

**QUARTZ MOUNTAIN ARTS
AND CONFERENCE CENTER
AND NATURE PARK**

**FINANCIAL STATEMENTS
AND INDEPENDENT AUDITOR'S REPORT**

June 30, 2012 and 2011

QUARTZ MOUNTAIN ARTS AND CONFERENCE CENTER AND NATURE PARK

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INDEPENDENT AUDITOR'S REPORT

To the Board of Trustees of the Quartz Mountain Arts
And Conference Center and Nature Park

We have audited the accompanying statements of net assets of the Quartz Mountain Arts and Conference Center and Nature Park (the "Center"), as of June 30, 2012 and 2011, and the related statements of revenues, expenses, and changes in net assets and cash flows for the years then ended. These financial statements are the responsibility of the Center's management. Our responsibility is to express opinions on these financial statements based on our audits.

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

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the Center as of June 30, 2012 and 2011, and the respective changes in financial position and, where applicable, cash flows thereof for the year then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued our report dated October 1, 2012, on our consideration of the Center's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis, 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.

Arledge & Associates, P.C.
Edmond, Oklahoma
October 1, 2012

QUARTZ MOUNTAIN ARTS AND CONFERENCE CENTER AND NATURE PARK

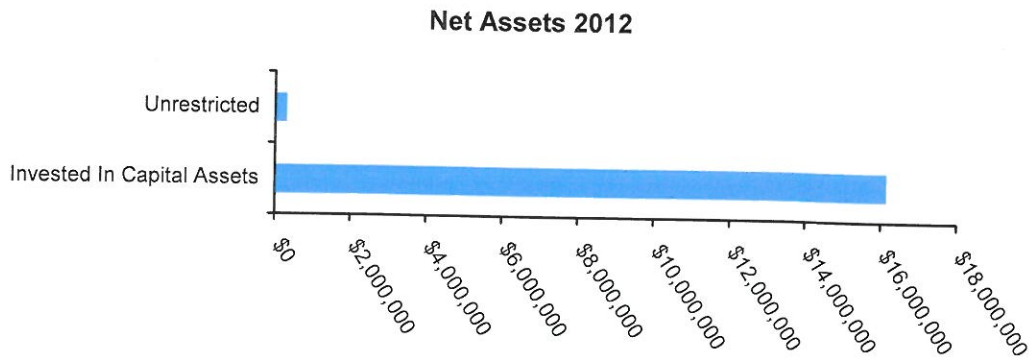
Statements of Net Assets June 30, 2012 and 2011

MANAGEMENT'S DISCUSSION AND ANALYSIS

The discussion and analysis of Quartz Mountain Arts and Conference Center and Nature Park's (the "Center") financial statements provides an overview of the Center's financial activities for the year ended June 30, 2012. Since this management's discussion and analysis is designed to focus on current activities, resulting changes, and current known facts, please read it in conjunction with the Center's basic financial statements and the footnotes.

Financial Highlights

At June 30, 2012 the Center's net assets are \$16.45 million. Of this \$296,893 are considered in the unrestricted category. Graphically displayed, the net assets by category for the fiscal year are shown below:

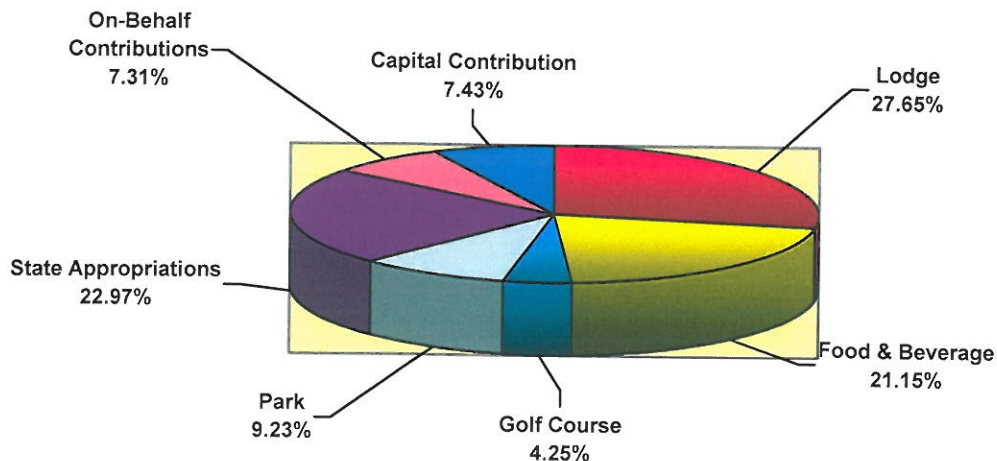


QUARTZ MOUNTAIN ARTS AND CONFERENCE CENTER AND NATURE PARK

Statements of Net Assets June 30, 2012 and 2011

The following chart provides a graphical breakdown of revenues by category for the fiscal year ending June 30, 2012.

Total Revenues



In the fiscal year ended June 30, 2012, Quartz Mountain Arts and Conference Center and Nature Park expenses exceeded revenues, creating a decrease in net assets of \$504,542 representing a 2.98% decrease in net assets.

Using This Annual Report

The annual report consists of three basic financial statements: the statement of net assets; the statement of revenues, expenses, and changes in net assets; and the statement of cash flows.

The statement of net assets and the statement of revenues, expenses, and changes in net assets report information on the Center as a whole and on its activities. When revenues and other support exceed expenses, the result is an increase in net assets. When the reverse occurs, the result is a decrease in net assets. The relationship between revenues and expenses may be thought of as the Center's operating results.

These two statements report the Center's net assets and changes in them. The Center's net assets - the difference between assets and liabilities - are a measurement of the Center's financial health, or financial position. Over time, increases or decreases in the Center's net assets are an indicator of whether its financial health is improving or deteriorating. Numerous other non-financial factors, such as the quality of recreational services provided, the preservation of natural resources, and the condition and safety of the facilities are important in assessing the overall health of the Center.

QUARTZ MOUNTAIN ARTS AND CONFERENCE CENTER AND NATURE PARK

Statements of Net Assets

June 30, 2012 and 2011

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

The third statement, the statement of cash flows, presents detailed information about the cash activity of the Center during the year. The statement is divided into four parts. The first part presents operating cash flows and shows the net cash used by the operating activities of the Center. The second section reflects cash flows from non-capital items. The third section reflects cash flows from capital and related financing activities. The fourth section reconciles the net cash provided or used to the operating income or loss reflected on the statement of revenues, expenses, and changes in net assets. The statement provides information regarding the entity's ability to generate future net cash flows, its ability to meet its obligations as they come due and its needs for external funding.

