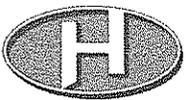


**University Center of
Southern Oklahoma**
*(Formerly known as
Ardmore Higher Education Center)*

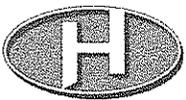
**Financial Statements
with Independent Auditors' Report**

June 30, 2012 and 2011



University Center of Southern Oklahoma
Table of Contents
June 30, 2012 and 2011

Independent Auditors' Report	1
Management's Discussion and Analysis	i
Financial Statements	
Statements of Financial Position.....	2
Statements of Activities.....	3
Statements of Cash Flows.....	4
Notes to Financial Statements.....	6
Reports Required by <i>Government Auditing Standards</i>	
Independent Auditors' Report on Internal Control over Financial Reporting and on Compliance and Other Matters Based on an Audit of the Financial Statements Performed in Accordance with <i>Government Auditing Standards</i>	25





**HINKLE &
COMPANY**

PC
*Strategic
Business Advisors*

Independent Auditors' Report

Board of Trustees
University Center of Southern Oklahoma
Ardmore, Oklahoma

We have audited the accompanying statements of financial position of University Center of Southern Oklahoma (*formerly known as Ardmore Higher Education Center*) (the Center), as of June 30, 2012, and the related statements of activities and cash flows for the years then ended. These financial statements are the responsibility of the Foundation's management. Our responsibility is to express an opinion on these financial statements based on our audit. The financial statements of University Center of Southern Oklahoma as of June 30, 2011, were audited by other auditors whose report dated October 8, 2010, expressed an unqualified opinion on those statements.

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

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

In accordance with *Government Auditing Standards*, we have also issued our report dated October 10, 2012, on our consideration of the Center's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements, and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting and compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

4500 S. Garnett, Ste. 800

Tulsa, OK 74146

TEL: 918.492.3388

FAX: 918.492.4443

www.SBAdvisors.com

Board of Trustees
University Center of Southern Oklahoma
Page 2

Management's discussion and analysis is not a required part of the basic financial statements but is supplementary information required by the Governmental Accounting Standards Board. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the supplementary information. However, we did not audit the information and express no opinion on it.

Hill & Company

Tulsa, Oklahoma
October 10, 2012



**University Center of Southern Oklahoma
Management's Discussion and Analysis
For the Year Ended June 30, 2012**

Management's Discussion and Analysis

The discussion and analysis of University Center of Southern Oklahoma (UCSO), formerly known as the Ardmore Higher Education Center (AHEC), financial statements provides an overview of UCSO's financial activities for the year ending June 30, 2012. Since this management's discussion and analysis is designed to focus on current activities, resulting changes and current known facts, please read it in conjunction with UCSO's financial statements and footnotes. A comparative analysis of prior two years financial data is provided.

Using This Report

In June 1999, the Governmental Accounting Standards Board (GASB) released statement No. 34, *Basic Financial Statements and Management's Discussion and Analysis for State and Local Governments*. Changes in statement No. 34 require a comprehensive one-column look at the entity as a whole and capitalization of assets and depreciation. In November 1999, GASB issued statement No. 35, *Basic Financial Statements and Management's Discussion and Analysis for Public Colleges and Universities*, which applies these standards to public colleges and universities. The State of Oklahoma elected early implementation of these standards beginning with the year ended June 30, 2001.

Financial Highlights

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

The Statement of Net Assets and the Statement of Revenues, Expenses, and Changes in Net Assets report UCSO's net assets and how they have changed. Net assets – the difference between assets and liabilities – is one way to measure UCSO's health, or position. Over time, increases or decreases in UCSO's net assets are an indicator of whether or not its financial health is improving. Non-financial factors are also important to consider, including student enrollment and condition of the building.

These statements include all assets and liabilities using the accrual basis of accounting, which is consistent with the accounting used by private-sector institutions. All of the current year's revenues and expenses are recognized when earned or incurred, regardless of when cash is received or paid.

**University Center of Southern Oklahoma
Management's Discussion and Analysis
For the Year Ended June 30, 2012**

Financial Highlights (Continued)

**Statement of Net Assets and Statement of Revenues, Expenses, and Change in Net Assets
(Continued)**

Schedule A is prepared from UCISO's Statement of Net Assets, and summarizes UCISO's assets, liabilities, and net assets at June 30, 2012, with comparative totals at June 30, 2011 and 2010, respectively.

Schedule A
Net Assets at June 30, 2012
With Comparative Totals at June 30, 2011 and 2010
(in thousands)

	2012	2011	2010
Current assets	\$ 1,847	\$ 2,478	\$ 2,121
Noncurrent assets			
Capital assets, net of depreciation	1,644	960	256
Other	91	96	678
Total assets	3,582	3,534	3,055
Current liabilities	320	307	146
Noncurrent liabilities	657	682	640
Total liabilities	977	989	786
Net assets			
Invested in capital assets, net of related debt	1,025	339	56
Restricted for capital projects	-	-	201
Unrestricted	1,580	2,206	2,012
Total net assets	\$ 2,605	\$ 2,545	\$ 2,269

At year ended June 30, 2012, capital assets increased by \$684 or 71% from the year ended June 30, 2011 due to the increase in Construction in Progress for the new proposed building and campus.

At year ended June 30, 2011, capital assets increased by \$704 or 275% from the year ended June 30, 2010 due to the increase in Construction in Progress paid for with the proceeds from the OCIA 2005F Higher Education Bond funds. Current liabilities by \$163 or 112% due to a large Construction in Progress invoice that was outstanding at year end.

**University Center of Southern Oklahoma
Management's Discussion and Analysis
For the Year Ended June 30, 2012**

Financial Highlights (Continued)

**Statement of Net Assets and Statement of Revenues, Expenses, and Change in Net Assets
(Continued)**

Schedule B is prepared from UCISO's Statement of Revenues, Expenses, and Changes in Net Assets for the year ended June 30, 2012, with comparative totals for the year ended June 30, 2011 and 2010, respectively.

Schedule B
Operating Results for the Year Ended June 30, 2012
With Comparative Totals for the Year Ended June 30, 2011 and 2010
(in thousands)

	<u>2012</u>	<u>2011</u>	<u>2010</u>
Operating revenues and expenses			
Tuition and fees	\$ 929	\$ 1,000	\$ 849
Less operating expenses	<u>(1,629)</u>	<u>(1,558)</u>	<u>(1,452)</u>
Net operating expenses	<u>(700)</u>	<u>(558)</u>	<u>(603)</u>
Nonoperating revenues (expenses)			
State appropriations	641	687	693
On-behalf OTRS contributions	51	37	32
Gifts	38	32	33
Investment income	8	29	35
Interest expense / income	<u>(20)</u>	<u>(13)</u>	<u>(31)</u>
Net nonoperating revenues	<u>718</u>	<u>772</u>	<u>762</u>
Income before other revenues / expenses	18	214	159
Other revenues / expenses	<u>43</u>	<u>60</u>	<u>81</u>
Increase (decrease) in net assets	<u>\$ 61</u>	<u>\$ 274</u>	<u>\$ 240</u>

Revenues

Student tuition and fees revenue decreased by \$71, or 7.1%, over 2011 due to a slight decrease in enrollment.

Student tuition and fees revenue increased by \$151, or 17.8%, over 2010 due to significant increases in enrollment.

