

UNIVERSITY OF CENTRAL OKLAHOMA

June 30, 2012

UNIVERSITY OF CENTRAL OKLAHOMA

June 30, 2012

AUDITED FINANCIAL STATEMENTS

Independent Auditors' Report 1
Management's Discussion and Analysis 3
Statements of Net Assets..... 8
Statements of Revenues, Expenses and Changes in Net Assets..... 10
Statements of Cash Flows 12
Notes to Financial Statements 14

REQUIRED SUPPLEMENTARY INFORMATION

Schedule of Funding Progress for Supplemental Retirement Annuity Plan
and Other Post Employment Insurance Benefits (Unaudited)..... 50

OTHER SUPPLEMENTARY INFORMATION

Supplementary Schedule--2012 Combining Statement of Net Assets..... 51
Supplementary Schedule--2012 Combining Statement of Revenues,
Expenses and Changes in Net Assets 52
Supplementary Schedule--2011 Combining Statement of Net Assets..... 53
Supplementary Schedule--2011 Combining Statement of Revenues,
Expenses and Changes in Net Assets 54

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

Independent Auditors' Report on Internal Control Over Financial
Reporting and on Compliance and Other Matters Based on an Audit of
Financial Statements Performed in Accordance with *Government Auditing Standards* 55

Independent Auditors' Report on Compliance With
Requirements That Could Have a Direct and Material Effect on Each
Major Program and on Internal Control Over Compliance in Accordance
With OMB Circular A-133 and on the Schedule of Expenditures of Federal Awards..... 57
Schedule of Expenditures of Federal Awards..... 60
Notes to Schedule of Expenditures of Federal Awards..... 63
Schedule of Findings and Questioned Costs..... 65
Summary Schedule of Prior Audit Findings..... 67

Independent Auditors' Report

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

We have audited the accompanying statements of net assets of the University of Central Oklahoma (the "University"), a component unit of the State of Oklahoma, as of June 30, 2012 and 2011, and the related statements of revenues, expenses and changes in net assets and cash flows for the years then ended. These financial statements are the responsibility of the University's management. Our responsibility is to express an opinion on these financial statements based on our audits. We did not audit the financial statements of the University of Central Oklahoma Alumni Association (the "Alumni Association") or the KCSC Classical Radio Foundation (the "KCSC Foundation"), discretely presented component units of the University, whose financial statements collectively reflect total assets of 3% and 4% as of June 30, 2012 and 2011, respectively, and total revenues of 3% each year for the years then ended of the aggregate discretely presented component units. We also did not audit the UCO Student Housing Foundation (the "Housing Foundation"), blended component unit of the University, as of and for the years ended June 30, 2012 and 2011. The Housing Foundation's financial statements reflect total assets of 4% each year as of June 30, 2012 and 2011, and total revenues of 1% each year for the years then ended. The financial statements of the Alumni Foundation, KCSC Foundation and the Housing Foundation for the years ended June 30, 2012 and 2011, were audited by other auditors, whose reports thereon have been furnished to us, and in our opinion, insofar as it relates to the amounts included for these entities, are based on the reports of the other auditors.

We conducted our audits in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. The financial statements of the Alumni Association, the Housing Foundation and the KCSC Foundation were audited by other auditors and were not audited in accordance with Government Auditing Standards. The financial statements of the University of Central Oklahoma Foundation, Inc. (the "University Foundation") were not audited in accordance with Government Auditing Standards. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes, assessing the accounting principles used and the significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, based on our audits and the report of the other auditors, the financial statements referred to above present fairly, in all material respects, the respective financial position of the University of Central Oklahoma and its discretely presented component units as of June 30, 2012 and 2011, and the respective changes in financial position and, where applicable, cash flows for the years then ended in conformity with accounting principle generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued our report dated October 31, 2012, on our consideration of the University's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and is important in assessing the results of our audit.

Accounting principles generally accepted in the United States of America require that Management's Discussion and Analysis and the Schedules of Funding Progress for the Supplemental Retirement Annuity Plan and Other Post-Employment Insurance Benefits Plan, as noted 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.

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the University's basic financial statements. The accompanying Supplementary Combining Schedules are presented for purposes of additional analysis and is not a required part of the basic financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the financial statements. The information has been subjected to the auditing procedures applied in the audit of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements or to the financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the information is fairly stated in all material respects in relation to the basic financial statements as a whole.

Cole & Reed P.C.

Oklahoma City, Oklahoma
October 31, 2012

OVERVIEW

The following Management's Discussion and Analysis (MD&A) provides an overview of University of Central Oklahoma's (UCO) financial performance based on currently known facts, decisions and conditions and is designed to assist readers in understanding the accompanying financial statements. These financial statements are prepared in accordance with Government Accounting Standards Board (GASB) principles and focus on UCO as a whole.

The financial statements encompass UCO and the discretely presented component units; however, the MD&A focuses only on UCO's blended unit. Information relating to the component units can be found in their separately issued financial statements. UCO's report includes three basic financial statements: the Statement of Net Assets; the Statement of Revenues, Expenses and Changes in Net Assets; and the Statement of Cash Flows. All dollar amounts in this MD&A are presented in thousands of dollars.

STATEMENT OF NET ASSETS

The Statement of Net Assets presents the financial position of UCO at the end of the fiscal year. From the data presented, readers of the statement are able to determine the assets available to continue the operations of UCO. They also are able to determine how much UCO owes vendors, investors and lending institutions. Finally, the Statement of Net Assets provides a picture of the net assets (assets minus liabilities) and their availability to pay expenses of UCO. The change in net assets is one indicator of whether the overall financial condition has improved or worsened during the year when considered with non-financial facts such as enrollment levels and the condition of the facilities.

The following table shows a condensed statement of net assets at:

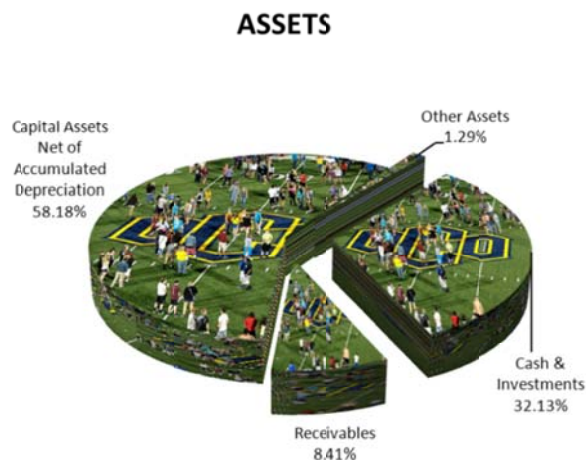
CONDENSED STATEMENT OF NET ASSETS (In Thousands)

| June 30, | 2012 | 2011 | 2010 |
|-----------------------------|-------------------|-------------------|------------------|
| Assets | | | |
| Current Assets | \$ 89,641 | \$ 77,351 | \$ 69,497 |
| Capital Assets | 130,950 | 119,508 | 117,611 |
| Other Assets | 4,552 | 7,033 | 8,016 |
| Total Assets | 225,143 | 203,892 | 195,124 |
| Liabilities | | | |
| Current Liabilities | 21,675 | 20,262 | 18,151 |
| Noncurrent Liabilities | 88,428 | 75,997 | 79,333 |
| Total Liabilities | 110,103 | 96,259 | 97,484 |
| Net Assets: | | | |
| Invested in Capital Assets, | | | |
| Net of Related Debt | 39,548 | 43,288 | 33,145 |
| Restricted | 13,596 | 12,308 | 20,414 |
| Unrestricted | 61,896 | 52,036 | 44,081 |
| Total Net Assets | \$ 115,040 | \$ 107,632 | \$ 97,640 |

Assets are what UCO owns and are measured in current value, except for property and equipment, which are recorded at historical cost less accumulated depreciation. Assets are categorized as either current, to be exhausted during the next twelve months or noncurrent, more than twelve months.

In fiscal year 2012, total assets of the institution increased by \$21.3 million or 10.42% over fiscal year 2011. A review of the Statement of Net Assets will reveal that there are many fluctuating variables, but the increase was primarily due to an increase in capital assets, net of depreciation of \$11.2 million, an increase in cash and cash equivalents of \$7.3 million, and an increase in accounts receivables of \$2.6 million.

In fiscal year 2011, total assets of the institution increased by \$8.8 million or 4.50% over fiscal year 2010. A review of the Statement of Net Assets will reveal that there are many fluctuating variables, but the increase was primarily due to an increase in cash and cash equivalents of \$8.5 million, an increase in capital assets, net of depreciation of \$1.8 million, an increase in accounts receivables of \$.3 million, and a decrease in restricted investments of \$3.5 million.

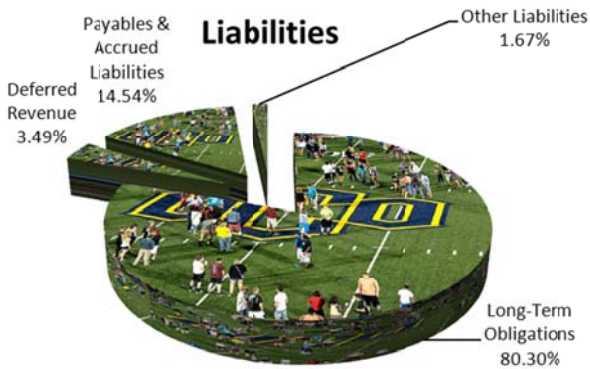


Liabilities are what the University owes to others or what it has collected from others before it has provided the related services. Liabilities are also categorized as either current or noncurrent. Current liabilities are amounts becoming due and payable within the next year.

In fiscal year 2012 total liabilities of the institution for the year increased by \$13.8 million or 14.38% over fiscal year 2011. The most significant changes were an increase in the ODFa master lease program of \$23.1 million, and an increase in accrued liabilities of \$1.5 million. These were offset by decreases in revenue bond obligations of \$9.1 million, and a decrease in payables to state agencies of \$.3 million.

In fiscal year 2011 total liabilities decreased by \$1.2 million or 1.26% over fiscal year 2010. The most significant changes were a decrease long term debt payable of \$3.3 million, which was offset by increases in other current liabilities of \$2.1 million.





Net assets are divided into three categories. Invested in capital assets, net of related debt represents the historical cost of capital assets reduced by the balance of related outstanding debt and accumulated depreciation. Restricted net assets include amounts that have been restricted for use by an external party and are further broken down into nonexpendable and expendable. Restricted expendable net assets include amounts restricted by external parties for such things as debt service, student loans and capital projects. Finally, unrestricted net assets include amounts institutionally designated or committed to support specific academic and research programs, and for working capital requirements.



In the fiscal year 2012, the combination of increase in total assets and increase in total liabilities nets to an increase in total net assets of \$7.4 million or 6.88%.

In fiscal year 2011, the combination of increase in total assets and increase in total liabilities nets to an increase in total net assets of \$9.9 million or 10.23%.

Net Assets



STATEMENT OF REVENUES, EXPENSES AND CHANGES IN NET ASSETS

The Statement of Revenues, Expenses and Changes in Net Assets presents the revenues earned and expenses incurred during the year. Activities are reported as either operating or non-operating. A public university's dependency on state aid (appropriations) and gifts will result in operating deficits (losses). The *Governmental Accounting Standards Board (GASB)* requires state appropriations and gifts to be classified as nonoperating revenues.

The purpose of the statement is to present the revenues received by UCO, both operating and nonoperating, and the expenses paid by the institution, operating and nonoperating, and any other revenues, expenses, gains and losses received or spent. Operating revenues are generally received for providing goods and services to the various customers of UCO. Operating expenses are those expenses paid to acquire or produce the goods and services provided in return for the operating revenues, and to carry out the mission of UCO. Nonoperating revenues are revenues received for which goods and services are not provided. State capital appropriations are considered neither operating nor nonoperating revenues and are reported under "Other Revenues, Expenses, Gains and Losses".

The following summarizes UCO's revenues, expenses and changes in net assets, for the year ended June 30:

CONDENSED STATEMENT OF REVENUES, EXPENSES, AND CHANGES IN NET ASSETS (In Thousands)

| June 30, | 2012 | 2011 | 2010 |
|-----------------------------------------------------------------------|------------|------------|-----------|
| <i>Operating Revenues (1)</i> | \$ 95,912 | \$ 84,472 | \$ 78,768 |
| <i>Operating Expenses (1)</i> | 178,797 | 169,309 | 157,567 |
| <i>Operating Loss</i> | (82,885) | (84,837) | (78,799) |
| <i>Non Operating Revenues (Expenses)</i> | 87,114 | 91,250 | 85,254 |
| <i>Income (Loss) Before Other Revenues, Expenses, Gains or Losses</i> | 4,229 | 6,413 | 6,455 |
| <i>Other Revenue, Expenses, Gains, or Losses</i> | 3,178 | 3,580 | 4,043 |
| <i>Increase in Net Assets</i> | 7,407 | 9,993 | 10,498 |
| <i>Net Assets - End of Year</i> | \$ 115,040 | \$ 107,633 | \$ 97,640 |

(1) To provide comparative information the 2011 and 2010 fiscal year operating revenues and operating expenses were reduced \$1,495 and \$248 respectively. The impact of these revisions for net assets is \$0.



Operating Revenues

GASB Statement No. 35 categorizes revenues as either operating or nonoperating. Operating revenues generally result from exchange transactions where each of the parties to the transaction either give up or receive something of equal or similar value.

Operating revenues of \$95.9 million in 2012 increased \$11.4 million or 13.54% when compared to the 2011 prior year. The increases came primarily from increases in Tuition and Fees \$10.3 million, and Auxiliary Enterprises \$2.7 million. There were also decreases in State and Local Grants and Contracts \$1.3 million and Federal Grants and Contracts and Federal Appropriations \$.6million.

Operating revenues of \$84.4 million in 2011 increased \$5.7 million or 7.2% when compared to the 2010 prior year. The increases came primarily from increases in Tuition and Fees \$5.5 million, and Auxiliary Enterprises \$1.1 million. There were also decreases in and Sales and Services of Educational Departments \$.9 million.

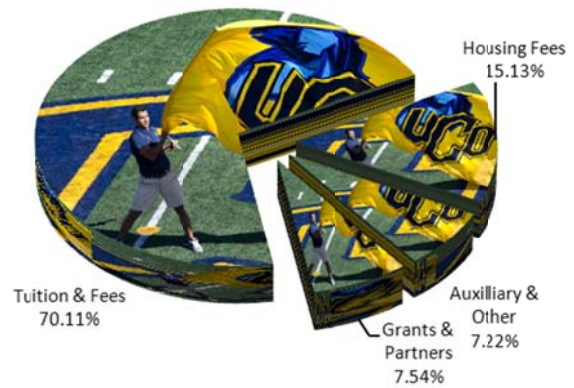
The following table summarizes the operating revenues of the University of Central Oklahoma for the last three years:

| <i>Operating Revenues (In Thousands)</i> | | | |
|--------------------------------------------------------------------------------|-------------------------|-------------------------|-------------------------|
| <i>June 30,</i> | <i>2012</i> | <i>2011</i> | <i>2010</i> |
| <i>Tuition & Fees, Net of scholarships, discounts, and allowances. (1)</i> | <i>\$ 67,246</i> | <i>\$ 56,547</i> | <i>\$ 51,350</i> |
| <i>Grants and Contracts</i> | <i>7,228</i> | <i>9,228</i> | <i>9,056</i> |
| <i>Sales & Services of auxiliary services</i> | <i>17,666</i> | <i>15,183</i> | <i>13,679</i> |
| <i>Other Operating Revenues</i> | <i>3,772</i> | <i>3,514</i> | <i>4,435</i> |
| <i>Total Operating Revenues</i> | <i>\$ 95,912</i> | <i>\$ 84,472</i> | <i>\$ 78,520</i> |

(1) To provide comparative information the 2011 and 2010 fiscal year Tuition & Fees net were reduced \$1,495 and \$248 respectively.



Operating Revenue Fiscal Year 2012



Operating Expenses

Expenses are categorized as operating or nonoperating. The majority of the University's expenses are operating expenses as defined by GASB Statement No. 35. GASB gives financial reporting entities the choice of reporting operating expenses in the functional or natural classifications. The University has chosen to report the expenses in their functional classification on the statement of revenues, expenses, and changes in net assets.

Operating expenses of \$178.8 million in 2012 increased \$9.4 million or 5.60% when compared to the 2011 prior year. The increases came primarily from increases in Compensation and Employee Benefits \$3.4 million, Supplies and Materials \$4.7 million, Other Operating Expenses \$1.9 million, Depreciation Expenses \$.8 million and Utilities \$.6 million. There were also decreases in Scholarships and Fellowships \$2.4 million.

Operating expenses of \$169.3 million in 2011 increased \$12.0 million or 7.62% when compared to the 2010 prior year. The largest component of these increases is Scholarships and Fellowships \$5.4 million. This is followed by Compensation and Employee Benefits \$4.6 million, Other Operating Expenses \$.9 million, Depreciation Expenses \$.6 million, and contractual services \$.5 million.

The following table summarizes the operating expenses of the University of Central Oklahoma for the last three years:

| <i>Operating Expenses (In Thousands)</i> | | | |
|---------------------------------------------|--------------------------|--------------------------|--------------------------|
| <i>June 30,</i> | <i>2012</i> | <i>2011</i> | <i>2010</i> |
| <i>Compensation & employee benefits</i> | <i>\$ 106,354</i> | <i>\$ 102,948</i> | <i>\$ 98,348</i> |
| <i>Contractual services</i> | <i>4,867</i> | <i>4,462</i> | <i>3,883</i> |
| <i>Supplies & materials</i> | <i>21,322</i> | <i>16,549</i> | <i>16,426</i> |
| <i>Depreciation</i> | <i>8,077</i> | <i>7,260</i> | <i>6,617</i> |
| <i>Utilities</i> | <i>3,046</i> | <i>2,404</i> | <i>2,684</i> |
| <i>Scholarships & fellowships</i> | <i>18,007</i> | <i>20,495</i> | <i>15,087</i> |
| <i>Other operating expenses (1)</i> | <i>17,125</i> | <i>15,192</i> | <i>14,274</i> |
| <i>Total Operating Expenses</i> | <i>\$ 178,798</i> | <i>\$ 169,310</i> | <i>\$ 157,319</i> |

(1) To provide comparative information the 2011 and 2010 fiscal year other operating expenses were reduced \$1,495 and \$248 respectively.





Nonoperating Revenues and Expenses

Certain revenue sources that UCO relies on to maintain more affordable tuition rates and provide funding for operations, including State Appropriations, which are defined under GASB as nonoperating revenue. Nonoperating expenses include costs related to capital assets. The following summarizes the nonoperating revenues and expenses for the fiscal years ended:

Nonoperating revenues (expenses) of \$87.1 million in 2012 decreased \$4.1 million or -4.53% when compared to 2011 the prior year.

Nonoperating revenues (expenses) of \$91.2 million in 2011 increased \$6 million or 7.03% when compared to the 2010 prior year.

