

*Audited Financial Statements*

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

**June 30, 2013**

ADMINISTRATIVE OFFICE OF  
THE REGIONAL UNIVERSITY SYSTEM OF OKLAHOMA

June 30, 2013

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REPORT REQUIRED BY *GOVERNMENT AUDITING STANDARDS*

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Independent Auditors' Report

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

**Report on the Financial Statements**

We have audited the accompanying financial statements of the Administrative Office of the Regional University System of Oklahoma (the "Office"), a component unit of the State of Oklahoma, which comprise the statement of net position as of June 30, 2013, and the related statements of revenues, expenses, and changes in net position, and cash flows for the year then ended, and the related notes to the financial statements.

**Management's Responsibility for the Financial Statements**

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.

**Auditors' 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 of 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 auditors' 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 auditors consider 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 financial position of the Administrative Office of the Regional University System of Oklahoma as of June 30, 2013, and the changes in financial position and cash flows thereof for the year 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 Schedules of Funding Progress for the Supplemental Retirement Annuity Plan and Other Postemployment Insurance Benefits Plan, as listed in the table of contents, be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Management has omitted management's discussion and analysis that accounting principles generally accepted in the United States of America require to be presented to supplement the basic financial statements. Such missing information, although not a part of the basic financial statements, is required by the Government 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. Our opinion on the basic financial statements is not affected by the missing information.

**Other Reporting Required by *Government Auditing Standards***

In accordance with *Government Auditing Standards*, we have also issued our report dated October 29, 2013, on our consideration of the Office'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 the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the Office's internal control over financial reporting and compliance.



Oklahoma City, Oklahoma  
October 29, 2013

STATEMENT OF NET POSITION

ADMINISTRATIVE OFFICE OF THE  
REGIONAL UNIVERSITY SYSTEM OF OKLAHOMA

June 30, 2013

ASSETS

CURRENT ASSETS

Cash	\$ 77,706
Accounts receivable	<u>163,597</u>
TOTAL CURRENT ASSETS	241,303

NONCURRENT ASSETS

Capital assets, net of accumulated depreciation of \$74,187	8,291
OPEB asset	43,311
Prepaid pension asset	<u>107,844</u>
TOTAL NONCURRENT ASSETS	<u>159,446</u>

TOTAL ASSETS \$ 400,749

LIABILITIES

CURRENT LIABILITIES

Accounts payable	\$ 85,208
Accrued salaries	88
Accrued compensated absences	<u>20,008</u>
TOTAL CURRENT LIABILITIES	105,304

NONCURRENT LIABILITIES

Accrued compensated absences, net of current portion	<u>20,008</u>
TOTAL NONCURRENT LIABILITIES	<u>20,008</u>

TOTAL LIABILITIES 125,312

NET POSITION

Net investment in capital assets	8,291
Unrestricted	<u>267,146</u>

TOTAL NET POSITION \$ 275,437

See notes to financial statements.

STATEMENT OF REVENUES, EXPENSES AND CHANGES IN NET POSITION

ADMINISTRATIVE OFFICE OF THE  
REGIONAL UNIVERSITY SYSTEM OF OKLAHOMA

Year Ended June 30, 2013

OPERATING REVENUES

University assessments	\$ 865,368
Other	4,051
	<u>869,419</u>

OPERATING EXPENSES

Salaries and wages	367,587
Employee benefits	59,962
Payroll taxes	25,184
Retirement and other postemployment benefits	97,598
Travel	37,032
Office and equipment rent	42,013
Office supplies	5,914
Professional services	181,060
Depreciation	5,079
Other	31,812
	<u>853,241</u>

OPERATING INCOME 16,178

NONOPERATING REVENUES

OTRS on-behalf contributions	<u>30,866</u>
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CHANGE IN NET POSITION 47,044

NET POSITION, BEGINNING OF YEAR 228,393

NET POSITION, END OF YEAR \$ 275,437

See notes to financial statements.