**University Center of Southern Oklahoma
Management's Discussion and Analysis
For the Year Ended June 30, 2012**

Financial Highlights (Continued)

**Statement of Net Assets and Statement of Revenues, Expenses, and Change in Net Assets
(Continued)**

Expenses

Operating expenses increased by \$71 or 4.6% in 2012 over the year ended June 30, 2011 as a result of increased compensation for additional security personnel.

Operating expenses increased by \$106 or 7.3% in 2011 over the year ended June 30, 2010 as a result of increased utility costs due to adverse weather conditions and an increase in contractual expenses as a result of an initiative to subsidize UCSO's college and university partners to help support the placement of full-time faculty at UCSO.

Schedule C summarizes UCSO's operating expenses for the years ended June 30, 2012, 2011 and 2010, respectively.

Schedule C
Operating Expenses for the Year Ended June 30, 2012
With Comparative Totals for the Year Ended June 30, 2011 and 2010
(in thousands)

	2012	2011	2010
Compensation and benefits	\$ 985	\$ 850	\$ 838
Contractual services	362	384	322
Supplies and materials	47	49	51
Utilities	49	53	42
Communications	18	21	19
Depreciation	97	118	93
Other	71	83	87
Total Operating Expenses	<u>\$ 1,629</u>	<u>\$ 1,558</u>	<u>\$ 1,452</u>

**University Center of Southern Oklahoma
Management's Discussion and Analysis
For the Year Ended June 30, 2012**

Financial Highlights (Continued)

Statement of Cash Flows

The primary purpose of the Statement of Cash Flows is to provide information about the cash receipts and disbursements of an entity during a period. This statement also aids in the assessment of an entity's ability to generate future net cash flows, ability to meet obligations as they come due, and needs for external financing.

Schedule D is prepared from UCSO's Statement of Cash Flows, and summarizes UCSO's cash flows for the year ended June 30, 2012, with comparative totals for the year ended June 30, 2011 and 2010, respectively.

Schedule D
Cash Flows for the Year Ended June 30, 2012
With Comparative Totals for the Year Ended June 30, 2011 and 2010
(in thousands)

	2012	2011	2010
Cash provided (used) by:			
Operating activities	\$ (534)	\$ (391)	\$ (448)
Noncapital financing activities	673	718	727
Capital and related financing activities	(783)	24	(76)
Investing activities	8	10	11
Net increase in cash	(636)	361	214
Cash, beginning of year	2,427	2,066	1,852
Cash, end of year	<u>\$ 1,791</u>	<u>\$ 2,427</u>	<u>\$ 2,066</u>

Capital Assets and Debt Administration

For 2012, UCSO recorded a total of \$5,011 in capital assets and \$3,366 in accumulated depreciation. During the year ended June 30, 2012 UCSO acquired \$781 in capital assets consisting of leasehold improvements, library resources, office and institutional equipment, and computer equipment.

For 2011, UCSO recorded a total of \$4,229 in capital assets and \$3,269 in accumulated depreciation. During the year ended June 30, 2011 UCSO acquired \$821 in capital assets consisting of leasehold improvements, library resources, office and institutional equipment, and computer equipment.

**University Center of Southern Oklahoma
Management's Discussion and Analysis
For the Year Ended June 30, 2012**

Financial Highlights (Continued)

Capital Assets and Debt Administration (Continued)

At June 30, 2012, UCSO had long-term liabilities of \$656, a decrease of 4% over 2011 long-term liabilities as a result of payments applied towards existing bond programs.

At June 30, 2011, UCSO had long-term liabilities of \$682, an increase of 6.6% over 2010 long-term liabilities.

Schedule E
Capital Assets, Net
June 30, 2012
With Comparative Totals at June 30, 2011 and 2010
(in thousands)

	2012	2011	2010
Construction in progress	\$ 1,373	\$ 761	\$ 85
Leasehold improvements	1,757	1,737	1,705
Equipment	1,149	1,013	908
Library materials	731	718	710
Total	5,010	4,229	3,408
Less accumulated depreciation	(3,366)	(3,269)	(3,152)
Capital assets, net	<u>\$ 1,644</u>	<u>\$ 960</u>	<u>\$ 256</u>

Schedule F
Long-Term Liabilities
June 30, 2012
With Comparative Totals at June 30, 2011 and 2010
(in thousands)

	2012	2011	2010
Capital lease payable	\$ 625	\$ 652	\$ 599
Other post employment benefits	31	30	29
Lease premium	-	-	12
Total long-term liabilities	<u>\$ 656</u>	<u>\$ 682</u>	<u>\$ 640</u>

**University Center of Southern Oklahoma
Management's Discussion and Analysis
For the Year Ended June 30, 2012**

Other Financial Information

Economic Outlook

Tuition and fees have become a greater proportion of UCSO's funding than state appropriations due to continued cuts in state appropriations and significant increases in student enrollment in recent years. Thus, UCSO has avoided budget deficits through the collection of more tuition and fees due to increased student enrollment. For FY 2012-13 state appropriations will remain stable or slightly increase.

UCSO has entered into a partnership with the City of Ardmore to construct a new campus. Property for its construction has been provided near the existing campus. Funding to construct the new campus will be provided through a proposed 3 mil property tax and contributions from other sources including the City of Ardmore and local foundations. The tax proposition will be on the ballot for the general election in November 2012. If passed, construction could begin in 2013.

A master plan, building designs, and construction documents for the new facilities are near completion. These architectural costs will likely deplete most of UCSO's capital funds.

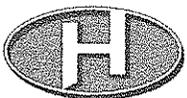
UCSO management is not aware of any other matters that could significantly affect its financial position at this time.

Contacting the Program's Financial Management

This financial report is designed to provide our citizens, taxpayers, investors, and creditors with a general overview of UCSO's finances and to show UCSO's accountability for the money it receives. If you have any questions about this report or need additional financial information, contact the Ardmore Higher Education Center, 611 Veterans Boulevard, Ardmore, Oklahoma 73401.

University Center of Southern Oklahoma
Statements of Financial Position
June 30, 2012 and 2011

	<u>2012</u>		<u>2011</u>	
	University Center of Southern Oklahoma	Southern Oklahoma Higher Education Foundation, Inc.	University Center of Southern Oklahoma	Southern Oklahoma Higher Education Foundation, Inc.
ASSETS				
Current Assets				
Cash and cash equivalents	\$1,790,562	\$ 166,797	\$2,426,732	\$ 34,052
Accounts receivable	55,715	—	50,876	—
Accrued interest receivable	634	69	763	144
Investments	—	87,808	—	173,372
	<u>1,846,911</u>	<u>254,674</u>	<u>2,478,371</u>	<u>209,538</u>
Other Assets				
Deferred charge on OCIA Lease restructuring	32,781	—	40,977	—
Prepaid pension asset	88	—	100	—
Other assets	57,725	—	55,016	—
Capital assets, net	1,644,117	—	959,854	—
	<u>1,734,711</u>	<u>—</u>	<u>1,055,947</u>	<u>—</u>
Total Assets	<u>3,581,622</u>	<u>254,674</u>	<u>3,534,318</u>	<u>209,538</u>
LIABILITIES				
Current Liabilities				
Accounts payable and accrued	262,889	—	—	—
Current portion of noncurrent liabilities	56,898	—	—	—
	<u>319,787</u>	<u>—</u>	<u>—</u>	<u>—</u>
Noncurrent Liabilities				
Accrued compensated absences	31,410	—	30,427	—
Capital leases	625,205	—	651,440	—
	<u>656,615</u>	<u>—</u>	<u>681,867</u>	<u>—</u>
Total Liabilities	<u>976,402</u>	<u>—</u>	<u>989,654</u>	<u>—</u>
NET ASSETS				
Invested in capital assets, net of related debt	1,025,458	—	338,664	—
Restricted:				
Donor restrictions	—	173,881	—	175,852
Unrestricted	1,579,762	80,793	2,206,000	33,686
Total Net Assets	<u>\$ 2,605,220</u>	<u>\$ 254,674</u>	<u>\$ 3,534,318</u>	<u>\$ 209,538</u>



