Quartz Mountain Arts And Conference Center And Nature Park

Financial Statements

and

Independent Auditor's Report

June 30, 2014 and 2013

Contents

Stanfield & O'Dell PC
Beyond numbers. To solutions.
CONSULTANTS & CERTIFIED PUBLIC ACCOUNTANTS

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 financial statements of the Quartz Mountain Arts and Conference Center and Nature Park (the "Center"), as of and for the year ended June 30, 2014 and 2013, and the related notes to the financial statements, which collectively comprise the Center's basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

The Center's management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America 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 from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

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, 2014 and 2013, and the respective changes in financial position and cash flows thereof for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the management's discussion on pages 5 to 13 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.

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated October 13, 2014 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* in considering the Center's internal control over financial reporting and compliance.

Tulsa, Oklahoma
October 13, 2014

Stanfield & O'Dell P.C.

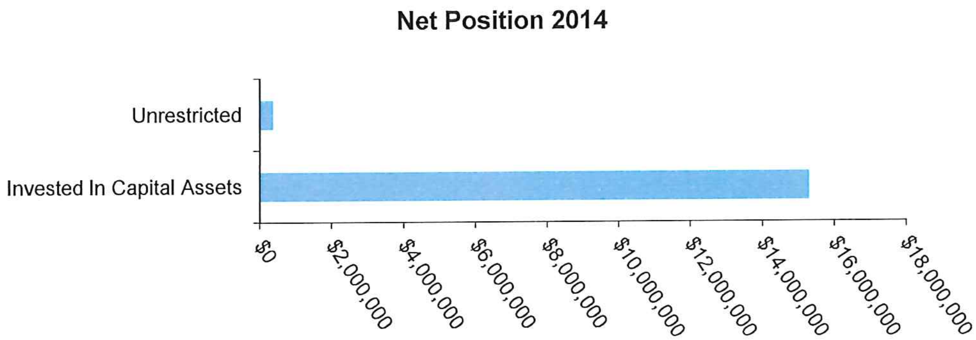
Management's Discussion and Analysis

MANAGEMENT'S DISCUSSION AND ANALYSIS

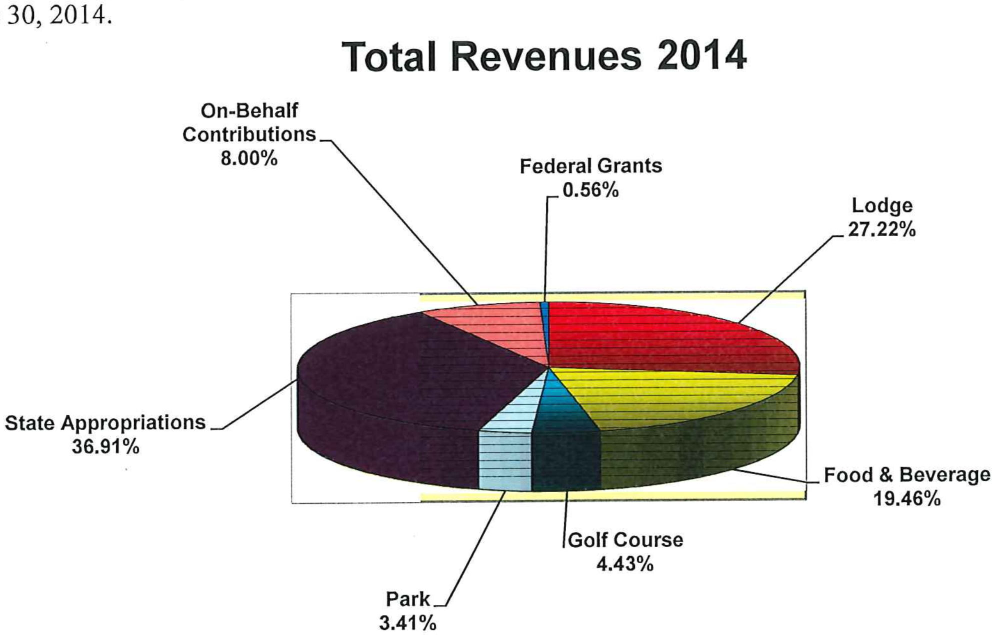
The discussion and analysis of Quartz Mountain Arts and Conference Center and Nature Park's (the "Center") financial statements provides an overview of the Center's financial activities for the year ended June 30, 2014. Since this management's discussion and analysis is designed to focus on current activities, 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, 2014, the Center's net position is $15.7 million. Of this $379,713 is considered in the unrestricted category. Graphically displayed, the net position by category for the fiscal year is shown below:



The following chart provides a graphical breakdown of revenues by category for the fiscal year ending June 30, 2014.