The following table summarizes the nonoperating revenues and expenses for the University of Central Oklahoma for the last three years:

| <i>June 30,</i> | <i>2012</i> | <i>2011</i> | <i>2010</i> |
|-------------------------------------------------|-------------------------|-------------------------|-------------------------|
| <i>State appropriations</i> | <i>\$ 62,368</i> | <i>\$ 65,457</i> | <i>\$ 65,196</i> |
| <i>Federal student aid</i> | <i>22,793</i> | <i>24,267</i> | <i>18,895</i> |
| <i>OTRS On-behalf contributions</i> | <i>5,095</i> | <i>4,587</i> | <i>3,905</i> |
| <i>Gifts</i> | <i>212</i> | <i>-</i> | <i>-</i> |
| <i>Investment income</i> | <i>475</i> | <i>508</i> | <i>828</i> |
| <i>Interest expense</i> | <i>(3,829)</i> | <i>(3,568)</i> | <i>(3,570)</i> |
| <i>Net Operating Revenues (Expenses)</i> | <i>\$ 87,114</i> | <i>\$ 91,251</i> | <i>\$ 85,254</i> |

STATEMENT OF CASH FLOWS

The Statement of Cash Flows provides additional information about UCO's financial results by reporting the major sources and uses of cash. This statement will assist in evaluating UCO's ability to generate net cash flows, its ability to meet its obligations as they come due, and its need for external financing. The statement is divided into five parts. The first part deals with operating cash flows and shows the net cash used by the operating activities of UCO. The second section reflects cash flows from noncapital financing activities. This section reflects the cash received and spent for nonoperating, noninvesting, and noncapital financing purposes. The third section deals with cash flows from capital and related financing activities. This section deals with the cash used for the acquisition and construction of capital and related assets. The fourth section reflects the cash flows from investing activities and shows the purchases, proceeds, and interest received from investing activities. The fifth section reconciles the net cash used to the operating income or loss reflected on the Statement of Revenues, Expenses and Changes in Net Assets.

The following summarizes the University of Central Oklahoma's cash flow for the years ending:

| <i>June 30,</i> | <i>2012</i> | <i>2011</i> | <i>2010</i> |
|-------------------------------------------------|-------------------------|-------------------------|-------------------------|
| <i>Cash provided (used) by:</i> | | | |
| <i>Operating activities</i> | <i>\$ (71,373)</i> | <i>\$ (71,115)</i> | <i>\$ (69,646)</i> |
| <i>Noncapital financing activities</i> | <i>85,160</i> | <i>89,724</i> | <i>84,090</i> |
| <i>Investing activities</i> | <i>1,665</i> | <i>3,958</i> | <i>9,519</i> |
| <i>Capital and related financing activities</i> | <i>(6,887)</i> | <i>(12,521)</i> | <i>(17,241)</i> |
| <i>Net Change in Cash</i> | <i>8,565</i> | <i>10,046</i> | <i>6,722</i> |
| <i>Cash, beginning of year</i> | <i>59,232</i> | <i>49,186</i> | <i>42,464</i> |
| <i>Cash, ending of year</i> | <i>\$ 67,797</i> | <i>\$ 59,232</i> | <i>\$ 49,186</i> |



CAPITAL ASSETS AND DEBT ADMINISTRATION
Capital Assets

As of June 30, 2012, the University of Central Oklahoma has \$130.9 million in capital assets, net of accumulated depreciation compared to the prior years of 2011 with a net value of \$119.5 million, and 2010's net value of \$117.6 million. In 2012, UCO purchased the off balance sheet housing unit, Commons, for \$10.8 million and the Oklahoma Hardware building for \$6.6 million. These and the completion of the Center for Transformative Learning building and asset transfer from Work in Progress in the amount of \$10.5 million represents the majority of the increase in building assets. The following table summarizes UCO's capital assets, net of accumulated depreciation:

| <i>(In Thousands)</i> | <i>2012</i> | <i>2011</i> | <i>2010</i> |
|-----------------------------------------|--------------------------|--------------------------|--------------------------|
| <i>Land</i> | <i>\$ 3,044</i> | <i>\$ 2,377</i> | <i>\$ 2,211</i> |
| <i>Capitalized Collections</i> | <i>4,726</i> | <i>4,544</i> | <i>4,544</i> |
| <i>Buildings</i> | <i>167,165</i> | <i>140,103</i> | <i>124,425</i> |
| <i>Infrastructure and Improvements</i> | <i>10,824</i> | <i>10,479</i> | <i>10,205</i> |
| <i>Equipment and Furniture</i> | <i>32,800</i> | <i>32,774</i> | <i>32,284</i> |
| <i>Library Resources</i> | <i>17,787</i> | <i>17,787</i> | <i>17,787</i> |
| <i>Construction in Progress</i> | <i>5,406</i> | <i>15,230</i> | <i>23,970</i> |
| <i>Total Capital Assets</i> | <i>241,752</i> | <i>223,294</i> | <i>215,426</i> |
| <i>Accumulated Depreciation</i> | <i>(110,802)</i> | <i>(103,786)</i> | <i>(97,815)</i> |
| <i>Total Capital Assets, Net</i> | <i>\$ 130,950</i> | <i>\$ 119,508</i> | <i>\$ 117,611</i> |



Debt Administration

As of June 30, 2012, the University of Central Oklahoma had \$89.6 million of debt compared to \$76.2 million in 2011 and \$79.5 million in 2010 in outstanding bonds, capital leases, and notes payable. This represents an increase of \$13.4 million in 2012, a decrease of \$3.3 million in 2011. In 2012 the Commons housing unit and the Oklahoma Hardware building were acquired representing the majority of the increase in capital leases. The following summarizes the outstanding long-term debt as of:

| <i>(In Thousands)</i> | <i>Long Term Debt</i> | | |
|------------------------------------|-------------------------|-------------------------|-------------------------|
| | <i>2012</i> | <i>2011</i> | <i>2010</i> |
| <i>Revenue Bonds</i> | <i>\$ 36,260</i> | <i>\$ 45,600</i> | <i>\$ 47,635</i> |
| <i>Capital Leases</i> | <i>47,702</i> | <i>24,536</i> | <i>25,377</i> |
| <i>Notes Payable</i> | <i>5,645</i> | <i>6,070</i> | <i>6,475</i> |
| <i>Total Long Term Debt</i> | <i>\$ 89,607</i> | <i>\$ 76,206</i> | <i>\$ 79,487</i> |



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ECONOMIC OUTLOOK

State revenues as a percentage of UCO's FY12 Education & General Budget dropped to 39.9% from the FY11 level of 44.8%, primarily as a result of the cessation of Federal ARRA pass-through funds. State revenues now comprise only 30% of UCO's Total Operating Budget. For FY13 and the immediate future it appears that State tax collections have improved dramatically (up 5.4% for the 12 month period 10/11 - 10/12) and further budget reductions appear to be unlikely. Given the large cuts to other State services during the economic recession, higher education officials in Oklahoma do not expect greatly improved streams of revenue in the near future, as other critical State services must be stabilized.

Student revenues continue to improve year over year through a combination of increased tuition rates, increase in credit hour production, academic fee assessments, and changing demographic of enrolling students. While some colleges and universities in Oklahoma have seen a drop in enrollment with the improved economy, UCO has continued to hold our numbers, even continuing some upward growth. More importantly, the mix of student enrollment has been trending toward more non-resident students (up 27% over five years) who provide our highest contribution margin.



UCO continues to improve external fund development as a resource. The UCO Foundation has raised \$32.5 million towards a \$40 million goal in our current campaign, the largest in UCO history. Recent negotiations with vending contractors and banking relationships will provide nearly \$800,000 in new revenues to the University annually. The university continues to establish a reputation for quality, being named a Top 10 College to Work For (Universities larger than 10,000 students) by the Chronicle for Higher Education.

Fourteen year President, Roger Webb, retired during FY12 and was replaced by another highly regarded President, Don Betz. President Betz is UCO's former Provost, who subsequently served as President of the University of Wisconsin-River Falls and President of Northeastern State University in Oklahoma. With this change in leadership, new strategic planning has begun that places a significant emphasis on resource development.

STATEMENTS OF NET ASSETS

UNIVERSITY OF CENTRAL OKLAHOMA

| | University | | Aggregate Discretely Presented Component Units | |
|-----------------------------------------------------|-----------------------|-----------------------|---------------------------------------------------|----------------------|
| | June 30, | | June 30, | |
| | 2012 | 2011 | 2012 | 2011 |
| ASSETS | | | | |
| CURRENT ASSETS | | | | |
| Cash and cash equivalents | \$ 56,665,768 | \$ 49,303,440 | \$ 664,784 | \$ 568,216 |
| Restricted cash and cash equivalents | 11,132,094 | 9,929,161 | - | - |
| Restricted Investments | 3,435,962 | 2,954,743 | 635,000 | 652,000 |
| Investments held by others | 591,696 | - | 179,266 | 179,273 |
| Accounts receivable, net | 17,132,701 | 14,563,704 | - | - |
| Interest receivable | 40,279 | 36,302 | 41,967 | 46,289 |
| Prepaid expenses | 6,099 | 6,099 | 5,530 | 4,089 |
| Inventories | 431,747 | 352,711 | - | - |
| Contributions receivable | - | - | 4,127,362 | 2,769,552 |
| Current portion of student loans receivable, net | 205,000 | 205,000 | - | - |
| TOTAL CURRENT ASSETS | 89,641,346 | 77,351,160 | \$ 5,653,909 | \$ 4,219,419 |
| NONCURRENT ASSETS | | | | |
| Restricted investments | 494,317 | 2,755,791 | \$ 23,529,641 | \$ 21,495,548 |
| Investments held by others | - | - | 264,713 | 273,233 |
| Student loans receivable, net | 1,542,424 | 1,691,049 | 11,840 | - |
| Other assets | 464,591 | 537,378 | - | 17,578 |
| Prepaid pension asset | 2,050,637 | 2,048,306 | - | - |
| Capitalized collections | 4,725,870 | 4,544,290 | - | - |
| Capital assets, net | 126,223,912 | 114,963,756 | 1,320,292 | 1,596,111 |
| TOTAL NONCURRENT ASSETS | 135,501,751 | 126,540,570 | 25,126,486 | 23,382,470 |
| TOTAL ASSETS | \$ 225,143,097 | \$ 203,891,730 | \$ 30,780,395 | \$ 27,601,889 |

STATEMENTS OF NET ASSETS--Continued

UNIVERSITY OF CENTRAL OKLAHOMA

| | University | | Aggregate Discretely Presented Component Units | |
|-----------------------------------------------------------|-----------------------|-----------------------|---------------------------------------------------|----------------------|
| | June 30, | | June 30, | |
| | 2012 | 2011 | 2012 | 2011 |
| LIABILITIES | | | | |
| CURRENT LIABILITIES | | | | |
| Accounts payable | \$ 5,581,550 | \$ 4,933,122 | \$ 91,121 | \$ 59,433 |
| Accrued payroll and benefits | 4,934,425 | 5,289,847 | - | - |
| Accrued interest payable | 178,796 | 361,826 | - | - |
| Deferred revenue | 3,840,047 | 3,519,388 | - | - |
| Deposits held in custody for others | 1,837,481 | 1,514,066 | 179,236 | 179,243 |
| Current portion of noncurrent liabilities | 5,302,714 | 4,643,766 | - | 39,167 |
| TOTAL CURRENT LIABILITIES | 21,675,013 | 20,262,015 | 270,357 | 277,843 |
| NONCURRENT LIABILITIES, net of current portion | | | | |
| Accrued compensated absences | 1,328,101 | 1,100,015 | \$ - | \$ - |
| Federal loan program contributions refundable | 1,467,975 | 1,808,759 | - | - |
| Bonds payable | 34,335,000 | 43,485,000 | - | - |
| Notes payable | 5,200,000 | 5,645,000 | 776,219 | 809,360 |
| ODFA master lease obligation | 29,349,071 | 6,184,230 | - | - |
| Lease obligation payable to state agency | 16,748,213 | 17,774,042 | - | - |
| TOTAL NONCURRENT LIABILITIES | 88,428,360 | 75,997,046 | 776,219 | 809,360 |
| TOTAL LIABILITIES | \$ 110,103,373 | \$ 96,259,061 | \$ 1,046,576 | \$ 1,087,203 |
| NET ASSETS | | | | |
| Invested in capital assets, net of related debt | \$ 39,547,724 | \$ 43,288,247 | \$ - | \$ - |
| Restricted for: | | | | |
| Nonexpendable | 677,958 | 672,351 | 16,753,107 | 14,587,263 |
| Expendable: | | | 8,212,815 | 7,501,920 |
| Scholarships, research, instruction and other | 2,400,029 | 3,363,420 | - | - |
| Loans | 646,864 | 358,441 | - | - |
| Capital projects | 5,836,647 | 5,012,217 | - | - |
| Debt service | 4,034,338 | 2,901,970 | - | - |
| Unrestricted | 61,896,164 | 52,036,023 | 4,767,897 | 4,425,503 |
| TOTAL NET ASSETS | \$ 115,039,724 | \$ 107,632,669 | \$ 29,733,819 | \$ 26,514,686 |

See notes to financial statements

STATEMENTS OF REVENUES, EXPENSES AND CHANGES IN NET ASSETS

UNIVERSITY OF CENTRAL OKLAHOMA

| | University | | Aggregate Discretely Presented Component Units | |
|-------------------------------------------------------------------------------------------------------------------------------------------------------------------|-----------------------------|--------------------|---------------------------------------------------|------------------|
| | Year Ended June 30, 2012 | 2011 | Year Ended June 30, 2012 | 2011 |
| OPERATING REVENUES | | | | |
| Student tuition and fees (included in fees are \$3,868,973 and \$4,253,785 for 2012 and 2011, respectively, of revenues dedicated for bond repayments) | \$ 89,098,184 | \$ 77,840,742 | \$ - | \$ - |
| Less scholarship, discounts and allowances | (21,852,229) | (20,985,300) | - | - |
| Net student revenues | 67,245,955 | 56,855,442 | - | - |
| Federal grants and contracts | 2,811,190 | 3,414,919 | - | - |
| State and local grants and contracts | 4,416,610 | 5,813,536 | 10,000 | - |
| Bookstore operations | 1,202,191 | 1,321,731 | - | - |
| Housing and food service revenues (\$1,543,833 and \$1,535,502 for 2012 and 2011, respectively, pledged as security on 2001 UCO Student Housing Foundation Bonds) | 14,514,535 | 11,799,155 | - | - |
| Parking and University Center revenues (total revenues are dedicated as security for bond repayments) | 1,931,030 | 1,724,655 | - | - |
| Interest earned on loans to students | 18,724 | 29,320 | - | - |
| Other operating revenues | 3,771,929 | 3,513,475 | - | - |
| TOTAL OPERATING REVENUES | 95,912,164 | 84,472,233 | 10,000 | - |
| OPERATING EXPENSES | | | | |
| Compensation and employee benefits | 106,353,853 | 102,947,653 | - | - |
| Contractual services | 4,866,730 | 4,461,673 | 91,888 | 154,846 |
| Supplies and materials | 21,321,634 | 16,548,817 | 122,944 | 91,875 |
| Depreciation | 8,077,079 | 7,259,890 | 47,456 | 48,659 |
| Utilities | 3,046,262 | 2,404,220 | - | - |
| Scholarships and fellowships | 18,006,879 | 20,495,364 | - | - |
| Other operating expenses | 17,125,197 | 15,192,326 | 1,838,781 | 2,277,799 |
| TOTAL OPERATING EXPENSES | 178,797,634 | 169,309,943 | 2,101,069 | 2,573,179 |
| Operating income (loss) | (82,885,470) | (84,837,710) | (2,091,069) | (2,573,179) |

STATEMENTS OF REVENUES, EXPENSES AND CHANGES IN NET ASSETS--Continued

UNIVERSITY OF CENTRAL OKLAHOMA

| | University | | Aggregate Discretely Presented Component Units | |
|-------------------------------------------------------------|-----------------------|-----------------------|---------------------------------------------------|----------------------|
| | Year Ended June 30, | | Year Ended June 30, | |
| | 2012 | 2011 | 2012 | 2011 |
| NONOPERATING REVENUES (EXPENSES) | | | | |
| State appropriations | 62,367,755 | 61,731,197 | - | - |
| State appropriations - ARRA funds | - | 3,725,998 | - | - |
| Federal funded student aid | 22,792,395 | 24,266,923 | - | - |
| OTRS on-behalf contributions | 5,095,449 | 4,587,040 | - | - |
| Gifts | 212,180 | - | 4,960,629 | 7,255,483 |
| Net/investment income | 475,267 | 508,552 | 366,230 | 2,287,017 |
| Interest expense | (3,828,875) | (3,568,437) | (16,657) | (36,427) |
| NET NONOPERATING REVENUES (EXPENSES) | <u>87,114,171</u> | <u>91,251,273</u> | <u>5,310,202</u> | <u>9,506,073</u> |
| Income before other revenues, expenses, gains and losses | 4,228,701 | 6,413,563 | 3,219,133 | 6,932,894 |
| State appropriations restricted for capital purposes | 1,262,827 | 1,717,762 | - | - |
| OCIA on-behalf state appropriations | <u>1,915,527</u> | <u>1,862,236</u> | - | - |
| CHANGE IN NET ASSETS | 7,407,055 | 9,993,561 | 3,219,133 | 6,932,894 |
| NET ASSETS, BEGINNING OF YEAR | <u>107,632,669</u> | <u>97,639,108</u> | <u>26,514,686</u> | <u>19,581,792</u> |
| NET ASSETS, END OF YEAR | <u>\$ 115,039,724</u> | <u>\$ 107,632,669</u> | <u>\$ 29,733,819</u> | <u>\$ 26,514,686</u> |

See notes to financial statements.