STATEMENT OF CASH FLOWS

ADMINISTRATIVE OFFICE OF THE  
REGIONAL UNIVERSITY SYSTEM OF OKLAHOMA

Year Ended June 30, 2013

CASH FLOWS FROM OPERATING ACTIVITIES

University assessments and other	\$ 789,199
Compensation and employee benefits	(532,408)
Payments to vendors	<u>(249,694)</u>
NET CASH FLOWS PROVIDED BY OPERATING ACTIVITIES	7,097

CASH FLOWS FROM CAPITAL AND  
RELATED FINANCING ACTIVITIES

Purchases of capital assets	<u>(10,384)</u>
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NET DECREASE IN CASH (3,287)

CASH, BEGINNING OF YEAR 80,993

CASH, AT END OF YEAR 77,706

RECONCILIATION OF OPERATING INCOME TO  
NET CASH PROVIDED BY OPERATING ACTIVITIES:

Operating income	\$ 16,178
Depreciation expense	5,079
OTRS on-behalf contributions	30,866
Change in assets and liabilities:	
Accounts receivable	(80,220)
OPEB asset	(8,465)
Prepaid pension asset	(4,702)
Accounts payable	48,137
Accrued salaries	(3,850)
Compensated absences	<u>4,074</u>

NET CASH FLOWS PROVIDED BY OPERATING ACTIVITIES \$ 7,097

See notes to financial statements.

## NOTES TO FINANCIAL STATEMENTS

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

June 30, 2013

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

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

Reporting Entity: As defined by Governmental Accounting Standards Board (GASB) Statement No. 14, *The Financial Reporting Entity*, and as amended by Governmental Accounting Standards Board (GASB) Statement No. 39, *Determining whether Certain Organization Are Component Units* and Statement No. 61, *The Financial Reporting Entity*, the Office is not financially accountable for any other entity, nor are there any other entities for which the nature and significance of their relationship with the Office are such that exclusion would cause the Office's financial statements to be misleading. The Office is a component unit of the State of Oklahoma and is included in the general-purpose financial statements of the State of Oklahoma as part of the Higher Education component unit.

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

Basis of Accounting: For financial reporting purposes, the Office is considered a special- purpose government engaged only in business-type activities. Accordingly, the Office's financial statements have been presented using the economic resources measurement focus and the accrual basis of accounting. Under the accrual basis, revenues are recognized when earned, and expenses are recorded when an obligation has been incurred.

Cash Equivalents: For purposes of the statement of cash flows, the Office considers all highly liquid investments with an original maturity of three months or less to be cash equivalents. At June 30, 2013, the Office had no investments that were considered cash equivalents.



NOTES TO FINANCIAL STATEMENTS--Continued

ADMINISTRATIVE OFFICE OF THE  
REGIONAL UNIVERSITY SYSTEM OF OKLAHOMA

June 30, 2013

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

Accounts Receivable: Accounts receivable consists of assessment charges to the Universities. All accounts receivable are considered fully collectible. Therefore, no provision for uncollectible amounts has been recorded.

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

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

Deferred Outflows of Resources: Deferred outflows are the consumption of net position by the Office that are applicable to a future reporting period. At June 30, 2013, the Office has no deferred outflows of resources.

Deferred Inflows of Resources: Deferred inflows are the acquisition of net position by the Office that are applicable to a future reporting period. At June 30, 2013, the Office has no deferred inflows of resources.

Net Position: The Office's net position is classified as follows:

*Net investment in capital assets:* This represents the Office's investment in capital assets, net of accumulated depreciation, reduced by outstanding debt obligations, if any, related to those capital assets. Deferred outflows of resources and deferred inflows of resources that are attributable to the acquisition, construction, or improvement of those assets or related debt are also included in this component of net position, if any.

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

Estimates: The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect certain reported amounts and disclosures. Accordingly, actual results could differ from these estimates.