QUARTZ MOUNTAIN ARTS AND CONFERENCE CENTER AND NATURE PARK

**Statements of Net Assets
June 30, 2012 and 2011**

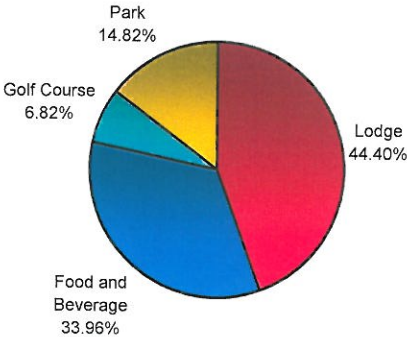
The following is a table of the Center’s Statement of Net Assets for the years ended June 30, 2012, 2011 and 2010:

**Statement of Net Assets, End of Year
June 30**

	2012	2011	2010
Current Assets	\$ 1,134,588	\$ 1,247,318	\$ 1,690,728
Noncurrent Assents			
Deferred cost on OCIA Lease Restructure	135,702	169,627	
Capital Assets, Net of Depreciation	<u>19,747,252</u>	<u>20,047,949</u>	<u>20,557,541</u>
Total Assets	<u>21,017,542</u>	<u>21,464,894</u>	<u>22,248,269</u>
Current Liabilities	1,269,774	864,996	1,207,107
Noncurrent Liabilities	<u>3,301,196</u>	<u>3,648,784</u>	<u>3,621,829</u>
Total Liabilities	<u>4,570,970</u>	<u>4,513,780</u>	<u>4,828,936</u>
Net Assets			
Investment in Capital Assets	16,149,679	16,217,841	16,777,668
Unrestricted	296,893	733,273	641,665
Restricted Expendable Net Assets	<u>0</u>	<u>0</u>	<u>0</u>
Total Net Assets	<u>16,446,572</u>	<u>16,951,114</u>	<u>17,419,333</u>

Operating revenues and expenses for the fiscal years ended June 30, 2012, 2011 and 2010:

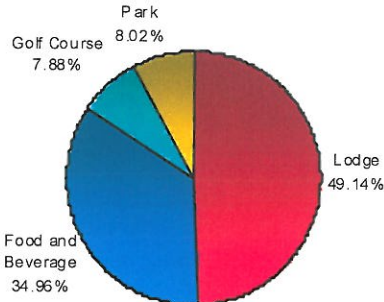
Operating Revenues 2012



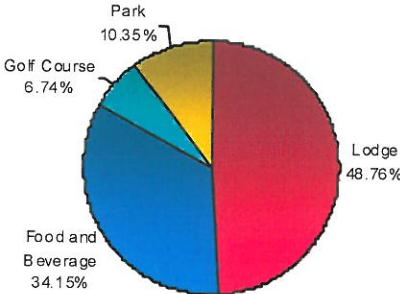
QUARTZ MOUNTAIN ARTS AND CONFERENCE CENTER AND NATURE PARK

Statements of Net Assets
 June 30, 2012 and 2011

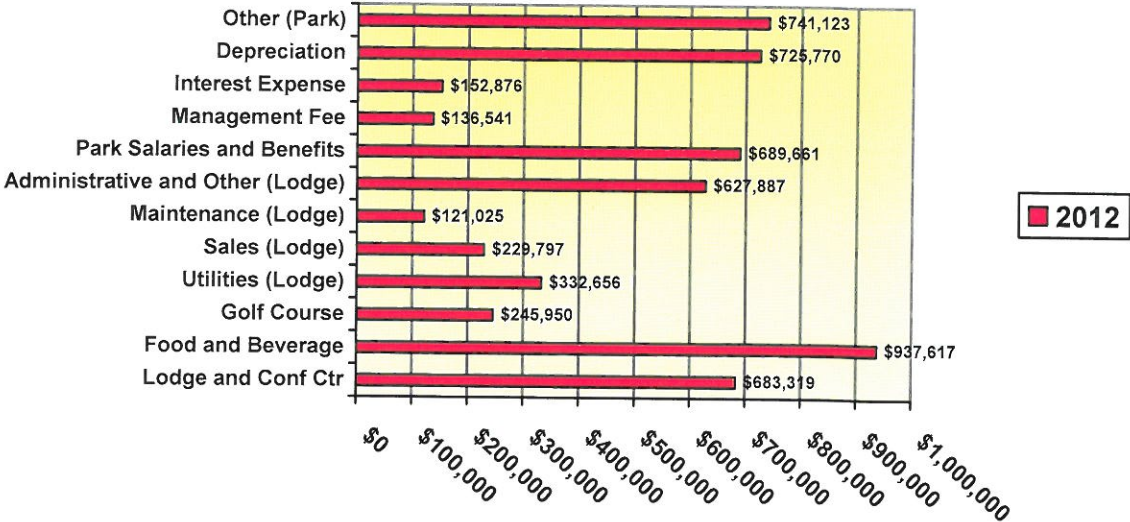
Operating Revenues 2011



Operating Revenues 2010



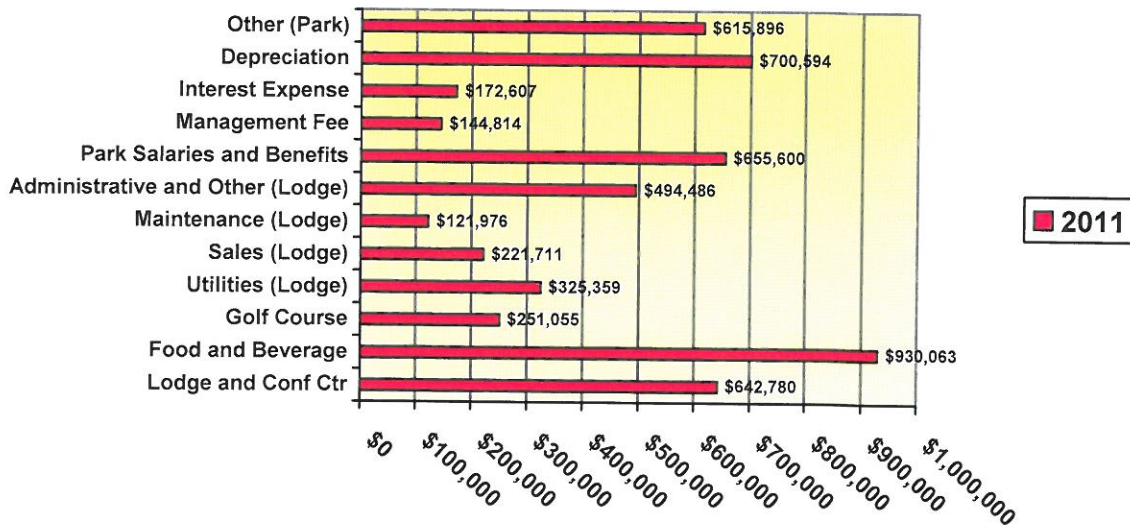
Operating Expenses



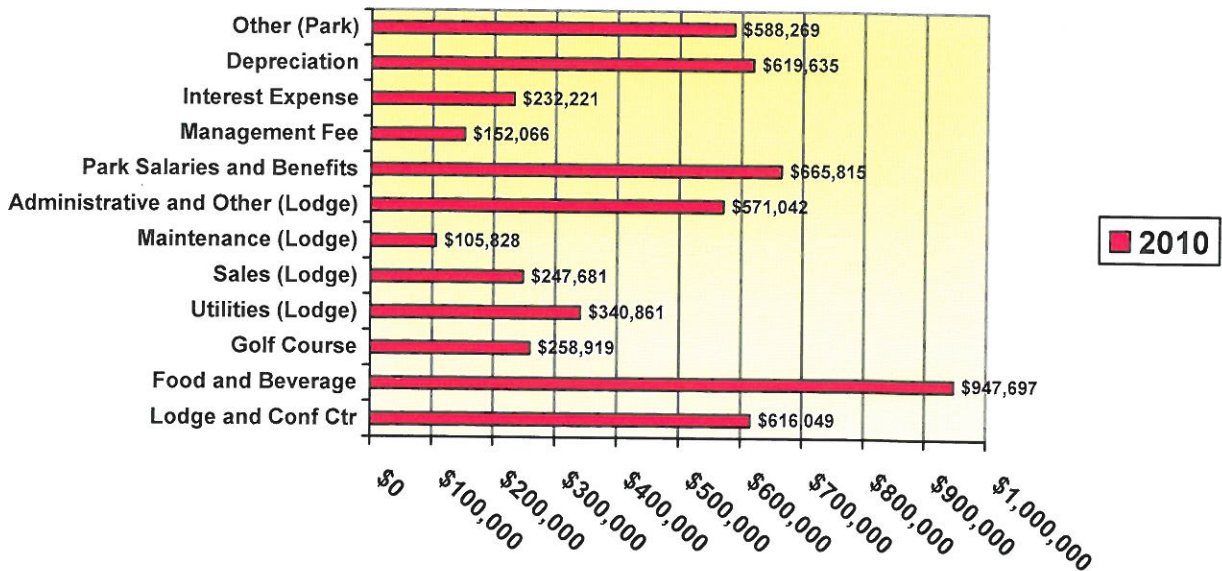
QUARTZ MOUNTAIN ARTS AND CONFERENCE CENTER AND NATURE PARK

Statements of Net Assets
June 30, 2012 and 2011

Operating Expenses



Operating Expenses



QUARTZ MOUNTAIN ARTS AND CONFERENCE CENTER AND NATURE PARK

Statements of Net Assets June 30, 2012 and 2011

Operating Results for the Years Ended June 30

	2012	2011	2010
Operating Revenues			
Lodge and Conference Center	\$ 1,415,471	\$ 1,553,060	\$ 1,637,330
Food and beverage	1,082,589	1,104,797	1,146,773
Golf course and pro shop	217,567	249,067	226,470
Park and other revenue	472,602	253,493	347,562
Total	<u>3,188,229</u>	<u>3,160,417</u>	<u>3,358,135</u>
Less Operating Expenses	<u>5,471,346</u>	<u>5,104,334</u>	<u>5,113,862</u>
Net Operating Revenues	<u>(2,283,117)</u>	<u>(1,943,917)</u>	<u>(1,755,727)</u>
Non Operating Revenue			
State Appropriations	1,175,895	1,189,531	1,199,032
On-behalf Contributions	392,332	401,017	669,106
Capital Contribution	380,257	-	-
Federal Grants	-	54,892	593,084
Interest Income	1,353	4,776	28,141
Interest Expense	(152,876)	(172,607)	(232,221)
Gain (loss) on disposal of assets	(18,386)	(1,911)	-
Total non operating revenue	<u>1,778,575</u>	<u>1,475,698</u>	<u>2,257,142</u>
Increase in Net Assets	(504,542)	(468,219)	501,415
Net Assets, Beginning of Year	<u>16,951,114</u>	<u>17,419,333</u>	<u>16,917,918</u>
Net Assets, End of Year	<u>\$ 16,446,572</u>	<u>\$ 16,951,114</u>	<u>\$ 17,419,333</u>

For the years ended June 30, 2012 and June 30, 2011 the Center's expenses exceeded revenues, creating a decrease in net assets of \$504,542 and \$468,219 respectively. In comparison, for the year ended June 30, 2010 the Center's revenues exceeded expenses, creating an increase in net assets of \$501,415.

QUARTZ MOUNTAIN ARTS AND CONFERENCE CENTER AND NATURE PARK

Statements of Net Assets June 30, 2012 and 2011

Another way to assess the financial health of an institution is to look at the statement of cash flows. Its primary purpose is to provide relevant information about the cash receipts and cash payments of an entity during a period. The statement of cash flows also helps users assess an entity's ability to generate future net cash flows, its ability to meet its obligations as they come due and its needs for external financing.

Below is a condensed look at the statement of cash flows for fiscal years 2012, 2011 and 2010.

	Cash Flows for the Years Ended		
	June 30		
	2012	2011	2010
Cash Provided (used) by:			
Operating activities	\$ (1,219,134)	\$ (1,397,759)	\$ (1,011,269)
Noncapital financing activities	1,175,895	1,244,423	1,792,116
Capital and related financing activities	(2,123)	(93,585)	(427,258)
Net increase (decrease) in cash	(45,362)	(246,921)	353,589
Cash, beginning of the year	832,728	1,079,649	726,060
Cash, end of the year	<u>\$ 787,366</u>	<u>\$ 832,728</u>	<u>\$ 1,079,649</u>

Fiscal year 2012, the Center's liquidity decreased by 5.45%, as compared to a 22.87 decrease in 2011. The liquidity at year end 2012 is reflective of an increase in accrued expenses and payables of \$471,000, which reflects a short term benefit to cash position. Fiscal Year 2010, the Center's liquidity increased by 48.69%, due primarily to the decrease in accounts receivable of \$71,000 and the increase in accounts payable and accrued expenses of \$54,075.

Description of Capital Assets and Long-Term Debt Activity

At June 30, 2012 the Center had \$19.75 million invested in capital assets, net of accumulated depreciation of \$8.32 million. Net depreciation charges totaled \$627,978 for the year ended June 30, 2012. Details of these assets are shown below for the years ended June 30, 2012, 2011 and 2010:

	Capital Assets, Net, at Year-End		
	June 30		
	2012	2011	2010
Land	\$ 278,393	\$ 278,393	\$ 278,393
Infrastructure	2,180,175	2,233,005	2,071,804
Land Improvements	2,657,162	2,818,661	1,497,686
Buildings	14,276,376	14,278,895	13,879,085
Equipment	278,963	363,810	425,313
Construction in Progress	76,183	75,185	2,405,260
Totals	<u>\$ 19,747,252</u>	<u>\$ 20,047,949</u>	<u>\$ 20,557,541</u>

QUARTZ MOUNTAIN ARTS AND CONFERENCE CENTER AND NATURE PARK

Statements of Net Assets June 30, 2012 and 2011

Planned capital expenditures for the fiscal year ending June 2012 were projects approved as part of the Higher Education Capital Bond Issue. Completed projects included HVAC repairs to the Performance Hall, HVAC for the Group Camp Community Building, Repairs to the Sundance Café Pergola, purchase of a golf cart storage unit, and pool repairs. In FY 2012 we saw the completion of the bond issue projects. In excess of 3.1 million dollars has been used for the following prioritized projects; Lodge remediation, Student Dormitory and Family Reunion Center design, Repair and Renovation to the Performance Hall and Arts Pavilions, completion of the Quartz Mountain Trail System, Infrastructure Improvement and ADA compliance projects, and Land Acquisition. Planned capital expenditures for FY 2013 will consist of utilizing an Oklahoma Department of Wildlife Conservation grant to refurbish the Lakeview Boat Ramp and the construction of two courtesy boat docks, along with roof repairs at the Performance Hall.

At June 30, 2012 the Center had \$3.6 million in debt outstanding. The table below summarizes the outstanding debt by type for the years ended June 30, 2012, 2011 and 2010.

