EAST CENTRAL UNIVERSITY

June 30, 2012

COLE + REED P.C.
CERTIFIED PUBLIC ACCOUNTANTS

EAST CENTRAL UNIVERSITY

June 30, 2012

AUDITED FINANCIAL STATEMENTS

REQUIRED SUPPLEMENTARY INFORMATION

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

COLE + REED P.C.
CERTIFIED PUBLIC ACCOUNTANTS

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, 2012, 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. 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 and the report of the other auditors 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, 2012, 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.

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In accordance with *Government Auditing Standards*, we have also issued our report dated October 30, 2012, 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.

Accounting principles generally accepted in the United States of America require that Management's Discussion and Analysis and the Schedules of Funding Progress for the Supplemental Retirement Annuity Plan and other Post-Employment Insurance Benefits Plan, as listed in the table of contents, be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Cole & Reed P.C.

Oklahoma City, Oklahoma
October 30, 2012

East Central University
Management's Discussion and Analysis
Year Ended June 30, 2012
(Unaudited)

OVERVIEW OF FINANCIAL STATEMENTS AND FINANCIAL ANALYSIS

East Central University presents its financial statements for fiscal year 2012. 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 2012 fiscal year data in comparison with the 2011 fiscal year data. While the 2011 data is not a part of the financial statements, significant fluctuations between the 2012 and 2011 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.

OVERVIEW OF FINANCIAL STATEMENTS AND FINANCIAL ANALYSIS (Continued)

Statement of Net Assets--Continued

Statement of Net Assets
(Thousands of Dollars)

	June 30	
	2012	2011
Assets:		
Current assets	$ 24,582	$ 25,273
Capital assets, net	63,550	58,919
Other assets	9,829	6,217
Total Assets	97,961	90,409
Liabilities		
Current Liabilities	5,874	4,592
Noncurrent Liabilities	25,279	26,946
Total Liabilities	31,153	31,538
Net Assets		
Invested in capital assets, net of debt	39,586	34,575
Restricted-expendable	9,085	5,327
Unresticted	18,137	18,968
Total Net Assets	$ 66,808	$ 58,870

OVERVIEW OF FINANCIAL STATEMENTS AND FINANCIAL ANALYSIS (Continued)

Statement of Net Assets--Continued

The current assets decrease of $691,000 is due to a $2,500,000 transfer of cash to restricted cash for capital projects and a $687,000 net increase in receivables ($1,252,000 increase in direct lending receivables, $146,000 increase in account receivables, and $711,000 decrease in grant receivables) and approximately an overall increase in cash after the transfer of $1,122,000. 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 increase in capital assets was from the start of construction on the new School of Business and Conference Center in the amount of $5,437,000, which has an estimated cost of $6-$8 million left until completion in fiscal year 2013. 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 people at banquets and can be divided into three breakout rooms. With the use of Federal Emergency Management Agency ("FEMA") funds, the banquet room will also serve as a community safe room. The increase in other assets is mainly due to the $2,500,000 of cash transferred from current assets to be used for capital projects.

Total liabilities as of June 30, 2012 decreased minimally from June 30, 2011 based on normal debt retirement. In the fiscal year ending June 30, 2012, the University retired $1,364,000 of long-term debt of which $536,000 was applied when the ODFA refinanced the 2002C Master Lease with 2011B Master Lease.

Invested in capital assets, net of debt increased $5,011,000 this year mainly due to the payment of debt and the addition of the construction in progress on the School of Business and Conference Center.

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	
	2012	2011
Operating Revenues		
Tuition, fees, housing & food service	$ 21,957	$ 20,223
Grants and contracts	7,473	10,406
Other operating revenues	1,814	1,469
Total operating revenues	31,244	32,098
Operating expenses		
Compensation	33,971	33,684
Contractual services	5,131	4,951
Supplies & materials	4,389	4,552
Depreciation	2,860	2,907
Other operating expenses	17,666	19,709
Total operating expenses	64,017	65,803
Net operating income (loss)	(32,773)	(33,705)
Non-operating revenues (expenses)		
State appropriations	17,351	17,586
ARRA funds	14	1,277
Grants and contracts	15,608	17,260
Other revenues	1,961	2,089
Interest expense	(1,098)	(1,037)
Total non-operating	33,836	37,175
Other revenues and gains	6,875	1,397
Change in net assets	7,938	4,867
Net assets		
Net assets, beginning of year	58,870	54,003
Net assets, end of year	$ 66,808	$ 58,870

OVERVIEW OF FINANCIAL STATEMENTS AND FINANCIAL ANALYSIS (Continued)

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

The University experienced stable enrollment during fiscal years 2011 and 2012, but had an approximate increase in tuition and fees of 5%. This resulted in an increase in tuition, fee, housing and food service revenues of $1,734,000 from fiscal year 2011. Grants and Contracts operating decreased by $2,933,000 mainly due to the following federal and state grants not being renewed for the year: Teaching American History in the amount of $194,000; Native American Voices in the amount of $647,000; Gear Up in the amount of $146,000; RUSO VPP in the amount of $535,000; IMLS Library Media Grant in the amount of $176,000; and Professional Development Institute in the amount of $1,065,000.

Additionally, with a consistent enrollment, expenses stayed comparable to last year except for other operating expenses, which is down $2,043,000 mainly due to the decrease of $1,150,000 of the Pell Grant, $156,000 of the Academic Competitiveness Grant, and $125,000 of the National Smart Grant from 2012 to 2011.

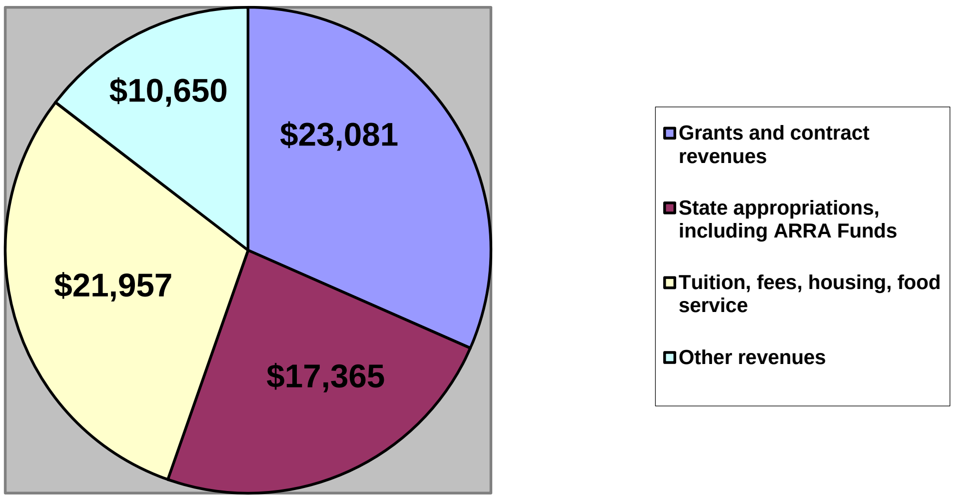
State appropriations decreased as the State no longer continued to supplement the University with Federal ARRA funds. Grants and contracts non-operating decreased $1,652,000, which is mainly due to the $1,500,000 decrease in Pell, Academic Competitiveness Grant and National Smart Grant.