NOTES TO FINANCIAL STATEMENTS--Continued

ADMINISTRATIVE OFFICE OF THE  
REGIONAL UNIVERSITY SYSTEM OF OKLAHOMA

June 30, 2013

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

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

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

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

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

New Accounting Pronouncements Adopted in Fiscal Year 2013: The Office adopted several new accounting pronouncements during the year ended June 30, 2013 as follows:

- Statement No. 60, *Accounting and Financial Reporting for Service Concession Arrangements*.  
GASB No. 60 addresses issues related to service concession arrangements (SCAs), which are a type of public-private or public-public partnership. This Statement applies only to those arrangements in which specific criteria determining whether a transferor has control over the facility are met. The Office will only be required to adopt the provisions of GASB No. 60 if it enters into an SCA, and it currently has not entered into any such arrangements.
- Statement No. 61, *The Financial Reporting Entity: Omnibus - An Amendment of GASB Statements No. 14 and No. 34*.  
GASB No. 61 modifies certain requirements for inclusion of component units in the financial reporting entity. This Statement also amends the criteria for reporting component units as if they were part of the primary government (that is, blending) in certain circumstances. The adoption of GASB No. 61 did not have an impact on the Office's financial statement presentation.
- Statement No. 62, *Codification of Accounting and Financial Reporting Guidance Contained in Pre-November 30, 1989 FASB and AICPA Pronouncements*.  
GASB No. 62 is intended to enhance the usefulness of its Codification by incorporating guidance that previously could only be found in certain FASB and AICPA pronouncements. The adoption of GASB No. 62 did not have an impact on the Office's financial position, or changes in financial position or cash flows, or its financial statement presentation.

NOTES TO FINANCIAL STATEMENTS--Continued

ADMINISTRATIVE OFFICE OF THE  
REGIONAL UNIVERSITY SYSTEM OF OKLAHOMA

June 30, 2013

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

New Accounting Pronouncements Adopted in Fiscal Year 2013--Continued:

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

GASB No. 63 provides financial reporting guidance for deferred outflows of resources and deferred inflows of resources. Previous financial reporting standards do not include guidance for reporting those financial statement elements, which are distinct from assets and liabilities. The adoption of GASB No. 63 did not have an impact on the Office's financial statement presentation.

- Statement No. 65, *Items Previously Reported as Assets and Liabilities.*

GASB No. 65 establishes accounting and financial reporting standards that reclassify, as deferred outflows of resources or deferred inflows of resources, certain items that were previously reported as assets and liabilities and recognizes, as outflows of resources (expenses) or inflows of resources (revenues), certain items that were previously recognized as assets and liabilities. The Office has chosen to early adopt GASB No. 65 in 2013. The adoption of GASB No. 65 did not have an impact on the Office's financial position, or changes in financial position or cash flows, or its financial statement presentation.

New Accounting Pronouncements Issued Not Yet Adopted: The GASB has also issued several new accounting pronouncements which will be effective to the Office in subsequent years. A description of the new accounting pronouncements, the fiscal year in which they are effective, and the Office's consideration of the impact of these pronouncements are described below:

*Fiscal Year Ended June 30, 2014*

- Statement No. 70, *Accounting and Financial Reporting for Nonexchange Financial Guarantees.*

GASB No. 70 requires a government that extends a nonexchange financial guarantee to recognize a liability when qualitative factors and historical data, if any, indicate that it is more likely than not that the government will be required to make a payment on the guarantee. The government is required to report the guaranteed obligation until it is legally released as an obligor, and when it is legally released, it should recognize revenue as a result of this release. The provisions of this Statement are effective for reporting periods beginning after June 15, 2013. Earlier application is encouraged. Except for certain disclosure requirements which may be applied prospectively, the provisions of this Statement are required to be applied retroactively. The Office has not yet evaluated the effects that GASB No. 70 will have on its financial statements.

NOTES TO FINANCIAL STATEMENTS--Continued

ADMINISTRATIVE OFFICE OF THE  
REGIONAL UNIVERSITY SYSTEM OF OKLAHOMA

June 30, 2013

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

New Accounting Pronouncements Issued Not Yet Adopted--Continued:

*Fiscal Year Ended June 30, 2015*

- Statement No. 68, *Accounting and Financial Reporting for Pensions, an Amendment of GASB Statement No. 27*

GASB No. 68 establishes standards for measuring and recognizing liabilities, deferred outflows of resources, deferred inflows of resources, and pension expenses. GASB No. 68 also details the recognition and disclosure requirements for employers with liabilities to a defined benefit pension plan and for employers whose employees are provided with defined contribution pensions. Defined benefit pensions are further classified by GASB No. 68 as single employer plans, agent employer plans and cost-sharing plans, and recognition and disclosure requirements are addressed for each classification. GASB No. 68 was issued in June 2012, and implementation guidance is expected to be issued in November 2013. Although the Office has not yet quantified the impact that GASB No. 68 will have on its financial statements, it believes that adoption will result in a significant decrease in its Net Position.