In the fiscal year ended June 30, 2014, Quartz Mountain Arts and Conference Center and Nature Park expenses exceeded revenues, creating a decrease in net position of $144,951 representing less than 1% decrease in net position.

Using This Annual Report

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

The statement of net position and the statement of revenues, expenses, and changes in net position 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 position. When the reverse occurs, the result is a decrease in net position. The relationship between revenues and expenses may be thought of as the Center's operating results.

These two statements report the Center's net position and changes in net position. The Center's net position - 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 position 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.

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 position. 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.

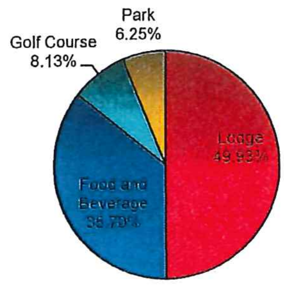
The following is a table of the Center's Statement of Net Position for the years ended June 30, 2014, 2013 and 2012:

Statement of Net Position, End of Year
June 30

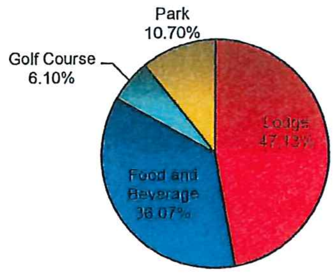
	2014	2013	2012
Current Assets	$ 629,832	$ 641,713	$ 1,134,588
Noncurrent Assents			
Deferred cost on OCIA Lease Restructure	67,851	101,776	135,702
Capital Assets, Net of Depreciation	18,435,353	19,112,672	19,747,252
Total Assets	19,133,036	19,856,161	21,017,542
Current Liabilities	709,989	1,202,433	1,269,774
Noncurrent Liabilities	2,748,858	2,834,588	3,301,196
Total Liabilities	3,458,847	4,037,021	4,570,970
Net Position			
Investment in Capital Assets	15,294,476	15,862,553	16,149,679
Unrestricted Net Position	379,713	-43,413	296,893
Total Net Position	$ 15,674,189	$ 15,819,140	$ 16,446,572

Operating revenues and expenses for the fiscal years ended June 30, 2014, 2013 and 2012:

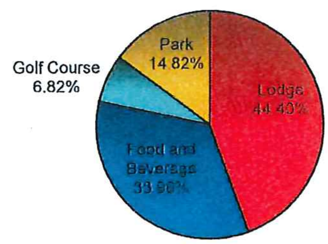
Operating Revenues 2014



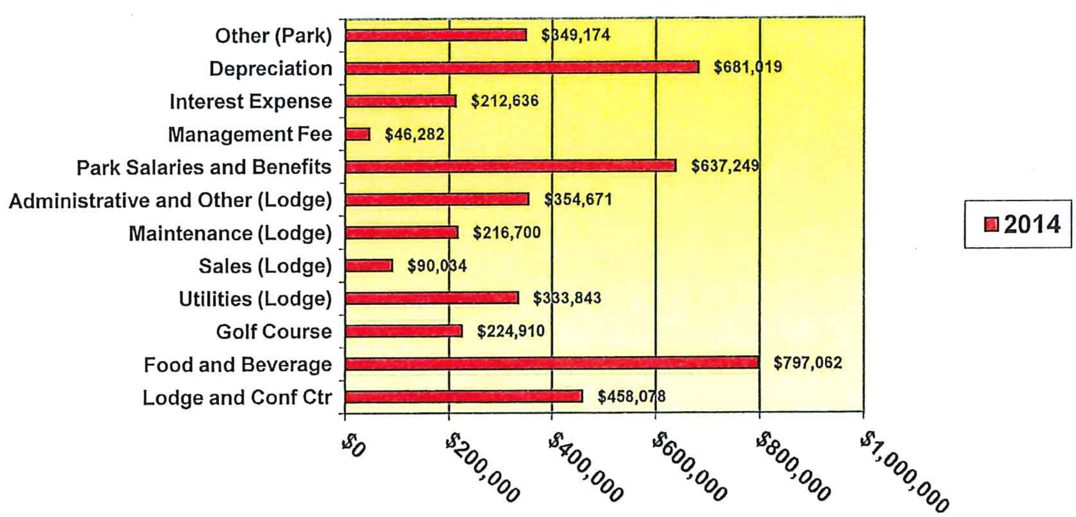
Operating Revenues 2013



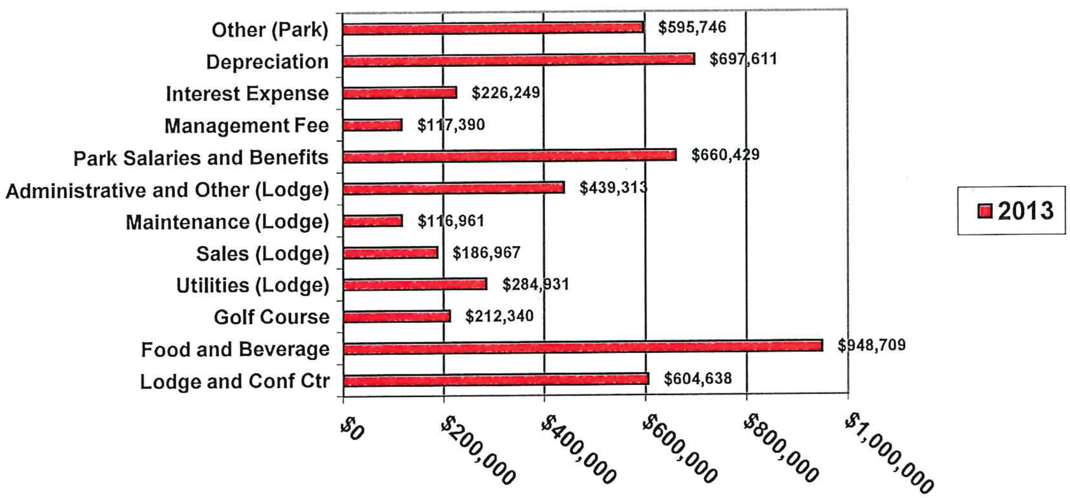
Operating Revenues 2012



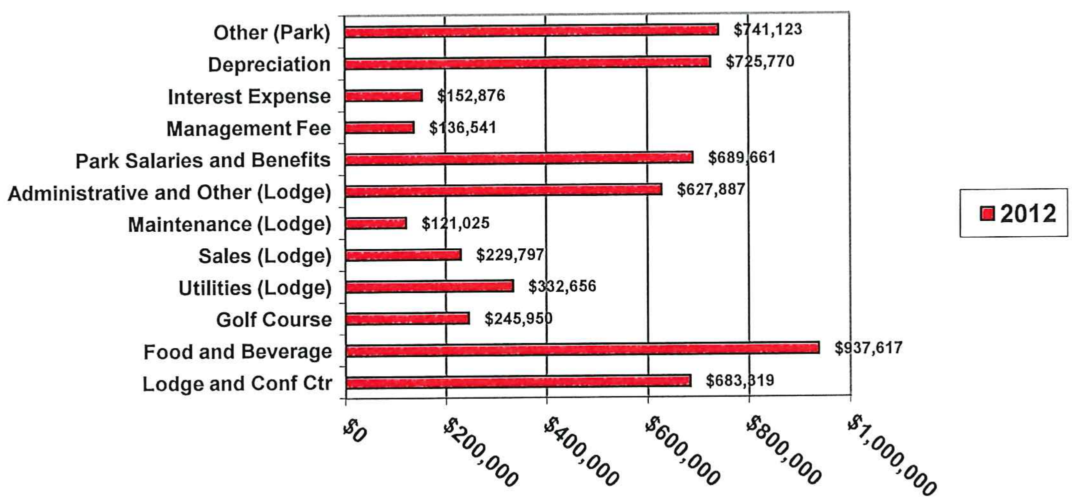
Operating Expenses



Operating Expenses



Operating Expenses



Operating Results for the Years Ended
June 30

	2,014	2013	2012
Operating Revenues			
Lodge and Conference Center	$ 1,158,714	$ 1,299,452	$ 1,415,471
Food and beverage	828,510	994,597	1,082,589
Golf course and pro shop	188,665	168,058	217,567
Park and other revenue	144,995	208,497	472,602
Total	2,320,884	2,670,604	3,188,229
Less Operating Expenses	4,189,022	4,778,583	5,471,346
Net Operating Loss	(1,868,138)	(2,107,979)	(2,283,117)
Non Operating Revenue (Expense)			
State Appropriations	1,571,220	1,121,219	1,175,895
On-behalf Contributions	340,697	491,483	392,332
Capital Contribution	-	-	380,257
Federal Grants	23,906	94,094	-
Interest Income	-	-	1,353
Interest Expense	(212,636)	(226,249)	(152,876)
Gain (loss) on disposal of assets	-	-	(18,386)
Total non operating revenue	1,723,187	1,480,547	1,778,575
Increase (Decrease) in Net Position	(144,951)	(627,432)	(504,542)
Net Position, Beginning of Year	15,819,140	16,446,572	16,951,114
Net Position, End of Year	$ 15,674,189	$ 15,819,140	$ 16,446,572

For the years ended June 30, 2014, June 30, 2013, and June 30, 2012, the Center's expenses exceeded revenues, creating a decrease in net position of $144,951, $627,432 and $504,542 respectively.

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 at condensed look at the statement of cash flows for fiscal years 2014, 2013, and 2012.

Cash Flows for the Years Ended June 30

	2014	2013	2012
Cash Provided (used) by:			
Operating activities	$ (1,579,808)	$ (1,410,606)	$ (1,219,134)
Noncapital financing activities	1,571,220	1,121,219	1,175,895
Capital and related financing activities	20,206	(36,104)	(2,123)
Net increase (decrease) in cash	11,618	(325,491)	(45,362)
Cash, beginning of the year	461,875	787,366	832,728
Cash, end of the year	$ 473,493	$ 461,875	$ 787,366

Fiscal year 2014, the Center's liquidity increased by 2.5% as compared to a 41.34% decrease in 2013. The liquidity at year end 2014 is reflective of a decrease in accrued expenses of approximately $380,000. The liquidity at year end 2013 is reflective of a decrease in accrued expenses and receivables of approximately $249,000, which causes a short term negative impact to cash position.