STATEMENTS OF CASH FLOWS

UNIVERSITY OF CENTRAL OKLAHOMA

| | Year Ended June 30, | |
|-----------------------------------------------------------------|----------------------|----------------------|
| | <u>2012</u> | <u>2011</u> |
| CASH FLOWS FROM OPERATING ACTIVITIES | | |
| Tuition and fees | \$ 63,683,693 | \$ 56,467,574 |
| Grants and contracts | 7,358,351 | 9,461,970 |
| Auxiliary enterprises and other receipts | 22,262,276 | 20,228,860 |
| Interest collected on loans to students | 18,724 | 29,320 |
| Payments to employees for salaries and benefits | (101,586,395) | (98,165,102) |
| Payments to suppliers and others | (63,256,652) | (59,343,059) |
| Loans issued to students | (107,003) | (38,000) |
| Collections of loans issued to students | <u>255,628</u> | <u>243,459</u> |
| NET CASH USED IN OPERATING ACTIVITIES | (71,371,378) | (71,114,978) |
| CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES | | |
| State and federal aid | 85,160,150 | 89,724,118 |
| Direct loan receipts | (65,432,524) | (60,499,389) |
| Direct loan disbursements | <u>65,432,524</u> | <u>60,499,389</u> |
| NET CASH PROVIDED BY NONCAPITAL FINANCING ACTIVITIES | 85,160,150 | 89,724,118 |
| CASH FLOWS FROM INVESTING ACTIVITIES | | |
| Proceeds from sales of investments | 2,277,737 | 5,117,469 |
| Purchases of investments | (1,086,593) | (1,671,639) |
| Interest income received | <u>473,036</u> | <u>512,230</u> |
| NET CASH PROVIDED BY INVESTING ACTIVITIES | 1,664,180 | 3,958,060 |
| CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES | | |
| Cash paid for capital assets | (19,438,204) | (9,239,594) |
| Capital appropriations received | 1,262,827 | 1,717,762 |
| Proceeds of capital debt and leases | 25,097,000 | 785,000 |
| Payments on capital debt and leases | (10,669,888) | (3,141,621) |
| Interest paid on capital debt and leases | <u>(3,139,426)</u> | <u>(2,642,261)</u> |
| NET CASH USED IN CAPITAL AND RELATED FINANCING ACTIVITIES | <u>(6,887,691)</u> | <u>(12,520,714)</u> |
| NET INCREASE IN CASH AND CASH EQUIVALENTS | 8,565,261 | 10,046,486 |
| CASH AND CASH EQUIVALENTS, BEGINNING OF YEAR | <u>59,232,601</u> | <u>49,186,115</u> |
| CASH AND CASH EQUIVALENTS, END OF YEAR | <u>\$ 67,797,862</u> | <u>\$ 59,232,601</u> |

STATEMENTS OF CASH FLOWS--Continued

UNIVERSITY OF CENTRAL OKLAHOMA

| | Year Ended June 30, | |
|-----------------------------------------------------------------------------------------|------------------------|------------------------|
| | 2012 | 2011 |
| RECONCILIATION OF OPERATING LOSS TO NET CASH USED IN OPERATING ACTIVITIES | | |
| Operating Loss | \$ (82,885,470) | \$ (84,837,710) |
| Adjustments to reconcile operating loss to net cash used in operating activities: | | |
| Depreciation expense | 8,077,079 | 7,259,890 |
| Loss on disposal of fixed assets | 200,022 | 82,844 |
| Amortization | 17,218 | 29,394 |
| On-behalf contributions to teachers' retirement system | 5,095,449 | 4,587,040 |
| Changes in assets and liabilities | | |
| Accounts receivable | (2,568,994) | (727,721) |
| Prepaid pension asset | (2,331) | 97,120 |
| Inventories | (79,036) | (319,871) |
| Student loans receivable | 148,625 | 205,459 |
| Accounts payable | 648,428 | 442,264 |
| Accrued payroll and benefits | (355,421) | 278,421 |
| Student and other deposits | 323,415 | 1,019,102 |
| Deferred revenues | 320,659 | 536,356 |
| Federal loan program contributions refundable | (340,783) | 412,465 |
| Accrued compensated absences | 29,762 | (180,031) |
| NET CASH USED IN OPERATING ACTIVITIES | <u>\$ (71,371,378)</u> | <u>\$ (71,114,978)</u> |
| NONCASH INVESTING, NONCAPITAL FINANCING AND CAPITAL AND RELATED FINANCING ACTIVITIES | | |
| Interest on capital debt paid by State Agency on behalf of the University | \$ 889,698 | \$ 934,707 |
| Principal on capital debt paid by State Agency on behalf of the University | 1,025,829 | 927,529 |
| RECONCILIATION OF CASH AND CASH EQUIVALENTS TO THE STATEMENTS OF NET ASSETS | | |
| Current assets | | |
| Cash and cash equivalents | \$ 56,665,768 | \$ 49,303,440 |
| Restricted cash and cash equivalents | 11,132,094 | 9,929,161 |
| TOTAL CASH AND CASH EQUIVALENTS | <u>\$ 67,797,862</u> | <u>\$ 59,232,601</u> |

See notes to financial statements.

NOTES TO FINANCIAL STATEMENTS

UNIVERSITY OF CENTRAL OKLAHOMA

June 30, 2012

NOTE A--SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Reporting Entity: University of Central Oklahoma (the University) is a metropolitan university operating under the jurisdiction of the Regional University System of Oklahoma and the Oklahoma State Regents for Higher Education. The University is a component unit of the State of Oklahoma (the "State") and is included in the general purpose financial statements of the State as part of the higher education component unit.

Blended Component Unit: Based on Governmental Accounting Standards Board (GASB) Statement No. 14, *The Financial Reporting Entity*, and Governmental Accounting Standards Board (GASB) No. 39, *Determining Whether Certain Organizations Are Component Units--an amendment of GASB statement No. 14*, for determining component units, UCO Student Housing Foundation (the "Housing Foundation") is included within the University reporting entity as a blended component unit.

The Housing Foundation is responsible for administration and operation of the University Suites, a student housing facility constructed with bond revenues issued through the Edmond Economic Development Authority. The Housing Foundation is governed by a Board of Directors comprised primarily of management of the University. In addition, University employees and facilities are used for virtually all activities of the Housing Foundation. Separate financial statements of the Housing Foundation have been prepared and can be obtained by contacting the University's Assistant Vice President for Administration.

Discretely Presented Component Units: Based on the criteria for determining component units from GASB Statement No. 39, certain University direct support organizations are included within the University's reporting entity as discretely presented component units. The nature and significance of the relationship between the University and the component units are such that exclusion would cause the University's financial statements to be misleading or incomplete. These are separate, not-for-profit corporations organized and operated exclusively to assist the University to achieve excellence by providing supplemental support and resources. An annual audit of each organization's financial statements is conducted by independent certified public accountants. Separate financial statements of the University's component units can be obtained by contacting the University's Assistant Vice President for Administration.

NOTES TO FINANCIAL STATEMENTS--Continued

UNIVERSITY OF CENTRAL OKLAHOMA

June 30, 2012

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

Discretely Presented Component Units--Continued:

The discretely presented component units included in the University's financial reporting entity are:

University of Central Oklahoma Foundation, Inc. (the "University Foundation") is a separate legal entity with its own Board of Trustees. The Foundation provides support for the University by way of scholarships and other direct resources. The University contracts with the Foundation to provide limited services and office space in exchange for the support the University receives from the Foundation. A portion of the scholarships awarded by the Foundation is remitted to the University after the University pays the award recipient.

University of Central Oklahoma Alumni Association (the "Association") establishes and maintains a close relationship and cooperation between the alumni of the University and their alma mater. The University supports the Association by providing personnel, office space, furniture and equipment at no charge to the Association.

KCSC Classical Radio Foundation ("KCSC Foundation") is a 501(c) (3) organization created to support the University's KCSC Radio Station. Its purpose is to support and promote classical music radio in Oklahoma.

The University's component units are nonprofit organizations that report under Financial Accounting Standards Board (FASB) standards. As such, certain revenue recognition criteria and presentation features are different from GASB revenue recognition criteria and presentation features. No modifications have been made to the component units' financial information in the University's financial reporting entity for these differences.

Although the University is the exclusive beneficiary of the component units, the component units are independent of the University in all respects. The component units are not subsidiaries or affiliates of the University and are not directly or indirectly controlled by the University. Moreover, the assets of the component units are the exclusive property of the component units and do not belong to the University. The University is not accountable for, and does not have ownership of, any of the financial and capital resources of the component units. The University does not have the power or authority to mortgage, pledge, or encumber the assets of the component units. The Board of Directors / Trustees of the component units are entitled to make all decisions regarding the business and affairs of the component units, including, without limitation, distributions made to the University. Third parties dealing with the University should not rely upon the financial statements of the component units for any purpose without consideration of all of the foregoing conditions and limitations.

NOTES TO FINANCIAL STATEMENTS--Continued

UNIVERSITY OF CENTRAL OKLAHOMA

June 30, 2012

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

Financial Statement Presentation: The University'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 University is required to present a statement of net assets classified between current and noncurrent assets and liabilities, a statement of revenues, expenses and changes in net assets, with separate presentation for operating and non-operating revenues and expenses, and a statement of cash flows using the direct method.

Basis of Accounting: For financial reporting purposes, the University is considered a special-purpose government engaged only in business-type activities. Accordingly, the University's financial statements have been presented using the economic resources measurement focus and the accrual basis of accounting. Under the accrual basis, revenues are recognized when earned, and expenses are recorded when an obligation has been incurred. All significant intra-agency transactions have been eliminated. The University has the option to apply all Financial Accounting Standards Board (FASB) pronouncements issued after November 30, 1989, unless FASB conflicts with GASB. The University has elected to not apply FASB pronouncements issued after the applicable date.

Cash Equivalents: For purposes of the statements of cash flows, the University considers all highly liquid investments with an original maturity of three months or less to be cash equivalents. Funds invested through the State Treasurer's Cash Management Program are considered cash equivalents. The University Foundation excludes cash and cash equivalent funds held in the Foundation's investment portfolio as cash equivalents.

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

The University Foundation investments consist of cash and cash equivalents, governmental securities, corporate bonds, mutual funds, common and preferred stocks, and pooled funds. Investments are carried at fair value and realized gains and losses on sales of investments are computed on the first-in, first-out basis.

NOTES TO FINANCIAL STATEMENTS--Continued

UNIVERSITY OF CENTRAL OKLAHOMA

June 30, 2012

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

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

Inventories: Inventories are carried at the lower of cost or market on the first-in, first-out ("FIFO") basis.

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

Capital Assets: Capital assets are recorded at cost at the date of acquisition, or fair market value at the date of donation in the case of gifts, net of accumulated depreciation. For equipment, the University's capitalization policy includes all items with a unit cost of \$2,500 or more, and an estimated useful life of greater than one year. Renovations to buildings, infrastructure, and land improvements that significantly increase the value or extend the useful life of the structure are capitalized. Routine repairs and maintenance are charged to operating expense in the year in which the expense was incurred. Depreciation is computed using the straight-line method over the estimated useful lives of the assets, generally 20 to 40 years for buildings, 5 to 30 years for infrastructure, land improvements, and building renovations, and 5 to 10 years for library materials and equipment. Impairments are recorded to reduce the carrying value of the assets to their net realizable value determined by management based on facts and circumstances at the time of the determination. No property and equipment impairments were recorded in 2012 or 2011.

Capitalized Collections: Collections are capitalized at estimated fair values at the date of contribution. The University's capitalized collections consist primarily of works of art. These collections were valued for reporting purposes at \$4,725,870 and \$4,544,290 at June 30, 2012 and 2011, respectively. Contributions in the value of \$181,580 and \$0 were received during the years ended June 30, 2012 and 2011, respectively. The University Foundation does not include either the cost or the value of its collections in the statements net assets, nor does it recognize gifts of collection items as revenues in the statements of revenues, expenses and changes in net assets.

NOTES TO FINANCIAL STATEMENTS--Continued

UNIVERSITY OF CENTRAL OKLAHOMA

June 30, 2012

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

Deferred Revenue: Deferred revenues include amounts received for tuition and fees and certain auxiliary activities prior to the end of the fiscal year but related to the subsequent accounting period.

Compensated Absences: Employees' vacation pay and compensatory time 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 statements of net assets, and as a component of compensation and benefit expense in the statement of revenues, expenses and changes in net assets.

Noncurrent Liabilities: Noncurrent liabilities include (1) principal amounts of revenue bonds payable, notes payable, and capital lease obligations with contractual maturities greater than one year, and (2) estimated amounts for accrued compensated absences and other liabilities that will not be paid within the next fiscal year.

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

Invested in capital assets, net of related debt: This represents the University's total investment in capital assets, net of outstanding debt obligations related to those capital assets. To the extent debt has been incurred but not yet expended for capital assets, such amounts are not included as a component of invested in capital assets, net of related debt.

Restricted net assets – expendable: Restricted expendable net assets include resources in which the University is legally or contractually obligated to spend resources in accordance with restrictions imposed by external third parties.

Restricted net assets – nonexpendable: Nonexpendable restricted net assets consist of endowment and similar type funds in which donors or other outside sources have stipulated, as a condition of the gift instrument, that the principal is to be maintained inviolate and in perpetuity, and invested for the purpose of producing present and future income, which may either be expended or added to principal.

Unrestricted net assets: Unrestricted net assets represent resources derived from student tuition and fees, state appropriations, and sales and services of educational departments and auxiliary enterprises. These resources are used for transactions relating to the educational and general operations of the University, and may be used at the discretion of the governing board to meet current expenses for any purpose. These resources also include auxiliary enterprises, which are substantially self-supporting activities that provide services for students, faculty and staff.

NOTES TO FINANCIAL STATEMENTS--Continued

UNIVERSITY OF CENTRAL OKLAHOMA

June 30, 2012

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

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

Income Taxes: The University, as a political subdivision of the State, is exempt from all federal income taxes under Section 115(1) of the Internal Revenue Code, as amended. However, the University may be subject to income taxes on unrelated business income under the Internal Revenue Code Section 511(a)(2)(B). The discretely presented component units of the University are generally exempt from federal income taxes under applicable provisions of Section 501 of the Internal Revenue Code. The component units are exempt from federal income tax under Section 501(c)(3) of the Internal Revenue Code. As a result, no provision for income taxes is included in the financial statements.

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

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

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

Nonoperating revenues: Nonoperating revenues include activities that have the characteristics of non-exchange transactions, such as gifts and contributions, student aid revenues, and other revenue sources that are defined as non-operating 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, certain governmental and other pass-through grants, and investment income.

NOTES TO FINANCIAL STATEMENTS--Continued

UNIVERSITY OF CENTRAL OKLAHOMA

June 30, 2012

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

Scholarship Discounts and Allowances: Student tuition and fee revenues, and certain other revenues from students, are reported net of scholarship discounts and allowances in the statement of revenues, expenses, and changes in net assets. Scholarship discounts and allowances are the difference between the stated charge for goods and services provided by the University and the amount that is paid by students and/or third parties making payments on the students' behalf. Certain governmental grants, such as Pell grants, and other Federal, State or nongovernmental programs are recorded as non-operating revenues in the University's financial statements. To the extent that revenues from such programs are used to satisfy tuition and fees and other student charges, the University has recorded a scholarship discount and allowance.

Reclassifications and Restatements: Certain reclassifications have been made to the 2011 financial statements to conform with 2012 financial statement presentation.

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

Fiscal Year Ended June 30, 2013

- *Statement No. 60, Accounting and Financial Reporting for Service Concession Arrangements.*
GASB No. 60 addresses issues related to service concession arrangements (SCAs), which are a type of public-private or public-public partnership. This Statement applies only to those arrangements in which specific criteria determining whether a transferor has control over the facility are met. The University will only be required to adopt the provisions of GASB No. 60 if it enters into an SCA, and it currently has not entered into any such arrangements.
- *Statement No. 61, The Financial Reporting Entity: Omnibus – An Amendment of GASB Statements No. 14 and No. 34.*
GASB No. 61 modifies certain requirements for inclusion of component units in the financial reporting entity and also amends the criteria for reporting component units as if they were part of the primary government (that is, blending) in certain circumstances. Earlier application is encouraged. The University does not believe that the adoption of GASB No. 61 will have a significant impact on its financial statement presentation.

NOTES TO FINANCIAL STATEMENTS--Continued

UNIVERSITY OF CENTRAL OKLAHOMA

June 30, 2012

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

New Accounting Pronouncements--Continued:

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

GASB No. 62 is intended to enhance the usefulness of its Codification by incorporating guidance that previously could only be found in certain FASB and AICPA pronouncements. The University does not believe that the adoption GASB No. 62 will have a significant impact on its financial position, activities or cash flows, or its financial statement presentation.

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

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

Fiscal Year Ended June 30, 2014

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

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

NOTES TO FINANCIAL STATEMENTS--Continued

UNIVERSITY OF CENTRAL OKLAHOMA

June 30, 2012

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

New Accounting Pronouncements--Continued:

Fiscal Year Ended June 30, 2015

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

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

NOTE B--DEPOSITS AND INVESTMENTS

Deposits: *Custodial credit risk* for deposits is the risk that in the event of a bank failure, the University's deposits may not be returned or the University will not be able to recover collateral securities in the possession of an outside party. Generally, the University deposits its funds with the Office of the State Treasurer (OST) and those funds are pooled with funds of other state agencies and then, in accordance with statutory limitations, are placed in financial institutions or invested as the OST may determine, in the state's name. State statutes require the OST to ensure that all state funds are either insured by Federal Deposit Insurance, collateralized by securities held by the cognizant Federal Reserve Bank, or invested in U.S. government obligations. The OST's responsibilities include receiving and collateralizing the deposit of State funds, investing State funds in compliance with statutory requirements, and maintaining adequate liquidity to meet the cash flow needs of the State and all its funds and agencies. If the University deposits funds directly with financial institutions, those funds must be insured by Federal Deposit Insurance or collateralized by securities held by the cognizant Federal Reserve Bank in the University's name. Some deposits with the OST are placed in the OST's internal investment pool *OK INVEST*. *OK INVEST* pools the resources of all state funds and agencies and invests them in obligations of the United States Government, its agencies and instrumentalities; including agency senior debt and mortgage-backed pass-through securities, tri-party repurchase agreements, money market mutual funds, collateralized certificates of deposit, commercial paper, obligations of state and local governments, State of Israel Bonds, and various other investments, as allowed by law.

NOTES TO FINANCIAL STATEMENTS--Continued

UNIVERSITY OF CENTRAL OKLAHOMA

June 30, 2012

NOTE B--DEPOSITS AND INVESTMENTS--Continued

Deposits--Continued: At June 30, 2012 and 2011, the carrying amount of all University and blended component unit deposits with the OST and other financial institutions was \$67,779,932 and \$59,214,671, respectively. These amounts consisted of deposits with the OST (\$67,187,138 and \$58,796,858) and U.S. financial institutions (\$592,794 and \$417,813). 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. The University also maintains petty cash funds totaling \$17,930 in 2012 and \$17,930 in 2011. Of funds on deposit with the OST, amounts invested in OK INVEST total \$20,325,878 in 2012 and \$17,854,917 in 2011.

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

| <u>OK INVEST Portfolio</u> | <u>June 30, 2012</u> | |
|-----------------------------------|----------------------|----------------------|
| | <u>Cost</u> | <u>Market</u> |
| U.S. agency securities | \$ 7,186,230 | \$ 7,207,352 |
| Money market mutual funds | 2,782,213 | 2,782,213 |
| Certificates of deposit | 656,513 | 656,513 |
| Mortgage backed agency securities | 8,971,530 | 9,531,873 |
| Municipal bonds | 364,582 | 415,946 |
| Foreign bonds | 102,284 | 102,284 |
| U.S. Treasury obligations | 262,526 | 327,520 |
| Totals | <u>\$ 20,325,878</u> | <u>\$ 21,023,701</u> |

| <u>OK INVEST Portfolio</u> | <u>June 30, 2011</u> | |
|-----------------------------------|----------------------|----------------------|
| | <u>Cost</u> | <u>Market</u> |
| U.S. agency securities | \$ 6,521,240 | \$ 6,573,523 |
| Money market mutual funds | 1,963,051 | 1,963,051 |
| Certificates of deposit | 843,059 | 843,059 |
| Tri-party repurchase agreements | 1,204,868 | 1,204,868 |
| Mortgage backed agency securities | 6,476,886 | 6,762,936 |
| Municipal bonds | 355,884 | 385,388 |
| Foreign bonds | 66,384 | 66,384 |
| Commercial paper | 165,942 | 165,958 |
| U.S. Treasury obligations | 257,603 | 305,230 |
| Totals | <u>\$ 17,854,917</u> | <u>\$ 18,270,397</u> |

NOTES TO FINANCIAL STATEMENTS--Continued

UNIVERSITY OF CENTRAL OKLAHOMA

June 30, 2012

NOTE B--DEPOSITS AND INVESTMENTS--Continued

Deposits--Continued: Agencies and funds that are considered to be part of the State's reporting entity in the State's Comprehensive Annual Financial Report and who have funds deposited with the State Treasurer are allowed to participate in *OK INVEST*. Oklahoma statutes and the OST establish the primary objectives and guidelines governing the investment of funds in *OK INVEST*. Safety, liquidity, and return on investment are the objectives which establish the framework for the day to day *OK INVEST* management with an emphasis on safety of the capital and the probable income to be derived and meeting the State's daily cash flow requirements.