Other revenues and gains have increased $5,478,000 this is due to donations for the new School of Business and Conference Center. The large donations are $3,885,000 from the ECU foundation, $1,250,000 from the City of Ada, and $150,000 from the Ada Development Corporation.

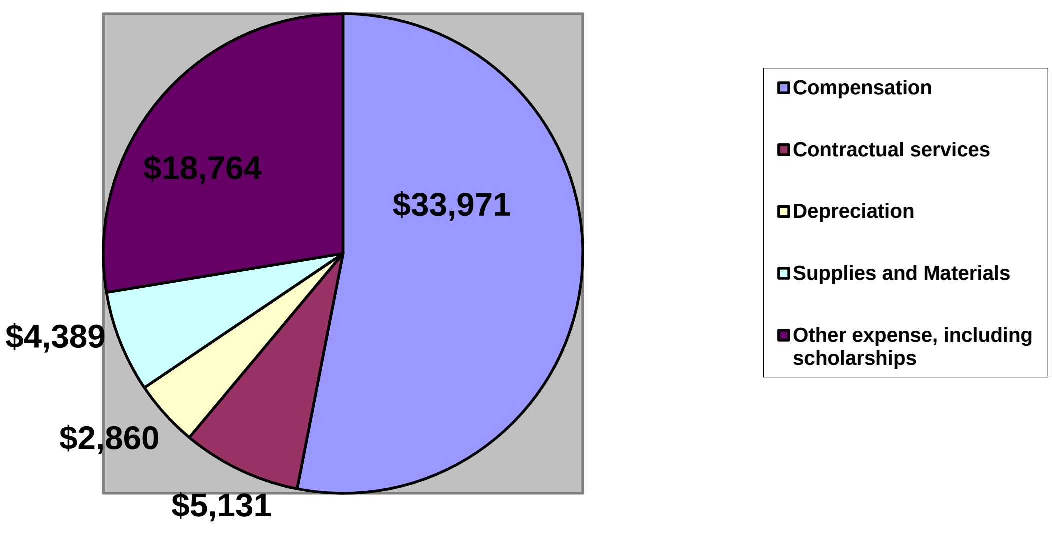
Overall, the University realized a $7,938,000 growth in net assets.

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

Revenues



Expenditures



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 2012 fiscal year, the University operated within its available resources as total revenues exceeded total expenses by $7,938,000 and management's goal of increasing cash reserves has been effective. In fiscal year 2012, tuition, fees, housing and food service revenue accounted for 30% of the University's total revenue. Stable enrollment has continued into the fall 2012 semester and the State Regents approved a 5.4% increase in tuition and fees for the 2012-2013 school years.

State appropriations were approximately 24% of total revenues for fiscal year 2012 as compared to 27% for fiscal year 2011, including the ARRA funds received from the State in 2011. State appropriations to the University are expected to remain stable or increase slightly; however, total state appropriations are not expected to be at the fiscal year ending 2009 level. Therefore, the University will continue to feel a negative impact from this financial source.

Grant and contract revenues currently represent 32% of total revenues for the University which decreased during the 2012 year. Changes in the student loan and grant programs have occurred during fiscal year 2012. Grant and contract resources have been negatively impacted by the national economic down-turn. The University has prepared contingency plans and continues to operate using a conservative spending plan due to the decrease in state appropriations in the past years and the national economic status, and has not incurred any significant new debt.

STATEMENT OF NET ASSETS

EAST CENTRAL UNIVERSITY

June 30, 2012

	University	Component Unit
ASSETS		
CURRENT ASSETS		
Cash and cash equivalents	$ 20,024,881	$ 1,880,578
Accounts receivable, net	1,540,039	721,818
Grants and contracts receivable	2,844,805	-
Interest receivable	10,247	93,405
Current portion of notes receivable, net	162,228	-
TOTAL CURRENT ASSETS	24,582,200	2,695,801
NONCURRENT ASSETS		
Restricted cash and cash equivalents	5,277,238	-
Restricted investments	480,213	-
Investments	-	23,456,666
Investments held by others	2,300	-
Receivable from OCIA	377,572	-
Receivable from OSRHE Endowment Trust Fund	300,799	-
Notes receivable, net	1,151,618	-
Net Pension Asset	469,162	-
Net OPEB Asset	584,253	-
Other assets	1,186,498	198,188
Capital assets, net	63,549,734	22,713
TOTAL NONCURRENT ASSETS	73,379,387	23,677,567
TOTAL ASSETS	$ 97,961,587	$ 26,373,368
LIABILITIES		
CURRENT LIABILITIES		
Accounts and scholarships payable	$ 2,153,309	$ 11,449
Accrued payroll	96,529	-
Accrued interest	157,572	-
Deferred revenue	1,443,765	-
Deposits held in custody for others	229,072	-
Current portion of non current liabilities	1,793,960	-
TOTAL CURRENT LIABILITIES	5,874,207	11,449
NONCURRENT LIABILITIES		
Accrued compensated absences	435,169	-
Federal loan program contributions refundable	1,358,507	-
Bonds payable	9,325,000	-
ODFA master lease obligations	3,137,166	-
Premium on Bonds	5,750	-
Lease obligations payable to OCIA	11,017,588	-
TOTAL NONCURRENT LIABILITIES	25,279,180	-
TOTAL LIABILITIES	31,153,387	11,449
NET ASSETS		
Invested in capital assets, net of debt	39,585,563	-
Restricted		
Nonexpendable		
Grants, bequests and contributions	-	15,045,286
Expendable		
Scholarships, instruction and other	3,597,188	10,218,856
Loans	174,723	-
Capital projects	5,057,854	-
Debt service	255,897	-
Unrestricted	18,136,975	1,097,777
TOTAL NET ASSETS	$ 66,808,200	$ 26,361,919

See notes to financial statements.

