrestricted net asset classification for future use as deemed necessary by the Foundation management and to support the Foundation's scholarship program.

Furniture and Equipment: Furniture and equipment are stated at cost if purchased or at appraised value if received by donation. Furniture and equipment are being depreciated on a straight-line basis over their estimated useful lives, which range from 3 to 10 years.

Unsettled investment activity: The balance in the unsettled investment activity account represents investment sales and purchases which had occurred at June 30, 2011, but were not settled until after June 30, 2011. Investment transactions are recognized on trade date and not settlement date.

Income Tax: The income earned by the Foundation has been determined to be exempt from income taxes by the Internal Revenue Service in accordance with I.R.C. Section 501(c)(3). However, unrelated business income earned by the Foundation is subject to tax. Additionally, the Foundation has been determined not to be a private foundation within the meaning of Section 509(a) of the Code.

The Foundation evaluates and accounts for its uncertain tax positions, if any, in accordance with ASC Topic 740, "Income Taxes" (ASC 740), including the Foundation's tax position as a tax-exempt not-for-profit entity. Through the Foundation's evaluation of its uncertain tax positions, management has determined no uncertain tax positions exist as of June 30, 2011, which would require the Foundation to record a liability for the uncertain tax positions in its financial statements. Interest and penalties, if any, resulting from any uncertain tax position required to be recorded by the Foundation would be presented in operating expenses in the statement of activities.

NOTES TO FINANCIAL STATEMENTS--Continued

EAST CENTRAL UNIVERSITY

June 30, 2011

NOTE N--EAST CENTRAL UNIVERSITY FOUNDATION, INC.--DISCRETELY PRESENTED
COMPONENT UNIT--Continued

Summary of Significant Accounting Policies--Continued

Income Tax--Continued: Federal and state income tax statutes dictate that tax returns filed in any of the previous three reporting periods remain open to examination. Currently, the Foundation has no open examinations with either the Internal Revenue Service or the Oklahoma Tax Commission.

Use of Estimates: The preparation of the accompanying financial statements in conformity with accounting principles generally accepted in the United State requires management to make estimates and assumptions that affect the amounts reported in the financial statements and accompanying notes. Actual results could differ from those estimates.

Estimates that are particularly susceptible to significant change include the valuation of marketable and nonmarketable investments and contributions receivable. The Foundation's various investment instruments are exposed to various risks, such as interest rate, credit, and overall market volatility. Due to the level of risk associated with these financial instruments, it is reasonably possible that changes in the values of the investments and beneficial interest will occur in the near term and that such changes could materially affect the amounts reported in the statement of financial position. Significant fluctuations in fair values could occur from year to year and the amounts the Foundation will ultimately realize could differ materially. Management's estimate of investments, contributions receivable, and evaluation for allowance is based on consideration of all relevant available information and an analysis of the collectibility of individual contributions, which arise primarily from pledges at the financial statement date.

Concentrations of credit risk: The Foundation had certain concentrations of credit risk with financial institutions in the form of uninsured cash and time deposits. For purposes of evaluating credit risk, the stability of financial institutions conducting business with the Foundation is periodically reviewed, and management believes that credit risk related to the balances is minimal.

Scholarship Awards: Scholarships were accrued when the disbursements were made to the students, which is when all of the conditions would have been met and the scholarship would have been effectively earned by the student.

NOTES TO FINANCIAL STATEMENTS--Continued

EAST CENTRAL UNIVERSITY

June 30, 2011

NOTE N--EAST CENTRAL UNIVERSITY FOUNDATION, INC.--DISCRETELY PRESENTED
COMPONENT UNIT--Continued

Summary of Significant Accounting Policies--Continued

Fundraising Costs: All costs associated with fundraising are expensed as incurred.

Advertising Costs: All costs associated with advertising are expensed as incurred.

Cash and Cash Equivalents

A summary of the cash and cash equivalents at June 30, 2011 is as follows:

Cash in bank	\$ 341,534
Money market account held at Smith Barney Citigroup investors	<u>409,999</u>
	<u>\$ 751,533</u>

Custodial Credit Risks-Deposits: The Foundation had the following depository accounts as of June 30, 2011. All deposits are carried at cost.