Description of Capital Assets and Long-Term Debt Activity

At June 30, 2014, the Center had $18.4 million invested in capital assets, net of accumulated depreciation of $9.7 million. Net depreciation charges totaled $681,019 for the year ended June 30, 2014. Details of these assets are shown below for the years ended June 30, 2014, 2013 and 2012:

Capital Assets, Net, at Year-End June 30

	2014	2013	2012
Land	$ 278,393	$ 278,393	$ 278,393
Infrastructure	2,071,665	2,130,051	2,180,175
Land Improvements	2,382,913	2,546,530	2,657,162
Buildings	13,578,065	13,964,493	14,276,376
Equipment	124,317	193,205	278,963
Construction in Progress	-	-	76,183
Totals	$ 18,435,353	$ 19,112,672	$ 19,747,252

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 consisted 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, 2014, the Center had $3.14 million in debt outstanding. The table below summarizes the outstanding debt by type for the years ended June 30, 2014, 2013, and 2012.

Outstanding Debt
June 30

	2014	**2013**	**2012**
OCIA Capital Lease - Series 2004A	$ 1,413,522	$ 1,446,612	$ 1,643,594
OCIA Capital Lease - Series 2005F	179,033	1,088,586	1,171,891
OCIA Capital Lease - Series 2010A	442,216	442,216	442,216
OCIA Capital Lease - Series 2010B	244,372	244,372	244,372
OCIA Capital Lease - Series 2014A	861,734	-	-
Master Lease - ODFA	-	28,333	95,500
	$ 3,140,877	$ 3,250,119	$ 3,597,573

More detailed information about the Center's outstanding debt is presented in Note E 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 an unprecedented four years of low lake levels and extreme drought conditions. FY 2014 revenues were $2,175,889 compared to FY 13 revenues of $2,462,107, down $286,218. As a result of the continued decline in revenue and in an attempt to control costs and operate more efficiently, the Board of Trustees for the Center terminated the management agreement with Interstate Hotels & Resorts Inc. effective October 1, 2013. The move was designed to reduce operating costs associated with third-party management and provide greater control regarding staffing and operational expense. 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 in 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.