STATEMENT OF REVENUES, EXPENSES, AND CHANGES IN NET ASSETS

EAST CENTRAL UNIVERSITY

Year Ended June 30, 2012

	University	Component Unit
OPERATING REVENUES		
Student tuition and fees, net of scholarship discounts and allowances of $8,215,706 (revenues of $708,194 pledged as security on University Center Revenue Bonds of 1993, revenues of $477,180 pledged as security on Fine Arts Center Revenue Bonds of 2005).	$ 17,131,617	$ -
Federal grants and contracts	5,027,758	-
State and local grants and contracts	2,445,309	-
Bookstore operations	224,282	-
Housing and food service (revenues of $3,195,185 pledged as security on Student Housing Revenue bonds of 2003).	4,601,379	-
Investment income	-	1,615,711
Contributions	-	9,441,006
Other operating revenues	1,813,390	30,766
TOTAL OPERATING REVENUES	31,243,735	11,087,483
OPERATING EXPENSES		
Compensation and employee benefits	33,970,783	-
Contractual services	5,131,375	-
Supplies and materials	4,389,378	-
Depreciation	2,859,777	3,781
Utilities	1,484,612	-
Communication expense	218,560	-
Scholarships and fellowships	10,278,261	358,476
Other operating expenses	5,684,100	5,019,531
TOTAL OPERATING EXPENSES	64,016,846	5,381,788
OPERATING INCOME (LOSS)	(32,773,111)	5,705,695
NONOPERATING REVENUES (EXPENSES)		
State appropriations	17,351,205	-
State appropriations - ARRA	13,585	-
On-behalf contributions for OTRS	1,752,000	-
Federal Grants	9,350,735	-
State Grants	6,257,435	-
Investment income	115,187	-
Other non-operating revenues	93,612	-
Interest expense	(1,097,826)	-
NET NONOPERATING REVENUE (EXPENSES)	33,835,933	-
Income before other revenues, expenses, gains and losses	1,062,822	5,705,695
CAPITAL GIFTS AND GRANTS		
State appropriations restricted for capital purposes	1,276,483	-
Capital Contributions	5,375,344	
OCIA on-behalf state appropriations	223,332	-
TOTAL CAPITAL GIFTS AND GRANTS	6,875,159	-
CHANGE IN NET ASSETS	7,937,981	5,705,695
NET ASSETS, BEGINNING OF YEAR	58,870,219	20,656,224
NET ASSETS, END OF YEAR	$ 66,808,200	$ 26,361,919

See notes to financial statements.

STATEMENT OF CASH FLOWS

EAST CENTRAL UNIVERSITY

Year Ended June 30, 2012

CASH FLOWS FROM OPERATING ACTIVITIES	
Tuition and fees	$ 16,697,508
Grants and contracts	7,044,614
Auxiliary enterprise charges	6,809,670
Payments to employees for salaries and benefits, net of on-behalf payments	(32,790,514)
Payments to suppliers	(27,168,727)
NET CASH USED IN OPERATING ACTIVITIES	(29,407,449)
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES	
State appropriations	17,364,790
Non-operating grants	15,608,170
Cash received from Non-Operating Revenues	93,612
Direct Loan receipts	22,193,193
Direct Loan payments	(22,193,193)
NET CASH PROVIDED BY NONCAPITAL FINANCING ACTIVITIES	33,066,572
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES	
Cash paid for capital assets	(6,513,379)
Capital appropriations received	1,276,483
Contributions	5,375,344
Repayments of capital debt and leases	(1,312,667)
Interest paid on capital debt and leases	(679,582)
NET CASH USED IN CAPITAL AND RELATED FINANCING ACTIVITIES	(1,853,801)
CASH FLOWS FROM INVESTING ACTIVITIES	
Proceeds from sales and maturities of investments	536,095
Interest received on investments	80,973
NET CASH PROVIDED BY INVESTING ACTIVITIES	617,068
NET CHANGE IN CASH AND CASH EQUIVALENTS	2,422,390
CASH AND CASH EQUIVALENTS AT BEGINNING OF YEAR	22,879,729
CASH AND CASH EQUIVALENTS AT END OF YEAR	$ 25,302,119

See notes to financial statements.

STATEMENTS OF CASH FLOWS--Continued

EAST CENTRAL UNIVERSITY

Year Ended June 30, 2012

RECONCILIATION OF OPERATING LOSS TO NET CASH USED IN OPERATING ACTIVITIES	
Operating loss	$ (32,773,111)
Adjustments to reconcile operating loss to net cash used in operating activities:	
Depreciation expense	2,859,777
Loss on disposal of capital assets	5,156
On-behalf contributions to teachers' retirement system	1,752,000
Changes in assets and liabilities:	
Student accounts receivable	(686,907)
Other receivables	44,134
Net Pension and OPEB Assets	(614,950)
Accounts payable and accrued liabilities	12,403
Accrued payroll	(9,964)
Deferred revenue	(49,170)
Compensated absences	53,183
NET CASH USED IN OPERATING ACTIVITIES	$ (29,407,449)
NONCASH INVESTING, NONCAPITAL FINANCING AND CAPITAL AND RELATED FINANCING ACTIVITIES	
Interest on capital debt paid by state agency on behalf of the University	$ 172,378
Principal on capital debt paid by state agency on behalf of the University	50,954
Write-off of bond premium	77,144
Total noncash investing, noncapital financing and capital and related financing activities	$ 300,476
RECONCILIATION OF CASH AND CASH EQUIVALENTS TO STATEMENTS OF NET ASSETS	
Current assets	
Cash and cash equivalents	$ 20,024,881
Noncurrent assets	
Restricted cash and cash equivalents	5,277,238
	$ 25,302,119

See notes to financial statements.

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 form 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.

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 and Grants 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. Grants receivable 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 and grants 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.

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

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.

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, and (3) certain grants and contracts.
>
> 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.

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 obligations of the United States Government, its agencies and instrumentalities; including agency senior debt and mortgage-backed pass-through securities, tri-party repurchase agreements, money market mutual funds, collateralized certificates of deposit, commercial paper, obligations of state and local governments, State of Israel Bonds, and various other investments, as allowed by law.

At June 30, 2012, the carrying amount of all University deposits with the OST and other financial institutions were $25,302,119. This amount consists of deposits with the OST ($25,298,370) and change funds ($3,749). Of funds on deposit with the OST, amounts invested in *OK INVEST* total $4,849,580 in 2012. The difference between the bank balance of deposits and the related carrying amounts were generally not significant and are due to outstanding checks and deposits in transit.