Guidelines in the investment policy address credit quality requirements, diversification percentages and specify the types and maturities of allowable investments, and the specifics regarding these policies can be found on the OST website at www.ok.gov/treasurer/. The State Treasurer, at his discretion, may further limit or restrict such investments on a day to day basis. *OK INVEST* includes a substantial investment in securities with an overnight maturity as well as in U.S. government securities with a maturity of up to ten years. *OK INVEST* maintains an overall weighted average maturity of no more than four years.

Participants in *OK INVEST* maintain an interest in its underlying investments and, accordingly, may be exposed to certain risks. As stated in the OST information statement, the main risks are interest rate risk, credit/default risk, liquidity risk, and U.S. government securities risk. *Interest rate risk* is the risk that during periods of rising interest rates, the yield and market value of the securities will tend to be lower than prevailing market rates; in periods of falling interest rates, the yield will tend to be higher. *Credit/default risk* is the risk that an issuer or guarantor of a security, or a bank or other financial institution that has entered into a repurchase agreement, may default on its payment obligations. *Liquidity risk* is the risk that *OK INVEST* will be unable to pay redemption proceeds within the stated time period because of unusual market conditions, an unusually high volume of redemption requests, or other reasons. *U.S. Government securities risk* is the risk that the U.S. government will not provide financial support to U.S. government agencies, instrumentalities or sponsored enterprises if it is not obligated to do so by law. Various investment restrictions and limitations are enumerated in the State Treasurer's Investment Policy to mitigate those risks; however, any interest in *OK INVEST* is not insured or guaranteed by the State, the Federal Deposit Insurance Corporation or any other government agency.

The University Foundation maintains cash in bank deposit accounts that, at times, may exceed federally insured limits. The Foundation has not experienced any losses in such accounts and believes that it is not exposed to any significant credit risk on cash or cash equivalents.

NOTES TO FINANCIAL STATEMENTS--Continued

UNIVERSITY OF CENTRAL OKLAHOMA

June 30, 2012

NOTE B--DEPOSITS AND INVESTMENTS--Continued

Investments: Investment *credit risk* is the risk that an issuer or other counterparty to an investment will not fulfill its obligations. Generally, the University's investments are managed by the State Treasurer. In accordance with state statutes, the State Treasurer may only purchase and invest in (a) obligations of the United States government, its agencies and instrumentalities; (b) prime banker's acceptances; (c) investment grade obligations of state and local governments; (d) money market funds; (e) collateralized or insured certificates of deposits; (f) negotiable certificates of deposits; (g) prime commercial paper; and (h) repurchase agreements. *Interest rate risk* is the risk that changes in interest rates will adversely affect the fair value of an investment. Investments that are held for longer periods of time are subject to increased risk of adverse interest changes. Neither the University nor State statutes limit investment maturities as a means of managing exposure to fair value losses arising from increasing interest rates; however, the OST Investment Policy limits the average maturity on its portfolio to four (4) years, with certain individual securities having more restrictive limits as defined in the policy. *Concentration of credit risk* is the risk of loss attributed to the magnitude of the University's investment in a single issuer. Neither the University's investment policy nor State statutes place limits on amounts that can be invested in any one issuer; however, the OST Investment Policy states that, with the exception of U.S. Treasury securities, no more than 50% of the State's total funds may be invested in a single security type or with a single financial institution, with diversification percentages being more restrictive on individual securities. *Custodial credit risk* for investments is the risk that, in the event of the failure of the counterparty, the University will not be able to recover the value of its investments or collateral securities in the possession of an outside party. As of June 30, 2012 and 2011, none of the University's investments were subject to custodial credit risk.

The University component units have funds invested with Merrill Lynch and other local banking institutions. The majority of marketable securities are combined in common investment pools and invested on the basis of a total return policy to provide income and improve opportunities to realize appreciation in investment values. At June 30, 2012 and 2011, respectively, \$714,199 and \$693,674 are classified as current (of which \$79,199 and \$41,674 is included in cash and cash equivalents) and \$23,529,641 and \$21,495,548 are classified as noncurrent on the statement of net assets.

Bond Fund Cash and Investments: Certain non-pooled cash and investments are restricted in purpose by policies incorporated in applicable bond indentures. *Credit risk* policy generally restricts investing to cash, investments fully insured by the FDIC and U.S. government and agency securities or mutual funds investing in these types of securities.

NOTES TO FINANCIAL STATEMENTS--Continued

UNIVERSITY OF CENTRAL OKLAHOMA

June 30, 2012

NOTE B--DEPOSITS AND INVESTMENTS--Continued

Bond Fund Cash and Investments--Continued: There may be some variance among the investments authorized by the specific bond indentures of University bond issues. A trustee bank generally provides the management of restricted, non-pooled investments. *Custodial credit risk* is not addressed by bond indentures. *Interest rate risk* in bond indentures provide that investments mature in no more than six to sixty months depending on the purpose of the funds and the requirements of the account in which the funds are deposited (i.e. construction, reserve, operations and maintenance, etc.) Concentration of credit risk is not addressed.

At June 30, 2012 and 2011, the University had investments in restricted bond funds totaling \$4,521,975 and \$5,710,534. At June 30, 2012 and 2011, respectively, \$3,587,644 and \$4,819,069 are classified as current and \$934,330 and \$891,465 are classified as noncurrent on the statement of net assets. The fair market value of these funds approximated their carrying value at June 30, 2012 and 2011. The invested bond funds are not subject to maturity dates and are due on demand. According to Standard and Poor's rating service, the funds had an average credit rating of AAAM at June 30, 2012.

All investments for the University, including its blended component unit, and discrete component units at June 30, 2012 and 2011, respectively, were as follows:

| 2012 | University Investments | Component Unit Investments |
|--------------------------------|---------------------------|----------------------------------|
| Cash and cash equivalent funds | \$ 4,081,962 | \$ 2,196,988 |
| Guaranteed investment contract | 440,013 | - |
| Government securities | - | 1,602,580 |
| Corporate bonds | - | 1,038,855 |
| Mutual funds | - | 11,303,114 |
| Equity Securities | - | 8,202,370 |
| | <u>\$ 4,521,975</u> | <u>\$ 24,343,907</u> |

NOTES TO FINANCIAL STATEMENTS--Continued

UNIVERSITY OF CENTRAL OKLAHOMA

June 30, 2012

NOTE B--DEPOSITS AND INVESTMENTS--Continued

Bond Fund Cash and Investments--Continued:

| 2011 | University Investments | Component Unit Investments |
|--------------------------------|---------------------------|----------------------------------|
| Cash and cash equivalent funds | \$ 5,269,949 | \$ 1,429,490 |
| Guaranteed investment contract | 440,585 | - |
| Government securities | - | 1,974,807 |
| Corporate bonds | - | 1,143,124 |
| Mutual funds | - | 9,997,205 |
| Equity Securities | - | 7,782,195 |
| | <u>\$ 5,710,534</u> | <u>\$ 22,326,821</u> |

NOTE C--ACCOUNTS RECEIVABLE

Accounts receivable consisted of the following at June 30, 2012 and 2011:

| 2012 | University Receivables | Component Unit Receivables |
|------------------------------------------------------|---------------------------|----------------------------------|
| Student tuition and fees | \$ 21,382,286 | \$ - |
| Auxiliary enterprises and other operating activities | 6,604,969 | - |
| Federal, state, and private grants and contracts | 1,104,144 | - |
| Contributions receivable | - | 4,626,072 |
| | 29,091,399 | 4,626,072 |
| Less: allowance for doubtful accounts | (11,958,698) | (498,710) |
| Net accounts receivable | <u>\$ 17,132,701</u> | <u>\$ 4,127,362</u> |

| 2011 | University Receivables | Component Unit Receivables |
|------------------------------------------------------|---------------------------|----------------------------------|
| Student tuition and fees | \$ 17,414,093 | \$ - |
| Auxiliary enterprises and other operating activities | 5,697,230 | - |
| Federal, state, and private grants and contracts | 1,575,478 | - |
| Contributions receivable | - | 2,798,861 |
| | 24,686,801 | 2,798,861 |
| Less: allowance for doubtful accounts | (10,123,097) | (29,309) |
| Net accounts receivable | <u>\$ 14,563,704</u> | <u>\$ 2,769,552</u> |

NOTES TO FINANCIAL STATEMENTS--Continued

UNIVERSITY OF CENTRAL OKLAHOMA

June 30, 2012

NOTE D--NOTES RECEIVABLE

Student loans made through the Federal Perkins Loan Program (the "Program") comprise substantially all of the loans receivable at June 30, 2012 and 2011. Under this Program, the federal government provides funds for approximately 90% of the total contribution for student loans with the University providing the balance. Under certain conditions such loans can be forgiven at annual rates of 10% to 30% of the original balance up to a maximum of 50% to 100% of the original loan. The federal government reimburses the University to the extent of 10% of the amounts forgiven for loans originated prior to July 1, 1993 under the Federal Perkins Loan Program. No reimbursements are guaranteed for loans originated after this date.

Amounts refundable to the U.S. Government upon cessation of the Program of approximately \$1,468,000 and \$1,809,000 at June 30, 2012 and 2011, respectively, are reflected in the accompanying statements of net assets as noncurrent liabilities. As the University determines loans are uncollectible and not eligible for reimbursement by the federal government, the loans are written off and assigned to the U.S. Department of Education. The allowance for uncollectible loans only applies to University funded loans and the University portion of federal student loans, as the University is not obligated to fund the federal portion of uncollected student loans. The University has provided an allowance for uncollectible loans that, in management's opinion, is sufficient to absorb loans that will ultimately be written off.

At June 30, 2012 and 2011, loans receivable consisted of the following:

| 2012 | University Loans | Component Unit Loans |
|-----------------------------------------|---------------------|----------------------------|
| Total loans receivable | \$ 1,904,356 | \$ 11,840 |
| Less: allowance for uncollectible loans | 156,932 | - |
| Loans receivable, net | \$ 1,747,424 | \$ 11,840 |
| 2011 | University Loans | Component Unit Loans |
| Total loans receivable | \$ 2,052,981 | \$ 17,578 |
| Less: allowance for uncollectible loans | 156,932 | - |
| Loans receivable, net | \$ 1,896,049 | \$ 17,578 |

NOTES TO FINANCIAL STATEMENTS--Continued

UNIVERSITY OF CENTRAL OKLAHOMA

June 30, 2012

NOTE E--CAPITAL ASSETS

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

| | Balance June 30, 2011 | Additions | Transfers | Retirements/ Adjustments | Balance June 30, 2012 |
|--------------------------------------------|--------------------------|----------------------|------------------------|-----------------------------|--------------------------|
| Capital assets not being depreciated | | | | | |
| Land | \$ 2,376,723 | \$ 667,609 | \$ - | \$ - | \$ 3,044,332 |
| Art Collections | 4,544,290 | 181,580 | - | - | 4,725,870 |
| Construction in-progress | 15,229,839 | 1,203,549 | (11,027,061) | - | 5,406,327 |
| Total capital assets not being depreciated | <u>\$ 22,150,852</u> | <u>\$ 2,052,738</u> | <u>\$ (11,027,061)</u> | <u>\$ -</u> | <u>\$ 13,176,529</u> |
| Other capital assets | | | | | |
| Non-major infrastructure networks | \$ 1,495,903 | \$ - | \$ - | \$ - | \$ 1,495,903 |
| Land improvements | 8,983,100 | 345,607 | - | - | 9,328,707 |
| Buildings | 140,103,546 | 16,541,519 | 10,517,362 | - | 167,162,427 |
| Furniture, fixtures and equipment | 32,774,200 | 778,973 | 509,699 | (1,261,196) | 32,801,676 |
| Library materials | 17,786,850 | - | - | - | 17,786,850 |
| Total other capital assets | 201,143,599 | 17,666,099 | 11,027,061 | (1,261,196) | 228,575,563 |
| Less accumulated depreciation for | | | | | |
| Non-major infrastructure networks | (1,251,768) | (74,795) | - | - | (1,326,563) |
| Land improvements | (6,087,873) | (362,870) | - | - | (6,450,743) |
| Buildings | (56,873,661) | (5,270,788) | - | - | (62,144,449) |
| Furniture, fixtures and equipment | (23,304,815) | (2,342,868) | - | 1,061,174 | (24,586,509) |
| Library materials | (16,268,288) | (25,758) | - | - | (16,294,046) |
| Total accumulated depreciation | (103,786,405) | (8,077,079) | - | 1,061,174 | (110,802,310) |
| Other capital assets, net | <u>\$ 97,357,194</u> | <u>\$ 9,589,020</u> | <u>\$ 11,027,061</u> | <u>\$ (200,022)</u> | <u>\$ 117,773,253</u> |
| Capital asset summary: | | | | | |
| Capital assets not being depreciated | \$ 22,150,852 | \$ 2,052,738 | \$ (11,027,061) | \$ - | \$ 13,176,529 |
| Other capital assets, at cost | 201,143,599 | 17,666,099 | 11,027,061 | (1,261,196) | 228,575,563 |
| Total cost of capital assets | 223,294,451 | 19,718,837 | - | (1,261,196) | 241,752,092 |
| Less accumulated depreciation | (103,786,405) | (8,077,079) | - | 1,061,174 | (110,802,310) |
| Capital assets, net | <u>\$ 119,508,046</u> | <u>\$ 11,641,758</u> | <u>\$ -</u> | <u>\$ (200,022)</u> | <u>\$ 130,949,782</u> |

NOTES TO FINANCIAL STATEMENTS--Continued

UNIVERSITY OF CENTRAL OKLAHOMA

June 30, 2012

NOTE E--CAPITAL ASSETS--Continued

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

| | Balance <u>June 30, 2010</u> | Additions | Transfers | Retirements/ Adjustments | Balance <u>June 30, 2011</u> |
|--------------------------------------------|---------------------------------|-----------------------|------------------------|-----------------------------|---------------------------------|
| Capital assets not being depreciated | | | | | |
| Land | \$ 2,211,228 | \$ 165,495 | \$ - | \$ - | \$ 2,376,723 |
| Art Collections | 4,544,290 | - | - | - | 4,544,290 |
| Construction in-progress | <u>23,970,347</u> | <u>4,978,547</u> | <u>(13,719,055)</u> | - | <u>15,229,839</u> |
| Total capital assets not being depreciated | <u>\$ 30,725,865</u> | <u>\$ 5,144,042</u> | <u>\$ (13,719,055)</u> | <u>\$ -</u> | <u>\$ 22,150,852</u> |
| Other capital assets | | | | | |
| Non-major infrastructure networks | \$ 1,495,903 | \$ - | \$ - | \$ - | \$ 1,495,903 |
| Land improvements | 8,708,810 | 274,290 | - | - | 8,983,100 |
| Buildings | 124,424,657 | 1,959,834 | 13,719,055 | - | 140,103,546 |
| Furniture, fixtures and equipment | 32,284,496 | 1,861,428 | - | (1,371,724) | 32,774,200 |
| Library materials | <u>17,786,850</u> | - | - | - | <u>17,786,850</u> |
| Total other capital assets | 184,700,716 | 4,095,552 | 13,719,055 | (1,371,724) | 201,143,599 |
| Less accumulated depreciation for | | | | | |
| Non-major infrastructure networks | (1,176,973) | (74,795) | - | - | (1,251,768) |
| Land improvements | (5,758,355) | (329,518) | - | - | (6,087,873) |
| Buildings | (52,242,723) | (4,630,938) | - | - | (56,873,661) |
| Furniture, fixtures and equipment | (22,394,813) | (2,198,882) | - | 1,288,880 | (23,304,815) |
| Library materials | <u>(16,242,531)</u> | <u>(25,757)</u> | - | - | <u>(16,268,288)</u> |
| Total accumulated depreciation | (97,815,395) | (7,259,890) | - | 1,288,880 | (103,786,405) |
| Other capital assets, net | <u>\$ 86,885,321</u> | <u>\$ (3,164,338)</u> | <u>\$ 13,719,055</u> | <u>\$ (82,844)</u> | <u>\$ 97,357,194</u> |
| Capital asset summary: | | | | | |
| Capital assets not being depreciated | \$ 30,725,865 | \$ 5,144,042 | \$ (13,719,055) | \$ - | \$ 22,150,852 |
| Other capital assets, at cost | <u>184,700,716</u> | <u>4,095,552</u> | <u>13,719,055</u> | <u>(1,371,724)</u> | <u>201,143,599</u> |
| Total cost of capital assets | 215,426,581 | 9,239,594 | - | (1,371,724) | 223,294,451 |
| Less accumulated depreciation | <u>(97,815,395)</u> | <u>(7,259,890)</u> | - | 1,288,880 | (103,786,405) |
| Capital assets, net | <u>\$117,611,186</u> | <u>\$ 1,979,704</u> | <u>\$ -</u> | <u>\$ (82,844)</u> | <u>\$119,508,046</u> |

NOTES TO FINANCIAL STATEMENTS--Continued

UNIVERSITY OF CENTRAL OKLAHOMA

June 30, 2012

NOTE F--LONG-TERM LIABILITIES

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

| | Balance June 30, 2011 | Additions | Reductions | Balance June 30, 2012 | Amounts due within one year |
|---------------------------------------------|--------------------------|----------------------|------------------------|--------------------------|-----------------------------------|
| Bonds payable and capital lease obligations | | | | | |
| Revenue bonds payable | \$ 45,600,000 | \$ - | \$ (9,340,000) | \$ 36,260,000 | \$ 1,925,000 |
| Capital lease obligations | 24,535,614 | 25,097,000 | (1,930,717) | 47,701,897 | 1,604,613 |
| Notes payable | <u>6,070,000</u> | <u>-</u> | <u>(425,000)</u> | <u>5,645,000</u> | <u>445,000</u> |
| Total bonds and capital leases | 76,205,614 | 25,097,000 | (11,695,717) | 89,606,897 | 3,974,613 |
| Other liabilities | | | | | |
| Accrued compensated absences | 2,626,440 | 29,763 | - | 2,656,203 | 1,328,101 |
| Federal loan program contributions | <u>1,808,759</u> | <u>-</u> | <u>(340,783)</u> | <u>1,467,976</u> | <u>-</u> |
| Total other liabilities | 4,435,199 | 29,763 | (340,783) | 4,124,179 | 1,328,101 |
| Total long-term liabilities | <u>\$ 80,640,813</u> | <u>\$ 25,126,763</u> | <u>\$ (12,036,500)</u> | <u>\$ 93,731,076</u> | <u>\$ 5,302,714</u> |

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

| | Balance June 30, 2010 | Additions | Reductions | Balance June 30, 2011 | Amounts due within one year |
|---------------------------------------------|--------------------------|---------------------|-----------------------|--------------------------|-----------------------------------|
| Bonds payable and capital lease obligations | | | | | |
| Revenue bonds payable | \$ 47,635,000 | \$ - | \$ (2,035,000) | \$ 45,600,000 | \$ 2,115,000 |
| Capital lease obligations | 25,376,764 | 788,000 | (1,629,150) | 24,535,614 | 577,342 |
| Notes payable | <u>6,475,000</u> | <u>-</u> | <u>(405,000)</u> | <u>6,070,000</u> | <u>425,000</u> |
| Total bonds and capital leases | 79,486,764 | 788,000 | (4,069,150) | 76,205,614 | 3,117,342 |
| Other liabilities | | | | | |
| Accrued compensated absences | 2,806,471 | 1,322,500 | (1,502,530) | 2,626,440 | 1,526,424 |
| Federal loan program contributions | <u>1,840,863</u> | <u>-</u> | <u>(32,104)</u> | <u>1,808,759</u> | <u>-</u> |
| Total other liabilities | 4,647,334 | 1,322,500 | (1,534,634) | 4,435,199 | 1,526,424 |
| Total long-term liabilities | <u>\$ 84,134,098</u> | <u>\$ 2,110,500</u> | <u>\$ (5,603,784)</u> | <u>\$ 80,640,813</u> | <u>\$ 4,643,766</u> |