	Outstanding Debt		
	June 30		
	2012	2011	2010
OCIA Capital Lease - Series 2005F	\$ 1,171,891	\$ 1,171,891	\$ 1,654,927
OCIA Capital Lease - Series 2004A	1,643,594	1,831,320	2,010,264
OCIA Capital Lease - Series 2003E	-	-	76,904
OCIA Capital Lease - Series 2010A	442,216	442,216	-
OCIA Capital Lease - Series 2010B	244,372	244,372	-
Capital Lease - SWODA	-	-	25,252
Master Lease - ODFA	95,500	161,083	223,583
	<u>\$ 3,597,573</u>	<u>\$ 3,850,882</u>	<u>\$ 3,990,930</u>

More detailed information about the Center's outstanding debt is presented in Note 4 of the financial statements.

Economic Factors That Will Affect the Future

Lodge and Golf Course revenues continue to weaken and were down compared to last year due to the current state of the economy, low lake levels, and extreme heat conditions this past summer. FY 2012 revenues were \$2,715,627 compared to FY 11 revenues of \$2,906,924 down \$191,297. The extreme drought conditions continue to negatively impact the Center and forecasts predict that these conditions could last another two years. There are indications that the State's economy and revenue situation is improving and we are in hopes that with aggressive sales strategies we can capture additional State Agency conference business. There has been and will continue to be increased local competition from the addition of three limited service hotels Altus, Oklahoma. The Center will need to continue to focus on sales and marketing and look for new and diverse markets to accommodate the increased local competition for transient room business. Future growth and continued success of the Center will rely on our ability to attract additional business from other State and Regional markets. Management has focused on internet sales and social media to increase regional exposure and as a tool to drive revenue.

QUARTZ MOUNTAIN ARTS AND CONFERENCE CENTER AND NATURE PARK

Statements of Net Assets June 30, 2012 and 2011

The Center's FY 2012 budget of \$1,703,525 was relatively flat compared to the FY 2011 budget of \$1,701,502; the difference of \$2,023 was due to increases in personnel benefit costs. The Center's FY 2013 appropriation increased slightly over the 2012 appropriation due to a supplemental FY 11 appropriation that was annualized into the FY 2013 allocation. The increase of \$11,737 enabled the center to decrease the amount of reserve spending for the FY 2013 budget by \$7,873. The Center's budget continues to suffer from the FY 2007 state appropriation reduction of over twenty-five percent (25%) or \$398,546. Realizing that we continue to face a challenging economy and declining appropriations and resources, the Center's FY 2013 budget is once again very conservative. The Center will continue to work for the restoration of the 25% budget cut while realizing the importance of revenue growth for the continued viability of the Center.

During the 2008 Oklahoma legislative session, House Bill 2462 was passed. The bill significantly changed the governance structure of the Center to include the presidents of three regional colleges and universities. The new governance structure should greatly enhance the center's opportunities for educational programming and business related to that programming. The Center entered into an agreement with these entities for a shared commitment to program development and support of the Center as a significant tourism destination for the region. The agreement is called the Quartz Mountain Educational Compact. The Center is also working with Altus AFB to develop a new campground which will have the potential for increased Park revenue in the future.

The Center will continue to monitor resources closely and look for opportunities for additional funding through grants and other resources that may now be available to the Center, since it is an integral part of the State System of Higher Education effective January 1, 2002. The Center still maintains a fifty (50) year agreement with the Oklahoma Arts Institute ("OAI") that continues the joint development of the Quartz Mountain Center as a cultural conference center and arts park and natural area preserve for Oklahoma, and formalizes the ongoing relationship between the OAI and the Quartz Mountain Center Board of Trustees as to the use and development of the Center.

Contacting the Center's Financial Management

This financial report is designed to provide our citizens, taxpayers, customers, and investors and creditors with a general overview of the Center's finances and to show the Center's accountability for the money it receives. If you have questions about this report or need additional financial information, contact the Quartz Mountain Arts and Conference Center and Nature Park Director's office at 43393 Scissortail Road, Lone Wolf, Oklahoma 73655.

QUARTZ MOUNTAIN ARTS AND CONFERENCE CENTER AND NATURE PARK

Statements of Net Assets June 30, 2012 and 2011

	2012	2011
<u>ASSETS</u>		
Current Assets:		
Cash and cash equivalents	\$ 787,366	\$ 832,728
Accounts receivable	303,592	294,098
Inventory	34,404	49,931
Receivable from state agency	-	59,726
Prepaid expense	9,226	10,835
Total current assets	1,134,588	1,247,318
Noncurrent Assets:		
Deferred cost on OCIA lease restructure, net of accumulated amortization of \$67,850	135,702	169,627
Capital assets, net	19,747,252	20,047,949
Total noncurrent assets	19,882,954	20,217,576
Total assets	21,017,542	21,464,894
<u>LIABILITIES</u>		
Current Liabilities:		
Accounts payable	365,745	215,116
Accrued expenses	381,120	219,736
Advance	120,000	120,000
Deposits	31,419	32,735
Compensated absences	24,036	24,100
Capital leases	347,454	253,309
Total current liabilities	1,269,774	864,996
Noncurrent Liabilities:		
Compensated absences	51,077	51,211
Capital leases	3,250,119	3,597,573
Total noncurrent liabilities	3,301,196	3,648,784
Total liabilities	4,570,970	4,513,780
<u>NET ASSETS</u>		
Invested in capital assets, net of related debt	16,149,679	16,217,841
Unrestricted net assets	296,893	733,273
Total net assets	\$ 16,446,572	\$ 16,951,114

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

QUARTZ MOUNTAIN ARTS AND CONFERENCE CENTER AND NATURE PARK

Statements of Revenues, Expenses, and Change in Net Assets For the Years Ended June 30, 2012 and 2011

	2012	2011
OPERATING REVENUES		
Lodge and conference center rental	\$ 1,344,401	\$ 1,450,533
Food and beverage	1,082,589	1,104,797
Golf course and pro shop	217,567	249,067
Other lodge and conference center revenue	71,070	102,527
Park revenue	472,602	253,493
Total operating revenue	3,188,229	3,160,417
OPERATING EXPENSES		
Lodge and conference center rental	683,319	642,780
Food and beverage	937,617	930,063
Golf course and pro shop	245,950	251,055
Utilities-lodge and conference center	332,656	325,359
Sales-lodge and conference center	229,797	221,711
Maintenance-lodge and conference center	121,025	121,976
Administrative and other-lodge and conference center	627,887	494,486
Park and administration salaries and benefits	689,661	655,600
Management fee	136,541	144,814
Depreciation	725,770	700,594
Other park operating expenses	741,123	615,896
Total operating expenses	5,471,346	5,104,334
Net operating loss	(2,283,117)	(1,943,917)
NONOPERATING REVENUES (EXPENSES)		
State appropriations	1,175,895	1,189,531
On-behalf debt payments-capital leases	374,324	386,550
On-behalf pension contributions	18,008	14,467
Capital Contribution	380,257	-
Federal grants	-	54,892
Interest income	1,353	4,776
Interest expense	(152,876)	(172,607)
Gain (loss) on disposal of assets	(18,386)	(1,911)
Net nonoperating revenues (expenses)	1,778,575	1,475,698
Increase (decrease) in net assets	(504,542)	(468,219)
Net assets at beginning of year	16,951,114	17,419,333
Net assets at end of year	\$ 16,446,572	\$ 16,951,114