University Center of Southern Oklahoma
Statements of Activities
Years Ended June 30, 2012 and 2011

	2012		2011	
	University Center of Southern Oklahoma	Southern Oklahoma Higher Education Foundation, Inc.	University Center of Southern Oklahoma	Southern Oklahoma Higher Education Foundation, Inc.
Operating Revenues				
Student tuition and fees	\$ <u>928,720</u>	\$ <u>—</u>	\$ <u>1,000,176</u>	\$ <u>—</u>
Operating Expenses				
Compensation and employee benefits	984,912	—	850,213	—
Contractual services	361,990	—	384,522	—
Supplies and material	46,421	1,476	48,680	937
Utilities	49,351	—	52,778	—
Communications	17,942	—	21,297	—
Depreciation	97,185	—	117,674	—
Other operating expense	71,347	—	82,888	—
General and administrative	—	2,089	—	2,243
Scholarships awarded	—	66,286	—	83,204
Total operating expenses	<u>1,629,148</u>	<u>69,851</u>	<u>1,558,052</u>	<u>86,384</u>
Operating Loss	(700,428)	(68,851)	(557,876)	(86,384)
Nonoperating Revenues (Expenses)				
State appropriations	640,619	—	686,840	—
On-behalf OTRS	51,132	—	37,069	—
Private gifts and contributions	38,187	113,846	31,537	83,502
Investment income	8,285	1,141	29,231	1,475
Interest expense	(19,803)	—	(19,803)	—
Total Expenses	<u>718,420</u>	<u>114,987</u>	<u>718,420</u>	<u>—</u>
Income Before Other Revenues, Expenses, Gains or Losses	17,992	45,136	213,970	(1,407)
Investment income	20,242	—	32,673	—
Interest expense	<u>22,322</u>	<u>—</u>	<u>27,669</u>	<u>—</u>
Net Change In Net Assets	60,556	45,136	274,312	(1,407)
Net Assets, Beginning of Year	<u>2,544,664</u>	<u>209,538</u>	<u>2,270,352</u>	<u>210,945</u>
Net Assets, End of Year	<u>\$2,605,220</u>	<u>\$ 254,674</u>	<u>\$2,544,664</u>	<u>\$ 209,538</u>



University Center of Southern Oklahoma
Statements of Cash Flows
Years Ended June 30, 2012 and 2011

	2012		2011	
	University Center of Southern Oklahoma	Southern Oklahoma Higher Education Foundation, Inc.	University Center of Southern Oklahoma	Southern Oklahoma Higher Education Foundation, Inc.
Cash Flows From Operating Activities				
Tuition and fees	\$ 929,770	\$ —	\$ 1,004,693	\$ —
Compensation and benefits	(919,434)	—	(817,209)	—
Cash paid to suppliers	(544,344)	(3,565)	(578,449)	(3,180)
Cash paid for scholarships	—	(66,286)	—	(83,204)
Net Cash Used in Operating Activities	<u>(534,008)</u>	<u>(69,851)</u>	<u>(390,965)</u>	<u>(86,384)</u>
Cash Flows From Noncapital Financing Activities				
State Appropriation	640,619	—	686,840	—
Gifts and contributions	<u>32,298</u>	<u>113,846</u>	<u>31,537</u>	<u>83,502</u>
Net Cash Provided by Noncapital Financial Activities	<u>672,917</u>	<u>113,846</u>	<u>718,377</u>	<u>86,502</u>
Cash Flows From Capital and Related Financing Activities				
Purchases of capital assets	(783,493)	—	(619,740)	—
Proceeds of capital debt and leases	<u>—</u>	<u>—</u>	<u>643,400</u>	<u>—</u>
Net Cash Provided by (Used in) Capital and Related Financing Activities	<u>(783,493)</u>	<u>—</u>	<u>23,600</u>	<u>—</u>
Cash Flows From Investing Activities				
Purchases of investments	—	(1,150)	—	(1,430)
Purchases of investments	—	88,684	—	4,900
Interest expense	<u>8,414</u>	<u>1,216</u>	<u>9,760</u>	<u>1,496</u>
Net Cash Provided by Investing Activities	<u>8,414</u>	<u>88,750</u>	<u>9,760</u>	<u>4,966</u>
Net Change In Net Assets	636,170	132,745	360,862	2,084
Net Assets, Beginning of Year	<u>2,426,732</u>	<u>34,052</u>	<u>2,065,870</u>	<u>31,968</u>
Net Assets, End of Year	<u>\$1,790,562</u>	<u>\$ 166,797</u>	<u>\$2,426,732</u>	<u>\$ 34,052</u>



University Center of Southern Oklahoma
Statements of Cash Flows (Continued)
Years Ended June 30, 2012 and 2011

	2012		2011	
	University Center of Southern Oklahoma	Southern Oklahoma Higher Education Foundation, Inc.	University Center of Southern Oklahoma	Southern Oklahoma Higher Education Foundation, Inc.
Reconciliation of Operating Loss to Cash Used in Operating Activities				
Operating Loss	\$ (700,428)	\$ (69,851)	\$ (557,876)	\$ (86,384)
Adjustments to reconcile operating income (loss) to net cash provided by (used in) operating activities				
Depreciation	97,185	—	117,674	—
Changes in assets and liabilities				
Accounts receivable	1,050	—	4,517	—
Accounts payable and accrued expenses	8,608	—	12,391	—
Prepaid pension asset	(2,709)	—	(1,575)	—
Other postemployment benefit obligation	983	—	1,965	—
Accrued compensated absences	<u>10,171</u>	<u>—</u>	<u>(5,130)</u>	<u>—</u>
Net Cash Used in Operating Activities	<u>\$ (534,008)</u>	<u>\$ (69,851)</u>	<u>\$ (390,965)</u>	<u>\$ (86,384)</u>
Noncash Investing, Noncapital Financing, and Capital and Related Financing Transactions				
Interest on capital debt paid by state agency on behalf of the Program	<u>\$ 11,595</u>	<u>\$ —</u>	<u>\$ 5,694</u>	<u>\$ —</u>
Principal on capital debt paid by state agency on behalf of the Program	<u>10,727</u>	<u>—</u>	<u>10,225</u>	<u>—</u>
Capital assets received as gifts and contributions	<u>20,242</u>	<u>—</u>	<u>32,673</u>	<u>—</u>
Net premium adjustment due to restructure	<u>—</u>	<u>—</u>	<u>11,750</u>	<u>—</u>
Deferred cost on OCIA lease restructure	<u>\$ —</u>	<u>\$ —</u>	<u>\$ 49,173</u>	<u>\$ —</u>



University Center of Southern University
Notes to Financial Statements
Year Ended June 30, 2012 and 2011

Note 1: Nature of Operations and Summary of Significant Accounting Policies

Nature of Operations

The Ardmore Higher Education Center (the "Center") is located in Ardmore, Oklahoma, and was established in accordance with Title 70, Section 3213 et seq. of the Oklahoma Statutes as the Ardmore Higher Education Program. Pursuant to this statute, the Oklahoma State Regents for Higher Education (the "State Regents") has made educational program resources in The Oklahoma State System of Higher Education (the "State System") available to people in the Ardmore area by drawing upon the educational programs of institutions best suited to provide the kinds of educational programs needed. The Ardmore Higher Education Center (AHEC) will officially change its name to the University Center of Southern Oklahoma (UC) effective July 1st, 2012.