<u>Depository Account</u>	<u>Reported Amount</u>	<u>Bank Balance</u>
Insured	\$ 341,534	\$ 342,274
Uninsured and uncollateralized	<u>409,999</u>	<u>566,700</u>
	<u>\$ 751,533</u>	<u>\$ 908,974</u>

Custodial credit risk is the risk that in the event of a bank failure, the Foundation's deposits may not be returned. While the Foundation's investment policy does not address bank balances (other than money markets) that are uninsured or uncollateralized, deposits are generally required to be insured or collateralized.

NOTES TO FINANCIAL STATEMENTS--Continued

EAST CENTRAL UNIVERSITY

June 30, 2011

NOTE N--EAST CENTRAL UNIVERSITY FOUNDATION, INC.--DISCRETELY PRESENTED
COMPONENT UNIT--Continued

Pledges Receivable

Pledges receivable represent commitments by donors to contribute to the Foundation. The scheduled amounts to be received as of June 30, 2011 were as follows:

	<u>Temporarily Restricted</u>	<u>Permanently Restricted</u>	<u>Total</u>
Amounts due in:			
1 to 5 years	\$ 64,067	\$ 31,421	\$ 95,488

Pledges receivable that are expected to be collected in less than 1 year are recorded at net realizable value. Pledges receivable in subsequent years have not been discounted to net realizable value, the effect of which is considered to be insignificant to the financial statements. The commitments are to be paid as specified by the individual pledge agreements and, accordingly, are presented as unrestricted, temporarily restricted, or permanently restricted net assets in the accompanying financial statements.

Investments

Investment Policies: Investing is performed in accordance with investment policies adopted and approved by the Investment Committee of the Board of Trustees. Foundation funds may be invested in:

Short-Term Investments:

- U.S. Government issues, all obligations of or guaranteed by the U.S. Government or agencies thereof.
- Certificates of deposit, when insured.
- Commercial paper of major corporations which have a Moody's rating of "Prime I" (PI) and/or Standard & Poor's rating of "A1."
- Banker's acceptance notes of the ten highest rated banks in the United States, not to exceed \$100,000 per bank.
- Money market funds available through banking and brokerage institutions which allow check-writing privileges, not to exceed insured limits.
- Mutual funds which invest in securities which are otherwise eligible for direct ownership by the Foundation.

NOTES TO FINANCIAL STATEMENTS--Continued

EAST CENTRAL UNIVERSITY

June 30, 2011

NOTE N--EAST CENTRAL UNIVERSITY FOUNDATION, INC.--DISCRETELY PRESENTED
COMPONENT UNIT--Continued

Investments--Continued

Equity Investments: The equity portfolio shall be invested in at least 30 different common stocks, with no individual stock representing more than 5% of the total market value of the stock portfolio. Stocks will be diversified in a manner similar to the Standard & Poor's 500 Stock Index, which is divided into ten major industry categories, and the portfolio shall have a representation in each. At least 65% of the market value of the stock portion of the portfolio must be in stocks that are part of the Standard & Poor's 500 Stock Index. No stocks generally considered speculative in nature shall be purchased. Short sales, options, margin purchases, and restricted stock purchases are prohibited transactions except for the writing of covered call options on stocks held in the portfolio for the purpose of enhancing income. Investment in foreign securities is prohibited except for those listed on the New York Stock Exchange.

Fixed Income Investments:

- Fixed income investments include debt securities issued or guaranteed by the U.S. Government or agencies, corporate bonds or debentures, and other forms of debt obligation. The policy allows up to 60% of the investments to be in fixed-income securities.
- All corporate bonds purchased shall have a rating of "A-" or better by either of the two major rating services, Moody's or Standard & Poor's. Any bond whose rating is "BBB" must be liquidated unless it matures in less than 1 year.
- Up to 25% of the bond portfolio may be invested in convertible bonds and/or convertible preferred stocks, but must have a rating of A or better by the two major rating services.
- At least 80% of the bonds held in the portfolio must be noncallable.
- The total face value of bonds issued by any one corporation cannot exceed 5% of the total face value of the fixed income portfolio.

NOTES TO FINANCIAL STATEMENTS--Continued

EAST CENTRAL UNIVERSITY

June 30, 2011

NOTE N--EAST CENTRAL UNIVERSITY FOUNDATION, INC.--DISCRETELY PRESENTED COMPONENT UNIT--Continued

Investments--Continued

Fixed Income Investments--Continued:

Investment securities are presented at fair value. Fair values were determined on the basis of closing prices at June 30, 2011, as quoted on major stock exchanges or over-the-counter markets.