NOTES TO FINANCIAL STATEMENTS--Continued

UNIVERSITY OF CENTRAL OKLAHOMA

June 30, 2012

NOTE F--LONG-TERM LIABILITIES--Continued

Revenue Bonds Payable

Revenue bonds payable consisted of the following at June 30, 2012 and 2011:

| | <u>2012</u> | <u>2011</u> |
|---------------------------------------------------------------|----------------------|----------------------|
| University Center and Parking Revenue | | |
| Refunding Bonds, Series 2003 | \$ 10,820,000 | \$ 11,590,000 |
| Library Revenue Refunding Bonds, Series 2003 | 4,610,000 | 4,935,000 |
| ODFA Public Facilities Financing Program | | |
| Revenue Refund Bonds, Series 2003 | 1,570,000 | 1,810,000 |
| Wellness Center Student Facilities Revenue Bonds, Series 2000 | - | 7,485,000 |
| Wantland Stadium Facility Revenue Bonds, Series 2004 | 11,720,000 | 12,020,000 |
| UCO Student Housing Foundation Revenue Bonds, Series 2001 | 7,540,000 | 7,760,000 |
| | <u>\$ 36,260,000</u> | <u>\$ 45,600,000</u> |

University Center and Parking Revenue Refunding Bonds, Series 2003

The University Center and Parking Revenue Bonds, issued June 1, 2003, are secured by and payable both as to principal and interest from the student facility fee, parking fee, gross receipts from operations of auxiliary enterprises, and all monies in funds and accounts held by the trustee bank and are available for such payment.

| <u>Original Amount</u> | <u>Bond Type</u> | <u>Installment Date</u> | <u>Installment Amount</u> | <u>Interest Rate</u> | <u>Interest Due</u> |
|------------------------|------------------|-------------------------|---------------------------|----------------------|---------------------|
| \$ 9,690,000 | Serial | Final 6/1/2016 | \$ 710,000 to 875,000 | 2.00% to 3.60% | Semiannual |
| \$ 7,500,000 | Term | 6/1/2019 | 2,820,000 | 4.00% | Semiannual |
| | | 6/1/2022 | 3,195,000 | 5.00% | Semiannual |
| | | 6/1/2023 | 1,485,000 | 4.125% | Semiannual |
| <u>\$ 17,190,000</u> | | | | | |

NOTES TO FINANCIAL STATEMENTS--Continued

UNIVERSITY OF CENTRAL OKLAHOMA

June 30, 2012

NOTE F--LONG-TERM LIABILITIES--Continued

Revenue Bonds Payable--Continued

Library Revenue Refunding Bonds, Series 2003

The Library Revenue Bonds, issued June 1, 2003, are secured by and payable both as to principal and interest from gross receipts from a library fee and all monies in funds and accounts held by the trustee bank available for such payment.

| <u>Original Amount</u> | <u>Bond Type</u> | <u>Installment Date</u> | <u>Installment Amount</u> | <u>Interest Rate</u> | <u>Interest Due</u> |
|------------------------|------------------|-------------------------|---------------------------|----------------------|---------------------|
| \$ 4,150,000 | Serial | Final 6/1/2016 | \$ 280,000 to 375,000 | 2.00% to 3.60% | Semiannual |
| 3,185,000 | Term | 6/1/2019 | \$ 1,200,000 | 4.00% | Semiannual |
| | | 6/1/2022 | \$ 1,355,000 | 5.00% | Semiannual |
| | | 6/1/2023 | \$ 630,000 | 4.125% | Semiannual |
| <u>\$ 7,335,000</u> | | | | | |

Oklahoma Development Finance Authority (ODFA) Public Facilities Financing Program Revenue Refunding Bonds, Series 2003A

The ODFA Series 2003A Bonds, issued June 1, 2003, are secured by and payable both as to principal and interest from the University's Section 13 and New College Funds received from the State of Oklahoma and all monies in funds and accounts held by the trustee bank and available for such payment.

| <u>Original Amount</u> | <u>Bond Type</u> | <u>Installment Date</u> | <u>Installment Amount</u> | <u>Interest Rate</u> | <u>Interest Due</u> |
|------------------------|------------------|-------------------------|---------------------------|----------------------|---------------------|
| \$ 3,635,000 | Serial | Final 6/1/2018 | \$ 220,000 to 275,000 | 2.00% to 4.00% | Semiannual |

NOTES TO FINANCIAL STATEMENTS--Continued

UNIVERSITY OF CENTRAL OKLAHOMA

June 30, 2012

NOTE F--LONG-TERM LIABILITIES--Continued

Revenue Bonds Payable--Continued

Wellness Center Student Facilities Revenue Bonds Series 2000 Refinanced with ODFA 2011A Real Property Master Lease

The Wellness Center Student Facilities Revenue Bonds, issued August 22, 2000, are secured by and payable both as principal and interest from, gross receipts of a \$2.30 per credit hour Student Facility Fee equal to at least 1.25 times the annual debt service requirement and funds held by the trustee bank.

| <u>Original Amount</u> | <u>Bond Type</u> | <u>Installment Date</u> | <u>Installment Amount</u> | <u>Interest Rate</u> | <u>Interest Due</u> |
|------------------------|------------------|-------------------------|---------------------------|----------------------|---------------------|
| \$ 1,515,000 | Serial | Final 8/1/2010 | \$ 80,000 to 235,000 | 4.50% to 5.15% | Semiannual |
| 7,485,000 | Term | 8/1/2015 | \$ 1,565,000 | 5.40% | Semiannual |
| | | 8/1/2020 | \$ 2,395,000 | 5.60% | Semiannual |
| | | 8/1/2025 | \$ 3,525,000 | 5.70% | Semiannual |
| <u>\$ 9,000,000</u> | | | | | |

In 2011, the ODFA issued Bond Series 2011A to refund the Series 2000 Master Lease Revenue Bonds. As a result, the total liability of the remaining 2000 bonds combined with the new 2011A bond issues will be less than the original outstanding liability for the 2000 bonds. This lease restructuring did not result in a significant deferred restructuring charge. A comparison of the present value of the total debt service costs of the 2000 Bonds versus the 2011A Bonds resulted in an economic gain of approximately \$900,000.

UCO Student Housing Foundation Revenue Bonds Series 2001A

The Student Housing Foundation Revenue Bonds, issued April 19, 2001, are secured by and payable both as to principal and interest from general revenues and the accounts, documents, chattel paper, instruments, and general intangibles arising in any manner from the UCO Student Housing Foundation's operation of the project.

| <u>Original Amount</u> | <u>Bond Type</u> | <u>Installment Date</u> | <u>Installment Amount</u> | <u>Interest Rate</u> | <u>Interest Due</u> |
|------------------------|------------------|-------------------------|---------------------------|----------------------|---------------------|
| \$ 8,305,000 | Serial | 7/1/2031 | \$ 150,000 to 615,000 | Variable | Semiannual |

NOTES TO FINANCIAL STATEMENTS--Continued

UNIVERSITY OF CENTRAL OKLAHOMA

June 30, 2012

NOTE F--LONG-TERM LIABILITIES--Continued

Revenue Bonds Payable--Continued

Regional University System of Oklahoma Student Facilities Revenue Bonds (Wantland Stadium Revenue Bonds)

The Wantland Stadium Facility Revenue Bonds, issued July 7, 2004, are secured by a facility fee of \$3 per credit hour which is pledged for debt service requirements on these bonds. The University has also recorded an asset for its pro-rata share of the bond issuance costs, and is amortizing that asset over the term of the lease agreement. At June 30, 2012 and 2011, the unamortized bond issuance costs totaled \$154,880 and \$161,920, respectively.

| <u>Original Amount</u> | <u>Bond Type</u> | <u>Installment Date</u> | <u>Installment Amount</u> | <u>Interest Rate</u> | <u>Interest Due</u> | <u>Taxable</u> |
|------------------------|------------------|-------------------------|---------------------------|----------------------|---------------------|----------------|
| \$ 3,075,000 | Serial | 6/1/2019 | \$ 290,000 to 400,000 | 3.65% to 4.60% | Semiannual | |
| 9,235,000 | Term | 6/1/2024 | \$ 2,340,000 | 5.50% | Semiannual | |
| | | 6/1/2034 | \$ 6,895,000 | 5.00% | Semiannual | |
| <u>\$ 12,310,000</u> | | | | | | |

The scheduled maturities of University revenue bonds payable are as follows for the years ending June 30:

| <u>Years Ending June 30:</u> | <u>Principal</u> | <u>Interest</u> | <u>Total</u> |
|------------------------------|----------------------|----------------------|----------------------|
| 2013 | \$ 1,925,000 | \$ 1,584,203 | \$ 3,509,203 |
| 2014 | 1,995,000 | 1,519,025 | 3,514,025 |
| 2015 | 2,055,000 | 1,448,018 | 3,503,018 |
| 2016 | 2,145,000 | 1,373,407 | 3,518,407 |
| 2017 | 2,220,000 | 1,290,980 | 3,510,980 |
| 2018 - 2022 | 11,375,000 | 5,031,760 | 16,406,760 |
| 2023 - 2027 | 7,100,000 | 2,559,253 | 9,659,253 |
| 2028 - 2032 | 5,785,000 | 1,199,105 | 6,984,105 |
| 2033 - 2037 | 1,660,000 | 125,500 | 1,785,500 |
| | <u>\$ 36,260,000</u> | <u>\$ 16,131,251</u> | <u>\$ 52,391,251</u> |

NOTES TO FINANCIAL STATEMENTS--Continued

UNIVERSITY OF CENTRAL OKLAHOMA

June 30, 2012

NOTE F--LONG-TERM LIABILITIES--Continued

Notes Payable

The University has one note payable for environmental control equipment.

| <u>Original Amount</u> | <u>Date</u> | <u>Frequency</u> | <u>Installment Amount</u> | <u>Effective Interest Rate</u> | <u>Number of Installments</u> | <u>Balance 2012</u> | <u>Balance 2011</u> |
|----------------------------|-------------|------------------|-------------------------------|------------------------------------|-----------------------------------|-------------------------|-------------------------|
| \$ 8,905,000 | 4/1/2002 | Semi Annual | \$ 425,000 to \$725,000 | 5.20% | 40 | \$ 5,645,000 | \$ 6,070,000 |

Future minimum principal and interest payments under the notes payable obligations are as follows:

| <u>Years Ending June 30:</u> | <u>Principal</u> | <u>Interest</u> | <u>Total</u> |
|------------------------------|---------------------|---------------------|---------------------|
| 2013 | \$ 445,000 | \$ 297,256 | \$ 742,256 |
| 2014 | 470,000 | 274,450 | 744,450 |
| 2015 | 490,000 | 250,363 | 740,363 |
| 2016 | 515,000 | 225,250 | 740,250 |
| 2017 | 545,000 | 198,856 | 743,856 |
| 2018 - 2022 | 3,180,000 | 531,050 | 3,711,050 |
| | <u>\$ 5,645,000</u> | <u>\$ 1,777,225</u> | <u>\$ 7,422,225</u> |

Capital Lease Obligations

Oklahoma Capitol Improvement Authority Leases

In September 1999, the Oklahoma Capitol Improvement Authority (OCIA) issued its OCIA Bond Issues, Series 1999A. Of the total bond indebtedness, the State Regents for Higher Education allocated \$2,500,000 for the 1999 Series to the University. In 2004, the OCIA issued bond series 2004A that refunded a significant portion of the 1999A bonds. The outstanding balance of the 2004A lease obligation is \$704,398 and \$784,851 at June 30, 2012 and 2011, respectively.

In April 2006, OCIA issued its OCIA Bond Issues, Series 2006D. The University was allocated \$19,805,623 of this total issue by the State Regents. The outstanding balance of the 2006D lease obligation is \$16,043,815 and \$16,989,191 at June 30, 2012 and 2011, respectively.

NOTES TO FINANCIAL STATEMENTS--Continued

UNIVERSITY OF CENTRAL OKLAHOMA

June 30, 2012

NOTE F--LONG-TERM LIABILITIES--Continued

Capital Lease Obligations--Continued

Oklahoma Capitol Improvement Authority Leases--Continued

Concurrently with the allocations, the University entered into lease agreements with OCIA, which included for the six projects being funded by the OCIA bonds. The lease agreements provide for the University to make specified monthly payments over the varying terms for the specific projects, ranging from 10 to 30 years. The proceeds of the bonds and subsequent lease are to provide for capital improvements, furniture and equipment at the University.

Through June 30, 2012, the University has drawn down 100% of the 1999 Series and 98% of 2006D Series of its total allotment for expenses incurred in connection with specific projects. These expenses are being recorded as capital assets or operating expenses, in accordance with University policy. The University has recorded a lease obligation payable to OCIA for the total amount of the allotment, less repayment made during the fiscal years. The University has also recorded an asset for its pro-rata share of the bond issuance costs, and is amortizing that asset over the term of the lease agreement. At June 30, 2012 and 2011, the unamortized bond issuance costs totaled \$84,558 and \$88,235 respectively.

During the years ended June 30, 2012 and 2011, OCIA made lease principal and interest payments totaling \$1,915,527 and \$1,862,236, respectively, on behalf of the University. These on-behalf payments have been recorded as restricted state appropriations in the University's statements of revenues, expenses and changes in net assets.

Oklahoma Development Finance Authority Master Lease Program

The Oklahoma Development Finance Authority (ODFA) issued the ODFA Master Lease Revenue Bonds. ODFA issues bonds to fund capital improvements at state colleges and universities in Oklahoma. ODFA allocates the bond proceeds to colleges and universities in the form of financing leases. The University has recorded capital improvements funded by the leases and the resulting capital lease obligations in its statement of net assets. At June 30, 2012 and 2011, the unamortized bond issuance costs totaled \$8,485 and \$59,000, respectively.

NOTES TO FINANCIAL STATEMENTS--Continued

UNIVERSITY OF CENTRAL OKLAHOMA

June 30, 2012

NOTE F--LONG-TERM LIABILITIES--Continued

Capital Lease Obligations--Continued

Oklahoma Development Finance Authority Master Lease Program--Continued

The lease agreements calls for monthly payments to ODFA in an amount that equals debt service requirements on the portion of the bonds used to finance the leases. After payment of bond closing costs, the net bond proceeds were deposited into ODFA trust accounts as required by the bond indentures. At June 30, 2012 and 2011, trust accounts balances total \$212,075 and \$768,026, respectively, and are included with Restricted Investments on the University's statement of net assets.

| Bond Series | UCO's Allocated Amount | Final Payment | June 30, | |
|-------------|---------------------------|---------------|--------------|--------------|
| | | | 2012 | 2011 |
| 2004A | \$ 1,825,000 | 6/1/2024 | \$ 1,260,000 | \$ 1,340,000 |
| 2005A | 2,405,000 | 6/1/2025 | 1,490,000 | 1,595,000 |
| 2007A | 151,000 | 5/15/2012 | - | 33,000 |
| 2007C | 2,020,000 | 12/1/2027 | 1,733,000 | 1,810,000 |
| 2009B | 1,058,000 | 12/1/2029 | 981,000 | 1,020,000 |
| 2011A | 788,000 | 6/1/2021 | 657,000 | 788,000 |
| 2011A (RP) | 7,685,000 | 6/1/2026 | 7,605,000 | - |
| 2011B | 10,815,000 | 6/1/2028 | 10,590,000 | - |
| 2011C | 6,597,000 | 6/1/2041 | 6,494,000 | - |

Monies in the acquisition funds are restricted for the projects being funded by the Series 2011A, 2011A(RP), 2011B, and 2011C. Debt service reserve funds are restricted for the payment of principal and interest pursuant to the agreements.

NOTES TO FINANCIAL STATEMENTS--Continued

UNIVERSITY OF CENTRAL OKLAHOMA

June 30, 2012

NOTE F--LONG-TERM LIABILITIES--Continued

Capital Lease Obligations--Continued

Future minimum lease payments under the University's capital lease obligations are as follows:

| | <u>Principal</u> | <u>Interest</u> | <u>Total</u> |
|-----------------------|----------------------|----------------------|----------------------|
| Years Ending June 30: | | | |
| 2013 | \$ 1,604,613 | \$ 2,284,517 | \$ 3,889,130 |
| 2014 | 1,657,193 | 2,236,707 | 3,893,900 |
| 2015 | 1,719,896 | 2,184,510 | 3,904,406 |
| 2016 | 1,747,407 | 2,131,747 | 3,879,154 |
| 2017 | 1,610,189 | 2,071,756 | 3,681,945 |
| 2018-2022 | 8,754,785 | 9,403,632 | 18,158,417 |
| 2023-2027 | 9,100,000 | 7,472,356 | 16,572,356 |
| 2028-2032 | 11,842,758 | 5,837,955 | 17,680,713 |
| 2033-2037 | 8,110,057 | 1,549,730 | 9,659,787 |
| 2038-2042 | 1,555,000 | 225,718 | 1,780,718 |
| | <u>\$ 47,701,898</u> | <u>\$ 35,398,628</u> | <u>\$ 83,100,526</u> |

Total interest costs incurred in 2012 were \$3,841,762 of which \$12,887 was capitalized. Total interest costs incurred in 2011 were \$3,620,921 of which \$52,484 was capitalized.

Other Leases

The University has entered into a lease agreement with its component unit, the University Foundation, to lease their music building for a period of 25 years in the amount of \$5,299 per month. The lease commenced in January 2002 and will terminate at the end of the 300th month. In accordance with the agreement, the monthly rent adjusts every 5 years to mirror the change in the interest rate paid by the Foundation. In addition, the University agreed to pay the Foundation an additional sum of \$1,200 per year plus the EEDA's annual administrative fee which is 1/8th of 1% of the declining principal balance of the loan on the property. This lease may be cancelled at the end of any year should funding for the lease not be approved by the Regional University System of Oklahoma and budgeted and approved by the University's administration.

The University has entered into a lease agreement with its component unit, the University Foundation, to lease the building and grounds located at 400 N. Littler, 115 and 117 E. 4th and 29 S.E.4th, Edmond, Oklahoma for a period of one year. The lease calls for monthly rental payments plus reimburse the Foundation for related insurance. The lease commenced in May 2005. This lease automatically renews for a term of one year through May 2015, unless notified in writing sixty days in advance of the anniversary date. Monthly rental payments were \$2,416 and \$2,361 at June 30, 2012 and 2011, respectively.

NOTES TO FINANCIAL STATEMENTS--Continued

UNIVERSITY OF CENTRAL OKLAHOMA

June 30, 2012

NOTE G--RETIREMENT PLANS

Other Leases--Continued

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

Oklahoma Teachers' Retirement System (OTRS)

Plan Description

The University contributes to the Oklahoma Teachers' Retirement System (OTRS), a cost-sharing multiple-employer defined benefit pension plan sponsored by the State. 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. Title 70 of the Oklahoma Statutes, Sections 17-101 through 17-116.9, as amended, assigns the authority for management and operation of the Plan to the Board of Trustees of OTRS. OTRS is not required to provide for a cost-of living adjustment. The 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 73152-3524, or by calling (405) 521-2387.