The primary purpose of the Center is to provide higher education opportunities to the citizens in the Ardmore community. Students who enroll in higher education courses and programs in the Center can earn residence credit applicable toward academic degrees and certificates at participating institutions in the State System. Cooperating institutions which have been authorized by the State Regents to provide courses and programs in the Center are: East Central University, Murray State College, Southeastern Oklahoma State University and Oklahoma State University – Oklahoma City.

The Center is administered by a Board of Trustees whose responsibilities include administering funds allocated by the State Regents, negotiating agreements with institutions to offer courses and programs and providing the necessary educational facilities.

Financial Statement Presentation

As a component unit of the State, the Center has prepared its financial statements in accordance with the requirements of GASB Statement No. 34, *Basic Financial Statements and Management 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*. The financial statement presentation required by GASB Statements No. 34 and 35 provides a comprehensive, entity-wide perspective of the Centers assets, liabilities, net assets, revenues, expenses, changes in net assets and cash flows.

Reporting Entity

The financial reporting entity, as defined by Governmental Accounting Standards Board ("GASB") Statement No. 14, *The Financial Reporting Entity*, and as amended by GASB Statement No. 39, *Determining Whether Certain Organizations Are Component Units*, consists of the primary government, organizations for which the primary government is financially accountable, and other organizations for which the nature and significance of their relationship with the primary government are such that exclusion could cause the financial statements to be misleading or incomplete.



University Center of Southern University
Notes to Financial Statements
Year Ended June 30, 2012 and 2011

Note 1: Nature of Operations and Summary of Significant Accounting Policies
(Continued)

Reporting Entity (Continued)

The accompanying financial statements include the accounts and funds of the Center. The Center is a state agency and a non-institution member of the State of Oklahoma Higher Education System, which is under the governance of the Oklahoma State Regents for Higher Education (the "State Regents"). The Center is a component unit of the State of Oklahoma and is included in the general-purpose financial statements of the State as part of the higher education component unit.

Southern Oklahoma Higher Education Foundation, Inc. (the "Foundation") is a legally separate, tax-exempt component unit of the Center. The Foundation is organized for the purpose of receiving and administering gifts intended for the Center. Although the Center does not control the timing or amount of receipts from the Foundation, the majority of resources, or income thereon, which the Foundation holds and invests, is restricted to the activities of the Center by the donors. Because these restricted resources held by the Foundation can only be used by, or for the benefit of, the Center, the Foundation is considered a component unit of the Center and is discretely presented in the Center's financial statements.

The Foundation is a private nonprofit organization but does not issue separate audited financial statements. As such, the Foundation has elected to apply GASB pronouncements regarding revenue recognition and presentation features rather than the corresponding pronouncements of the Financial Accounting Standards Board ("FASB").

Basis of Accounting

For financial reporting purposes, the Center is considered a special-purpose government engaged only in business-type activities. Accordingly, the Center'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 Center has the option to apply all FASB pronouncements issued after November 30, 1989, unless FASB conflicts with GASB. The Center has elected to not apply FASB pronouncements issued after the applicable date.



University Center of Southern University
Notes to Financial Statements
Year Ended June 30, 2012 and 2011

Note 1: Nature of Operations and Summary of Significant Accounting Policies
(Continued)

Cash Equivalents

For purposes of the statements of cash flows, the Center considers all highly liquid investments with an original maturity of three months or less to be cash equivalents. The cash equivalents are fully collateralized by obligations of the United States government or its agencies at 102% or insured by federal deposit insurance. Funds invested through the State Treasurer's Cash Management Program are considered cash equivalents.

Investments

The Center 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 return on investments in the statements of revenues, expenses, and changes in net assets.

Accounts Receivable

The Center's accounts receivable primarily consists of amounts due from other state agencies. These amounts consist of a per credit hour charge to the participating Colleges and Universities for classes taken at the Center. The Center determines its allowance for doubtful accounts by considering a number of factors, including the length of time accounts receivable are past due, the Center's previous loss history, and the condition of the general economy and the industry as a whole.

Capital Assets

Capital assets, with an individual cost of \$500 or more, are capitalized at cost at the date of acquisition when purchased by the Center or at estimated value when acquired other than by purchase. Depreciation is computed on the straight-line method over the estimated useful lives of the capital assets, generally 5 to 10 years for library materials and equipment and 3 years for software. Leasehold improvements are amortized over the life of the lease. Beginning July 1, 2008, the Center was on a year-to-year lease.

Noncurrent Liabilities

Noncurrent liabilities include principal amounts of capital lease obligations with contractual maturities greater than one year; estimated amounts for accrued compensated absences that will not be paid or used within the next fiscal year; and other post-employment benefit obligations.



University Center of Southern University
Notes to Financial Statements
Year Ended June 30, 2012 and 2011

Note 1: Nature of Operations and Summary of Significant Accounting Policies
(Continued)

Compensated Absences

Employees' compensated absences are accrued at year-end for financial statement purposes. The liability and expense incurred are recorded as accrued compensated absences in the statements of net assets, and as an expense in the statements of revenues, expenses, and changes in net assets. Full time staff and faculty earn vacation at the rate of 10 hours per month for the first four years of employment, 12 hours per month during the fifth year to the ninth year, and 13.33 hours per month during the tenth year to the nineteenth year, and 16.66 hours per month, thereafter. A maximum of 480 hours of vacation may be accrued.

Net Assets

The Center's net assets are classified as follows:

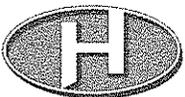
Invested in capital assets, net of related debt – This represents the Center's total investment in capital assets, net of outstanding debt obligations related to those capital assets, if any. To the extent debt has been incurred but not yet expended for capital assets, such amounts are not included as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

Restricted for capital projects – Restricted for capital projects net assets include resources in which the Center is legally or contractually obligated to spend in accordance with restrictions imposed by external third parties.

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

Unrestricted – Unrestricted net assets represent resources derived from student tuition and fees and state appropriations. These resources are used for transactions relating to the educational and general operations of the Center, and may be used at the discretion of the governing board to meet current expenses for any purpose.

When an expense is incurred that can be paid using either restricted or unrestricted resources, the Center's policy is to first apply the expense toward unrestricted resources, and then toward restricted resources.



University Center of Southern University
Notes to Financial Statements
Year Ended June 30, 2012 and 2011

Note 1: Nature of Operations and Summary of Significant Accounting Policies
(Continued)

Classifications of Revenues

The Center has classified its revenues as either operating or nonoperating revenues according to the following criteria:

Operating revenues – Operating revenues include activities that have the characteristics of exchange transactions, such as student tuition and fees.

Nonoperating revenues – Nonoperating revenues include activities that have the characteristics of nonexchange transactions, such as gifts and contributions, and other revenue sources that are defined as nonoperating revenues by GASB Statement No. 9, *Reporting Cash Flows of Proprietary and Nonexpendable Trust Funds and Governmental Entities that Use Proprietary Fund Accounting*, and state appropriations and investment income as defined by GASB Statement No. 34, *Basic Financial Statements and Management's Discussion and Analysis for State and Local Governments*.