	Cost	Market	Excess (Deficit) of Market Over Cost
International bonds	\$ 382,688	\$ 389,266	\$ 6,578
U.S. Government securities	4,604,813	4,658,360	53,547
Corporate bonds	5,510,125	5,509,220	(905)
Common stock	7,678,372	9,976,403	2,298,031
Certificates of deposit	3,291,254	3,289,307	(1,947)
	<u>\$ 21,467,252</u>	<u>\$ 23,822,556</u>	<u>\$ 2,355,304</u>

The Foundation recognized \$886,861 during 2011 from net gains on sale of investments. These gains have been combined with other earnings on investments and allocated throughout the year through the consolidated investment pool.

Operating expenses in the statement of activities included investment consulting, management, and custodial fees of approximately \$87,000 for the year ended June 30, 2011.

Interest Rate Risk: Interest rate risk is the risk that changes in interest rates will adversely affect the fair value of an investment. Investments held for longer periods are subject to increased risk of adverse interest rate changes.

The Foundation's investment policy states that average maturity of the bond portfolio will be determined by the investment committee and can be changed as market conditions dictate.

NOTES TO FINANCIAL STATEMENTS--Continued

EAST CENTRAL UNIVERSITY

June 30, 2011

NOTE N--EAST CENTRAL UNIVERSITY FOUNDATION, INC.--DISCRETELY PRESENTED COMPONENT UNIT--Continued

Investments--Continued:

Interest Rate Risk--Continued: The following table provides information as of June 30, 2011, concerning the fair value of maturity of investments.

Type of Investment	6 Months or Less	More Than 6 Months to 1 Year	More Than 1 Year to 3 Years	More Than 3 Years to 5 Years	More Than 5 Years	Total Fair Value	Cost
International bonds	\$ -	\$ 135,837	\$ 223,426	\$ -	\$ 30,003	\$ 389,266	\$ 382,688
U.S. Government securities	-	-	1,220,355	716,904	2,721,101	4,658,360	4,604,813
Corporate bonds	48,677	479,859	1,422,883	947,114	2,610,687	5,509,220	5,510,125
Common stock	-	-	-	-	-	9,976,403	7,678,372
Certificates of deposit	648,258	876,805	1,331,846	432,398	-	3,289,307	3,291,254
	<u>\$ 696,935</u>	<u>\$ 1,492,501</u>	<u>\$ 4,198,510</u>	<u>\$ 2,096,416</u>	<u>\$ 5,361,791</u>	<u>\$ 23,822,556</u>	<u>\$ 21,467,252</u>

Credit Risk: Credit risk is the risk that an insurer or other counterparty to an investment will not fulfill its obligations. The following table provides information concerning credit risk as of June 30, 2011:

Moody's Rating	Cost	Fair Value (FV)	FV as a % of Total FV
AAA	\$ 127,792	\$ 128,087	0.538%
AA1	347,857	348,290	1.462%
AA2	680,887	679,379	2.852%
AA3	886,512	887,291	3.725%
A1	1,287,085	1,293,857	5.431%
A2	1,978,727	1,978,106	8.304%
A3	398,374	398,469	1.673%
BAA1	185,578	185,007	0.777%

Not rated:

U.S. Government securities:			
Federal Home Loan Mortgage Corp.	530,188	541,666	2.274%
Federal Home Loan Bank Consolidated	1,489,717	1,494,959	6.275%
Federal National Mortgage Association	741,795	783,119	3.287%
Federal Farm Credit Bank Consolidated	1,563,461	1,555,427	6.529%
U.S. Treasury Notes	179,653	183,127	0.769%
Other	100,000	100,062	0.420%
Common stock	7,678,372	9,976,403	41.876%
Certificates of deposit	3,291,254	3,289,307	13.808%
	<u>\$ 21,467,252</u>	<u>\$ 23,822,556</u>	<u>100.00%</u>

NOTES TO FINANCIAL STATEMENTS--Continued

EAST CENTRAL UNIVERSITY

June 30, 2011

NOTE N--EAST CENTRAL UNIVERSITY FOUNDATION, INC.--DISCRETELY PRESENTED COMPONENT UNIT--Continued

Investments--Continued:

Credit Risk--Continued: The following securities did not meet criteria of having an A rating in either Moody's or Standard & Poor's (S&P) as defined by the investment policy:

Corporate Bond with Ratings Lower than "A" Ratings	Fair Value	Moody's / S&P Ratings	Maturity Date
FPL Group Capital, Inc.	\$ 99,542	BAA1/BBB+	9/1/2015
Kellogg Co.	109,098	A3/BBB+	5/6/2016
BB&T Corp.	80,344	A3/A-	6/30/2017
Compass Bank	20,996	BAA1/A-	10/1/2017

Custodial Risk: For investments, custodial risk is the risk that in the event of the failure of the counterparty, the Foundation will not be able to recover the value of its investments or collateral securities in the possession of an outside party.