Funding Policy

The University is required to contribute a fixed percentage of annual compensation on behalf of active members. The employer contribution rate was 8.05% from July 1, 2009 through December 31, 2009 and 8.55% from January 1, 2010 through June 30, 2012. The contribution 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 2012, 2011 and 2010, respectively. Percentages of the compensation in excess of \$15,000 for the employee's contributions were paid directly by the University to the OTRS for 2012, 2011 and 2010, respectively.

NOTES TO FINANCIAL STATEMENTS--Continued

UNIVERSITY OF CENTRAL OKLAHOMA

June 30, 2012

NOTE G--RETIREMENT PLANS--Continued

Oklahoma Teachers' Retirement System (OTRS)--Continued

Funding Policy--Continued

The University's contributions to the OTRS for the years ended June 30, 2012, 2011, and 2010, were approximately \$10,105,000, \$9,804,000, and \$9,230,000, respectively. These contributions included the University's statutory contribution and the share of the employee's contribution paid directly by the University.

The State of Oklahoma is also required to contribute to the OTRS on behalf of the participating employers. For 2012, the State of Oklahoma contributed 5% of state revenues from sales and use taxes and individual income taxes, to the OTRS on behalf of participating employers. The University has estimated the amounts contributed to the OTRS by the State 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 years ended June 30, 2012 and 2011, total amounts contributed to the OTRS by the State of Oklahoma on behalf of the University were approximately \$5,095,000 and \$4,587,000, respectively. These on-behalf payments have been recorded as both revenues and expenses of the current funds in the financial statements in the statements of revenues, expenses and changes in net assets.

Supplemental Retirement Annuity (SRA)

Plan Description

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

Funding Policy

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

NOTES TO FINANCIAL STATEMENTS--Continued

UNIVERSITY OF CENTRAL OKLAHOMA

June 30, 2012

NOTE G--RETIREMENT PLANS--Continued

Supplemental Retirement Annuity (SRA)--Continued

Annual Pension Cost & Net Pension Obligation (Asset)

Annual pension cost and net pension obligation (asset) of the SRA as of June 30, 2012 and 2011 are as follows:

| | <u>2012</u> | <u>2011</u> |
|-----------------------------------------------------|-----------------------|-----------------------|
| Annual required contribution | \$ 965,789 | \$ 1,063,119 |
| Interest on net pension obligation (asset) | (163,864) | (171,634) |
| Adjustment to annual required contribution | <u>208,624</u> | <u>218,516</u> |
| Annual pension cost | 1,010,549 | 1,110,001 |
| Contributions made | <u>(1,012,880)</u> | <u>(1,012,881)</u> |
| Increase in net pension obligation | (2,331) | 97,120 |
| Net pension obligation (asset) at beginning of year | <u>(2,048,306)</u> | <u>(2,145,426)</u> |
| Net pension obligation (asset) at end of year | <u>\$ (2,050,637)</u> | <u>\$ (2,048,306)</u> |

The annual required contribution for 2012 and 2011 were determined as part of an actuarial valuation on June 30, 2012 and 2011, using the projected unit credit actuarial cost method. The actuarial assumptions included (a) a discount rate of 8% per year to determine the present value of future benefit payments; (b) retirement at age 65; (c) an 8% rate of return on investments; (d) projected salary increases of 3.5% per year; and (e) an 8% interest rate for post-retirement individual annuity settlement benefits. The value of the SRA assets is based on the TIAA-CREF group annuity account asset value. The unfunded actuarial accrued liability is being amortized over twenty years as a level dollar amount on a closed basis.

Trend Information

| <u>Year Ended June 30,</u> | <u>Annual Pension Cost (APC)</u> | <u>Percentage of APC Contributed</u> | <u>Net Pension Obligation (Asset)</u> |
|--------------------------------|--------------------------------------|------------------------------------------|-------------------------------------------|
| 2012 | \$ 1,010,549 | 100.2% | \$ (2,050,637) |
| 2011 | 1,110,001 | 91.3% | (2,048,306) |
| 2010 | 1,106,763 | 90.8% | (2,145,426) |

NOTES TO FINANCIAL STATEMENTS--Continued

UNIVERSITY OF CENTRAL OKLAHOMA

June 30, 2012

NOTE G--RETIREMENT PLANS--Continued

Supplemental Retirement Annuity (SRA)--Continued

Fund Status and Fund Progress

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

| | <u>2012</u> | <u>2011</u> |
|---------------------------------------------------|---------------------|---------------------|
| Actuarial accrued liability (AAL) | \$ 14,486,394 | \$ 14,857,697 |
| Actuarial value of plan assets | <u>5,314,922</u> | <u>5,520,352</u> |
| Unfunded actuarial accrued liability (UAAL) | <u>\$ 9,171,472</u> | <u>\$ 9,337,345</u> |
| Funded Ratio (actuarial value of plan assets/AAL) | 36.7% | 37.2% |
| Covered Payroll (active plan members) | \$ 11,015,029 | \$ 11,972,262 |
| UAAL as a percentage of covered payroll | 83.2% | 78.0% |

NOTE H--OTHER POST-EMPLOYMENT INSURANCE BENEFITS (OPEB)

Postemployment Healthcare Plan

Plan Description

The University's postemployment healthcare plan is an agent multiple-employer defined benefit plan administered by the Regional University System of Oklahoma Board of Regents ("RUSO"). The plan provides medical and life insurance benefits to eligible retired employees until age 65. A retiring employee must have been employed full-time in the Regional University System of Oklahoma for not less than ten years immediately preceding the date of retirement; been a member of the Oklahoma Teachers' Retirement System during that time; and elected to receive a vested benefit under the provision of the Oklahoma Teachers' Retirement System. As of June 30, 2012, there were a total of 871 participants in the plan. The retirement insurance program was adopted by the Board of Regents in 1985. In March 2008, the Retiree Medical Trust for Regional University system of Oklahoma was established to hold assets and pay benefits on behalf of the University's postemployment healthcare plan, and is administered by The Bank of Oklahoma, N.A. Prior to the establishment of the trust, the insurance benefits were accounted for on a pay-as-you-go basis so that premiums were made from current operating funds. In 2009, the board voted to eliminate this benefit for anyone hired after July 1, 2009, which limits the future liability.

NOTES TO FINANCIAL STATEMENTS--Continued

UNIVERSITY OF CENTRAL OKLAHOMA

June 30, 2012

NOTE H--OTHER POST-EMPLOYMENT INSURANCE BENEFITS (OPEB)--Continued

Postemployment Healthcare Plan--Continued

Funding Policy

The contribution requirements of the University are established and may be amended by the RUSO. The University 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 OPEB Cost

The University's annual required contributions were \$572,780 and \$626,443, in 2012 and 2011, respectively. The annual OPEB cost, the percentage of annual OPEB cost contributed to the plan, and the net OPEB obligation at June 30, 2012 and 2011 are as follows:

Trend Information

| <u>Fiscal Year Ended</u> | <u>Annual OPEB Cost</u> | <u>Percentage of Annual OPEB Cost Contributed</u> | <u>Net OPEB Obligation</u> |
|------------------------------|-----------------------------|-----------------------------------------------------------|------------------------------------|
| 6/30/2012 | \$ 572,780 | 100% | \$ - |
| 6/30/2011 | 626,443 | 100% | - |
| 6/30/2010 | 613,300 | 100% | - |

Funded Status and Funding Progress

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

| | <u>2012</u> | <u>2011</u> |
|---------------------------------------------------|---------------------|---------------------|
| Actuarial accrued liability (AAL) | \$ 6,338,224 | \$ 6,133,462 |
| Actuarial value of plan assets | <u>2,688,141</u> | <u>2,065,248</u> |
| Unfunded actuarial accrued liability (UAAL) | <u>\$ 3,650,083</u> | <u>\$ 4,068,214</u> |
| Funded Ratio (actuarial value of plan assets/AAL) | 42.4% | 33.7% |
| Covered Payroll (active plan members) | \$ 60,799,372 | \$ 70,446,439 |
| UAAL as a percentage of covered payroll | 6.0% | 5.8% |

NOTES TO FINANCIAL STATEMENTS--Continued

UNIVERSITY OF CENTRAL OKLAHOMA

June 30, 2012

NOTE H--OTHER POST-EMPLOYMENT INSURANCE BENEFITS (OPEB)--Continued

Postemployment Healthcare Plan--Continued

Actuarial Method and Assumptions

Actuarial valuation of an ongoing plan involves estimates of the value of reported amounts and assumptions about the probability of occurrence of events far into the future. Examples include assumptions about future employment, mortality, and the healthcare cost trend. Amounts determined regarding the funded status of the plan and the annual required contributions of the employer are subject to continual revision as actual results are compared with past expectations and new estimates are made about the future. The schedule of funding progress, presented 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.

Projections of benefits for financial reporting purposes are based on the substantive plan and include the types of benefits provided at the time of each valuation. The actuarial methods and assumptions used include techniques that are designed to reduce short-term volatility in actuarial accrued liabilities and the actuarial value of assets, consistent with the long-term perspective of the calculations. For the June 30, 2012 actuarial valuation, the Projected Unit Credit Cost Method was used. The actuarial assumptions included a 7.0% investment rate of return and an annual healthcare cost inflationary increase of 9.0%.

NOTE I--FUNDS HELD IN TRUST BY OTHERS

Beneficial Interest in State School Land Funds

The University has a beneficial interest in the Section Thirteen Fund State Educational Institutions and the New College Fund administered by the Commissioners of the Land Office as trustees for the various educational institutions entitled thereto. The University has the right to receive annually 3.7% of the distributions of income produced by Section Thirteen Fund State Educational Institutions assets and 100% of the distributions of income produced by the University of Central Oklahoma's New College Fund. The University received \$1,225,031 and \$971,515 during the years ended June 30, 2012 and 2011, respectively, which is restricted to the construction or acquisition of buildings, equipment, or other capital items. These amounts are recorded as restricted capital gifts in the statements of revenues, expenses and changes in net assets. State law prohibits the distribution of any corpus of these funds to the beneficiaries. The total cost basis trust reserve for University of Central Oklahoma, held in trust by the commissioners of Land Office, was approximately \$14,781,000 and \$14,497,000 at June 30, 2012 and 2011, respectively.

NOTES TO FINANCIAL STATEMENTS--Continued

UNIVERSITY OF CENTRAL OKLAHOMA

June 30, 2012

NOTE I--FUNDS HELD IN TRUST BY OTHERS--Continued

Oklahoma State Regents Endowment Trust Fund

The University participates in the Oklahoma State Regents' Endowment Program (the "Endowment Program"). Under the Endowment Program, the State matches contributions received. Such contributions generally come from private donations through the Foundation, for endowed chairs, lectureships, fellowships, and similar activities. The State matched amounts, plus any retained accumulated earnings, totaled approximately \$1,618,000 and \$1,642,000 at June 30, 2012 and 2011, respectively, and is invested by the Oklahoma State Regents on behalf of the University. The University is entitled to receive an annual distribution of 4.5% of the three-year average of the June 30th market values on these funds. As legal title of the State Regents matching endowment funds is retained by the Oklahoma State Regents, the funds available for distribution are approximately \$104,000 and \$79,000 at June 30, 2012 and 2011, respectively.

NOTE J--COMMITMENTS AND CONTINGENCIES

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

NOTE K--RISK MANAGEMENT

During the ordinary course of business, the University may be subjected to various lawsuits and civil action claims. Management believes that resolution of any such matters pending at June 30, 2012 will not have material adverse impact to the University.

The University is exposed to various risks of loss from torts; theft of, damage to, and destruction of assets; errors and omissions; employee injuries and illnesses; natural disasters; and employee health, life, and accident benefits. Commercial insurance coverage is purchased on a limited basis for special events and large dollar items that are under the State Risk deductibles. The University, along with other state agencies and political subdivisions, participates in the State of Oklahoma Risk Management Program and the State Insurance Fund, public entity risk pools currently operating as a common risk management and insurance program for its members. The University pays annual premiums to the pools for tort, property, and liability insurance coverage.

NOTES TO FINANCIAL STATEMENTS--Continued

UNIVERSITY OF CENTRAL OKLAHOMA

June 30, 2012

NOTE K--RISK MANAGEMENT--Continued

The Oklahoma Risk Management Pool's governing agreement specifies that the pool will be self-sustaining through member premiums and will reinsure through commercial carriers for claims in excess of specified stop-loss amounts.

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

NOTE L--SEGMENT INFORMATION

The following financial information represents an identifiable activity for which revenue bonds are outstanding and for which segment information is to be reported, as required by GASB Statement No. 34, as amended. The bonds were issued to construct a student housing facility for the University.

UCO Student Housing Foundation - Series 2001A

The UCO Student Housing Foundation operated the student housing facility known as the University Suites II. Revenues pledged include all room rentals and other revenues generated from the housing facility.

NOTES TO FINANCIAL STATEMENTS--Continued

UNIVERSITY OF CENTRAL OKLAHOMA

June 30, 2012

NOTE L--SEGMENT INFORMATION--Continued

Condensed Statement of Net Assets

| | Student Housing 2012 | Student Housing 2011 |
|-----------------------------------------|-------------------------|-------------------------|
| ASSETS | | |
| Current assets | \$ 656,960 | \$ 470,615 |
| Capital assets | 5,142,083 | 5,319,396 |
| Other assets | <u>3,594,432</u> | <u>2,984,014</u> |
| TOTAL ASSETS | <u>9,393,475</u> | <u>8,774,025</u> |
| LIABILITIES | | |
| Current liabilities | 2,200,405 | 1,367,906 |
| Long-term liabilities | <u>7,249,969</u> | <u>7,540,000</u> |
| TOTAL LIABILITIES | <u>9,450,374</u> | <u>8,907,906</u> |
| NET ASSETS | | |
| Unrestricted | 2,285,987 | 2,248,757 |
| Invested in capital assets, net of debt | <u>(2,342,886)</u> | <u>(2,382,638)</u> |
| TOTAL NET ASSETS (DEFICIENCY) | <u>\$ (56,899)</u> | <u>\$ (133,881)</u> |

Condensed Statement of Revenues Expenses and Changes in Net Assets

| | Student Housing 2012 | Student Housing 2011 |
|-----------------------------------------|-------------------------|-------------------------|
| OPERATING REVENUES | \$ 1,646,665 | \$ 1,600,569 |
| Depreciation expense | (188,869) | (188,161) |
| Other operating expenses | <u>(1,225,534)</u> | <u>(981,017)</u> |
| NET OPERATING INCOME | 232,262 | 431,391 |
| NONOPERATING REVENUES (EXPENSES) | | |
| Investment income | 39 | 229 |
| Interest expense | <u>(155,319)</u> | <u>(275,908)</u> |
| NET NONOPERATING EXPENSES | (155,280) | (275,679) |
| Change in net assets | 76,982 | 155,712 |
| NET ASSETS, BEGINNING OF YEAR | <u>(133,881)</u> | <u>(289,593)</u> |
| NET ASSETS, END OF YEAR | <u>\$ (56,899)</u> | <u>\$ (133,881)</u> |

NOTES TO FINANCIAL STATEMENTS--Continued

UNIVERSITY OF CENTRAL OKLAHOMA

June 30, 2012

NOTE L--SEGMENT INFORMATION--Continued

Condensed Statement of Cash Flows

| | Student Housing 2012 | Student Housing 2011 |
|--------------------------------------------------------------------|--------------------------|--------------------------|
| Net cash provided by operating activities | \$ 1,071,986 | \$ 504,052 |
| Net cash flows used by capital and related financing activities | (220,000) | (210,000) |
| Net cash provided by investing activities | <u>(677,005)</u> | <u>(265,139)</u> |
| Net increase in cash | 174,981 | 28,913 |
| CASH, BEGINNING OF YEAR | <u>417,813</u> | <u>388,900</u> |
| CASH, END OF YEAR | <u><u>\$ 592,794</u></u> | <u><u>\$ 417,813</u></u> |

REQUIRED SUPPLEMENTARY
INFORMATION

REQUIRED SUPPLEMENTARY INFORMATION--UNAUDITED

UNIVERSITY OF CENTRAL OKLAHOMA

June 30, 2012

SCHEDULE OF FUNDING PROGRESS FOR SUPPLEMENTAL RETIREMENT ANNUITY PLAN

| Actuarial Valuation Date | Actuarial Value of Assets (a) | Actuarial Accrued Liability (AAL) (b) | Unfunded AAL (UAAL) (b-a) | Funded Ratio (a/b) | Covered Payroll (c) | UAAL as a percentage of Covered Payroll (b-a)/(c) |
|--------------------------|-------------------------------|---------------------------------------|---------------------------|--------------------|---------------------|---------------------------------------------------|
| 6/30/2006 | \$ 4,790,261 | \$ 13,357,666 | \$ 8,567,405 | 35.9% | \$ 16,113,514 | 53.2% |
| 6/30/2007 | 5,387,069 | 14,791,448 | 9,404,379 | 36.4% | 15,958,108 | 58.9% |
| 6/30/2008 | 5,279,537 | 13,981,155 | 8,701,618 | 37.8% | 15,644,334 | 55.6% |
| 6/30/2009 | 4,719,473 | 14,470,846 | 9,751,373 | 32.6% | 15,140,727 | 64.4% |
| 6/30/2010 | 5,009,966 | 15,086,417 | 10,076,451 | 33.2% | 13,621,881 | 74.0% |
| 6/30/2011 | 5,520,352 | 14,857,697 | 9,337,345 | 37.2% | 11,972,262 | 78.0% |
| 6/30/2012 | 5,314,922 | 14,486,394 | 9,171,472 | 36.7% | 11,015,029 | 83.3% |

SCHEDULE OF FUNDING PROGRESS FOR OTHER POST EMPLOYMENT INSURANCE BENEFITS

| Actuarial Valuation Date | Actuarial Value of Assets (a) | Actuarial Accrued Liability (AAL) (b) | Unfunded AAL (UAAL) (b-a) | Funded Ratio (a/b) | Covered Payroll (c) | UAAL as a percentage of Covered Payroll (b-a)/(c) |
|--------------------------|-------------------------------|---------------------------------------|---------------------------|--------------------|---------------------|---------------------------------------------------|
| 6/30/2008 | \$ 666,000 | \$ 5,371,791 | \$ 4,705,791 | 12.4% | \$ 51,210,330 | 9.2% |
| 6/30/2009 | 944,691 | 5,371,791 | 4,427,100 | 17.6% | 57,660,935 | 7.7% |
| 6/30/2010 | 1,241,612 | 5,611,802 | 4,370,190 | 22.1% | 67,966,227 | 6.4% |
| 6/30/2011 | 2,065,248 | 6,133,462 | 4,068,214 | 33.7% | 70,446,439 | 5.8% |
| 6/30/2012 | 2,688,141 | 6,338,224 | 3,650,083 | 42.4% | 60,799,372 | 6.0% |