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:

OK INVEST Portfolio	Cost	Market Value
U.S. Agency securities	$ 1,714,573	$ 1,719,612
Money market mutual funds	663,812	663,812
Certificates of deposits	156,639	156,639
Mortgage backed agency securities	2,140,530	2,274,223
Municipal bonds	86,986	99,241
Foreign bonds	24,404	24,404
U.S. Treasury Obligations	62,636	78,143
TOTAL	$ 4,849,580	$ 5,016,074

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 probable income to be derived and meeting the State and it's 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 ten years. *OK INVEST* maintains an overall weighted average maturity of no more than four years.

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.

NOTE B--DEPOSITS AND INVESTMENTS--Continued

Deposits--Continued: 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 if 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.

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, 2012, none of the University's investments were subject to custody credit risk.

At June 30, 2012, the University had cash and cash equivalents totaling $2,300 as a part of the ODFA Lease program. These funds had a fair market value of $2,300 at June 30, 2012. 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, 2012, the University had cash and investments in restricted bond funds totaling $480,677. The restricted investments in these bond funds amounted to $480,213 at June 30, 2012. The investment funds had a fair market value of $480,213 at June 30, 2012. 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 in-put from the University. Invested bond funds of $255,898 had an average credit rating of A, and the invested bond funds of $224,315 had an average credit rating of AAAm at June 30, 2012, according to Standard and Poor's and Moody's.

NOTE C--ACCOUNTS RECEIVABLE

Accounts receivable consisted of the following at June 30, 2012:

Student tuition and fees	$ 3,286,952
Auxiliary enterprises and other operating activities	702,758
	3,989,710
Less allowance for doubtful accounts	(2,449,671)
Net accounts receivable	$ 1,540,039

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, 2012. 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, 2012, 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	$ 1,384,306
Other loans	4,792
Total loans receivable	1,389,098
Less allowance for uncollectible loans	(75,252)
Net loans receivable	$ 1,313,846

NOTE E--CAPITAL ASSETS

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

	Balance June 30, 2011	Additions	Transfers	Retirements/ Adjustments	Balance June 30, 2012
Capital assets not being depreciated					
Land	$ 3,949,250	$ 204,019	$ -	$ -	$ 4,153,269
Construction in progress	464,237	5,529,852	(121,750)	-	5,872,339
Total assets not being depreciated	$ 4,413,487	$ 5,733,871	$ (121,750)	$ -	$ 10,025,608
Other capital assets					
Non-major infrastructure networks	$ 288,428	$ 32,931	$ -	$ -	$ 321,359
Land improvements	1,203,414	138,208	-	-	1,341,622
Buildings	78,054,498	281,007	121,750	-	78,457,255
Furniture, fixtures and equipment	7,856,422	1,090,315	-	(275,443)	8,671,294
Software	868,644	-	-	-	868,644
Library materials	5,893,568	219,439	-	(45,545)	6,067,462
Total other capital assets	94,164,974	1,761,900	121,750	(320,988)	95,727,636
Less accumulated depreciation for					
Non-major infrastructure networks	(211,750)	(16,339)	-	-	(228,089)
Land improvements	(897,372)	(46,937)	-	-	(944,309)
Buildings	(26,590,267)	(1,737,165)	-	-	(28,327,432)
Furniture, fixtures and equipment	(5,680,243)	(862,771)	-	270,287	(6,272,727)
Software	(868,644)	-	-	-	(868,644)
Library materials	(5,411,289)	(196,565)	-	45,545	(5,562,309)
Total accumulated depreciation	(39,659,565)	(2,859,777)	-	315,832	(42,203,510)
Other capital assets, net	$ 54,505,409	$ (1,097,877)	$ 121,750	$ (5,156)	$ 53,524,126
Capital asset summary:					
Capital assets not being depreciated	$ 4,413,487	$ 5,733,871	$ (121,750)	$ -	$ 10,025,608
Other capital assets, at cost	94,164,974	1,761,900	121,750	(320,988)	95,727,636
Total cost of capital assets	98,578,461	7,495,771	-	(320,988)	105,753,244
Less accumulated depreciation	(39,659,565)	(2,859,777)	-	315,832	(42,203,510)
Capital assets, net	$ 58,918,896	$ 4,635,994	$ -	$ (5,156)	$ 63,549,734

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.

NOTE F--LONG-TERM LIABILITIES

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

	Balance June 30, 2011	Additions	Reductions	Balance June 30, 2012	Amounts due within one year
Bonds payable and capital lease obligations					
University Center - Series 1993	$ 695,000	$ -	$ (220,000)	$ 475,000	$ 230,000
Student Housing - Series 2003	5,210,000	-	(145,000)	5,065,000	145,000
Fine Arts Center - Series 2005	4,390,000	-	(115,000)	4,275,000	115,000
ODFA Series 2002C lease obligation	4,175,000	-	(4,175,000)	-	-
ODFA Series 2008A lease obligation	211,000	-	(103,000)	108,000	108,000
ODFA Series 2011B lease obligation	-	3,553,000	(107,667)	3,445,333	308,167
OCIA lease obligations	11,415,357	-	(50,954)	11,364,403	346,815
Total bonds and capital lease	26,096,357	3,553,000	(4,916,621)	24,732,736	1,252,982
Other liabilities					
Accrued compensated absences	922,964	53,183	-	976,147	540,978
Federal loan program contributions	1,358,507	-	-	1,358,507	-
Total other liabilities	2,281,471	53,183	-	2,334,654	540,978
Total long-term liabilities	$ 28,377,828	$ 3,606,183	$ (4,916,621)	$ 27,067,390	$ 1,793,960

During the year ended June 30, 2012, total interest costs were $750,147.

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, 2012.

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.

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:

	Principal	Interest	Total
Year Ending June 30:			
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	305,000	358,113	663,113
2018-2022	1,710,000	1,595,207	3,305,207
2023-2027	2,100,000	1,192,977	3,292,977
2028-2032	2,615,000	672,317	3,287,317
2033-2037	1,505,000	106,434	1,611,434
	$ 9,815,000	$ 5,497,621	$ 15,312,621

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.

In 2011, the ODFA issued Bond Series 2011B to refund the Series 2002C Master Lease Revenue Bonds. Restricted funds held under the 2002 Bonds were applied to the outstanding 2002 Bonds and, together with monthly principal payments on the 2002 Bonds until the refunding transaction in November 2011 resulted in the outstanding liability of 2002 Bonds being approximately equal to the liability incurred under the 2011B Series. A comparison of the present value of the total debt service costs of the 2002 Bonds versus the 2011B Bonds resulted in an economic gain of $330,000. At June 30, 2012, $3,900,000 of the Series 2002C which have been defeased in substance is outstanding and is expected to be redeemed in December 2012. 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.

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.