The Center's FY 2014 budget included revenue and expenses for the Lodge and Golf Course for the period October 1, 2013 through June 30, 2014. The FY 2014 budget was $3,706,037 and included one-time grant funding of $200,000 from the Oklahoma State Regents for Higher Education. The Center also received an additional $250,000 in supplemental funding in June, 2014 to help maintain a financial position compliant with State rules. 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 revenue challenges associated with lake levels and drought, the Center's FY 2015 budget is once again very conservative focusing on efficiency and expense control. The Center received an additional one-time funding allocation of $250,000 to assist with the financial impact associated with lake level and drought. The FY 2015 budget is $3,951,219 and includes revenue and expenses for the entire fiscal year beginning July 1, 2014 and ending June 30, 2015. Unfortunately, the Center continues to rely on supplemental funding to maintain fiscal viability. The Center will continue to work for the restoration of the 2007 budget cut of 25% while realizing the importance of revenue growth for the continued viability of the Center.

During 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 Position

June 30,

	2014	2013
Assets		
Current assets		
Cash and cash equivalents	$ 473,493	$ 461,875
Accounts receivable	134,170	124,239
Inventory	22,169	37,171
Prepaid expense	-	18,428
Total current assets	629,832	641,713
Capital assets, net	18,435,353	19,112,672
Total assets	19,065,185	19,754,385
Deferred outflows of resources		
Deferred cost on OCIA lease restructure, net of accumulated amortization of $135,701 and $101,776	67,851	101,776
Total assets and deferred outflows of resources	$ 19,133,036	$ 19,856,161
Liabilities and Net Position		
Current liabilities		
Accounts payable	$ 140,621	$ 245,421
Accrued expenses	79,178	311,312
Advance	-	120,000
Deposits	30,664	38,021
Compensated absences	21,602	23,087
Capital leases	437,924	464,592
Total current liabilities	709,989	1,202,433
Noncurrent liabilities		
Compensated absences	45,905	49,061
Capital leases	2,702,953	2,785,527
Total noncurrent liabilities	2,748,858	2,834,588
Total liabilities	3,458,847	4,037,021
Net Position		
Invested in capital assets, net of related debt	15,294,476	15,862,553
Unrestricted net position	379,713	(43,413)
Total net position	15,674,189	15,819,140
Total liabilities and net position	$ 19,133,036	$ 19,856,161

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 Changes in Net Position

Years ended June 30,

	2014	2013
Operating revenues		
Lodge and conference center rental	$ 1,141,089	$ 1,255,255
Food and beverage	828,510	994,597
Golf course and pro shop	188,665	168,058
Other lodge and conference center revenue	17,625	44,197
Park revenue	144,995	208,497
Total operating revenue	2,320,884	2,670,604
Operating expenses		
Lodge and conference center expenses	458,078	604,638
Food and beverage	797,062	948,709
Golf course and pro shop	224,910	212,340
Utilities - lodge and conference center	333,843	284,931
Sales - lodge and conference center	90,034	186,967
Maintenance - lodge and conference center	216,700	116,961
Administrative and other - lodge and conference center	354,671	439,313
Park and administration salaries and benefits	637,249	660,429
Management fee	46,282	117,390
Depreciation	681,019	697,611
Other park operating expenses	349,174	509,294
Total operating expenses	4,189,022	4,778,583
Net operating loss	(1,868,138)	(2,107,979)
Nonoperating revenues (expenses)		
State appropriations	1,571,220	1,121,219
On-behalf debt payments - capital leases	277,011	472,611
On-behalf pension contributions	63,686	18,872
Federal grants and contracts	23,906	94,094
Interest expense	(212,636)	(226,249)
Net nonoperating revenues	1,723,187	1,480,547
Decrease in net position	(144,951)	(627,432)
Net position, beginning of year	15,819,140	16,446,572
Net position, end of year	$ 15,674,189	$ 15,819,140