*Fiscal Year Ended June 30, 2015*

- Statement No. 69, *Government Combinations and Disposals of Government Operations*

GASB No. 69 was issued in January 2013 and establishes accounting and financial reporting standards related to government combinations and disposals of government operations. Government combinations can include a variety of transactions, including mergers, acquisitions and transfers of operations. A disposal of a government's operations results in the removal of specific activities of a government. The requirements of this Statement are effective for government combinations and disposals of government operations occurring in financial reporting periods beginning after December 15, 2013, and should be applied on a prospective basis. Earlier application is encouraged.

NOTE B--DEPOSITS AND INVESTMENTS

*Deposits*

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

NOTES TO FINANCIAL STATEMENTS--Continued

ADMINISTRATIVE OFFICE OF THE  
REGIONAL UNIVERSITY SYSTEM OF OKLAHOMA

June 30, 2013

NOTE B--DEPOSITS AND INVESTMENTS--Continued

*Deposits--Continued*

At June 30, 2013, the carrying amounts of all Office deposits with the OST were \$77,706. The difference between the bank balance of deposits and the related carrying amounts were generally not significant and are due to outstanding checks and deposits in transit.

NOTE C--CAPITAL ASSETS

A summary of the changes in capital assets for the year ended June 30, 2013 is as follows:

	Balance at <u>June 30, 2012</u>	Additions	Retirements	Balance at <u>June 30, 2013</u>
Furniture and equipment	\$ 72,094	\$ 10,384	\$ -	\$ 82,478
Less: accumulated depreciation	<u>(69,108)</u>	<u>(5,079)</u>	<u>-</u>	<u>(74,187)</u>
Furniture and equipment, net	<u>\$ 2,986</u>	<u>\$ 5,305</u>	<u>\$ -</u>	<u>\$ 8,291</u>

NOTE D--LONG-TERM LIABILITIES

The following is a summary of long-term liability transactions of the Office for the year ended June 30, 2013:

	Beginning <u>Balance</u>	Additions	Deductions	Ending <u>Balance</u>	Current <u>Portion</u>
Accrued compensated absences	<u>\$ 35,942</u>	<u>\$ 32,967</u>	<u>\$ (28,893)</u>	<u>\$ 40,016</u>	<u>\$ 20,008</u>

NOTE E--RETIREMENT PLANS

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

NOTES TO FINANCIAL STATEMENTS--Continued

ADMINISTRATIVE OFFICE OF THE  
REGIONAL UNIVERSITY SYSTEM OF OKLAHOMA

June 30, 2013

NOTE E--RETIREMENT PLANS--Continued

*Oklahoma Teachers' Retirement System (OTRS)*

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

Title 70 of the Oklahoma Statutes, Sections 17-101 through 116.9, as amended, assigns the authority for management and operation of the Plan to the Board of Trustees of OTRS. OTRS does not provide for a cost of living adjustment. OTRS issues a publicly available financial report that includes financial statements and supplementary information for OTRS. That report may be obtained by writing to Teachers' Retirement System of Oklahoma, P.O. Box 53524, Oklahoma City, Oklahoma 73152, or by calling (405) 521-2387.

Funding Policy: The Office is required to contribute a fixed percentage of annual compensation on behalf of active members. The contribution rate was 9.5% for 2013, 2012 and 2011. This rate is applied to annual compensation, and is determined by state statute.

Employees' contributions are also determined by state statute. For all employees, the contribution rate was 7% of covered salaries and fringe benefits in 2013, 2012, and 2011. For Office employees meeting the requirements of the Office's SRA, and other employees who opted to enroll in OTRS prior to July 1, 1993, the members' OTRS contributions are made directly by the Office.