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

QUARTZ MOUNTAIN ARTS AND CONFERENCE CENTER AND NATURE PARK

Statements of Cash Flows For the Years Ended June 30, 2012 and 2011

	2012	2011
CASH FLOWS FROM OPERATING ACTIVITIES:		
Cash received from customers	\$ 3,178,735	\$ 3,163,538
Cash paid to vendors and suppliers	(2,679,772)	(3,183,272)
Cash paid to employees for services	(1,718,097)	(1,378,025)
Net cash used in operating activities	(1,219,134)	(1,397,759)
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES:		
State appropriations	1,175,895	1,189,531
Federal grants	-	54,892
Net cash provided by noncapital financing activities	1,175,895	1,244,423
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES:		
Proceeds from capital leases	441,336	197,124
Payment for acquisition of capital assets	(443,459)	(192,913)
Payments on capital leases	-	(97,796)
Net cash used in capital and related financing activities	(2,123)	(93,585)
Net increase (decrease) in cash	(45,362)	(246,921)
Cash at beginning of year	832,728	1,079,649
Cash at end of year	\$ 787,366	\$ 832,728
RECONCILIATION OF OPERATING LOSS TO NET CASH USED IN OPERATING ACTIVITIES		
Operating loss	\$ (2,283,117)	\$ (1,943,917)
Adjustments to reconcile operating loss to net cash used in operating activities		
Depreciation expense	725,770	700,594
Amortization expense	2,064	2,064
On-behalf pension contribution	18,008	14,467
Changes in net assets and liabilities:		
Accounts receivable	(9,494)	3,121
Inventory	15,527	(2,665)
Prepaid expense	1,609	3,685
Accounts payable and accrued expenses	310,499	(175,108)
NET CASH USED IN OPERATING ACTIVITIES	\$ (1,219,134)	\$ (1,397,759)

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

QUARTZ MOUNTAIN ARTS AND CONFERENCE CENTER AND NATURE PARK

Notes to Financial Statements

For the Years Ended June 30, 2012 and 2011

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The basic financial statements of Quartz Mountain Arts and Conference Center and Nature Park (the "Center") have been prepared in conformity with generally accepted accounting principles as applied to government units. The Governmental Accounting Standards Board (GASB) is the accepted standard-setting body for establishing governmental accounting and financial reporting principles. A summary of significant accounting policies follows:

A. REPORTING ENTITY

The Center, located in southwestern Oklahoma near Altus, is an integral part of the Oklahoma State System of Higher Education, operating under the jurisdiction of the Quartz Mountain Center Board of Trustees (the "Board") and the Oklahoma State Regents for Higher Education (the "Regents"). The Center is a component unit of the State of Oklahoma. The Center's mission is to develop, sustain, and protect a world-renowned education destination as a cultural conference center, arts park and natural preserve with recreational experiences compatible with that environment.

The Center, in its current legal form, was created by Senate Bill 567, effective January 1, 2002. This legislation transferred the Center's real property, buildings, personnel and many contractual obligations from the Oklahoma Tourism and Recreation Department to the Board.

The three main operational components are the lodge and an arts conference center (the "Lodge"), the golf course, and the nature park. The Lodge and the golf course operate under a management agreement dated March 1, 2009, with Interstate Hotels, Inc. ("Interstate"). Under the terms of the management agreement, Interstate is responsible for managing the daily operations of the Lodge and golf course, including revenue collection, payment of operating expenses, and oversight of Lodge and golf course employees. The Board is obligated to pay Interstate a base monthly management fee of 5% of the gross operating revenues generated by the Lodge and the golf course and to provide Interstate the necessary funds to pay the operating costs of the Lodge and golf course. During the years ended June 30, 2012 and 2011, the Center paid Interstate management fees totaling approximately \$271,000 and \$145,000, respectively.

The Oklahoma Arts Institute ("OAI") has been, and continues to be, one of the Center's primary customers. The OAI conducts the Oklahoma Summer Arts Institute, an institute for gifted and talented fine arts high school students, and the Oklahoma Fall Arts Institute, an institute for teachers and adult artists, at the Center's facilities. In 1987, the OAI and Oklahoma Tourism and Recreation Department agreed on a 20 year partnership for the joint development of the Center as an arts and conference facility. In the spring of 2002, the Board approved a new 50 year agreement similar to the prior agreement the OAI had with the Oklahoma Tourism and Recreation Department. This agreement continues the joint development of the Center as a cultural conference center and arts park and natural area preserve for Oklahoma, and formalizes the ongoing relationship between the OAI and the Board.

QUARTZ MOUNTAIN ARTS AND CONFERENCE CENTER AND NATURE PARK

Notes to Financial Statements

For the Years Ended June 30, 2012 and 2011

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Cont'd)

A. REPORTING ENTITY (Cont'd)

Under the terms of the agreement, OAI has an option to lease, for its exclusive use, at its sole discretion and at a predetermined rate, the Center's facilities for a consecutive period of not more than six weeks in June or July of each year, and for up to five days (Wednesday through Sunday) in not more than four of the twelve weeks during the months of September, October and November of each year. OAI must exercise its option to lease for all, or part, of the agreed periods by January 1 of the calendar year.

B. BASIS OF PRESENTATION

Basis of Accounting – The financial statements are presented on the accrual basis of accounting. Under this method, revenues are recognized in the accounting period in which they are earned and expenses are recognized in the accounting period in which the liability is incurred. The Center has elected not to apply Financial Accounting Standards Board pronouncements issued after November 30, 1989.

Use of Estimates – Preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the amounts reported. Actual results could differ from these estimates.

Cash and Cash Equivalents – The Center considers all demand deposit accounts and investments with original maturities of three months or less to be cash equivalents.

Inventories – Consisting primarily of Center food and beverages and the golf pro shop, inventories are stated at the lower of cost (first-in, first-out) or market.

Capital Assets – Capital assets are stated at historical cost or estimated historical cost at the date of acquisition, or fair market value at the date of donation in the case of gifts, less accumulated depreciation. Depreciation is computed using the straight-line method over the estimated useful lives of the assets. The useful life of buildings and infrastructure has been estimated at 50 years, land improvements at 25 years, and equipment at 7 years. Maintenance and repairs are charged to operations. The Center's policy is to capitalize purchases in excess of \$500 with an estimated useful life of greater than one year. Amortization expense related to assets under capital leases is included with depreciation expense.

Land acquired prior to 1950 has been recorded at the estimated historical cost or estimated fair market value at the time of donation, based on land transaction documents for similar property transactions from the estimated time period the land was acquired. The estimates of historical costs of buildings constructed prior to 1995 were based on appraised value indexed to the date of acquisition.

QUARTZ MOUNTAIN ARTS AND CONFERENCE CENTER AND NATURE PARK

Notes to Financial Statements

For the Years Ended June 30, 2012 and 2011

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Cont'd)

B. BASIS OF PRESENTATION (Cont'd)

Compensated Absences – Vested or accumulated vacation leave is recorded as an expense and liability as the benefits accrue to employees. State employees accrue 15 to 25 days of annual vacation per year, based on length of service. Unused annual leave may be accumulated to a maximum of 480 hours. All accrued leave is payable upon termination, resignation, retirement, or death. The liability for compensated absences also includes amounts due to Interstate for its employees' accrued leave. Interstate's employees are able to carry over up to 40 hours of unused vacation time each year.