Deferred Revenue

As of June 30, 2011, the Foundation has received \$4,512,292 from contributors for the expansion of the School of Business/Conference Center (the "Center") building. Of the amount mentioned above, the Chickasaw Nation of Oklahoma has given \$4,400,000 of a \$5,200,000 commitment. The Center will house the following:

- Classrooms
- Teacher Offices
- Business departments
- Lounge area

The Center will serve to strengthen the partnership between the faculty and students.

As of June 30, 2011, construction of the Center had not begun. The Foundation recognized as revenue and expended \$242,018 of the contributions received during the period ended June 30, 2011. The funds were used to reimburse the University for architectural fees related to the Center. The construction of the Center has not begun because construction plans have not been finalized by the University. The \$4,270,274 received by the Foundation will not be recognized as revenue as of June 30, 2011. Such recognition will be made in the near future when a signed contract for the construction of the Center is finalized.

NOTES TO FINANCIAL STATEMENTS--Continued

EAST CENTRAL UNIVERSITY

June 30, 2011

NOTE N--EAST CENTRAL UNIVERSITY FOUNDATION, INC.--DISCRETELY PRESENTED
COMPONENT UNIT--Continued

Restricted Net Asset Composition

Temporarily and permanently restricted net assets are predominantly restricted for scholarships.

Related-Party Transactions

The Foundation occupies, without charge, certain premises located on the campus the University.

The Foundation benefits from voluntary services donated by individuals and businesses which have not been reflected in the financial statements due to their immateriality.

During 2011 the Foundation had two Board members who also serve as president of local banks where the Foundation has checking accounts. As of June 30, 2011 the checking accounts had a book balance of \$253,237.

Aid to Programs

Aid to programs consists of general expenses for various University organizations and programs.

Commitments and Contingencies

East Central University Fine Arts Buildings

During each of the years ended June 30, 2011 \$15,000 was paid from unrestricted funds of the Foundation as part of its \$500,000 commitment for the East Central University Fine Arts Building. As of June 30, 2011, approximately \$440,000 (\$350,000 was paid in a lump sum in 2005) had been paid by the Foundation, and the balance of \$60,000 will be paid over the remaining 4 years of the original 10-year commitment.

East Central University School of Business/Conference Center

During the year ended June 30, 2011, \$150,000 was paid from unrestricted funds of the Foundation as part of a \$250,000 commitment for the Center for naming rights to the actual conference center. The remaining \$100,000 is expected to be paid during the year ended June 30, 2012.

NOTES TO FINANCIAL STATEMENTS--Continued

EAST CENTRAL UNIVERSITY

June 30, 2011

NOTE N--EAST CENTRAL UNIVERSITY FOUNDATION, INC.--DISCRETELY PRESENTED COMPONENT UNIT--Continued

Endowments

The Foundation's endowments consist of 249 individual donor-restricted funds established for a variety of scholarships and activities. As required by accounting principles generally accepted in the United States, net assets associated with endowment funds are classified and reported based on donor-imposed restrictions. The endowments represent only those net assets that are under the control of the Foundation.

Interpretation of Relevant Law

The Foundation has interpreted the Uniform Prudent Management of Institutional Funds Act of 2006 ("UPMIFA") as requiring the preservation of the purchasing power of the donor-restricted endowment funds absent explicit donor stipulations to the contrary. Therefore, the Foundation classifies as permanently restricted net assets 1) the original value of endowed gifts, 2) any subsequent gifts, and 3) any accumulations to the permanent endowment made in accordance with the direction of the donor gift instrument.

Spending Policy

The Foundation has approved an endowment distribution or spending policy whereby distributions are limited to 5% of the endowment fund's average fair value over the preceding 12 quarters, beginning with the previous fiscal year-end. The spending policy may be adjusted if a donor requests a specific spending policy and such policy is documented in the donor agreement.