University has recorded a lease obligation payable to OCIA for the total amount of the allotment, less payments made on the University's behalf, which is $446,119 at June 30, 2012.

NOTE F--LONG-TERM LIABILITIES--Continued

Capital Lease Obligations--Continued

Oklahoma Capital Improvement Authority Leases

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. 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 University has drawn down all of its allotment for expenditures incurred in connection with specific projects which have been capitalized as capital assets (building and construction in-progress) in accordance with University policy. The

In November 2005, OCIA issued its 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. The University has recorded a lease obligation payable to OCIA for the total amount of the allotment, less payments made on the University's behalf, which is $7,169,228 at June 30, 2012.

In 2011, the OCIA issued Bond Series 2010A and 2010B to partially refund the Series 2005F Revenue Bonds. The advance partial refunding was to provide budgetary relief for fiscal years 2011 and 2012 by extending and restructuring the debt service. As a result, the total liability of the remaining 2005F bonds combined with the new 2010A and 2010B bond issues will be more than the original outstanding liability for the 2005F bonds. Consequently, the lease agreement with OCIA was automatically restructured to secure the new bond issues. This lease restructuring has extended certain principal payments into the future, resulting in a charge or cost on restructuring that has been recorded as a charge of $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 University has recorded a lease obligation payable to OCIA for the total amount of the allotment, less payments made on the University's behalf, which is $3,749,056 at June 30, 2012.

NOTE F--LONG-TERM LIABILITIES--Continued

Oklahoma Capital Improvement Authority Leases--Continued

Capital Lease Obligations--Continued

Through June 30, 2012, 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, 2012 for expenditures incurred in connection with the specific projects. Expenditures 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 $377,572 at June 30, 2012 for its allotment not drawn down, plus interest allocated by OSRHE (including $8,968 earned in fiscal year 2012) which is also available for draw downs. Lease payments to OCIA totaling $223,332 during the year ended June 30, 2012 were made by the State of Oklahoma on behalf of the University. 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:	Principal	Interest	Total
2013	$ 762,982	$ 591,723	$ 1,354,705
2014	1,175,436	566,441	1,741,877
2015	1,212,531	528,208	1,740,739
2016	1,398,600	532,930	1,931,530
2017	1,454,760	478,158	1,932,918
2018-2022	3,632,325	1,713,066	5,345,391
2023-2027	3,056,670	1,025,277	4,081,947
2028-2032	2,224,432	224,739	2,449,171
	$ 14,917,736	$ 5,660,542	$ 20,578,278

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, 1995. 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, 2012, and 8.05% from July 1, 2009 through December 31, 2009 as applied to annual compensation, and are determined by state statute.

Employees' contributions are also determined by state statute. For all employees, the contribution rate was 7% of covered salaries and fringe benefits in 2012, 2011 and 2010, 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, 2012, 2011 and 2010, were approximately $3,735,000, $3,633,000, and $3,582,000, respectively. These contributions included the University's statutory contribution and the share of the employee's contribution paid directly by the University.

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 2012, 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, 2012, the total amount contributed to the OTRS by the State of Oklahoma on behalf of the University was approximately $1,752,000. 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, 2012, 2011 and 2010.

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 in December 2002, the Plan must achieve 80% funding of the pension benefit obligation by December 1, 2022.

NOTE G--RETIREMENT PLANS--Continued

Supplemental Retirement Annuity (SRA)--Continued

Actuarial Method and Assumptions: The annual required contributions for 2012 and 2011 were determined as part of an actuarial valuation on June 30, 2012 and 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 2012 is as follows:

Annual required contribution	$ 572,158
Interest on net pension obligation	(23,711)
Adjustment to annual required contribution	30,188
Annual pension cost	578,635
Contributions made	(751,405)
Increase (decrease) in net pension obligation	(172,770)
Net pension obligation (asset) at beginning of year	(296,392)
Net pension obligation (asset) at end of year	$ (469,162)

Funded Status and Funding Progress: The funded status of the plan as of June 30, 2012 was as follows:

Actuarial accrued liability (AAL)	$ 7,735,501
Actuarial value of plan assets	2,723,327
Unfunded actuarial accrued liability (UAAL)	$ 5,012,174
Funded ratio (actuarial value of plan assets/AAL)	35.21%
Annual covered payroll (active plan members)	$ 4,494,244
UAAL as a percentage of annual covered payroll	111.52%

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)
2012	$ 578,635	129.9%	$ (469,162)
2011	$ 592,118	92.0%	$ (296,392)
2010	$ 607,843	88.6%	$ (343,526)

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, 2012, there were 379 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, 2012, the ARC is $245,164 and represents 1.0% (percent) of covered payroll.

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, 2012 actuarial valuation, the projected unit cost method was used. The actuarial assumptions included a 7.0% investment rate of return and an annual healthcare cost inflationary increase of 9.0%.

Annual OPEB Cost and Net OPEB Obligation (Asset)

Annual OPEB cost and net OPEB obligation (asset) for 2012 is as follows:

Annual required contribution	$ 245,164
Interest on prior year net OPEB obligation (asset)	3,844
Annual OPEB cost	249,008
Contributions made	(691,188)
Increase (decrease) in net OPEB obligation	(442,180)
OPEB obligation (asset) at beginning of year	(142,073)
OPEB obligation (asset) at end of year	$ (584,253)

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, 2012 was as follows:

Actuarial accrued liability (AAL)	$ 3,206,390
Actuarial value of plan assets	1,626,224
Unfunded actuarial accrued liability (UAAL)	$ 1,580,166
Funded ratio (actuarial value of plan assets/AAL)	50.72%
Annual covered payroll (active plan members)	$ 23,813,010
UAAL as a percentage of annual covered payroll	6.64%

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)
2012	$ 249,008	276%	$ (584,253)
2011	$ 291,061	99%	$ (142,073)
2010	$ 286,443	99%	$ (143,593)

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 $1,225,000 during the year ended June 30, 2012, 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 $16,030,000 at June 30, 2012.

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 $3,548,000 at June 30, 2012, 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 $301,000 at June 30, 2012, 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 2012 the Foundation provided approximately $358,000 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 2012 the Foundation provided approximately $646,000 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.

NOTE J--RELATED PARTY TRANSACTIONS--Continued

In these instances, the Foundation serves essentially as a conduit. In 2012, the Foundation provided approximately $4,400,000 for the School of Business/Conference Center. Contributions that are not designated are used where the need is considered the greatest, as determined by the Foundation.

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.

During 2012, the University began construction on the new School of Business and Conference Center. As of June 30, 2012, there is an estimated cost $6,000,000 to $8,000,000 remaining until the project is complete.