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

OTHER SUPPLEMENTARY
INFORMATION

SUPPLEMENTARY SCHEDULE - COMBINING STATEMENT OF NET ASSETS

UNIVERSITY OF CENTRAL OKLAHOMA

June 30, 2012

| | Primary Government | | | Discrete Component Units | | | |
|--------------------------------------------------|-----------------------|----------------------------|-----------------------|--------------------------|--------------------|--------------------|----------------------|
| | UCO | Student Housing Foundation | Total University | University Foundation | Alumni Association | KCSC-FM Foundation | Total |
| ASSETS | | | | | | | |
| CURRENT ASSETS | | | | | | | |
| Cash and cash equivalents | \$ 56,072,974 | \$ 592,794 | \$ 56,665,768 | \$ 417,359 | \$ 168,226 | \$ 79,199 | \$ 664,784 |
| Restricted cash and cash equivalents | 11,132,094 | - | 11,132,094 | - | - | - | - |
| Restricted Investments | 497,483 | 2,938,479 | 3,435,962 | - | - | 635,000 | 635,000 |
| Investments held by others | 591,696 | - | 591,696 | - | 179,266 | - | 179,266 |
| Accounts receivable, net | 17,073,911 | 58,790 | 17,132,701 | - | - | - | - |
| Interest receivable | 40,279 | - | 40,279 | 40,979 | - | 988 | 41,967 |
| Prepaid expenses | 723 | 5,376 | 6,099 | 5,530 | - | - | 5,530 |
| Inventories | 431,747 | - | 431,747 | - | - | - | - |
| Contributions receivable | - | - | - | 4,127,362 | - | - | 4,127,362 |
| Current portion of student loans receivable, net | 205,000 | - | 205,000 | - | - | - | - |
| TOTAL CURRENT ASSETS | 86,045,907 | 3,595,439 | 89,641,346 | 4,591,230 | 347,492 | 715,187 | 5,653,909 |
| NONCURRENT ASSET | | | | | | | |
| Restricted investments | - | 494,317 | 494,317 | 23,529,641 | - | - | 23,529,641 |
| Investments held by others | - | - | - | 264,713 | - | - | 264,713 |
| Student loans receivable, net | 1,542,424 | - | 1,542,424 | 11,840 | - | - | 11,840 |
| Other assets | 247,924 | 216,667 | 464,591 | - | - | - | - |
| Prepaid pension asset | 2,050,637 | - | 2,050,637 | - | - | - | - |
| Capitalized collections | 4,725,870 | - | 4,725,870 | - | - | - | - |
| Capital assets, net | 121,081,829 | 5,142,083 | 126,223,912 | 1,319,959 | 333 | - | 1,320,292 |
| TOTAL NONCURRENT ASSETS | 129,648,684 | 5,853,067 | 135,501,751 | 25,126,153 | 333 | - | 25,126,486 |
| TOTAL ASSETS | \$ 215,694,591 | \$ 9,448,506 | \$ 225,143,097 | \$ 29,717,383 | \$ 347,825 | \$ 715,187 | \$ 30,780,395 |
| LIABILITIES | | | | | | | |
| CURRENT LIABILITIES | | | | | | | |
| Accounts payable | \$ 3,616,145 | \$ 1,965,405 | \$ 5,581,550 | \$ 91,121 | \$ - | \$ - | \$ 91,121 |
| Accrued payroll and benefits | 4,934,425 | - | 4,934,425 | - | - | - | - |
| Accrued interest payable | 178,796 | - | 178,796 | - | - | - | - |
| Deferred revenue | 3,840,047 | - | 3,840,047 | - | - | - | - |
| Deposits held in custody for others | 1,837,481 | - | 1,837,481 | 179,236 | - | - | 179,236 |
| Current portion of noncurrent liabilities | 5,067,714 | 235,000 | 5,302,714 | - | - | - | - |
| TOTAL CURRENT LIABILITIES | 19,474,608 | 2,200,405 | 21,675,013 | 270,357 | - | - | 270,357 |
| NONCURRENT LIABILITIES, | | | | | | | |
| net of current portion: | | | | | | | |
| Accrued compensated absences | 1,328,101 | - | 1,328,101 | - | - | - | - |
| Federal loan program contributions refundable | 1,467,975 | - | 1,467,975 | - | - | - | - |
| Bonds payable | 27,030,000 | 7,305,000 | 34,335,000 | - | - | - | - |
| Notes payable | 5,200,000 | - | 5,200,000 | 776,219 | - | - | 776,219 |
| ODFA master lease obligation | 29,349,071 | - | 29,349,071 | - | - | - | - |
| Lease obligation payable to state agency | 16,748,213 | - | 16,748,213 | - | - | - | - |
| TOTAL NONCURRENT LIABILITIES | 81,123,360 | 7,305,000 | 88,428,360 | 776,219 | - | - | 776,219 |
| TOTAL LIABILITIES | \$ 100,597,968 | \$ 9,505,405 | \$ 110,103,373 | \$ 1,046,576 | \$ - | \$ - | \$ 1,046,576 |
| NET ASSETS | | | | | | | |
| Invested in capital assets, net of related debt | \$ 41,890,610 | \$ (2,342,886) | \$ 39,547,724 | \$ - | \$ - | \$ - | \$ - |
| Restricted for: | | | | | | | |
| Nonexpendable | 677,958 | - | 677,958 | 16,753,107 | - | - | 16,753,107 |
| Expendable: | | | | 8,212,815 | - | - | 8,212,815 |
| Scholarships, research, instruction and other | 2,400,029 | - | 2,400,029 | - | - | - | - |
| Loans | 646,864 | - | 646,864 | - | - | - | - |
| Capital projects | 5,836,647 | - | 5,836,647 | - | - | - | - |
| Debt service | 4,034,338 | - | 4,034,338 | - | - | - | - |
| Unrestricted | 59,610,177 | 2,285,987 | 61,896,164 | 3,704,885 | 347,825 | 715,187 | 4,767,897 |
| TOTAL NET ASSETS | \$ 115,096,623 | \$ (56,899) | \$ 115,039,724 | \$ 28,670,807 | \$ 347,825 | \$ 715,187 | \$ 29,733,819 |

See notes to financial statements.

SUPPLEMENTARY SCHEDULE - COMBINING STATEMENT OF REVENUES, EXPENSES AND CHANGES IN NET ASSETS

UNIVERSITY OF CENTRAL OKLAHOMA

Year Ended June 30, 2012

| | Primary Government | | | Discrete Component Units | | | |
|------------------------------------------------------------------------------------------------------------------|-----------------------|----------------------------|-----------------------|--------------------------|--------------------|--------------------|----------------------|
| | UCO | Student Housing Foundation | Total University | University Foundation | Alumni Association | KCSC-FM Foundation | Total |
| OPERATING REVENUES | | | | | | | |
| Student tuition and fees (included in fees are \$3,868,973 of revenues dedicated for bond repayments) | \$ 89,098,184 | \$ - | \$ 89,098,184 | \$ - | \$ - | \$ - | \$ - |
| Less scholarship, discounts and allowances | (21,852,229) | - | (21,852,229) | - | - | - | - |
| Net student revenues | 67,245,955 | - | 67,245,955 | - | - | - | - |
| Federal grants and contracts | 2,811,190 | - | 2,811,190 | - | - | - | - |
| State and local grants and contracts | 4,416,610 | - | 4,416,610 | - | - | 10,000 | 10,000 |
| Bookstore operations | 1,202,191 | - | 1,202,191 | - | - | - | - |
| Housing and food service revenues (\$1,543,833 pledged as security on 2001 UCO Student Housing Foundation Bonds) | 12,970,702 | 1,543,833 | 14,514,535 | - | - | - | - |
| Parking and University Center revenues (total revenues are dedicated as security for bond repayments.) | 1,931,030 | - | 1,931,030 | - | - | - | - |
| Interest earned on loans to students | 18,724 | - | 18,724 | - | - | - | - |
| Other operating revenues | 3,669,097 | 102,832 | 3,771,929 | - | - | - | - |
| TOTAL OPERATING REVENUES | 94,265,499 | 1,646,665 | 95,912,164 | - | - | 10,000 | 10,000 |
| OPERATING EXPENSES | | | | | | | |
| Compensation and employee benefits | 106,353,853 | - | 106,353,853 | - | - | - | - |
| Contractual services | 4,842,530 | 24,200 | 4,866,730 | 74,409 | 7,409 | 10,070 | 91,888 |
| Supplies and materials | 21,173,435 | 148,199 | 21,321,634 | 117,226 | 5,718 | - | 122,944 |
| Depreciation | 7,899,766 | 177,313 | 8,077,079 | 47,456 | - | - | 47,456 |
| Utilities | 2,928,610 | 117,652 | 3,046,262 | - | - | - | - |
| Scholarships and fellowships | 18,006,879 | - | 18,006,879 | - | - | - | - |
| Other operating expenses | 16,178,158 | 947,039 | 17,125,197 | 1,735,605 | 94,291 | 8,885 | 1,838,781 |
| TOTAL OPERATING EXPENSES | 177,383,231 | 1,414,403 | 178,797,634 | 1,974,696 | 107,418 | 18,955 | 2,101,069 |
| Net operating income (loss) | (83,117,732) | 232,262 | (82,885,470) | (1,974,696) | (107,418) | (8,955) | (2,091,069) |
| NONOPERATING REVENUES (EXPENSES) | | | | | | | |
| State appropriations | 62,367,755 | - | 62,367,755 | - | - | - | - |
| Federal funded student aid | 22,792,395 | - | 22,792,395 | - | - | - | - |
| OTRS on-behalf contributions | 5,095,449 | - | 5,095,449 | - | - | - | - |
| Gifts | 212,180 | - | 212,180 | 4,795,285 | 120,306 | 45,038 | 4,960,629 |
| Investment income | 475,228 | 39 | 475,267 | 360,229 | 52 | 5,949 | 366,230 |
| Interest expense | (3,673,556) | (155,319) | (3,828,875) | (16,657) | - | - | (16,657) |
| NET NONOPERATING REVENUES (EXPENSES) | 87,269,451 | (155,280) | 87,114,171 | 5,138,857 | 120,358 | 50,987 | 5,310,202 |
| Income (loss) before other revenues, expenses, gains and losses | 4,151,719 | 76,982 | 4,228,701 | 3,164,161 | 12,940 | 42,032 | 3,219,133 |
| State appropriations restricted for capital purposes | 1,262,827 | - | 1,262,827 | - | - | - | - |
| OCIA on-behalf state appropriations | 1,915,527 | - | 1,915,527 | - | - | - | - |
| CHANGE IN NET ASSETS | 7,330,073 | 76,982 | 7,407,055 | 3,164,161 | 12,940 | 42,032 | 3,219,133 |
| NET ASSETS, BEGINNING OF YEAR | 107,766,550 | (133,881) | 107,632,669 | 25,506,646 | 334,885 | 673,155 | 26,514,686 |
| NET ASSETS, END OF YEAR | \$ 115,096,623 | \$ (56,899) | \$ 115,039,724 | \$ 28,670,807 | \$ 347,825 | \$ 715,187 | \$ 29,733,819 |

See notes to financial statements.

SUPPLEMENTARY SCHEDULE - COMBINING STATEMENT OF NET ASSETS

UNIVERSITY OF CENTRAL OKLAHOMA

June 30, 2011

| | Primary Government | | | Discrete Component Units | | | |
|--------------------------------------------------|-----------------------|----------------------------|-----------------------|--------------------------|--------------------|--------------------|----------------------|
| | UCO | Student Housing Foundation | Total University | University Foundation | Alumni Association | KCSC-FM Foundation | Total |
| ASSETS | | | | | | | |
| CURRENT ASSETS | | | | | | | |
| Cash and cash equivalents | \$ 48,885,627 | \$ 417,813 | \$ 49,303,440 | \$ 371,512 | \$ 155,030 | \$ 41,674 | \$ 568,216 |
| Restricted cash and cash equivalents | 9,929,161 | - | 9,929,161 | - | - | - | - |
| Restricted Investments | 2,954,743 | - | 2,954,743 | - | - | 652,000 | 652,000 |
| Investments held by others | - | - | - | - | 179,273 | - | 179,273 |
| Accounts receivable, net | 14,516,278 | 47,426 | 14,563,704 | - | - | - | - |
| Interest receivable | 36,302 | - | 36,302 | 44,583 | - | 1,706 | 46,289 |
| Prepaid expenses | 723 | 5,376 | 6,099 | 4,089 | - | - | 4,089 |
| Inventories | 352,711 | - | 352,711 | - | - | - | - |
| Contributions receivable | - | - | - | 2,769,552 | - | - | 2,769,552 |
| Current portion of student loans receivable, net | 205,000 | - | 205,000 | - | - | - | - |
| TOTAL CURRENT ASSETS | 76,880,545 | 470,615 | 77,351,160 | 3,189,736 | 334,303 | 695,380 | 4,219,419 |
| NONCURRENT ASSET | | | | | | | |
| Restricted investments | - | 2,755,791 | 2,755,791 | 21,495,548 | - | - | 21,495,548 |
| Investments held by others | - | - | - | 273,233 | - | - | 273,233 |
| Student loans receivable, net | 1,691,049 | - | 1,691,049 | - | - | - | - |
| Other assets | 309,155 | 228,223 | 537,378 | 17,578 | - | - | 17,578 |
| Prepaid pension asset | 2,048,306 | - | 2,048,306 | - | - | - | - |
| Capitalized collections | 4,544,290 | - | 4,544,290 | - | - | - | - |
| Capital assets, net | 109,644,360 | 5,319,396 | 114,963,756 | 1,595,529 | 582 | - | 1,596,111 |
| TOTAL NONCURRENT ASSETS | 118,237,160 | 8,303,410 | 126,540,570 | 23,381,888 | 582 | - | 23,382,470 |
| TOTAL ASSETS | \$ 195,117,705 | \$ 8,774,025 | \$ 203,891,730 | \$ 26,571,624 | \$ 334,885 | \$ 695,380 | \$ 27,601,889 |
| LIABILITIES | | | | | | | |
| CURRENT LIABILITIES | | | | | | | |
| Accounts payable | \$ 3,785,216 | \$ 1,147,906 | \$ 4,933,122 | \$ 37,208 | \$ - | \$ 22,225 | \$ 59,433 |
| Accrued payroll and benefits | 5,289,847 | - | 5,289,847 | - | - | - | - |
| Accrued interest payable | 361,826 | - | 361,826 | - | - | - | - |
| Deferred revenue | 3,519,388 | - | 3,519,388 | - | - | - | - |
| Deposits held in custody for others | 1,514,066 | - | 1,514,066 | 179,243 | - | - | 179,243 |
| Current portion of noncurrent liabilities | 4,423,766 | 220,000 | 4,643,766 | 39,167 | - | - | 39,167 |
| TOTAL CURRENT LIABILITIES | 18,894,109 | 1,367,906 | 20,262,015 | 255,618 | - | 22,225 | 277,843 |
| NONCURRENT LIABILITIES, | | | | | | | |
| net of current portion: | | | | | | | |
| Accrued compensated absences | 1,100,015 | - | 1,100,015 | - | - | - | - |
| Federal loan program contributions refundable | 1,808,759 | - | 1,808,759 | - | - | - | - |
| Bonds payable | 35,945,000 | 7,540,000 | 43,485,000 | - | - | - | - |
| Notes payable | 5,645,000 | - | 5,645,000 | 809,360 | - | - | 809,360 |
| ODFA master lease obligation | 6,184,230 | - | 6,184,230 | - | - | - | - |
| Lease obligation payable to state agency | 17,774,042 | - | 17,774,042 | - | - | - | - |
| TOTAL NONCURRENT LIABILITIES | 68,457,046 | 7,540,000 | 75,997,046 | 809,360 | - | - | 809,360 |
| TOTAL LIABILITIES | \$ 87,351,155 | \$ 8,907,906 | \$ 96,259,061 | \$ 1,064,978 | \$ - | \$ 22,225 | \$ 1,087,203 |
| NET ASSETS | | | | | | | |
| Invested in capital assets, net of related debt | \$ 45,728,856 | \$ (2,440,609) | \$ 43,288,247 | \$ - | \$ - | \$ - | \$ - |
| Restricted for: | | | | | | | |
| Nonexpendable | 672,351 | - | 672,351 | 14,587,263 | - | - | 14,587,263 |
| Expendable: | | | | 7,501,920 | - | - | 7,501,920 |
| Scholarships, research, instruction and other | 3,363,420 | - | 3,363,420 | - | - | - | - |
| Loans | 358,441 | - | 358,441 | - | - | - | - |
| Capital projects | 5,012,217 | - | 5,012,217 | - | - | - | - |
| Debt service | 2,901,970 | - | 2,901,970 | - | - | - | - |
| Unrestricted | 49,729,295 | 2,306,728 | 52,036,023 | 3,417,463 | 334,885 | 673,155 | 4,425,503 |
| TOTAL NET ASSETS | \$ 107,766,550 | \$ (133,881) | \$ 107,632,669 | \$ 25,506,646 | \$ 334,885 | \$ 673,155 | \$ 26,514,686 |

See notes to financial statements.

SUPPLEMENTARY SCHEDULE - COMBINING STATEMENT OF REVENUES, EXPENSES AND CHANGES IN NET ASSETS

UNIVERSITY OF CENTRAL OKLAHOMA

Year Ended June 30, 2011

| | Primary Government | | | Discrete Component Units | | | |
|------------------------------------------------------------------------------------------------------------------|-----------------------|----------------------------|-----------------------|--------------------------|--------------------|--------------------|----------------------|
| | UCO | Student Housing Foundation | Total University | University Foundation | Alumni Association | KCSC-FM Foundation | Total |
| OPERATING REVENUES | | | | | | | |
| Student tuition and fees (included in fees are \$4,253,785 of revenues dedicated for bond repayments) | \$ 77,840,742 | \$ - | \$ 77,840,742 | \$ - | \$ - | \$ - | \$ - |
| Less scholarship, discounts and allowances | (20,985,300) | - | (20,985,300) | - | - | - | - |
| Net student revenues | 56,855,442 | - | 56,855,442 | - | - | - | - |
| Federal grants and contracts | 3,414,919 | - | 3,414,919 | - | - | - | - |
| State and local grants and contracts | 5,813,536 | - | 5,813,536 | - | - | - | - |
| Bookstore operations | 1,321,731 | - | 1,321,731 | - | - | - | - |
| Housing and food service revenues (\$1,535,502 pledged as security on 2001 UCO Student Housing Foundation Bonds) | 10,263,653 | 1,535,502 | 11,799,155 | - | - | - | - |
| Parking and University Center revenues (total revenues are dedicated as security for bond repayments.) | 1,724,655 | - | 1,724,655 | - | - | - | - |
| Interest earned on loans to students | 29,320 | - | 29,320 | - | - | - | - |
| Other operating revenues | 3,448,408 | 65,067 | 3,513,475 | - | - | - | - |
| TOTAL OPERATING REVENUES | 82,871,664 | 1,600,569 | 84,472,233 | - | - | - | - |
| OPERATING EXPENSES | | | | | | | |
| Compensation and employee benefits | 102,947,653 | - | 102,947,653 | - | - | - | - |
| Contractual services | 4,425,015 | 36,658 | 4,461,673 | 137,911 | 6,138 | 10,797 | 154,846 |
| Supplies and materials | 16,318,209 | 230,608 | 16,548,817 | 86,919 | 4,956 | - | 91,875 |
| Depreciation | 7,083,285 | 176,605 | 7,259,890 | 48,393 | 266 | - | 48,659 |
| Utilities | 2,295,334 | 108,886 | 2,404,220 | - | - | - | - |
| Scholarships and fellowships | 20,495,364 | - | 20,495,364 | - | - | - | - |
| Other operating expenses | 14,575,905 | 616,421 | 15,192,326 | 2,147,970 | 75,328 | 54,501 | 2,277,799 |
| TOTAL OPERATING EXPENSES | 168,140,765 | 1,169,178 | 169,309,943 | 2,421,193 | 86,688 | 65,298 | 2,573,179 |
| Net operating income (loss) | (85,269,101) | 431,391 | (84,837,710) | (2,421,193) | (86,688) | (65,298) | (2,573,179) |
| NONOPERATING REVENUES (EXPENSES) | | | | | | | |
| State appropriations | 61,731,197 | - | 61,731,197 | - | - | - | - |
| State appropriations - ARRA funds | 3,725,998 | - | 3,725,998 | - | - | - | - |
| Federal funded student aid | 24,266,923 | - | 24,266,923 | - | - | - | - |
| OTRS on-behalf contributions | 4,587,040 | - | 4,587,040 | - | - | - | - |
| Gifts | - | - | - | 7,007,799 | 137,311 | 110,373 | 7,255,483 |
| Investment income | 508,323 | 229 | 508,552 | 2,262,218 | 21,022 | 3,777 | 2,287,017 |
| Interest expense | (3,292,529) | (275,908) | (3,568,437) | (36,427) | - | - | (36,427) |
| NET NONOPERATING REVENUES (EXPENSES) | 91,526,952 | (275,679) | 91,251,273 | 9,233,590 | 158,333 | 114,150 | 9,506,073 |
| Income (loss) before other revenues, expenses, gains and losses | 6,257,851 | 155,712 | 6,413,563 | 6,812,397 | 71,645 | 48,852 | 6,932,894 |
| State appropriations restricted for capital purposes | 1,717,762 | - | 1,717,762 | - | - | - | - |
| OCIA on-behalf state appropriations | 1,862,236 | - | 1,862,236 | - | - | - | - |
| CHANGE IN NET ASSETS | 9,837,849 | 155,712 | 9,993,561 | 6,812,397 | 71,645 | 48,852 | 6,932,894 |
| NET ASSETS, BEGINNING OF YEAR | 97,928,701 | (289,593) | 97,639,108 | 18,694,249 | 263,240 | 624,303 | 19,581,792 |
| NET ASSETS, END OF YEAR | \$ 107,766,550 | \$ (133,881) | \$ 107,632,669 | \$ 25,506,646 | \$ 334,885 | \$ 673,155 | \$ 26,514,686 |

See notes to financial statements.