The Foundation's investment objective is to position the funds to maintain a balance between long-term investment growth and annual distributions. The policy sets forth two important goals. First, the purchasing power of the endowment is maintained, and this preserves a Fund's ability to meet the future needs of the Foundation and its programs. Second, application of the spending policy reduces the endowment's vulnerability to significant fluctuations in the stock and bond markets.

Net Asset Composition of Endowments

The net asset composition of endowments by type of fund as of June 30, 2011, was as follows:

	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Permanently Restricted</u>	<u>Total</u>
Donor-restricted endowment funds	\$ -	\$ -	\$ 14,559,999	\$ 14,559,999

As can be seen, all of the Foundation's endowments are classified as permanently restricted.

NOTES TO FINANCIAL STATEMENTS--Continued

EAST CENTRAL UNIVERSITY

June 30, 2011

NOTE N--EAST CENTRAL UNIVERSITY FOUNDATION, INC.--DISCRETELY PRESENTED
COMPONENT UNIT--Continued

Endowments--Continued

Changes in Net Assets of Endowments

Changes in the net assets of endowments for the year ended June 30, 2011, were as follows:

	<u>Permanently Restricted</u>
Net assets, beginning of year	\$ 14,335,592
Contributions	<u>305,859</u>
Transfer from other net assets	<u>(81,452)</u>
Net assets, end of year	<u><u>\$ 14,559,999</u></u>

Disclosure about Fair Value of Financial Instruments

Fair Value on a Recurring Basis: Fair value is defined as the exchange price that would be received for an asset or paid to transfer a liability (an exit price) in the principal or most advantageous market for the asset or liability in an orderly transaction between market participants on the measurement date. In estimating fair value, the Foundation utilizes valuation techniques that are consistent with the market approach, the income approach, and/or the cost approach. Such valuation techniques are consistently applied. Inputs to valuation techniques include the assumptions that market participants would use in pricing an asset. Fair values may not represent actual values of assets that could have been realized on the measurement date or that will be realized in the future. The use of different market assumptions and/or estimation methodologies may have a material effect on the estimated fair value amounts.

The estimated fair values of the Foundation's financial instruments at June 30 were as follows:

	<u>Estimated Fair Value and Carrying Amount</u>
Cash and cash equivalents	\$ 751,533
Investments	<u>23,822,556</u>
	<u><u>\$ 24,574,089</u></u>

NOTES TO FINANCIAL STATEMENTS--Continued

EAST CENTRAL UNIVERSITY

June 30, 2011

NOTE N--EAST CENTRAL UNIVERSITY FOUNDATION, INC.--DISCRETELY PRESENTED
COMPONENT UNIT--Continued

Disclosure about Fair Value of Financial Instruments--Continued

Fair Value on a Recurring Basis--Continued: The following methods and assumptions were used to estimate the fair value of each class of financial instrument.

Cash and Cash Equivalents and Certificates of Deposit

The carrying amounts approximate fair value.

Investments

The fair value of common stock is based on quoted prices. The fair values of U.S. government securities, international bonds, and corporate bonds, for the most part, are obtained from independent pricing services utilizing Level 2 inputs. The fair value measurements considered to be observable inputs may include dealer quotes, market spreads, cash flows, the U.S. Treasury yield curve, live trading levels, trade execution data, market consensus prepayment speeds, credit information, and the security's terms and conditions, among other things.

ASC 820 establishes a fair value hierarchy for valuation inputs that gives the highest priority to quote prices in active markets for identical assets or liabilities and the lowest priority to unobservable inputs. The fair value hierarchy is as follows:

- Level 1 inputs to the valuation methodology are quote prices (unadjusted) for identical assets or liabilities in active markets.
- Level 2 inputs to the valuation methodology include quoted prices for similar assets and liabilities in active markets, and inputs that are observable for the asset and liability, either directly or indirectly, for substantially the full term of the asset or liability.
- Level 3 inputs consist of unobservable inputs which are used when observable inputs are unavailable and reflect an entity's own assumptions about the assumptions that the market participants would use in pricing the assets or liabilities. There were no level 3 inputs.

NOTES TO FINANCIAL STATEMENTS--Continued

EAST CENTRAL UNIVERSITY

June 30, 2011

NOTE N--EAST CENTRAL UNIVERSITY FOUNDATION, INC.--DISCRETELY PRESENTED COMPONENT UNIT--Continued

Disclosure about Fair Value of Financial Instruments--Continued

Fair Value on a Recurring Basis--Continued: The following is a description of the valuation methodologies used for assets measured at fair value on a recurring basis and recognized in the accompanying statement of financial position, as well as the general classification of such assets pursuant to the valuation hierarchy.