The University participates in the Federal Direct Student Loan Program (Direct Lending 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, 2012, approximately $22,193,000 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, 2012, 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; errors and omissions; employee injuries and illnesses; natural disasters; and employee health, life, and accident benefits. Commercial insurance coverage is purchased for claims arising from such matters other than torts, property, and workers' compensation. Settled claims have not exceeded this commercial coverage in any of the three preceding years.

NOTE L--RISK MANAGEMENT--Continued

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 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.

NOTE M--ACCOUNTING STANDARDS ISSUED NOT YET ADOPTED

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

Fiscal Year Ended June 30, 2013

- Statement No. 60, *Accounting and Financial Reporting for Service Concession Arrangements* –

  GASB 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 University will only be required to adopt the provisions of GASB No. 60 if it enters into an SCA, and it currently has not entered into any such arrangements.

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

<u>New Accounting Pronouncements--Continued</u>:

- 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 and also amends the criteria for reporting component units as if they were part of the primary government (that is, blending) in certain circumstances. Earlier application is encouraged. The University does not believe that the adoption of GASB No. 61 will have a significant impact on its financial statement presentation.

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

  GASB 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 University does not believe that the adoption GASB No. 62 will have a significant impact on its financial position, activities or cash flows, or its financial statement presentation.

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

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

Fiscal Year Ended June 30, 2014

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

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

New Accounting Pronouncements--Continued:

Fiscal Year Ended June 30, 2015

- Statement No. 68, *Accounting and Financial Reporting for Pensions, an Amendment of GASB Statement No. 27*
  GASB No. 68 establishes standards for measuring and recognizing liabilities, deferred outflows of resources, deferred inflows of resources, and pension expenses. GASB No. 68 also details the recognition and disclosure requirements for employers with liabilities to a defined benefit pension plan and for employers whose employees are provided with defined contribution pensions. Defined benefit pensions are further classified by GASB No. 68 as single employer plans, agent employer plans and cost-sharing plans, and recognition and disclosure requirements are addressed for each classification. GASB No. 68 was issued in June 2012, and the University has not yet determined the impact that implementation of GASB No. 68 will have on its net position.

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

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.

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

Summary of Significant Accounting Policies--Continued

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.

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, 2012 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, 2012, $132,338 of investment gains, unrealized and realized, were reclassified from individual accounts of temporarily restricted net assets to offset previous from declines in the market which occurred in 2008. At June 30, 2012, all prior deficiencies have been recouped.

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

Summary of Significant Accounting Policies--Continued

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.

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 $92,000 of cash surrender value assets related to insurance policies owned by the Foundation as of June 30, 2012.

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

Summary of Significant Accounting Policies--Continued

Conditional Gifts: The Foundation receives contributions with terms that require returns of the contribution to the donor on the occurrence of specified future and uncertain events. The Foundation reports such contributions as liabilities until the likelihood of not meeting the condition is remote. Conditional promises to give are not recorded as assets and revenue until the conditions are substantially met and the gift becomes unconditional.

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.

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, 2012, but were not settled until after June 30, 2012. 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.

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

Summary of Significant Accounting Policies--Continued

Income Tax--Continued: 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, 2012, 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.

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.

Reclassifications: The Foundation reclassifies net assets from one net asset category to another as follows:

a. Net asset reclassifications which result from fulfillment of the purposes for which the net assets were restricted and/or restrictions which expired with the passage of time.

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

Summary of Significant Accounting Policies—Continued

Reclassifications--Continued:

b. Net asset reclassifications which occur when a donor withdraws or court action removes previously imposed restrictions, when a donor imposes restrictions on otherwise unrestricted net assets, when a donor changes or modifies their existing restriction, and/or when an existing donor restriction requires certain amounts to be reclassified.

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.

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, 2012 is as follows:

Cash in bank	$ 349,465
Money market account held at Smith Barney Citigroup investors	1,531,113
	$ 1,880,578

Custodial Credit Risks-Deposits: The Foundation had the following depository accounts as of June 30, 2012. All deposits are carried at cost.

Depository Account	Reported Amount	Bank Balance
Insured	$ 349,465	$ 263,507
Uninsured and uncollateralized	1,531,113	1,542,776
	$ 1,880,578	$ 1,806,283

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

Summary of Significant Accounting Policies--Continued

Custodial Credit Risks-Deposits--Continued: 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.

Pledges Receivable

Pledges receivable represent commitments by donors to contribute to the Foundation. The scheduled amounts to be received as of June 30, 2012 were as follows:

	Restricted	Restricted	Total
Amounts due in:			
1 to 5 years	$ 628,697	$ 91,921	$ 720,618
6 to 8 years	-	1,200	1,200
	$ 628,697	$ 93,121	$ 721,818

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:

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

Investments--Continued

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 "AI."
- 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.

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.

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

Short-Term Investments--Continued

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.

Investment securities are presented at fair value. Fair values were determined on the basis of closing prices at June 30, 2012, as quoted on major stock exchanges or over-the-counter markets.

	Cost	Market	Excess (Deficit) of Market Over Cost
U.S. Government securities	$ 5,158,629	$ 5,361,316	$ 202,687
Corporate bonds	5,453,048	5,755,839	302,791
Common stock	8,128,044	10,057,473	1,929,429
Certificates of deposit	2,264,254	2,282,038	17,784
	$ 21,003,975	$ 23,456,666	$ 2,452,691

The Foundation recognized $895,268 during 2012 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 $86,000 for the year ended June 30, 2012.

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

Investments--Continued

Fixed Income Investment--Continued:

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.

Interest Rate Risk--Continued: The following table provides information as of June 30, 2012, concerning the fair value of maturity of investments.