The Office's contributions to the OTRS for the years ended June 30, 2013, 2012 and 2011, were approximately \$66,000, \$66,000, and \$67,000, respectively. These contributions included the Office's statutory contribution and the share of the employee's contribution are paid directly by the Office. The State of Oklahoma is also required to contribute to the OTRS on behalf of the participating employers. For 2013, the state of Oklahoma contributed 5% of state revenues from sales and use taxes and individual income taxes. The Office has estimated the amounts contributed to the OTRS by the State of Oklahoma on its behalf by multiplying the ratio of its covered salaries to total covered salaries for the OTRS for the year by the applicable percentage of taxes collected during the year. For the year ended June 30, 2013, the total amounts contributed to the OTRS by the State of Oklahoma on behalf of the Office were approximately \$31,000. These on-behalf payments have been recorded as both revenues and expenses in the statement of revenues, expenses and changes in net position.

NOTES TO FINANCIAL STATEMENTS--Continued

ADMINISTRATIVE OFFICE OF THE  
REGIONAL UNIVERSITY SYSTEM OF OKLAHOMA

June 30, 2013

NOTE E--RETIREMENT PLANS--Continued

*Defined Contribution Plan*

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

*Supplemental Retirement Annuity (SRA)*

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

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

Annual Pension Cost and Net Pension Obligation (Asset): Annual pension cost and net pension obligation (asset) of the SRA for 2013 are as follows:

Annual required contribution	\$ 7,264
Interest on net pension obligation (asset)	(8,251)
Adjustment to annual required contribution	10,505
Annual pension cost	9,518
Contributions made	(14,220)
Increase in net pension obligation	(4,702)
Net pension obligation (asset) at beginning of year	(103,142)
Net pension obligation (asset) at end of year	<u>\$ (107,844)</u>

NOTES TO FINANCIAL STATEMENTS--Continued

ADMINISTRATIVE OFFICE OF THE  
REGIONAL UNIVERSITY SYSTEM OF OKLAHOMA

June 30, 2013

NOTE E--RETIREMENT PLANS--Continued

*Supplemental Retirement Annuity (SRA)--Continued*

Annual Pension Cost and Net Pension Obligation (Asset)--Continued: The annual required contribution was determined as part of an actuarial valuation on June 30, 2013, using the projected unit credit cost method. The actuarial assumptions included (a) a discount rate of 6.5% per year to determine the present value of future benefit payments; (b) retirement at the later of age 63 or vesting age; (c) an 6.5% rate of return on investments; and (d) projected salary increases of 2.5% per year. The value of the SRA assets is based on the TIAA-CREF group annuity account asset value. The unfunded actuarial accrued liability is being amortized over twenty (20) years as a level dollar amount on a closed basis.

Trend Information:

Year Ended June 30	Annual Pension Cost (APC)	Percentage of APC Contributed	Net Pension Obligation (Asset)
2013	\$ 9,518	149.40%	\$ (107,844)
2012	\$ 9,420	150.96%	\$ (103,142)
2011	\$ 9,884	143.87%	\$ (98,342)

Funded Status: The funded status of the plan as of June 30, 2013 was as follows:

Actuarial accrued liability (AAL)	\$ 161,267
Actuarial value of plan assets	65,279
Unfunded actuarial accrued liability (UAAL)	<u>\$ 95,988</u>
Funded ratio (actuarial value of plan assets/AAL)	40.5%
Covered payroll (active plan members)	\$ 108,496
UAAL as a percentage of covered payroll	88.5%

The schedule of funding progress, presented as required supplementary information following the notes to the financial statements, presents multi-year trend information, as available, about whether the actuarial value of plan assets are increasing or decreasing over time relative to the actuarial accrued liability for benefits.