Tax Status

The Center, as a political subdivision of the State of Oklahoma, is excluded from Federal income taxes under Section 115(1) of the Internal Revenue Code. The Internal Revenue Service has determined that the Foundation qualifies as an exempt organization under Section 501(c) (3) of the Internal Revenue Code. Accordingly, no provision for income taxes is reflected in the accompanying financial statements.

Estimates

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates. The significant estimates used in the preparation of these financial statements include the depreciation of capital assets, on-behalf Teachers' Retirement System contributions made by the State of Oklahoma, and an accrued pension obligation. Estimation of the accrued pension obligation involves the use of actuarial assumptions, including selection of a discount rate, projected salary increases, and projected annuity increases.



University Center of Southern University
Notes to Financial Statements
Year Ended June 30, 2012 and 2011

Note 2: Cash and Cash Equivalents

Custodial credit risk for deposits is the risk that in the event of a bank failure, the Center's deposits may not be returned or the Center will not be able to recover collateral securities in the possession of an outside party. Generally, the Center deposits its funds with the Office of the State Treasurer (OST). Oklahoma Statutes require OST to ensure that all state funds either be insured by Federal Deposit Insurance, collateralized by securities held by the cognizant Federal Reserve Bank, or invested in U.S. government obligations. The Center's deposits with the State Treasurer are pooled with the funds of other State Agencies and then, in accordance with statutory limitations, placed in financial institutions or invested as the Treasurer may determine, in the State's name.

At June 30, 2012 and 2011, the carrying amounts of the Center's deposits with the State Treasurer were \$1,789,862 and \$2,426,732, respectively. The Foundation had deposits at a financial institution with carrying amounts of \$166,797 and \$34,052 as of June 30, 2012 and 2011, respectively.

Some deposits with the State Treasurer are placed in the State Treasurer's internal investment pool *OK INVEST*. *OK INVEST* pools the resources of all state funds and agencies and invests them in (a) U.S. treasury securities which are explicitly backed by the full faith and credit of the U.S. government; (b) U.S. agency securities which carry an implicit guarantee of the full faith and credit of the U.S. government; (c) money market mutual funds which participates in investments, either directly or indirectly, in securities issued by the U.S. Treasury and/or agency and repurchase agreements relating to such securities; and (d) investments related to tri-party repurchase agreements which are collateralized at 102% and, whereby, the collateral is held by a third party in the name of the State Treasurer. Of funds on deposit with the State Treasurer, amounts invested in *OK INVEST* total \$328,610 in 2012 and \$347,496 in 2011.

For financial reporting purposes, deposits with the State Treasurer that are invested in *OK INVEST* are classified as cash equivalents. At June 30, the distribution of deposits in *OK INVEST* is as follows:

	2012		2011	
	<u>Cost</u>	<u>Market Value</u>	<u>Cost</u>	<u>Market Value</u>
<u>OK INVEST Portfolio</u>				
U.S. Agency securities	\$ 166,797	\$ 116,522	\$ 126,918	\$ 127,935
Money market mutual funds	4,980	44,980	8,205	38,205
Certificates of deposit	10,614	10,614	6,408	16,408
Tri-party repurchase agreements	-	-	23,449	23,449
Mortgage backed agency securities	145,044	154,103	126,055	131,622
Municipal bonds	5,894	145,044	145,044	145,044
Foreign bonds	1,654	1,654	1,292	1,292
Commercial paper	-	-	3,230	3,230
U.S. Treasury Obligations	4,244	5,295	5,013	5,940
TOTAL	<u>\$ 328,610</u>	<u>\$ 339,892</u>	<u>\$ 347,496</u>	<u>\$ 355,582</u>



University Center of Southern University
Notes to Financial Statements
Year Ended June 30, 2012 and 2011

Note 2: Cash and Cash Equivalents (Con't)

Agencies and funds that are considered to be part of the State's reporting entity in the State's Comprehensive Annual Financial Report are allowed to participate in OK INVEST. Oklahoma statutes and the State Treasurer establish the primary objectives and guidelines governing the investment of funds in OK INVEST. Safety, liquidity, and return on investment are the objectives which establish the framework for the day to day OK INVEST management with an emphasis on safety of the capital and the probable income to be derived and meeting the State and its funds' and agencies' daily cash flow requirements. Guidelines in the Investment Policy address credit quality requirements, diversification percentages and the types and maturities of allowable investments. The specifics regarding these policies can be found on the State Treasurer's website at <http://www.treasurer.state.ok.us/>. The State Treasurer, at his discretion, may further limit or restrict such investments on a day to day basis. OK INVEST includes a substantial investment in securities with an overnight maturity as well as in U.S. government securities with a maturity of up to three years. OK INVEST maintains an overall weighted average maturity of less than 270 days.

Participants in OK INVEST maintain an interest in its underlying investments and, accordingly, may be exposed to certain risks. As stated in the State Treasurer 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 FDIC or any other government agency.

As of June 30, 2012 and 2011, the Center had no investments. The Foundation's investments consist of a CD with First National Bank & Trust of Ardmore. The First National CD opened April 20, 2012 with an interest rate of 0.40% and matures on April 20, 2013. As of June 30, 2012 and 2011, the Foundation's investments balance was as follows:

<u>Types of Investment</u>	<u>2012</u>	<u>2011</u>
Citizens Bank CD	\$ -	\$ 88,190
First National Bank CD	<u>87,808</u>	<u>87,152</u>
Total investments	<u>\$ 87,808</u>	<u>\$ 175,342</u>



University Center of Southern University
Notes to Financial Statements
Year Ended June 30, 2012 and 2011

Note 3: CAPITAL ASSETS

The following is a summary of the changes in capital assets for the years ended June 30,

	2012			Balance June 30, 2012
	Balance June 30, 2011	Additions	Retirements	
Capital assets not being depreciated				
Construction in progress	\$ 760,711	\$ 612,360	\$ -	\$ 1,373,071
Other capital assets				
Leasehold improvements	\$ 1,737,091	\$ 20,242	\$ -	\$ 1,757,333
Equipment	1,012,738	135,985	-	1,148,723
Library materials	718,535	12,861	-	731,396
Total capital assets	<u>3,468,364</u>	<u>169,088</u>	<u>-</u>	<u>3,637,452</u>
Less accumulated depreciation				
Leasehold improvements	(1,737,091)	(20,242)		(1,757,333)
Equipment	(851,085)	(62,660)	-	(913,745)
Library materials	(681,045)	(14,283)		(695,328)
Total accumulated depreciation	<u>(3,269,221)</u>	<u>(97,185)</u>	<u>-</u>	<u>(3,366,406)</u>
Other capital assets, net	<u>\$ 199,143</u>	<u>\$ 71,903</u>	<u>\$ -</u>	<u>\$ 271,046</u>
Total cost of capital assets	\$ 4,229,075	\$ 781,448	\$ -	\$ 5,010,523
Less accumulated depreciation	<u>(3,269,221)</u>	<u>(97,185)</u>	<u>-</u>	<u>(3,366,406)</u>
Capital assets, net	<u>\$ 959,854</u>	<u>\$ 684,263</u>	<u>\$ -</u>	<u>\$ 1,644,117</u>



University Center of Southern University
Notes to Financial Statements
Year Ended June 30, 2012 and 2011

Note 3: CAPITAL ASSETS (con't)

The following is a summary of the changes in capital assets for the years ended June 30, 2011