Type of Investment	6 Months or Less	More Than 6 Months to 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
U.S. Government securities	$ 80,565	$ 88,330	$ 1,573,949	$ 760,948	$ 2,857,524	$ 5,361,316	$ 5,158,629
Corporate bonds	231,017	244,403	1,092,712	1,156,053	3,031,654	5,755,839	5,453,048
Common stock	-	-	-	-	-	10,057,473	8,128,044
Certificates of deposit	385,661	644,064	1,252,313	-	-	2,282,038	2,264,254
	$ 697,243	$ 976,797	$ 3,918,974	$ 1,917,001	$ 5,889,178	$ 23,456,666	$ 21,003,975

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

Investments--Continued:

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:

Moody's Rating	Cost	Fair Value (FV)	FV as a % of Total FV
AAA	$ 127,792	$ 146,703	0.625%
AA1	150,401	149,161	0.636%
AA2	292,201	307,178	1.310%
AA3	694,387	722,010	3.078%
A1	1,160,413	1,230,670	5.247%
A2	2,024,291	2,160,122	9.209%
A3	662,915	691,013	2.946%
BAA1	314,874	325,642	1.388%
BAA3	25,774	23,340	0.100%
Not rated:			
U.S. Government securities:			
Federal Home Loan Mortgage Corp.	374,857	394,155	1.680%
Federal Home Loan Bank Consolidated	997,243	1,071,866	4.570%
Federal National Mortgage Association	499,385	526,324	2.244%
Federal Farm Credit Bank Consolidated	1,481,087	1,540,340	6.567%
U.S. Treasury Notes	1,688,215	1,706,123	7.274%
Other	117,842	122,508	0.522%
Common stock	8,128,044	10,057,473	42.877%
Certificates of deposit	2,264,254	2,282,038	9.729%
	$ 21,003,975	$ 23,456,666	100.00%

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.	$	102,740	BAA1/BBB+	9/1/2015
Kellogg Co.		110,656	BAA1/BBB+	5/30/2016
Compass Bank		23,340	BAA3/BBB-	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

During the year ended June 30, 2012, a signed contract was finalized and construction began on the School of Business/Conference Center (the "Center"). The Center is expected to be completed by June 2013 and classes are expected to be held beginning in the fall semester of 2013. Therefore, the Foundation has recognized $7,733,558 of contributions in temporarily restricted net assets during the year ended June 30, 2012. Of that amount, $4,270,274 had been deferred from prior years based on the Center not being constructed and $3,190,584 was received in contributions for the construction of the Center during the year ended June 30, 2012. As of June 30, 2012, $4,469,671 has been expended for the Center through transfers of cash from the Foundation to the University.

Restricted Net Asset Composition

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

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

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 2012, the Foundation had two Board members who also serve as president of local banks where the Foundation has checking accounts. As of June 30, 2012 the checking accounts had a book balance of $82,158.

General University Education Assistance

General university education assistance to programs consists of general expenses for various University organizations and programs.

Commitments and Contingencies

East Central University Fine Arts Buildings

During the year ended June 30, 2012, $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, 2012, approximately $455,000 ($350,000 was paid in a lump sum in 2005) had been paid by the Foundation, and the balance of $45,000 will be paid over the remaining 3 years of the original 10-year commitment.

East Central University School of Business/Conference Center

During the year ended June 30, 2012, $100,000 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 $150,000 was paid during the year ended June 30, 2011.

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

Endowments

The Foundation's endowments consist of 231 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, 2012, was as follows:

	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Donor-restricted endowment funds	$ -	$ -	$ 15,045,286	$ 15,045,286

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

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, 2012, were as follows:

	Permanently Restricted
Net assets, beginning of year	$ 14,559,999
Contributions	298,881
Transfer from other net assets	186,406
Net assets, end of year	$ 15,045,286

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:

	Estimated Fair Value and Carrying Amount
Cash and cash equivalents	$ 1,880,578
Investments	23,456,666
	$ 25,337,244

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.

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.

The following table presents the fair value measurement of assets recognized in the accompanying statements of financial position at fair value on a recurring basis and the level within the fair value hierarchy in which the fair value measurements fall at June 30:

	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)
U.S. government securities	$ 5,361,316	$ -	$ 5,361,316	$ -
Corporate bonds	5,755,839	-	5,755,839	-
Common stock	10,057,473	10,057,473	-	-
Certificates of deposit	2,282,038	-	2,282,038	-
	$ 23,456,666	$ 10,057,473	$ 13,399,193	$ -

Subsequent Events

Management has evaluated subsequent events through September 28, 2012, the date which the financial statements were available to be issued, and determined that no subsequent events have occurred that require adjustment to or disclosure in the financial statements.

REQUIRED SUPPLEMENTARY INFORMATION

REQUIRED SUPPLEMENTAL INFORMATION--UNAUDITED

EAST CENTRAL UNIVERSITY

June 30, 2012

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	67.25%
6/30/2007	2,235,012	7,287,369	5,052,357	30.67%	6,190,576	81.61%
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%
6/30/2012	2,723,327	7,735,501	5,012,174	35.21%	4,494,244	111.52%

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	$ 2,559,361	$ 2,224,341	13.09%	$ 22,198,298	10.02%
6/30/2009	$ 625,603	$ 2,835,065	$ 2,209,462	22.07%	$ 23,105,592	9.56%
6/30/2010	$ 918,182	$ 2,937,054	$ 2,018,872	31.26%	$ 23,112,060	8.74%
6/30/2011	$ 1,345,835	$ 3,129,447	$ 1,783,612	43.01%	$ 23,129,972	7.71%
6/30/2012	$ 1,626,224	$ 3,206,390	$ 1,580,166	50.72%	$ 23,813,010	6.64%

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 year ended June 30, 2012, and have issued our report thereon dated October 30, 2012. Our report was modified to include a reference to other auditors. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits 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. This report does not include the results of other auditors' testing of internal control over financial reporting or compliance and other matters that are reported separately by those auditors.

Internal Control Over Financial Reporting

Management of the University is responsible for establishing and maintaining effective internal control over financial reporting. In planning and performing our audit, 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 and correct misstatements on a timely basis. A *material weakness* is a deficiency, or a combination of deficiencies, in internal control such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected on a timely basis.

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Our consideration of internal control over financial reporting was for the limited purpose described in the first paragraph of this section and 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 tests disclosed no instances of non-compliance or other matters that are required to be reported under *Government Auditing Standards*.

This report is intended solely for the information and use of the Board of Regents, 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 30, 2012

COLE + REED P.C.
CERTIFIED PUBLIC ACCOUNTANTS

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, 2012. 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, 2012.

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Internal Control Over Compliance

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 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

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the University's basic financial statements. The accompanying schedule of expenditures of federal awards is presented for purposes of additional analysis, as required by the U.S. Office of Management and Budget Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations,* and is not a required part of the basic financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the financial statements. The information has been subjected to the auditing procedures applied in the audit of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements or to the financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the information is fairly stated in all material respects in relation to the basic financial statements as a whole.

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

Cole & Reed P.C.