NOTES TO FINANCIAL STATEMENTS--Continued

ADMINISTRATIVE OFFICE OF THE  
REGIONAL UNIVERSITY SYSTEM OF OKLAHOMA

June 30, 2013

NOTE F--OTHER POSTEMPLOYMENT INSURANCE BENEFITS (OPEB)

*Postemployment Healthcare Plan*

Plan Description: The Office's postemployment healthcare plan is an agent multiple-employer defined benefit plan administered by the Regional University System of Oklahoma Board of Regents. The plan provides medical and life insurance benefits to eligible retired employees until age 65. A retiring employee must have been employed full-time in the Regional University System of Oklahoma for not less than ten years immediately preceding the date of retirement; been a member of the Oklahoma Teachers' Retirement System during that time; and elected to receive a vested benefit under the provision of the Oklahoma Teachers' Retirement System.

As of June 30, 2013, there were a total of 5 participants, 4 active and 1 retired, in the plan. The retirement insurance program was adopted by the Board of Regents in 1985. In March of 2008, the Retiree Medical Trust for Regional University System of Oklahoma was established to hold assets and pay benefits on behalf of the Office's postemployment healthcare plan, and was administered by The Bank of Oklahoma, N.A.

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

Annual Cost and Net Obligation (Asset): Annual OPEB cost and net OPEB obligation (asset) of the plan for 2013 are as follows:

Annual required contribution	\$ 3,834
Interest on net OPEB obligation	(962)
Adjustment to annual required contribution	<u>1,107</u>
Annual OPEB cost	3,979
Contributions made	<u>(12,444)</u>
(Decrease) Increase in net OPEB obligation	(8,465)
Net OPEB obligation (asset) at beginning of year	<u>(34,846)</u>
Net OPEB obligation (asset) at end of year	<u><u>\$ (43,311)</u></u>

NOTES TO FINANCIAL STATEMENTS--Continued

ADMINISTRATIVE OFFICE OF THE  
REGIONAL UNIVERSITY SYSTEM OF OKLAHOMA

June 30, 2013

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

*Postemployment Healthcare Plan--Continued*

Annual Cost and Net Obligation (Asset)--Continued: Projections of benefits for financial reporting purposes are based on the substantive plan and include the types of benefits provided at the time of each valuation. The actuarial methods and assumptions used include techniques that are designed to reduce short-term volatility in actuarial accrued liabilities and the actuarial value of assets, consistent with the long-term perspective of the calculations. For the June 30, 2013 actuarial valuation, the projected unit credit cost method was used. The actuarial assumptions for June 30, 2013 included a 7.0 % investment rate of return and an annual healthcare cost inflationary increase of 8.5%.

Trend Information:

Fiscal Year Ended	Annual OPEB Cost	Annual OPEB Cost Contributed	Net OPEB Obligation (Asset)
2013	\$ 3,979	312.7%	\$ (43,311)
2012	\$ 4,102	300.1%	\$ (34,846)
2011	\$ 3,515	337.2%	\$ (26,636)

Funded Status and Funding Progress: The funded status of the plan as of June 30, 2013 was as follows:

Actuarial accrued liability (AAL)	\$ 34,759
Actuarial value of plan assets	22,233
Unfunded actuarial accrued liability (UAAL)	<u>\$ 12,526</u>
Funded ratio (actuarial value of plan assets/AAL)	64.0%
Covered payroll (active plan members)	\$ 298,053
UAAL as a percentage of covered payroll	4.2%

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

NOTES TO FINANCIAL STATEMENTS--Continued

ADMINISTRATIVE OFFICE OF THE  
REGIONAL UNIVERSITY SYSTEM OF OKLAHOMA

June 30, 2013

NOTE G--RISK MANAGEMENT

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

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

NOTE H--COMMITMENTS AND CONTINGENCIES

The Office has operating leases for office space and copy equipment which expire in years through 2017. Future minimum lease payments are as follows:

<u>Year Ending June 30,</u>	
2014	\$ 30,401
2015	7,271
2016	6,656
2017	<u>550</u>
Total minimum lease payments	<u>\$ 44,878</u>

Rental expenditures under all operating leases were approximately \$42,000 for 2013.