	2011			Balance June 30, 2011
	Balance June 30, 2010	Additions	Retirements	
Capital assets not being depreciated				
Construction in progress	\$ 85,067	\$ 675,644	\$ -	\$ 760,711
Other capital assets				
Leasehold improvements	\$ 1,704,417	\$ 32,673	\$ -	\$ 1,737,090
Equipment	908,100	104,638	-	1,012,738
Library materials	710,121	8,415	-	718,536
Total capital assets	<u>3,322,638</u>	<u>145,726</u>	<u>-</u>	<u>3,468,364</u>
Less accumulated depreciation				
Leasehold improvements	(1,704,418)	(32,673)		(1,737,091)
Equipment	(782,718)	(68,367)	-	(851,085)
Library materials	(664,411)	(16,634)		(681,045)
Total accumulated depreciation	<u>(3,151,547)</u>	<u>(117,674)</u>	<u>-</u>	<u>(3,269,221)</u>
Other capital assets, net	<u>\$ 171,091</u>	<u>\$ 28,052</u>	<u>\$ -</u>	<u>\$ 199,143</u>
Total cost of capital assets	\$ 3,407,705	\$ 821,370	\$ -	\$ 4,229,075
Less accumulated depreciation	<u>(3,151,547)</u>	<u>(117,674)</u>	<u>-</u>	<u>(3,269,221)</u>
Capital assets, net	<u>\$ 256,158</u>	<u>\$ 703,696</u>	<u>\$ -</u>	<u>\$ 959,854</u>

The cost and related accumulated depreciation of assets held under the Oklahoma Capital Improvement Authority (OCIA) lease obligations was as follows as of June 30:

	2012	2011
Construction in progress	600,000	600,000
Leasehold improvements	200,000	200,000
Less accumulated depreciation	<u>(200,000)</u>	<u>(200,000)</u>
	<u>600,000</u>	<u>600,000</u>



University Center of Southern Oklahoma
Notes to Financial Statements
Year Ended June 30, 2012 and 2011

Note 4: Noncurrent Liabilities

The following is a summary of noncurrent liability transactions of the Center for the years ended June 30;

	2012				
	Balance June 30, 2011	Additions	Deductions	Balance June 30, 2010	Current Portion June 30, 2012
OCIA capital lease obligation	\$ 662,167	\$ -	\$ (10,727)	651,440	\$ 23,967
Accrued compensated absences	20,492	30,663	(20,492)	30,663	30,663
Other post employment benefits	30,427	7,168	(6,185)	31,410	-
	<u>\$ 713,086</u>	<u>\$ 37,831</u>	<u>\$ (37,404)</u>	<u>\$ 713,513</u>	<u>\$ 54,630</u>

	2011				
	Balance June 30, 2010	Additions	Deductions	Balance June 30, 2011	Current Portion June 30, 2011
OCIA capital lease obligation	\$ 623,219	\$ 49,173	\$ (10,225)	\$ 662,167	\$ 10,727
Accrued compensated absences	25,622	29,326	(34,456)	20,492	20,492
Other post employment benefits	28,462	7,636	(5,671)	30,427	-
Lease Premium	12,821	-	(12,821)	-	-
	<u>\$ 690,124</u>	<u>\$ 86,135</u>	<u>\$ (63,173)</u>	<u>\$ 713,086</u>	<u>\$ 31,219</u>

Note 5: Oklahoma Capital Improvement Authority Leases

In September 1999, the Oklahoma Capital Improvement Authority ("OCIA") issued its OCIA Bond Issues, 1999 Series A, B and C. Of the total bond indebtedness, the State Regents for Higher Education allocated \$200,000 to the Center. Concurrently with the allocation, the Center entered into a lease agreement with OCIA, for the project being funded by OCIA bonds. The lease agreement provides for the Center to make periodic principal and interest payments to OCIA over the respective terms of the agreement, which is 20 years. The proceeds of the bonds and subsequent lease are to provide capital improvements for the Center. The Center expects to receive state appropriations in amounts equal to the required lease payments.

In November 2005, the OCIA issued its OCIA Bond Issues, 2005 Series F and G. Of the total bond indebtedness, the State Regents for Higher Education allocated \$600,000 to the Center. Concurrently, with the allocation, the Center entered into a lease agreement with OCIA, for the project being funded by OCIA bonds. The lease agreement provides for the Center to make periodic principal and interest payments to OCIA over the respective terms of the agreement, which is 25 years. The proceeds of the bonds and subsequent lease are to provide capital improvements for the Center. The Center expects to receive state appropriations in amounts equal to the required lease payments.



University Center of Southern Oklahoma
Notes to Financial Statements
Year Ended June 30, 2012 and 2011

Note 5: Oklahoma Capital Improvement Authority Leases (con't)

All of the OCIA 1999 Series A, B, and C has been drawn down for expenditures incurred in connection with the specific projects. These expenditures are recorded as capital assets or as non-capitalized expenditures, in accordance with the Center's policy. The Center has recorded a lease obligation payable to OCIA for the total amount of the allotment, less repayment made during the fiscal year. The Center 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 \$88 and \$100, respectively. As of June 30, 2011, funds of \$600,000 were drawn down on the OCIA 2005F Series allocation representing all of the Center's allocation. The Center has recorded a lease obligation payable to OCIA for the total amount of the allotment, less repayment made.

In 2011, the OCIA issued Bond Series 2010A and 2010B to partially refund the Series 2005F Revenue Bonds. The advance partial refunding was to provide budgetary relief for fiscal years 2011 and 2012 by extending and restructuring the debt service. As a result, the total liability of the remaining 2005F bonds combined with the new 2010A and 2010B bond issues will be more than the original outstanding liability for the 2005F bonds. Consequently, the lease agreement with OCIA was automatically restructured to secure the new bond issues. This lease restructuring has extended certain principal payments into the future, resulting in a charge or cost on restructuring that has been recorded as a charge of \$49,173 on restructuring as a deferred cost that will be amortized over a period of 6 years, beginning in fiscal year 2011. This restructuring resulted in an aggregate debt service difference for principal and interest between the original lease agreement and the restructured lease agreement of \$2,429, which also approximates the economic cost of the lease restructuring.

During the years ended June 30, 2012 and 2011, OCIA made lease principal and interest payments totaling \$22,322 and \$15,919, respectively, on behalf of the Center. These on-behalf payments have been recorded as restricted state appropriations in the Center's statements of revenues, expenses, and changes in net assets.

Future minimum lease payments under the Center's obligation to OCIA are as follows as of June 30, 2012:

<u>Year Ending June 30,</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2013	26,235	27,920	54,155
2014	27,517	26,678	54,195
2015	54,365	25,345	79,710
2016	59,135	25,810	84,945
2017	44,898	23,508	68,406
2018-2022	169,621	192,791	362,412
2023-2027	156,083	52,353	208,436
2028-2030	113,586	11,476	125,062
Total future minimum lease payments	<u>\$ 651,440</u>	<u>\$ 385,881</u>	<u>\$ 1,037,321</u>



University Center of Southern Oklahoma
Notes to Financial Statements
Year Ended June 30, 2012 and 2011

Note 6: Employee Retirement Benefits

The Center's academic and professional personnel who work at least half-time are required to participate in the Oklahoma Teachers Retirement System ("OTRS"); classified personnel participation is voluntary. OTRS was established by the state of Oklahoma and is a component unit of the state's financial reporting entity, reported as pension fund trust. The Center does not maintain the accounting records, hold the investments for, or administer OTRS.