Oklahoma City, Oklahoma
October 30, 2012

EAST CENTRAL UNIVERSITY

SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS

Year Ended June 30, 2012

Federal Grantor / Pass-Through Grantor / Program Title	CFDA Number	Pass-Through Entity Identification Number	June 30, 2012 Amount Expended
U.S. Department of Education			
Direct programs			
Student financial aid cluster			
Federal Pell Grant Program	84.063	N/A	$ 8,844,395
Federal Supplemental Education Opportunity Grants	84.007	N/A	97,375
Federal Work Study Program	84.033	N/A	411,210
Direct Lending	84.268	N/A	22,193,193
Federal Perkins Loan Program	84.038	N/A	1,384,306
Academic Competitiveness Grant	84.375	N/A	275
National Smart Grant	84.376	N/A	73
Total student financial aid cluster			32,930,827
Trio cluster			
Upward Bound	84.047	N/A	1,057,546
Talent Search	84.044	N/A	539,541
sECUre success, TRIO-Student Support Services	84.042	N/A	223,437
McNair Scholars Program	84.217	N/A	265,075
Educational Opportunity Centers	84.066	N/A	427,491
Total trio cluster			2,513,090
Other programs			
Rehabilitation	84.129	N/A	249,447
ECU Economic Development Arts Related Project	84.116	N/A	921
Passed through Oklahoma State Regents for Higher Education			
Literacy Coaches Teaching Reading	84.267	N/A	1,605
Improving Teacher Quality/The Language of Mathematics	84.367	2011NCLB-ITQ	48,617
Teaching American History	84.215	N/A	111,368
Native American Voices	84.382	N/A	51,200
Gear Up	84.334	N/A	98,569
Total other programs			561,727
Passed through The Office of the Governor, State of Oklahoma			
State Fiscal Stabilization Fund-Education Grants, Recovery Funds	84.397 ARRA		13,585
Total U.S. Department of Education			36,019,229
U.S. Department of Agriculture			
Child and Adult Care Food Program	10.558	DC-62-014	31,513
East Main Street Planning RBOG	10.447	N/A	5,234
Rural Business Enterprise Grant	10.769	N/A	62,850
Total U.S. Department of Agriculture			99,597
U.S. Environmental Protection Agency			
Environmental Research Apprenticeship	66.511	N/A	88,284
U.S. Department of Health and Human Services			
Direct programs			
Title IV: Child Welfare	93.575	N/A	49,407
Bridges to Baccalaureate	93.859	N/A	138,796
Basic Nurses Education and Practice Program	93.359	N/A	48,286
Geriatric Educational Centers	93.969	N/A	-
Center for Learning & Leadership	93.632	N/A	10,564
Passed through Oklahoma State Department of Human Services			
Developmental Disabilities In-Service Training	93.778	00001273	266,374
Total U.S. Department of Health and Human Services			513,427

EAST CENTRAL UNIVERSITY

SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS--Continued

Year Ended June 30, 2012

Federal Grantor / Pass-Through Grantor / Program Title	CFDA Number	Pass-Through Entity Identification Number	June 30, 2012 Amount Expended
Small Business Administration			
Passed through Southeastern Oklahoma State University			
Small Business Development Center	59.037	0-7620-0038-17	92,846
U.S. Department of Labor			
Veterans Workforce Investment Program	17.802	N/A	443,976
Passed through Oklahoma Department of Commerce			
Southern Oklahoma Green Jobs Consortium	17.275	GJ-19904-10-60-A-40	154,471
Total U.S. Department of Labor			598,447
National Science Foundation			
Passed through Oklahoma State University			
Oklahoma Louis Stokes Alliance Participation	47.076	AA-5-58610	28,728
Isolation of Growth EPSCOR	47.081	EPS-0814361	4,535
Catalyst for Biofuel Production	47.081	EPSCoR-2011-31	1,610
Characterizing Dinoflag. & Cryptomonad	47.081	EPSCoR-2011-32	3,134
Seq. of Transferable Photosynthetic Endosymbiont	47.081	N/A	9,995
Passed through University of Central Oklahoma			
Robert Noyce Teacher Scholarship	47.046	AA-5-58610	142,368
Passed through Brigham Young University			
CURM Mini Grant	47.049	DMS-0636648	1,745
Sure Step Supporting Undergraduate Research	47.076		22,749
Total National Science Foundation			214,864
U.S. Department of Justice			
COPS, Technology	16.710	N/A	7,221
Forensic Justice Center	16.560	N/A	41,881
OK State Victim Assistance	16.582	N/A	34,065
OVW Campus Law Enforcement	16.526	N/A	130,845
Passed through District Attorneys Council			
Reduce violent crimes against women on campus	16.525	N/A	89,884
RUSO VPP	16.525	N/A	59,173
Total U.S. Department of Justice			363,069
U.S. Department of Defense			
Research and Engineering Apprenticeship Program	12.630	N/A	12,285
Startalk	12.900	H98230-12-0145	1,324
Institute of Museum and Library Services			
IMLS Library Media Grant	45.313	N/A	9,298
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	20,607
Passed through Oklahoma State Department of Health			
Healthy Homes Training	93.07	N/S	5,800
NASA			
Passed throught University of Oklahoma			
Oklahoma NASA Space Grant Consortium	43.008	2011-42	30,159
National Endowment for Humanities			
Ok Literary Arts Festival	45.129	N/A	500
Total expenditures of federal awards			$ 38,071,686

See notes to schedule of expenditures of federal awards.

NOTES TO SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS

EAST CENTRAL UNIVERSITY

June 30, 2012

NOTE A--SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The schedule of expenditures of federal awards activity of East Central University 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 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 $1,384,306 in Federal Perkins loans outstanding at June 30, 2012. These loan balances outstanding are included as federal expenditures in the schedule of expenditures of federal awards. During the year ended June 30, 2012, the University issued Perkins loans totaling $162,000.

NOTE D--SUB-RECIPIENTS

During the year ended June 30, 2012, the University provided federal awards to sub-recipients as follows:

Program	CFDA No.	Sub-recipient	Amount provided
Bridges to Baccalaureate	93.859	Oklahoma City Community College	$ 16,484
Bridges to Baccalaureate	93.859	Redlands Community College	10,097
Bridges to Baccalaureate	93.859	Rose State College	11,143
			$ 37,724

SCHEDULE OF FINDINGS AND QUESTIONED COSTS

EAST CENTRAL UNIVERSITY

June 30, 2012

Section I--Summary of Auditors' Results

Financial statements

Type of auditors' report issued: *Unqualified*

Internal control over financial reporting:

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

Noncompliance material to financial statements noted? _____ yes __X__ no

Federal Awards

Internal control over major programs:

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

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

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

Identification of major programs:

Program/Cluster	CFDA Number
Student Financial aid cluster	*
Trio cluster	*
Development Disabilities In-Service Training	93.778

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

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.

SUMMARY SCHEDULE OF PRIOR AUDIT FINDINGS

EAST CENTRAL UNIVERSITY

June 30, 2012

No matters were reportable.