	Assets Measured at Fair Value	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
International bonds	\$ 389,266	\$ -	\$ 389,266	\$ -
U.S. government securities	4,658,360	-	4,658,360	-
Corporate bonds	5,509,220	-	5,509,220	-
Common stock	9,976,403	9,976,403	-	-
Certificates of deposit	3,289,307	-	3,289,307	-
	<u>\$ 23,822,556</u>	<u>\$ 9,976,403</u>	<u>\$ 13,846,153</u>	<u>\$ -</u>

Subsequent Events

Market Conditions

Subsequent to June 30, 2011, the financial market has deteriorated substantially. That volatility will have an impact on the Foundation's investments, earnings, and operations; however, the extent of the impact is unknown. In addition, certain U.S. government investments which were rated previously as AAA by Moody's were downgraded to AA.

Contributions

Subsequent to June 30, 2011, the Foundation received \$2,000,000 from a donor. The contribution was made to the Foundation for the Center.

REQUIRED SUPPLEMENTAL
INFORMATION

REQUIRED SUPPLEMENTAL INFORMATION--UNAUDITED

EAST CENTRAL UNIVERSITY

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	\$ 1,643,291	\$ 6,366,449	\$ 4,723,158	25.81%	\$ 7,023,444	67.2%
6/30/2007	2,235,012	7,287,369	5,052,357	30.67%	6,190,576	81.6%
6/30/2008	2,341,913	7,314,541	4,972,628	32.02%	5,770,396	86.17%
6/30/2009	2,445,527	7,895,738	5,450,211	30.97%	5,157,940	105.67%
6/30/2010	2,493,132	7,922,704	5,429,572	31.47%	4,635,268	117.14%
6/30/2011	2,506,521	7,886,446	5,379,925	31.78%	4,304,858	124.97%

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

SCHEDULE OF FUNDING PROGRESS FOR OTHER POST-EMPLOYMENT 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	\$ 335,020	\$ 2,388,000	\$ 2,052,980	14.03%	\$ 22,198,298	9.25%
6/30/2009	\$ 625,603	\$ 2,559,361	\$ 1,933,758	24.44%	\$ 23,105,592	8.37%
6/30/2010	\$ 918,182	\$ 2,835,065	\$ 1,916,883	32.39%	\$ 23,112,060	8.29%
6/30/2011	\$ 1,345,835	\$ 2,937,054	\$ 1,591,219	45.82%	\$ 23,129,972	6.88%

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

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

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

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

We have audited the financial statements of East Central University (the "University"), a component unit of the State of Oklahoma, as of and for the years ended June 30, 2011 and 2010, and have issued our report thereon dated October 25, 2011. 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. Other auditors audited the financial statements of the East Central University Foundation, Inc., the University's discretely presented component unit, as described in our report on the University's financial statements. The financial statements of the Foundation were not audited in accordance with *Government Auditing Standards*.

Internal Control Over Financial Reporting

In planning and performing our audits, we considered the University'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 University's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the University' 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 a 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 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 we consider to be material weaknesses, as defined above

Compliance and Other matters

As part of obtaining reasonable assurance about whether the University'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 test 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, management, and federal awarding agencies and pass-through entities and is not intended to be, and should not be, used by anyone other than these specified parties.

Cole & Reed P.C.

Oklahoma City, Oklahoma
October 25, 2011

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

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

Compliance

We have audited the compliance of East Central University (the "University"), a component unit of the State of Oklahoma, with the types of compliance requirements described in the U.S. Office of Management and Budget (OMB) Circular A-133 *Compliance Supplement* that could have a direct and material effect on each of its major federal programs for the year ended June 30, 2011. The University'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 University's management. Our responsibility is to express an opinion on the University's compliance based on our audit.

We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. Those standards and OMB Circular A-133 require that we plan and perform the audit to obtain reasonable assurance about whether non-compliance 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 University'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 of the University's compliance with those requirements.

In our opinion, East Central University complied, in all material respects, with the compliance requirements referred to above that could have a direct and material effect on each of its major federal programs for the year ended June 30, 2011.

Internal Control Over Compliance

The management of East Central University is responsible for establishing and maintaining effective internal control over compliance with the requirements of laws, regulations, contracts, and grants applicable to federal programs. In planning and performing our audit, we considered the University'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 in accordance with OMB circular A-133, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of the University's internal control over compliance.