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

Quartz Mountain Arts and Conference Center and Nature Park

Statements of Cash Flows

Years ended June 30,

	2014	2013
Cash flows from operating activities		
Cash received from customers	$ 2,303,595	$ 2,943,012
Cash paid to vendors and suppliers	(2,347,693)	(2,708,950)
Cash paid to employees for services	(1,535,710)	(1,644,668)
Net cash used in operating activities	(1,579,808)	(1,410,606)
Cash flows from noncapital financing activities		
State appropriations	1,571,220	1,121,219
Net cash provided by noncapital financing activities	1,571,220	1,121,219
Cash flows from capital and related financing activities		
Payment for acquisition of capital assets	(3,700)	(63,031)
Payments on capital leases	-	(67,167)
Federal grants and contracts	23,906	94,094
Net cash provided by (used in) capital and related financing activities	20,206	(36,104)
Net increase (decrease) in cash	11,618	(325,491)
Cash and cash equivalents, beginning of year	461,875	787,366
Cash and cash equivalents, end of year	$ 473,493	$ 461,875
Reconciliation of operating loss to net cash provided by (used in) operating activities		
Operating loss	$ (1,868,138)	$ (2,107,979)
Adjustments to reconcile operating loss to net cash used in operating activities		
Depreciation expense	681,019	697,611
On-behalf pension contribution	63,686	18,872
Changes in assets and liabilities		
Accounts receivable	(9,932)	179,353
Inventory	15,002	(2,767)
Prepaid expense	18,428	(9,202)
Accounts payable and accrued expenses	(359,873)	(186,494)
Advances	(120,000)	-
Net cash used in operating activities	$ (1,579,808)	$ (1,410,606)

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

Note A - 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:

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 percent 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, 2014 and 2013, the Center paid Interstate management fees totaling approximately $62,000 and $123,000, respectively. The agreement with Interstate was terminated in October 2013.

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.

Note A - Summary of Significant Accounting Policies - Continued

Reporting Entity - Continued

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.

Note B - Basis of Presentation

1. 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.

2. 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.

3. 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.

4. 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.

5. 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.

Note B - Basis of Presentation - Continued

5. Capital Assets - Continued

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.

6. 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.

7. Accounts Receivable

Management considers all receivables as of June 30, 2014 and 2013 to be fully collectible; therefore, no allowance for doubtful accounts has been established. Receivables consist primarily of amounts due from the Oklahoma Arts Institute.

8. Net Position

Equity is classified as net position and displayed in three components:

a. *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.
b. *Restricted net position* - consists of net position with constraints placed on the use either by external groups, laws or enabling legislation. The Center has no restricted net position.
c. *Unrestricted net position* - all other assets that do not meet the definition of "restricted" or "invested in capital assets, net of related debt."

The Center incurred a deficit in unrestricted net position as a result of the operations of its lodge.

9. 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).

Note B - Basis of Presentation - Continued

10. Reclassifications

Certain prior year balances have been reclassified to conform to current year classifications.

Note C - Cash

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

	June 30	
	2014	2013
Deposits with the State Treasurer	$ 466,093	$ 406,877
U.S. financial institutions	-	48,198
Petty cash and change funds	7,400	6,800
Total cash and cash equivalents	$ 473,493	$ 461,875

<u>*Custodial Credit Risk - Deposits*</u>

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 $32,715 at June 30, 2013. There was no custodial credit risk exposure at June 30, 2013.

Note D - Capital Assets

A summary of property, plant, and equipment activity for fiscal 2014 is as follows:

	Beginning Balance	Additions	Transfers	Retirements	Ending Balance
Capital assets, not being depreciated:					
Land	$ 278,393	$ -	$ -	$ -	$ 278,393
Total capital assets, not being depreciated	278,393	-	-	-	278,393
Capital assets, being depreciated:					
Buildings	19,580,684	-	-	-	19,580,684
Equipment	1,253,909	3,700	-	-	1,257,609
Infrastructure	2,919,266	-	-	-	2,919,266
Land improvements	4,100,344	-	-	-	4,100,344
Total capital assets, being depreciated	27,854,203	3,700	-	-	27,857,903
Total capital assets	28,132,596	3,700	-	-	28,136,296
Less accumulated depreciation for:					
Buildings	(5,616,191)	(386,428)	-	-	(6,002,619)
Equipment	(1,060,704)	(72,588)	-	-	(1,133,292)
Infrastructure	(789,215)	(58,386)	-	-	(847,601)
Land improvements	(1,553,814)	(163,617)	-	-	(1,717,431)
Total accumulated depreciation	(9,019,924)	(681,019)	-	-	(9,700,943)
Capital assets, net	$ 19,112,672	$ (677,319)	$ -	$ -	$ 18,435,353