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

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

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

We have audited the financial statements of the University of Central Oklahoma (the "University"), a component unit of the State of Oklahoma, as of and for the year ended June 30, 2012, and have issued our report thereon dated October 31, 2012. Our report was modified to include a reference to other auditors. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States. Other auditors audited the financial statements of the University of Central Oklahoma Alumni Association and the KCSC Classical Radio Foundation, discretely presented component units of the University, and the UCO Student Housing Foundation, blended component unit, as described in our report on the University's financial statements. The financial statements of the UCO Student Housing Foundation, the University of Central Oklahoma Foundation, Inc., the University of Central Oklahoma Alumni Association and the KCSC Classical Radio Foundation were not audited in accordance with *Government Auditing Standards*.

Internal Control Over Financial Reporting

Management of the University is responsible for establishing and maintaining internal control over financial reporting. In planning and performing our audit, we considered the University's internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the University's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the University'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 University's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, 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 Regents, management, and federal awarding agencies and is not intended to be, and should not be, used by anyone other than these specified parties.

Cole & Reed P.C.

Oklahoma City, Oklahoma
October 31, 2012

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

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

Compliance

We have audited the University of Central Oklahoma's (the "University") compliance, with the types of compliance requirements described in the U.S. Office of Management and Budget (OMB) *Circular A-133 Compliance Supplement* that could have a direct and material effect on each of its major federal programs for the year ended June 30, 2012. The University's major federal programs are identified in the summary of auditors' results section of the accompanying Schedule of Findings and Questioned Costs. Compliance with the requirements of laws, regulations, contracts, and grants applicable to each of its major federal programs is the responsibility of the University's management. Our responsibility is to express an opinion on the University's compliance based on our audit.

We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America, the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, and OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. Those standards and OMB Circular A-133 require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about the University's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion. Our audit does not provide a legal determination of the University's compliance with those requirements.

In our opinion, the University complied, in all material respects, with the requirements referred to above that could have a direct and material effect on each of its major federal programs for the year ended June 30, 2012.

Internal Control Over Compliance

Management of the University is responsible for establishing and maintaining effective internal control over compliance with the requirements of laws, regulations, contracts, and grants applicable to federal programs. In planning and performing our audit, we considered the University's internal control over compliance with requirements that could have a direct and material effect on a major federal program in order to determine our auditing procedures for the purpose of expressing our opinion on compliance and to test and report on internal control over compliance in accordance with OMB circular A-133, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of the University's internal control over compliance.

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

Our consideration of internal control over compliance was for the limited purpose described in the first paragraph of this section was not designed to identify all deficiencies in internal control over compliance that might be deficiencies, significant deficiencies, or material weaknesses. We did not identify any deficiencies in internal control over compliance that we consider to be material weaknesses, as defined above.

Schedule of Expenditures of Federal Awards

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

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

Cole & Reed P.C.

Oklahoma City, Oklahoma
October 31, 2012

SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS

UNIVERSITY OF CENTRAL OKLAHOMA

Year Ended June 30, 2012

| Federal Grantor / Pass-through Grantor / Program Title | Federal CFDA Number | Pass-through Grantor's Number | Disbursements/ Expenditures |
|-------------------------------------------------------------------------------------------------------------------------------------------------------------------|---------------------------|-------------------------------------|--------------------------------|
| U. S. Department of Education | | | |
| Student Financial Aid-Cluster | | | |
| Federal Pell Grant Program | 84.063 | N/A | \$ 21,870,856 |
| Federal Supplemental Education Opportunity Grant | 84.007 | N/A | 273,506 |
| Federal Work-Study Program | 84.033 | N/A | 360,458 |
| Federal Perkins Loan Program | 84.038 | N/A | 1,887,793 |
| Federal Academic Competitiveness Grant FACC | 84.375 | N/A | 1,075 |
| Federal TEACH Grant/Loan | 84.379 | N/A | 286,500 |
| Direct Stafford Loans | 84.268 | N/A | 62,957,859 |
| Direct PLUS Loans | 84.268 | N/A | 2,474,665 |
| | | | <u>90,112,712</u> |
| TRIO Cluster | | | |
| Ronald E. McNair Post-Baccalaureate Achievement | 84.217A | P217A080058 | 256,099 |
| Upward Bound 2008 Grant | 84.047A | P047A070044-08 | 287,367 |
| Student Support Services (SSS) FY 07 | 84.042A | P042A060348 | - |
| Student Support Services (SSS) FY 11 Traditional | 84.042A | P042A100988 | 232,018 |
| Student Support Services (SSS) FY 11 STEM | 84.042A | P042A101239 | 204,916 |
| Total TRIO Cluster | | | <u>980,400</u> |
| Other Direct Programs | | | |
| Project SEEDS - US Dept of Ed | 84.195N | T195N070324 | 259,871 |
| Passed through National Commission on Teaching and America's Future FIPSE TLINC Dissemination UTPA Grant | 84.116B | P1168100320 | 29,487 |
| Passed through OSRHE | | | |
| NCLB Algebra and Pedagogy | 84.367B | 2011NCLB-ITQ Type A | 30,473 |
| Reading, Writing, and Thinking Oklahoma A+ Schools | 84.367B | 2012ESEA-NCLB-ITQ Type A | 17,565 |
| Passed through Oklahoma Dept of Rehabilitation Services Edmond Regional Preschool Program | 84.173 | N/A | 61,356 |
| Total U.S. Department of Education | | | <u>91,491,864</u> |
| Other Programs | | | |
| U.S. Department of Agriculture | | | |
| Migratory Connectivity in the Yellow Rail | 10.xxx | 09-CS-11080900-002 | 910 |
| Total U.S. Department of Agriculture | | | <u>910</u> |
| Department of the Army-Fort Sill Military Reservation | | | |
| Black Swamp Bird Observatory | | N/A | 448 |
| Total Dept. of the Army-Fort Sill Military Reservation | | | <u>448</u> |
| U. S. Fish and Wildlife Service | | | |
| Soil Survey of OK Caves | 15.657 | F11AC00137 | 7,779 |
| Pass through Oklahoma Department of Wildlife Conservation Population Size Estimations of the Mexican Free-Tailed Bat | 15.634 | ODWC T-55-R-1 | 2,263 |
| Total U.S. Fish and Wildlife Service | | | <u>10,042</u> |
| U.S. Department of Health & Human Services | | | |
| Scholarship for Disadvantaged Students (SDS) | 93.925 | T08HP22574-01-00 | 22,975 |
| Administration for Children & Families Financial Assistance Award Passed through OK Partnership for School Readiness Foundation SmartStart Personnel - ARRA | 93.708 ARRA | 90SC000801 | 101,933 |
| Passed through The University of Oklahoma Health Sciences Center OUHSC-Geriatric Education Centers | 93.969 | 6UB4HP19197-02-00 | 9,543 |
| Total U.S. Department of Health & Human Services | | | <u>134,451</u> |
| U.S. Department of Justice | | | |
| Forensic Science Congressional App FY10 | 16.738 | 2010DDBX0368 | 49,090 |
| Passed through East Central University RUSO-VPP Violence Against Women | 16.525 | 2010-X3649-OK-WA | 51,657 |
| Forensic Science Congressional FY09 | 16.753 | 2006-DI-BX-0251 | 13,249 |
| Total U.S. Department of Justice | | | <u>113,996</u> |

SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS--Continued

UNIVERSITY OF CENTRAL OKLAHOMA

Year Ended June 30, 2012

| Federal Grantor / Pass-through Grantor / Program Title | Federal CFDA Number | Pass-through Grantor's Number | Disbursements/ Expenditures |
|------------------------------------------------------------------------------------|---------------------------|-------------------------------------|--------------------------------|
| Environmental Protection Agency | | | |
| Passed through Council for Environmental Education | | | |
| Growing Up WILD | NA | NA | 1,099 |
| Total Environmental Protection Agency | | | 1,099 |
| U.S. Department of Transportation | | | |
| Passed through Oklahoma Highway Safety Office | | | |
| 2011 Oklahoma Highway Observation Study | 20.600 | NA | 33,204 |
| 2012 Oklahoma Highway Observation Study | 20.600 | OHSO OP-12-05-01-00 | 30,507 |
| Total U.S. Department of Transportation | | | 63,711 |
| U.S. Department of Veterans Affairs | | | |
| Passed through US Olympic Committee | | | |
| US Paralympics Integrated Adaptive Sports Program - Regional Ctr of Excellence | NA | NA | 20,863 |
| US Paralympics Integrated Adaptive Sports Program - Endeavor Games | NA | NA | 45,941 |
| US Paralympics Integrated Adaptive Sports Program - Adventure Therapy II | NA | NA | 24,430 |
| US Paralympics Integrated Adaptive Sports Program - Paralympic Veterans Program | NA | NA | 38,516 |
| US Paralympics Integrated Adaptive Sports Program - Adventure Therapy III | NA | NA | 14,845 |
| Armed Force Services Corporation | | | |
| 2012 Endeavor Games Consulting Agreement | NA | NA | 10,858 |
| Total U.S. Department of Veterans Affairs | | | 155,453 |
| National Center for Research Resources (NIH) | | | |
| Passed through University of Oklahoma Health Sciences Center | | | |
| INBRE MRI Flow Study | 93.389 | 2P20RR016478-09 | 13,403 |
| INBRE Environmental Contribution | 93.389 | 5P20RR016478-10 | 225 |
| INBRE Deans Council Chairman | 93.389 | 5P20RR016478-11 | 60,468 |
| INBRE Equipment 2011 | 93.389 | 5P20RR016478-10 | 39,102 |
| INBRE Collaborative Study (Brennan) | 93.389 | 5P20RR016478-11 | 33,682 |
| INBRE Mini-grant (Abu-Abed) | 93.389 | 5P20RR016478-11 | 11,424 |
| INBRE Mini-grant (Vaughan) | 93.389 | 5P20RR016478-11 | 23,978 |
| INBRE Intelligen System for Clinical Guidance (Fu) | 93.389 | 5P20RR016478-11 | 45,499 |
| INBRE Cytotoxicity Screening (Rundle) | 93.389 | 8P20GM103447-12 | 5,903 |
| INBRE Equipment (Chooback) | 93.389 | 8P20GM103447-12 | 8,064 |
| Total National Center for Research Resources | | | 241,748 |
| Corporation for National and Community Service | | | |
| Passed through Wisconsin Campus Compact - University of Wisconsin-Extension | | | |
| Martin Luther King Service Day 2012 | 94.007 | 12 MKNWI001 | 282 |
| Total Corporation for National and Community Service | | | 282 |
| National Endowment for the Humanities | | | |
| Passed through Oklahoma Humanities Council | | | |
| OHC - Annual American Indian Learners Conference | 45.168 | Y10.049 | 209 |
| Total National Endowment for the Humanities (NEH) | | | 209 |
| National Science Foundation | | | |
| Passed through Mathematical Association of America | | | |
| TORUS Conference | NA | DMS-0846477 | 1,613 |
| Passed through Oklahoma State University | | | |
| EPSCoR STEP 2009 | 47.081 | EPS-0814361 | 6,129 |
| Mechanistic Studies of Dihydrodipicolinate Synthase-REU | 47.081 | EPS-0814361/EPSCoR-2011-35 | 3,206 |
| Total EPSCoR | | | 9,335 |
| LS-OKAMP STEM | 47.076 | HRD-0902027/AA-5-29849-UCO | 12,619 |

SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS--Continued

UNIVERSITY OF CENTRAL OKLAHOMA

Year Ended June 30, 2012

| Federal Grantor / Pass-through Grantor / Program Title | Federal CFDA Number | Pass-through Grantor's Number | Disbursements/ Expenditures |
|----------------------------------------------------------------|---------------------------|-------------------------------------|--------------------------------|
| NSF STEP 2009: STEM Double Bridge | 47.076 | DUE-0856396 | 342,208 |
| Robert Noyce Planning Grant | 47.076 | DUE-1035344 | 45,565 |
| S-STEM | 47.076 | DUE-0965864 | <u>147,944</u> |
| | | | 548,336 |
| REU Site: Ecology and Behavior of Honey Bees and Solitary Bees | 47.074 | DBI-0851651 | 79,477 |
| SLL Multi-Purpose Building | 47.074 | DBI-0829392 | 136 |
| MRI: Acquire Automated DNA Sequencer | 47.074 | DBI-0922892 | <u>5,810</u> |
| | | | <u>85,423</u> |
| Total National Science Foundation | | | <u>644,707</u> |
| Small Business Administration | | | |
| Passed through Southeastern Oklahoma State University | | | |
| Small Business Development Center 2012 | 59.037 | N/A | 25,999 |
| Small Business Development Center 2011 | 59.037 | N/A | 133,497 |
| Small Business Development Jobs Act | 59.037 | N/A | <u>37,273</u> |
| Total Small Business Administration | | | <u>196,769</u> |
| Corporation for Public Broadcasting | | | |
| CPB-CSG 2011 | N/A | N/A | 41,536 |
| CPB-NPPAG 2011 | N/A | N/A | 15,447 |
| CPB-NPPAG 2012 | N/A | N/A | 10,155 |
| CPB-CSG 2012 | N/A | N/A | <u>10,281</u> |
| Total Corporation for Public Broadcasting | | | <u>77,419</u> |
| | | | 1,641,244 |
| Total Other Programs | | | <u>1,641,244</u> |
| Total Expenditures of Federal Awards | | | <u>\$ 93,133,108</u> |

See notes to schedule of expenditures of federal awards.

NOTES TO SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS

UNIVERSITY OF CENTRAL OKLAHOMA

June 30, 2012

NOTE A--SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The schedule of expenditures of federal awards include the federal awards activity of the University of Central Oklahoma (the "University") and is presented on the accrual basis of accounting. The information in this schedule is presented in accordance with the requirements of OMB Circular A-133, Audits of States, Local Governments, and Non-Profit Organizations. Therefore, some amounts presented in the schedule may differ from amounts presented in, or used in the preparation of, the basic financial statements.

NOTE B--FEDERAL DIRECT STUDENT LOAN PROGRAM

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

NOTE C--LOANS OUTSTANDING

The University had the following loan balances outstanding at June 30, 2012. These loan balances outstanding are included as federal expenditures in the schedule of expenditures of federal awards. During the year ended June 30, 2012, the University issued Perkins loans totaling \$107,003.

| <u>Cluster/Program Title</u> | <u>Number</u> | <u>Outstanding</u> |
|------------------------------|---------------|--------------------|
| Federal Perkin Loan Program | 84.038 | \$ 1,887,793 |
| Nursing Student Loans | 93.364 | 13,742 |

NOTES TO SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS--Continued

UNIVERSITY OF CENTRAL OKLAHOMA

June 30, 2012

NOTE D--SUB-RECEIPIENTS

During the year ended June 30, 2012, the University provided federal awards to subrecipients.

| | <u>Federal</u> <u>CFDA Number</u> | <u>Pass-through</u> <u>Grantor's Number</u> | <u>Disbursements/</u> <u>Expenditures</u> |
|-----------------------------------------------------------------|--------------------------------------|------------------------------------------------|----------------------------------------------|
| National Science Foundation | | | |
| SURE Step | 47.076 | DUE-0856396 | |
| Passed through to: | | | |
| East Central University | | UCO-2009STEP-2-ECU | \$ 25,458 |
| Langston University | | UCO-2009STEP-2-LU | 52,560 |
| Northeastern State University | | UCO-2009STEP-2-NSU | 55,423 |
| Oklahoma City Comm College | | UCO-2011-GR.105 | 2,000 |
| Comanche Nation College | | UCO-2011-GR.107 | 2,000 |
| Redlands Comm College | | UCO-2011-GR.106 | 2,000 |
| Rose State College | | UCO-2011-GR.104 | 2,000 |
| | | | |
| EPSCoR STEP 2009 | 47.08 | EPS-0814361 | |
| Passed through to: | | | |
| Langston University | | UCO-2011-GR.111 | 2,000 |
| Northeastern State University | | UCO-2011-GR.110 | 2,129 |
| | | | |
| Total National Science Foundation Pass Through to Subrecipients | | | <u>\$ 145,570</u> |

SCHEDULE OF FINDINGS AND QUESTIONED COSTS

UNIVERSITY OF CENTRAL OKLAHOMA

June 30, 2012

Section I--Summary of Auditors' Results

Financial statements

Type of auditors' report issued: *Unqualified*

Internal control over financial reporting:

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

Noncompliance material to financial statements noted? yes no

Federal Awards

Internal control over major programs:

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

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

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

The University's major programs were:

| <u>Program/Cluster</u> | <u>CFDA Number</u> |
|-------------------------------|--------------------|
| Student Financial Aid Cluster | * |

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

Auditee qualified as low-risk auditee? yes no

SCHEDULE OF FINDINGS AND QUESTIONED COSTS--Continued

UNIVERSITY OF CENTRAL OKLAHOMA

June 30, 2012

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

None to be reported for the June 30, 2012 period.

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

None to be reported for the June 30, 2012 period.

SUMMARY SCHEDULE OF PRIOR AUDIT FINDINGS

UNIVERSITY OF CENTRAL OKLAHOMA

June 30, 2012

No matters were reportable.