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

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 weaknesses. We did not identify any deficiencies in internal control over 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 the University as of and for the year ended June 30, 2011, and have issued our report thereon dated October 25, 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 information and use of the Board of Regents, management, and federal awarding agencies and pass-through entities and is not intended to be, and should not be, used by anyone other than these specified parties.

Cole & Reed P.C.

Oklahoma City, Oklahoma
October 25, 2011

EAST CENTRAL UNIVERSITY

SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS

Year Ended June 30, 2011

Federal Grantor / Pass-Through Grantor / Program Title	CFDA Number	Pass-Through Entity Identification Number	June 30, 2011 Amount Expended
U.S. Department of Education			
Direct programs			
Student financial aid cluster			
Federal Pell Grant Program	84.063	N/A	\$ 9,981,633
Federal Supplemental Education Opportunity Grants	84.007	N/A	87,935
Federal Work Study Program	84.033	N/A	411,210
Direct Lending	84.268	N/A	21,175,310
Federal Perkins Loan Program	84.038	N/A	1,394,920
Academic Competitiveness Grant	84.375	N/A	156,146
National Smart Grant	84.376	N/A	<u>125,322</u>
Total student financial aid cluster			33,332,476
Trio cluster			
Upward Bound	84.047	N/A	1,116,043
Talent Search	84.044	N/A	558,503
sECUre success, TRIO-Student Support Services	84.042	N/A	163,986
McNair Scholars Program	84.217	N/A	254,787
Educational Opportunity Centers	84.066	N/A	<u>426,511</u>
Total trio cluster			2,519,830
Other programs			
Rehabilitation	84.129	N/A	199,378
ECU Economic Development Arts Related Project	84.116	N/A	154,459
Passed through Oklahoma State Regents for Higher Education			
Literacy Coaches Teaching Reading	84.267	N/A	46,746
Improving Teacher Quality/The Language of Mathematics	84.367	2011NCLB-ITQ	27,424
Teaching American History	84.215	N/A	305,610
Native American Voices	84.382	N/A	699,189
Gear Up	84.334	N/A	<u>244,632</u>
Total other programs			1,677,438
Passed through The Office of the Governor, State of Oklahoma			
State Fiscal Stabilization Fund-Education Grants, Recovery Funds	84.394 ARRA		1,240,831
State Fiscal Stabilization Fund-Education Grants, Recovery Funds	84.397 ARRA		35,927
Total U.S. Department of Education			38,806,502
U.S. Department of Agriculture			
Child and Adult Care Food Program	10.558	DC-62-014	22,098
East Main Street Planning RBOG	10.447	N/A	15,396
Rural Business Enterprise Grant	10.769	N/A	<u>47,798</u>
Total U.S. Department of Agriculture			85,292
U.S. Environmental Protection Agency			
Environmental Research Apprenticeship	66.511	N/A	110,667
U.S. Department of Health and Human Services			
Direct programs			
Title IV: Child Welfare	93.575	N/A	39,364
Bridges to Baccalaureate	93.859	N/A	135,618
Basic Nurses Education and Practice Program	93.359	N/A	230,586
Geriatric Educational Centers	93.969	N/A	10,430
Center for Learning & Leadership	93.632	N/A	10,350
Passed through Oklahoma State Department of Human Services			
Developmental Disabilities In-Service Training	93.778	00001273	<u>234,453</u>
Total U.S. Department of Health and Human Services			660,801