## REQUIRED SUPPLEMENTARY INFORMATION

REQUIRED SUPPLEMENTARY INFORMATION

ADMINISTRATIVE OFFICE OF THE  
REGIONAL UNIVERSITY SYSTEM OF OKLAHOMA

June 30, 2013

**SCHEDULE OF FUNDING PROGRESS FOR SUPPLEMENTAL RETIREMENT ANNUITY PLAN**

Actuarial Valuation Date	Actuarial Value of Assets (a)	Actuarial Accrued Liability (AAL) (b)	Unfunded AAL (UAAL) (b-a)	Funded Ratio (a/b)	Covered Payroll (c)	UAAL as a percentage of Covered Payroll (b-a)/(c)
6/30/2006	\$ 45,191	\$ 120,894	\$ 75,703	37.4%	\$ 136,953	55.3%
6/30/2007	\$ 49,465	\$ 133,135	\$ 83,670	37.2%	\$ 94,552	88.5%
6/30/2008	\$ 52,327	\$ 136,839	\$ 84,512	38.2%	\$ 103,336	81.8%
6/30/2009	\$ 55,255	\$ 136,972	\$ 81,717	40.3%	\$ 105,336	77.6%
6/30/2010	\$ 57,865	\$ 132,741	\$ 74,876	43.6%	\$ 105,336	71.1%
6/30/2011	\$ 60,515	\$ 129,768	\$ 69,253	46.6%	\$ 105,336	65.7%
6/30/2012	\$ 62,786	\$ 130,237	\$ 67,451	48.2%	\$ 108,496	62.2%
6/30/2013	\$ 65,279	\$ 161,267	\$ 95,988	40.5%	\$ 108,496	88.5%

**SCHEDULE OF FUNDING PROGRESS FOR OTHER POSTEMPLOYMENT INSURANCE BENEFITS**

Actuarial Valuation Date	Actuarial Value of Assets (a)	Actuarial Accrued Liability (AAL) (b)	Unfunded AAL (UAAL) (b-a)	Funded Ratio (a/b)	Covered Payroll (c)	UAAL as a percentage of Covered Payroll (b-a)/(c)
6/30/2008	\$ 3,000	\$ 20,688	\$ 17,688	14.5%	\$ 399,714	4.4%
6/30/2009	\$ 6,012	\$ 31,804	\$ 25,792	18.9%	\$ 371,679	6.9%
6/30/2010	\$ 9,589	\$ 31,465	\$ 21,876	30.5%	\$ 321,134	6.8%
6/30/2011	\$ 13,056	\$ 37,188	\$ 24,132	35.1%	\$ 321,446	7.5%
6/30/2012	\$ 17,093	\$ 36,755	\$ 19,662	46.5%	\$ 297,753	6.6%
6/30/2013	\$ 22,233	\$ 34,759	\$ 12,526	64.0%	\$ 298,053	4.2%

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

The actuarial valuation for the Supplemental Retirement Annuity Plan as of June 30, 2013, reflects changes in actuarial assumptions used to more accurately reflect management's expectation of the actuarial accrued liability based upon current economic conditions. See Note E for a description of assumptions used.

REPORT REQUIRED BY  
*GOVERNMENT AUDITING STANDARDS*

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

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

We have audited, in accordance with the 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, the financial statements of the Administrative Office of the Regional University System of Oklahoma (the "Office"), a component unit of the State of Oklahoma, which comprise the statement of net position as of June 30, 2013, and the related statements of revenues, expenses, and changes in net position and cash flows for the year then ended, and the related notes to the financial statements, and have issued our report thereon dated October 29, 2013.

**Internal Control Over Financial Reporting**

In planning and performing our audit of the financial statements, we considered the Office's internal control over financial reporting (internal control) to determine the audit procedures that are appropriate in the circumstances for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the Office's internal control. Accordingly, we do not express an opinion on the effectiveness of the Office's internal control.

*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 Office's financial statements will not be prevented, or detected and corrected on a timely basis. *A significant deficiency* is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

### **Compliance and Other Matters**

As part of obtaining reasonable assurance about whether the Office's financial statements are free from 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*.

### **Purpose of this Report**

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the entity's internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the entity's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

Cole & Reed P.C.

Oklahoma City, Oklahoma  
October 29, 2013