Defined Contribution Plan

The contract with the Teachers Insurance Annuity Association – College Retirement Equities Fund (TIAA/CREF), which provided for a funded plan for employee retirement was frozen at June 30, 2007. The TIAA/CREF plan is a defined contribution plan qualified under Internal Revenue Code Section 401(a). Effective July 1 2007, the Center entered into an employee retirement plan with American Fidelity Assurance, which is a defined contribution plan qualified under Internal Revenue Code Section 403(b). Eligible employees covered by the plan include all personnel hired prior to July 1, 2006 whose employment is continuous and on a full-time equivalency basis. Participation in the American Fidelity plan provides an annuity in the name of the employee based upon contributions made by the Center. The Center's minimum contribution rate is currently 10% of base salary less \$9,000 and contributions vest as they are made. Employees make no contributions to this plan.

The Center's total payroll for the years ended June 30, 2012 and 2011 was approximately \$695,000 and \$569,000 respectively. Total covered payroll, which refers to all compensation paid by the Center to active employees covered by American Fidelity, amounted to \$310,000 in 2012 and \$309,000 in 2011. The Center contributed approximately \$23,000 in 2012 and \$23,000 in 2011, which represents 7.50% and 7.50% of covered payroll respectively, for each year. As of June 30, 2012, there were no related party investments between American Fidelity and the Center.



University Center of Southern Oklahoma
Notes to Financial Statements
Year Ended June 30, 2012 and 2011

Note 6: Employee Retirement Benefits (con't)

Defined Benefit Plan:

Plan Description – The Center contributes to a single-employer public employee retirement system through the Supplemental Retirement Plan (the Plan), sponsored by the State Regents. The Plan was adopted on July 1, 1985, and was substantially replaced by the funded TIAA/CREF plan adopted in July 1991. The Plan provides employees who retire from the Oklahoma Teacher's Retirement System (OTRS) a guarantee-based monthly retirement allowance. This guaranteed allowance is determined by the average of the highest three years of salary times 2% for each of the first 25 years of service in Oklahoma's system of public education, plus an additional 0.5% for each year of service prior to July 1, 1985, and 1% for each of year of service after July 1, 1985, up to a maximum of 60% of final salary entitlement. The Plan pays the difference, if any, between the guaranteed retirement allowance and the combined benefits under OTRS, TIAA/CREF and social security. Benefits vest upon retirement. The Plan does not issue a stand-alone financial report.

Funding Policy – Benefits are funded on a "pay as you go" basis. During the fiscal years ending June 30, 2012 and 2011, the Center made payments of \$21,115 and \$20,500, respectively, which were recorded against the accrued pension liability.

Annual Pension Cost and Net Pension Asset – The Center's annual pension cost and net pension Asset of the Plan are as follows as of June 30,

	2012	2011
Annual required contribution	\$ 16,173	\$ 16,756
Interest on net pension obligation	(2,888)	(2,806)
Adjustment to annual required contribution	<u>5,121</u>	<u>4,975</u>
Annual pension cost	18,406	18,925
Contributions made	<u>21,115</u>	<u>20,500</u>
Increase in net pension asset	2,709	1,575
Net pension asset, beginning of year	<u>55,016</u>	<u>53,441</u>
Net pension asset, end of year	<u>\$ 57,725</u>	<u>\$ 55,016</u>

Significant actuarial assumptions used in the valuations include (a) a discount rate of 5.25% per year compounded annually, and (b) life expectancy of participants based on published mortality tables. The Plan is an unfunded plan. Accordingly, no assets have been transferred to a pension trust fund.



University Center of Southern Oklahoma
Notes to Financial Statements
Year Ended June 30, 2012 and 2011

Note 6: Employee Retirement Benefits (cont)

Three-Year Trend Information

Fiscal Year Ended	Annual Pension Cost (APC)	Percentage of APC Contributed	Accrued Pension Obligation
June 30, 2010	29,803	69%	161,619
June 30, 2011	18,925	108%	180,000
June 30, 2012	18,406	115%	173,739

Annual Pension Cost and Net Pension Asset – The Center's annual pension cost and net pension Asset of the Plan are as follows as of June 30,

	2012	2011
Annual required contribution	\$ 16,173	\$ 16,756
Interest on net pension obligation	(2,888)	(2,806)
Adjustment to annual required contribution	5,121	4,975
Annual pension cost	18,406	18,925
Contributions made	21,115	20,500
Increase in net pension asset	2,709	1,575
Net pension asset, beginning of year	55,016	53,441
Net pension asset, end of year	\$ 57,725	\$ 55,016

Significant actuarial assumptions used in the valuations include (a) a discount rate of 5.25% per year compounded annually, and (b) life expectancy of participants based on published mortality tables. The Plan is an unfunded plan. Accordingly, no assets have been transferred to a pension trust fund.

Three-Year Trend Information

Fiscal Year Ended	Annual Pension Cost (APC)	Percentage of APC Contributed	Accrued Pension Obligation
June 30, 2010	29,803	69%	161,619
June 30, 2011	18,925	108%	180,000
June 30, 2012	18,406	115%	173,739



University Center of Southern Oklahoma
Notes to Financial Statements
Year Ended June 30, 2012 and 2011

Note 6: Employee Retirement Benefits (con't)

Funded Status and Funding Progress

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

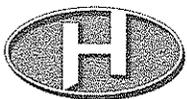
	2012	2011
Actuarial accrued liability (AAL)	\$ 173,739	\$ 180,000
Actuarial value of plan assets	-	-
Unfunded actuarial accrued liability (UAAL)	\$ 173,739	\$ 180,000
Funded ratio (actuarial value of plan assets/AAL)	0.0%	0.0%
Covered payroll (active plan members)	\$ -	\$ -
UAAL as a percentage of covered payroll	0.0%	0.0%

Oklahoma Teachers' Retirement System

Plan Description – The Center contributes to the Oklahoma Teachers' Retirement System (OTRS), a cost-sharing, multiple-employer, defined benefit pension plan sponsored by the State of Oklahoma. OTRS provides defined retirement benefits based on members' final compensation, age and term of service. In addition, the retirement program provides for benefits upon disability and to survivors upon the death of eligible members. OTRS does not provide for a cost-of-living adjustment. Title 70, of the Oklahoma Statutes, Sections 17-101 through 17-120 assigns the authority for management and operations of the plan to the Board of Trustees of OTRS. The authority to establish and amend benefit provisions rests with the State Legislature. 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, PO Box 53524, Oklahoma City, Oklahoma 73152, or by calling (405) 521-2387.

Funding Policy – The Center is required to contribute a fixed percentage of annual compensation on behalf of active members. The employer contribution rates applied to annual compensation are determined by state statute. The employer contribution rate was 9.50% from January 1, 2010 through June 30, 2012 and 9.00% from January 1, 2009 through December 31, 2009.

Funding Policy—Continued: 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. For Center employees meeting the requirements of the Center's defined benefit plan, and other employees who opted to enroll in OTRS prior to July 1, 1993, substantially all of the members' OTRS contributions are made directly by the Center.



University Center of Southern Oklahoma
Notes to Financial Statements
Year Ended June 30, 2012 and 2011

Note 6: Employee Retirement Benefits (con't)

The Center's contribution to OTRS for the years ended June 30, 2012, 2011 and 2010, were approximately \$108,000, \$91,000, and \$93,000 respectively, equal to the required contribution for each year. These contributions included the Center's statutory contribution and the share of the employee's contribution paid directly by the Center.