Note D - Capital Assets - Continued

A summary of property, plant, and equipment activity for fiscal 2013 is as follows:

	Beginning Balance	Additions	Transfers	Retirements	Ending Balance
Capital assets, not being depreciated:					
Land	$ 278,393	$ -	$ -	$ -	$ 278,393
Construction-in-progress	76,183	10,706	(86,889)	-	-
Total capital assets, not being depreciated	354,576	10,706	(86,889)	-	278,393
Capital assets, being depreciated:					
Buildings	19,506,141	48,900	25,643	-	19,580,684
Equipment	1,250,484	3,425	-	-	1,253,909
Infrastructure	2,911,005	-	8,261	-	2,919,266
Land improvements	4,047,359	-	52,985	-	4,100,344
Total capital assets, being depreciated	27,714,989	52,325	86,889	-	27,854,203
Total capital assets	28,069,565	63,031	-	-	28,132,596
Less accumulated depreciation for:					
Buildings	(5,229,765)	(386,426)	-	-	(5,616,191)
Equipment	(971,521)	(89,183)	-	-	(1,060,704)
Infrastructure	(730,830)	(58,385)	-	-	(789,215)
Land improvements	(1,390,197)	(163,617)	-	-	(1,553,814)
Total accumulated depreciation	(8,322,313)	(697,611)	-	-	(9,019,924)
Capital assets, net	$ 19,747,252	$ (634,580)	$ -	$ -	$ 19,112,672

Note E - Long Term Liabilities

Long-term liabilities consist of capital leases and compensated absences. Activity for the years ended June 30, 2014 and 2013 are as follows:

	Year Ended June 30, 2014				
	Beginning Balance	Refinances / Additions	Refinances / Reductions	Ending Balance	Amounts Due Within One Year
Capital lease - OCIA 2004A	$ 1,446,612	$ -	$ (33,090)	$ 1,413,522	$ 208,531
Capital lease - OCIA 2005F	1,088,586	(909,553)	-	179,033	87,237
Capital lease - OCIA 2010A	442,216	-	-	442,216	-
Capital lease - OCIA 2010B	244,372	-	-	244,372	142,156
Capital lease - OCIA 2014A	-	861,734	-	861,734	-
Master lease - ODFA	28,333	-	(28,333)	-	-
Total	3,250,119	(47,819)	(61,423)	3,140,877	437,924
Compensated absences	72,148	25,963	(30,604)	67,507	21,602
Total long-term liabilities	$ 3,322,267	$ (21,856)	$ (92,027)	$ 3,208,384	$ 459,526

	Year Ended June 30, 2013				
	Beginning Balance	Refinances / Additions	Refinances / Reductions	Ending Balance	Amounts Due Within One Year
Capital lease - OCIA 2005F	$ 1,171,891	$ -	$ (83,305)	$ 1,088,586	$ 87,238
Capital lease - OCIA 2004A	1,643,594	-	(196,982)	1,446,612	206,866
Capital lease - OCIA 2010A	442,216	-	-	442,216	-
Capital lease - OCIA 2010B	244,372	-	-	244,372	142,155
Master lease - ODFA	95,500	-	(67,167)	28,333	28,333
Total	3,597,573	-	(347,454)	3,250,119	464,592
Compensated absences	75,113	46,077	(49,042)	72,148	23,087
Total long-term liabilities	$ 3,672,686	$ 46,077	$ (396,496)	$ 3,322,267	$ 487,679

Note E - Long Term Liabilities - Continued

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 percent 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, 2014 and 2013, 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, 2014 and 2013.

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. A deferred cost asset of $203,552, net of accumulated amortization of $135,701, is recorded in the statement of net position. 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. In 2014, the 2005F series was partially refinanced with series 2014A.

Note E - Long Term Liabilities - Continued

Through June 30, 2014 and 2013, the Center has drawn down $3,628,799 of its total allotment, for expenses incurred in connection with the specific projects. During that same period, the Center has earned $548,300 in interest. Lease payments to OCIA totaling approximately $277,011 and $472,611 during the years ended June 30, 2014 and 2013, 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 position.