Accounts Receivable – Management considers all receivables as of June 30, 2012 and 2011 to be fully collectible, therefore no allowance for doubtful accounts has been established. Receivables consist primarily of amounts due from the Oklahoma Arts Institute.

Net Assets – Equity is classified as net assets and displayed in three components:

1. *Invested in capital assets, net of related debt* – consists of capital assets, net of accumulated depreciation and reduced by the outstanding balance of any notes or other borrowings attributable to those assets.
2. *Restricted net assets* – consists of net assets with constraints placed on the use either by external groups, laws or enabling legislation. The Center has no restricted net assets.
3. *Unrestricted net assets* – all other assets that do not meet the definition of "restricted" or "invested in capital assets, net of related debt".

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

2. CASH

A summary of cash and cash equivalents shown in the statement of net assets is as follows:

	June 30	
	2012	2011
Deposits with the State Treasurer	\$ 736,424	747,079
U.S. financial institutions	44,942	79,649
Petty cash and change funds	6,000	6,000
Total cash and cash equivalents	\$ 787,366	832,728

QUARTZ MOUNTAIN ARTS AND CONFERENCE CENTER AND NATURE PARK

Notes to Financial Statements

For the Years Ended June 30, 2012 and 2011

2. CASH (Cont'd)

Custodial Credit Risk – Deposits – Custodial credit risk is the risk that in the event of a bank failure, deposits may not be returned or the Center will not be able to recover collateral securities that are in the possession of an outside party.

Oklahoma Statutes require the State Treasurer to ensure that all state funds either be insured by Federal Deposit Insurance, collateralized by securities held by the cognizant Federal Reserve Bank, or invested in U.S. government obligations. The Center's deposits with the State Treasurer are pooled with the funds of other State Agencies and then, in accordance with statutory limitations, placed in financial institutions or invested as the Treasurer may determine, in the State's name.

Deposits in financial institutions, reported as components of cash and cash equivalents, had a bank balance of \$18,745 and \$112,766 at June 30, 2012 and 2011. There was no custodial credit risk exposure at June 30, 2012 and 2011.

3. CAPITAL ASSETS

A summary of property, plant, and equipment activity for fiscal 2012 follows:

	Beginning Balance	Increases	Decreases	Ending Balance
Capital assets not being depreciated				
Land	\$ 278,393	-	-	278,393
Construction in progress	75,185	998	-	76,183
Total capital assets not being depreciated	<u>353,578</u>	<u>998</u>	<u>-</u>	<u>354,576</u>
Capital assets being depreciated				
Buildings	19,190,113	418,706	(102,678)	19,506,141
Equipment	1,245,619	18,365	(13,500)	1,250,484
Infrastructure	2,905,615	5,390	-	2,911,005
Land improvements	4,047,359	-	-	4,047,359
Total capital assets being depreciated	<u>27,388,706</u>	<u>442,461</u>	<u>(116,178)</u>	<u>27,714,989</u>
Less accumulated depreciation for				
Buildings	(4,911,218)	(402,839)	84,292	(5,229,765)
Equipment	(881,809)	(103,212)	13,500	(971,521)
Infrastructure	(672,610)	(58,220)	-	(730,830)
Land improvements	(1,228,698)	(161,499)	-	(1,390,197)
Total accumulated depreciation	<u>(7,694,335)</u>	<u>(725,770)</u>	<u>97,792</u>	<u>(8,322,313)</u>
Capital assets, net	<u>\$ 20,047,949</u>	<u>(282,311)</u>	<u>(18,386)</u>	<u>19,747,252</u>

QUARTZ MOUNTAIN ARTS AND CONFERENCE CENTER AND NATURE PARK

Notes to Financial Statements
For the Years Ended June 30, 2012 and 2011

3. CAPITAL ASSETS (Cont'd)

A summary of property, plant, and equipment activity for fiscal 2011 follows:

	Beginning Balance	Increases	Decreases	Ending Balance
Capital assets not being depreciated				
Land	\$ 278,393	-	-	278,393
Construction in progress	2,405,260	158,264	(2,488,339)	75,185
Total capital assets not being depreciated	<u>2,683,653</u>	<u>158,264</u>	<u>(2,488,339)</u>	<u>353,578</u>
Capital assets being depreciated				
Buildings	18,414,832	775,281	-	19,190,113
Equipment	1,224,603	33,199	(12,183)	1,245,619
Infrastructure	2,686,302	219,313	-	2,905,615
Land improvements	2,552,164	1,495,195	-	4,047,359
Total capital assets being depreciated	<u>24,877,901</u>	<u>2,522,988</u>	<u>(12,183)</u>	<u>27,388,706</u>
Less accumulated depreciation for				
Buildings	(4,535,747)	(375,471)	-	(4,911,218)
Equipment	(786,568)	(105,513)	10,272	(881,809)
Infrastructure	(614,498)	(58,112)	-	(672,610)
Land improvements	(1,067,200)	(161,498)	-	(1,228,698)
Total accumulated depreciation	<u>(7,004,013)</u>	<u>(700,594)</u>	<u>10,272</u>	<u>(7,694,335)</u>
Capital assets, net	<u>\$ 20,557,541</u>	<u>1,980,658</u>	<u>(2,490,250)</u>	<u>20,047,949</u>

QUARTZ MOUNTAIN ARTS AND CONFERENCE CENTER AND NATURE PARK

Notes to Financial Statements
For the Years Ended June 30, 2012 and 2011

4. LONG TERM LIABILITIES

Long-term liabilities consist of capital leases and compensated absences. Activity for the year ended June 30, 2012 is as follows:

	Beginning Balance	Refinances / Additions	Refinances / Reductions	Ending Balance	Amount Due Within One Year
Capital Lease-OCIA 2005F	\$ 1,171,891	-	-	1,171,891	83,305
Capital Lease-OCIA 2004A	1,831,320	-	(187,726)	1,643,594	196,982
Capital Lease-OCIA 2003E	-	-	-	-	-
Capital Lease-OCIA 2010A	442,216	-	-	442,216	-
Capital Lease-OCIA 2010B	244,372	-	-	244,372	-
Capital Lease-SWODA	-	-	-	-	-
Master Lease-ODFA	161,083	-	(65,583)	95,500	67,167
Total	<u>3,850,882</u>	<u>-</u>	<u>(253,309)</u>	<u>3,597,573</u>	<u>347,454</u>
Compensated absences	<u>75,311</u>	<u>28,525</u>	<u>(28,723)</u>	<u>75,113</u>	<u>24,036</u>
Total Long-Term Liabilities	<u>\$ 3,926,193</u>	<u>28,525</u>	<u>(282,032)</u>	<u>3,672,686</u>	<u>371,490</u>

Activity for the year ended June 30, 2011 is as follows:

	Beginning Balance	Refinances/ Additions	Refinances/ Reductions	Ending Balance	Amount Due Within One Year
Capital Lease-OCIA 2005F	\$ 1,654,927	-	(483,036)	1,171,891	-
Capital Lease-OCIA 2004A	2,010,264	-	(178,944)	1,831,320	187,726
Capital Lease-OCIA 2003E	76,904	-	(76,904)	-	-
Capital Lease-OCIA 2010A	-	442,216	-	442,216	-
Capital Lease-OCIA 2010B	-	244,372	-	244,372	-
Capital Lease-SWODA	25,252	-	(25,252)	-	-
Master Lease-ODFA	223,583	-	(62,500)	161,083	65,583
Total	<u>3,990,930</u>	<u>686,588</u>	<u>(826,636)</u>	<u>3,850,882</u>	<u>253,309</u>
Compensated absences	<u>81,176</u>	<u>26,841</u>	<u>(32,706)</u>	<u>75,311</u>	<u>24,100</u>
Total Long-Term Liabilities	<u>\$ 4,072,106</u>	<u>713,429</u>	<u>(859,342)</u>	<u>3,926,193</u>	<u>277,409</u>

QUARTZ MOUNTAIN ARTS AND CONFERENCE CENTER AND NATURE PARK

Notes to Financial Statements

For the Years Ended June 30, 2012 and 2011

4. LONG TERM LIABILITIES (Cont'd)

Lease Obligations

In December 1995, the Oklahoma Capital Improvement Authority ("OCIA") issued State Agency Facility Revenue Bonds, Series 1995B. OCIA allocated \$12,545,000 of the bond issue to the Oklahoma Tourism and Recreation Department (the "Department") for the purpose of providing recreational facilities or repairing, refurbishing, and improving existing recreational facilities. In return, the Department signed a lease agreement with OCIA to make specified monthly payments over 15 years. The Department's Quartz Mountain facility was responsible for paying approximately 29.65% of the total monthly payments. In 2003, OCIA refinanced years 2007-2011 of these Facility Revenue Bonds with Series 2003E.

In September 1999, OCIA issued State Facilities Revenue Bonds, Series 1999A. OCIA allocated \$3,500,000 of the bond issue to the Department for the completion of the Center. In return, the Department signed a lease agreement with OCIA to make specified monthly payments over 20 years. In 2004, OCIA refinanced its State Facilities Revenue Bonds, Series 1999A for years 2010-2020 with Series 2004A.

In December 1995, the Southwestern Oklahoma Development Authority ("SWODA") issued Lease Purchase Revenue Note Series 1995 for \$200,000 for the purpose of financing the construction of a building to be used as a golf pro shop at the Department's Quartz Mountain facility. In return, the Department signed a lease agreement with SWODA to make specified monthly payments for 15 years.

By law, all of these obligations were transferred to the Center as of January 1, 2002. During the years ended June 30, 2012 and 2011, all of the payments for the Series 1999A, Series 2003E and Series 2004A bonds were paid on behalf of the Center by the Regents. The Center has reflected the reduction in principal and interest expense for the payments made by the Regents in its financial statements for the years ended June 30, 2012 and 2011.

In 2005, the OCIA issued its State Facilities Revenue Bonds (Higher Education Project) Series 2005F and 2005G. Of the total bonded indebtedness, the State Regents allocated approximately \$3,122,000 to the Center. Concurrently with the allocation, the Center entered into a lease agreement with OCIA for the projects being funded. The proceeds of the bonds and subsequent leases are to provide for capital improvements of the Center. In 2011, OCIA refinanced its State Facilities Revenue Bonds, Series 2005F for budgetary relief for fiscal years 2011 and 2012 by extending and restructuring debt services. OCIA issued two new State Facilities Revenue Bonds, Series 2010A and 2010B. This lease restructuring has extended certain principal payments into the future, resulting in a cost on restructuring. We have recorded a deferred cost asset of \$203,552 net of \$67,850 of amortization expense in the Statement of Net Assets. The deferred cost will be amortized over 6 years. This restructuring resulted in an aggregate debt service difference for principal and interest between the original lease agreement and the restructured lease agreement of \$837,862 which also approximates the economic cost of the lease restructuring.

QUARTZ MOUNTAIN ARTS AND CONFERENCE CENTER AND NATURE PARK

Notes to Financial Statements

For the Years Ended June 30, 2012 and 2011

4. LONG TERM LIABILITIES (Cont'd)

Through June 30, 2012 and 2011 the Center has drawn down \$3,628,799, and \$3,499,243, respectively, of its total allotment, for expenses incurred in connection with the specific projects. During that same period the Center has earned \$548,300 and \$420,808 in interest, respectively. The Center recorded a receivable of \$59,726 at June 30, 2011 for its allotment not drawn down at that date. Lease payments to OCIA totaling approximately \$374,324 and \$386,550 during the years ended June 30, 2012 and 2011, respectively, were made by the State of Oklahoma on-behalf of the Center. These on-behalf payments have been recorded in the statement of revenues, expenses and changes in net assets.

In December 2008 the Center entered into a \$315,000 master lease agreement with the Oklahoma Development Finance Authority ("ODFA") to fund the purchase of golf cars and other equipment.

The cost of capital assets relating to the capital leases included in the statements of net assets at June 30, 2012 and 2011 totaled approximately \$10,977,000 and the accumulated depreciation related to these assets was approximately \$2,067,000 and \$1,914,000, respectively.

Future minimum payments under the capital leases as are as follows:

Years Ending June 30	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2013	347,454	196,144	543,598
2014	464,592	179,250	643,842
2015	454,427	161,643	616,070
2016	373,780	114,115	487,895
2017	391,510	96,281	487,791
2018-2022	796,939	263,120	1,060,059
2023-2027	445,018	149,269	594,287
2028-2030	<u>323,853</u>	<u>32,720</u>	<u>356,573</u>
Total	<u>\$ 3,597,573</u>	<u>1,192,542</u>	<u>4,790,115</u>

5. RETIREMENT PROGRAMS

Effective January 1, 2002, all employees were transferred from the Department to the Center. Employees who were members of the Oklahoma Public Employees Retirement System ("OPERS") or the Oklahoma Law Enforcement Retirement System ("OLERS") could elect to remain with the retirement system of which they were members, or transfer their membership to the Teachers' Retirement System of Oklahoma ("TRS"). Persons employed after January 1, 2002, are members of either TRS or OLERS, as appropriate. All employees at January 1, 2002 elected to retain their memberships in their existing retirement system.

QUARTZ MOUNTAIN ARTS AND CONFERENCE CENTER AND NATURE PARK

Notes to Financial Statements For the Years Ended June 30, 2012 and 2011

5. RETIREMENT PROGRAMS (Cont'd)

Oklahoma Public Employees Retirement System ("OPERS")

Plan Description: OPERS is a multiple employer, cost sharing public employee defined benefit pension plan. Benefit provisions are established and can be amended by the Oklahoma Legislature. The plan provides retirement, disability, and death benefits. Title 74 of the Oklahoma statutes, Section 901 through 943, as amended, provides more complete information about the plan. OPERS issues a publicly available financial report that includes financial statements and required supplementary information for the plan. That report may be obtained by writing to OPERS, P.O. Box 53007, Oklahoma City, Oklahoma 73152.

Funding Policy: The contribution rates for each member category of the plan are established by, and can be amended by, the Oklahoma Legislature and are based on an actuarial calculation performed to determine the adequacy of contributed rates. The employee contribution rate for the fiscal year ended June 30, 2012 and each of the preceding two years was 3.5%. The agency contribution rates applied to each participating state employee's salary for the fiscal year ended June 30, 2012 was 16.5%. Agency contribution rates were 16.5% and 15.5% for fiscal 2011 and 2010, respectively.