EAST CENTRAL UNIVERSITY

SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS--Continued

Year Ended June 30, 2011

Federal Grantor / Pass-Through Grantor / Program Title	CFDA Number	Pass-Through Entity Identification Number	June 30, 2011 Amount Expended
Small Business Administration			
Passed through Southeastern Oklahoma State University Small Business Development Center	59.037	0-7620-0038-17	101,949
U.S. Department of Labor			
Veterans Workforce Investment Program	17.802	N/A	414,517
Passed through Oklahoma Department of Commerce Southern Oklahoma Green Jobs Consortium	17.275	GJ-19904-10-60-A-40	28,293
Total U.S. Department of Labor			442,810
National Science Foundation			
Passed through Oklahoma State University Oklahoma Louis Stokes Alliance Participation	47.076	AA-5-58610	28,267
Isolation of Growth EPSCOR	47.081	EPS-0814361	599
Passed through University of Central Oklahoma Sure Step Summer Program	47.080	EPS-0814361	2,000
Robert Noyce Teacher Scholarship	47.046	AA-5-58610	98,119
Passed through Brigham Young University CURM Mini Grant	47.049	DMS-0636648	4,914
Sure Step Supporting Undergraduate Research	47.076		45,179
Total National Science Foundation			179,078
U.S. Department of Justice			
COPS, Technology	16.710	N/A	69,412
Forensic Justice Center	16.560	N/A	65,561
OK State Victim Assistance	16.582	N/A	33,750
OVW Campus Law Enforcement	16.526	N/A	93,193
Passed through District Attorneys Council Oklahoma State Victim Assistance	16.575	2008-VF-GX-K007	3,250
Reduce violent crimes against women on campus	16.525	N/A	66,502
RUSO VPP	16.525	N/A	594,676
Total U.S. Department of Justice			926,344
U.S. Department of Defense			
Research and Engineering Apprenticeship Program	12.630	N/A	7,735
Institute of Museum and Library Services			
IMLS Library Media Grant	45.313	N/A	185,666
U.S. Department of Transportation			
Tree Planting Project	20.205	N/A	1,950
Center for Disease Control			
Passed through University of Minnesota Simulations and Exercises for Educational Effectiveness	93.061	5P01-TP000301-02	20,788
National Endowment for Humanities			
Occupied Vicksburg	45.129	N/A	1,000
Total expenditures of federal awards			\$ 41,530,582

See notes to schedule of expenditures of federal awards.

NOTES TO SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS

EAST CENTRAL UNIVERSITY

June 30, 2011

NOTE A--SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The schedule of expenditures of federal awards include the federal awards activity of East Central University (the "University") 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 the schedule may differ from amounts presented in, or used in the preparation of, the basic financial statements.

NOTE B--FEDERAL DIRECT STUDENT LOAN PROGRAM

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

NOTE C--LOANS OUTSTANDING

The University has \$1,394,921 in Federal Perkins loans outstanding at June 30, 2011. These loan balances outstanding are included as federal expenditures in the schedule of expenditures of federal awards. During the year ended June 30, 2011, the University issued Perkins loans totaling \$95,000.

NOTES TO SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS--Continued

EAST CENTRAL UNIVERSITY

June 30, 2011

NOTE D--SUB-RECIPIENTS

During the year ended June 30, 2011, the University provided federal awards to sub-recipients as follows:

<u>Program</u>	<u>CFDA No.</u>	<u>Sub-recipient</u>	<u>Amount provided</u>
Bridges to Baccalaureate	93.960	Oklahoma City Community College	\$ 14,140
Bridges to Baccalaureate	93.960	Redlands Community College	10,062
Bridges to Baccalaureate	93.960	Rose State College	8,582
RUSO VPP	16.525	Southwestern Oklahoma State Univ.	100,800
RUSO VPP	16.525	University of Central Oklahoma	103,803
RUSO VPP	16.525	Northwestern State University	100,800
RUSO VPP	16.525	Southeastern Oklahoma State Univ.	100,800
RUSO VPP	16.525	Northeastern Oklahoma State Univ.	71,119
			<u>\$ 510,106</u>

SCHEDULE OF FINDINGS AND QUESTIONED COSTS

EAST CENTRAL UNIVERSITY

June 30, 2011

Section I--Summary of Auditors' Results

Financial statements

Type of auditors' report issued: *Unqualified*

Internal control over financial reporting:

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

Noncompliance material to financial statements noted? yes no

Federal Awards

Internal control over major programs:

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

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

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

Identification of major programs:

<u>Program/Cluster</u>	<u>CFDA Number</u>
Student Financial aid cluster	*
Reduce Violence Against Women on Campus	16.525
RUSO VPP	16.525
Veteran's Workforce Investment Program	17.802
State Fiscal Stabilization Fund-Education Grants Recovery Funds	84.394 ARRA
State Fiscal Stabilization Fund-Education Grants Recovery Funds	84.397 ARRA

* Refer to the Schedule of Expenditures of Federal Awards for CFDA numbers related to these programs.

SCHEDULE OF FINDINGS AND QUESTIONED COSTS--Continued

EAST CENTRAL UNIVERSITY

June 30, 2011

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

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

Auditee qualified as low-risk auditee? X yes no

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

No matters were reportable.

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

No matters were reportable.