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 position totaled approximately $10,977,000 at June 30, 2014 and 2013 and the accumulated depreciation related to these assets was approximately $2,373,000 and $2,220,000 at June 30, 2014 and 2013, respectively.

Future minimum payments under the capital leases are as follows:

Year Ending June 30:	Principal	Interest	Total
2015	$ 437,924	$ 106,779	$ 544,703
2016	456,092	144,885	600,977
2017	375,970	100,787	476,757
2018	393,392	84,151	477,543
2019	410,619	64,753	475,372
2020-2024	418,858	193,658	612,516
2025 - 2029	441,002	115,142	556,144
2030 - 2034	207,020	15,476	222,496
Total	$ 3,140,877	$ 825,631	$ 3,966,508

Note F - 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.

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, 2014 and each of the preceding two years was 3.5 percent. The agency contribution rates applied to each participating state employee's salary for the fiscal year ended June 30, 2014 and each of the preceding two years was 16 percent.

The Center's contributions to the plan for the two years ended June 30, 2014 and 2013 of approximately $18,000 and $21,000, 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 the 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.

Note F - Retirement Programs - Continued

Oklahoma Law Enforcement Retirement System ("OLERS") - Continued

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, 2014 and the preceding two years were 8 percent for the employee, and 10 percent for the employer. The Center's contributions to the plan for the years ended June 30, 2014 and 2013 of approximately $5,000 and $3,000, respectively, were equal to the established required contributions.

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 percent in fiscal years 2014 and 2013 is applied to annual compensation, and is determined by state statute.

Employees' contributions are also determined by state statute. For all employees, the contribution rate was 7 percent of covered salaries and fringe benefits in 2014 and 2013. These contributions were made directly by the Center for 2014 and 2013.

Contributions to OTRS for the years ended June 30, 2014 and 2013 were approximately $143,000, and $41,000, 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 percent of state revenues from sales and use taxes and individual income taxes to OTRS on behalf of participating employers. State contributions totaled $63,686, and $18,872 during fiscal years 2014 and 2013, respectively.

Note G - Other Postemployment Benefits

In addition to the pension benefits described in Note F, the OTRS, 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.

OTRS, 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.

Note H - 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 overages. 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.

Note H - Risk Management - Continued

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.

Note I - 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, 2014 or 2013 that management believes would result in a material loss in the event of an adverse outcome.

Note J - 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.

Note K - Adoption of Governmental Accounting Standards Board (GASB) Statements No. 63 and 65

In 2013, the Center adopted GASB Statement No. 63 - *Financial Reporting of Deferred Outflows, Deferred Inflows of Resources and Net Position* and GASB Statement No. 65 - *Items Previously Reported as Assets and Liabilities*. Statement No. 63 establishes guidance for reporting deferred outflows of resources, deferred inflows of resources, and net position in a statement of financial position. The Statement specifies that the statement of net position should report all assets, deferred outflows of resources, liabilities, deferred inflows of resources, and net position. Statement 63 also specifies that the statement of net position should report the residual amount as net position rather than net assets. Under this statement, net position should be displayed in three components similar to those currently required for net assets; net investment in capital assets, restricted, and unrestricted.

Statement No. 65 clarifies the appropriate reporting of deferred outflows of resources and deferred inflows of resources to ensure consistency in financial reporting. Statement No. 65 reclassifies and recognizes certain items currently being reported as assets and liabilities as one of four financial statement elements: deferred outflows of resources, outflows of resources, deferred inflows of resources, or inflows of resources. Under GASB 65, the Center is required to present the deferred cost on OCIA lease restructure described in Note E as deferred outlows of resources in the statement of net position.

Note L - New Accounting Pronouncements

The GASB has issued an accounting pronouncement, which will be effective for the Center in 2015. GASB No. 68 *Accounting and Financial Reporting for Pensions,* an Amendment of GASB Statement No. 27, 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. The Center has not yet determined the impact that implementation of GASB No. 68 will have on its net position.

Internal Control and Compliance Report

CONSULTANTS & CERTIFIED PUBLIC ACCOUNTANTS

Independent Auditor's 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 years ended June 30, 2014 and 2013, and have issued our report thereon dated October 13, 2014. 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.

Stanfield & O'Dell P.C.

Tulsa, Oklahoma
October 13, 2014