The Center's contributions to the plan for the three years ended June 30, 2012, 2011 and 2010 of approximately \$27,000, \$29,000, and \$23,000, respectively, were equal to the required contributions.

Oklahoma Law Enforcement Retirement System ("OLERS")

Plan Description: OLERS is a cost-sharing single-employer defined benefit pension plan. Pension benefit provisions were established by statute and can be amended by State Legislature. The plan provides participants with retirement, death and disability benefits, a deferred option plan, and supplemental health benefits. OLERS issues a publicly available financial report that includes financial statements and required supplementary information for the plan. That report may be obtained by writing to OLERS, 4545 N. Lincoln Boulevard, Suite 257, Oklahoma City, Oklahoma 73105-3414.

Funding Policy: The contribution rates for each member category of the plan are established by, and can be amended by, the Oklahoma Legislature. The contribution rates applied to each participating state employee's salary for the fiscal year ended June 30, 2012 and the preceding two years were 8% for the employee, and 10% for the employer. The Center's contributions to the plan for the years ended June 30, 2012, 2011, and 2010 of approximately \$43,000, \$12,000, and \$5,000, respectively, were equal to the established required contributions.

QUARTZ MOUNTAIN ARTS AND CONFERENCE CENTER AND NATURE PARK

Notes to Financial Statements

For the Years Ended June 30, 2012 and 2011

5. RETIREMENT PROGRAMS (Cont'd)

Oklahoma Teachers' Retirement System ("OTRS")

Plan Description: The Center contributes to OTRS, a cost-sharing multiple-employer defined benefit pension plan sponsored by the State of Oklahoma. OTRS provides defined retirement benefits based on members' final compensation, age and term of service. In addition, the retirement program provides for benefits upon disability and to survivors upon the death of eligible members.

The benefit provisions are established and may be amended by the legislature of the State of Oklahoma. Title 70 of the Oklahoma statutes, Sections 17-101 through 117.9, as amended, assigns the authority for management and operation of the plan to the Board of Trustees of OTRS. OTRS issues a publicly available financial report that includes financial statements and supplementary information for OTRS. That report may be obtained by writing to Teachers' Retirement System of Oklahoma, P.O. Box 53524, Oklahoma City, Oklahoma 73152, by calling (405) 521-2387, or at the OTRS website at www.ok.gov/TRS.

Funding Policy: The Center is required to contribute a fixed percentage of annual compensation on behalf of active members. The employer contribution rate of 9.5% for fiscal 2012, is applied to annual compensation, and is determined by statute. The rates were 9.5% and 9% for each half of fiscal 2011, respectively, and 9% and 9.5% for each half of fiscal 2010.

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. These contributions were made directly by the Center for 2012 and 2011.

Contributions to OTRS for the year ended June 30, 2012, 2011, and 2010 were approximately \$14,000, \$48,000, and \$42,000 and equal to the required contributions. These contributions included the Center's statutory contribution and the share of the employee's contribution paid directly by the Center.

The State of Oklahoma is required to contribute 5.00% of state revenues from sales and use taxes and individual income taxes to OTRS on behalf of participating employers. State contributions totaled \$18,008, \$14,467, and \$13,510 during fiscal years 2012, 2011, and 2010, respectively.

401(k) Plan

Interstate Hotels and Resorts administers a 401(k) plan for full-time and part-time associates of the Lodge and golf course. There are no eligibility requirements. Participants may elect to contribute up to 20% of their pre-tax wages, subject to annual IRS dollar limits. Interstate provided a 25% discretionary match of the first 6% of participant savings through December 31, 2008. The company match was discontinued for the 2009 calendar year. The match was reinstated January 2011, matching the first 2% of participant savings. Matching contributions vest 20% per year for each full year of continuous employment. Participants are immediately vested in their deferrals. During 2012, 2011, and 2010 employer contributions were approximately \$4,505, \$1,944, and \$300, respectively.

QUARTZ MOUNTAIN ARTS AND CONFERENCE CENTER AND NATURE PARK

Notes to Financial Statements

For the Years Ended June 30, 2012 and 2011

6. OTHER POSTEMPLOYMENT BENEFITS

In addition to the pension benefits described in Note 5, the OLERS and OPERS pay the Medicare supplement insurance premium or \$105 per month, whichever is less, for all retirees who elect coverage at the time of retirement through the Oklahoma State and Education Employees Group Insurance Board.

OLERS and OPERS fund postemployment health care benefits on a pay-as-you-go basis as part of the overall retirement benefit. Expenditure and participant information is available for the state as a whole; however, information specific to the Center is not available or reasonably estimable.

7. RISK MANAGEMENT

The Risk Management Division of the state's Department of Central Services is responsible for the acquisition and administration of all insurance purchased by the state and for administration of self-insurance plans and programs adopted for use by the state.

The Risk Management Division is authorized to settle claims of the state and oversee the dispensation and/or settlement of claims against a political subdivision. In no event shall self-insurance coverage provided to the state, or agency or other covered entity, exceed the limitation on the maximum dollar amount of liability specified by the Oklahoma Governmental Tort Claims Act.

The Risk Management Division also oversees the collection of liability claims owed to the state incurred as the result of a loss through the wrongful or negligent act of a private person or other entity. The Risk Management Division is also charged with the responsibility to immediately notify the Attorney General of any claims against the state presented to the Risk Management Division.

The Center is exposed to various risks of loss related to torts; theft of, damage to, and destruction of assets; business interruption; errors and omissions; employee injuries and illnesses; employee health, life and accident benefits; unemployment; and natural disasters. The Center maintains commercial insurance coverage for claims arising from such matters other than torts, property, worker's compensation, and unemployment. Settled claims have not exceeded this commercial coverage in any of the past three fiscal years.

The Center, along with other state agencies and political subdivisions, participates in the State of Oklahoma Risk Management Program and State Insurance Fund, public entity risk pools currently operating as a common risk management and insurance program for its members. The Center pays an annual premium to the pools for its torts, property, and workers' compensation insurance coverages. The Oklahoma Risk Management Pool's governing agreement specifies that the pools will be self-sustaining through member premiums and will reinsure through commercial carriers for claims in excess of specified stop-loss amounts.

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

QUARTZ MOUNTAIN ARTS AND CONFERENCE CENTER AND NATURE PARK

Notes to Financial Statements

For the Years Ended June 30, 2012 and 2011

8. COMMITMENTS AND CONTINGENCIES

During the ordinary course of business, the Center may be subjected to various lawsuits and civil action claims. There were no pending lawsuits or claims against the Center at June 30, 2012 or 2011 that management believes would result in a material loss in the event of an adverse outcome.

9. CONCENTRATION OF REVENUE

The Center receives a substantial portion of its revenue from state appropriations and would, therefore, be significantly impacted by government cutbacks in those appropriations.



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

To the Board of Trustees of the Quartz Mountain Arts
And Conference Center and Nature Park

We have audited the financial statements of Quartz Mountain Arts and Conference Center and Nature Park (the "Center") as of and for the year ended June 30, 2012, and have issued our report thereon October 1, 2012. 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.

Internal Control Over Financial Reporting

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

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

Our consideration of internal control over financial reporting was for the limited purpose described in the first paragraph of this section and 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 Center's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

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

Arledge & Associates, P.C.
Edmond, Oklahoma
October 1, 2012