The State of Oklahoma is also required to contribute to the OTRS on behalf of the participating employers. For 2012 and 2011, the State of Oklahoma contributed 5% of State revenues from sales and use taxes and individual income taxes. The Center has estimated the amounts contributed to the OTRS by the State of Oklahoma on its behalf by multiplying the ratio of its covered salaries to total covered salaries for OTRS for the year by the applicable percentage of taxes collected during the year. For the years ended June 30, 2012 and 2011, the total amount contributed to the OTRS by the State of Oklahoma on behalf of the Center was approximately \$51,132 and \$37,069, respectively. These on-behalf payments have been recorded as both revenues and expenses in the statements of revenues, expenses, and changes in net assets.

Other Post-employment Insurance Benefits-Health and Dental Insurance Program

The Center covers the cost of health and dental insurance for two retired employees. The Center has no policy for providing health and dental insurance for any current employees upon retirement. In 2004, GASB Issued Statement No. 45; *Accounting and Financial Reporting by Employers for Postemployment Benefits Other Than Pensions*. GASB Statement No. 45 establishes standards for the measurement, recognition and display of OPEB expense/expenditures and related liabilities (assets), note disclosures and, if applicable, required supplementary information ("RSI") in the

Funding Policy: The Plan is unfunded and benefits are on a "pay-as-you-go" basis.

Annual OPEB cost and net OPEB obligation: Annual OPEB cost and net OPEB obligations of the OPEB plan are as follows at June 30,

	2012	2011
Annual required contribution	\$ 8,403	\$ 8,792
Interest on net OPEB obligation	1,597	1,494
Adjustment to annual required contribution	<u>(2,832)</u>	<u>(2,650)</u>
Annual OPEB cost (expense)	7,168	7,636
Contributions made	<u>6,185</u>	<u>5,671</u>
Increase in net OPEB obligation	(983)	(1,965)
Net OPEB obligation, beginning of year	<u>(30,427)</u>	<u>(28,462)</u>
Net OPEB obligation, end of year	<u>\$ (31,410)</u>	<u>\$ (30,427)</u>



University Center of Southern Oklahoma
Notes to Financial Statements
Year Ended June 30, 2012 and 2011

Note 6: Employee Retirement Benefits (con't)

This obligation is currently unfunded. The annual required contribution for 2012 was determined as part of an actuarial valuation on June 30, 2012, using the projected unit credit actuarial cost method. The actuarial assumptions included (a) discount rate of 5.25% per year compounded annually, (b) retirement at the earlier of (1) attainment of age 62 and completion of 10 years of OTRS service, or (2) when age plus OTRS service total at least 80 (90 for members joining OTRS after June 30, 1992), and (c) medical, dental, and vision rates increasing 3-8% annually.

Calculations for the Plan are based on the benefits provided under the terms of the substantive plan in effect at the time of each valuation and on the pattern of sharing of costs between the Center and plan members to that point. Actuarial methods reflect a long-term perspective, and actuarial valuations involve estimates of the value of reported amounts and assumptions about the probability of events far into the future. As such, actuarial amounts are subject to continual revision as results are compared to past expectations and new estimates are made about the future.

Trend Information

Year Ended June 30	Annual Pension Cost	% of APC Contributed	Net Pension Obligation
2010	\$ 14,063	37.37%	\$ 28,462
2011	\$ 7,636	74.27%	\$ 30,427
2012	\$ 7,168	86.29%	\$ 31,410

Funded Status and Funding Progress

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

	2012	2011
Actuarial accrued liability (AAL)	\$ 90,271	\$ 94,432
Actuarial value of plan assets	-	-
Unfunded actuarial accrued liability (UAAL)	<u>\$ 90,271</u>	<u>\$ 94,432</u>
Funded ratio (actuarial value of plan assets/AAL)	0.0%	0.0%
Covered payroll (active plan members)	\$ -	\$ -
UAAL as a percentage of covered payroll	0.0%	0.0%



University Center of Southern Oklahoma
Notes to Financial Statements
Year Ended June 30, 2012 and 2011

Note 7: Related Party Transactions

Community Activities, Inc. of Ardmore, Oklahoma serves as a fund-raising foundation on behalf of the Center and other community services operating in the Ardmore area. The Center received from Community Activities, Inc. Leasehold improvements of \$20,242 and \$32,673 and supplies and other items of \$1,960 and \$3,874 in 2012 and 2011, respectively.

The Center and Foundation have an agreement for providing the Foundation with services including office space and part-time service of Center staff. In exchange, the Foundation provides the Center with program support that includes, but is not limited to, administration of scholarships and other academic and program enhancements. During the years ended June 30, 2012 and 2011, the Foundation awarded scholarships totaling approximately \$29,000 and \$27,000, respectively, to students.

Note 8: Risk Management

The Center is exposed to various risks of loss related to torts; theft of, damage to, and destruction of assets; errors and omissions; injuries to employees; and natural disasters. The Center pays an annual premium to the Risk Management Division of the State of Oklahoma Department of Central Services for its tort liability, vehicle liability, and property loss and general liability insurance coverage. The Center purchases commercial employee life insurance. The Center, as a state agency, participates in the Oklahoma State and Education Employees' Group Insurance Board (the Plan), a public entity risk pool. The Center pays an annual premium to the Plan for its employee health insurance coverage. The Plan is self-insured and self-sustaining through member premiums. The Center carried insurance with the State Insurance Fund for other risks of loss, including workers' compensation and employee accident insurance. Settlement claims resulting from these risks have not exceeded insurance coverage in the past three years.

Note 9: Lease Commitments

The Center, as lessor, leases an educational facility from the Board of Education, Independent School District No. 19, Carter County, Oklahoma. The lease is on a year-to-year basis. Rental expense of approximately \$143,400 and \$125,750, respectively, per year, was paid to the School District during the years ended June 30, 2012 and 2011.



University Center of Southern Oklahoma
Notes to Financial Statements
Year Ended June 30, 2012 and 2011

Note 10: ACCOUNTING STANDARDS ISSUED NOT YET ADOPTED

In 2010, GASB issued Statement No. 59, *Financial Instruments Omnibus*. GASB No. 59 provides updates and improvements to existing standards regarding financial reporting and disclosure requirements of certain financial instruments and external investment pools for which significant issues have been identified in practice. The requirements of this Statement are effective for financial statements for periods beginning after June 15, 2010. Earlier application is encouraged. Management has determined that this Statement will have no effect on the Center's financial condition or results of operations.



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

Board of Trustees
University Center of Southern Oklahoma
Ardmore, Oklahoma

We have audited the financial statements of University Center of Southern Oklahoma (the Center) as of June 30, 2012, and have issued our report thereon dated August 25, 2012. We conducted our audit in accordance with generally accepted auditing standards and the standards applicable to financial audits contained in *Governmental Auditing Standards* issued by the Comptroller General of the United States.

Internal Control over Financial Reporting

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

A deficiency in internal control exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect 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 financial statements will not be presented 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 would not necessarily identify all deficiencies in internal control that might be significant deficiencies or material weaknesses. We did not identify any deficiencies in internal control over financial reporting that we consider to be a material weakness, as defined above.



Compliance and Other Matters

As part of obtaining reasonable assurance about whether the Center's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grants, 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 for the information of the audit committee, management, and federal awarding agencies, and pass-through entities and is not intended to be, and should not be, used by anyone other than these specified parties.

Hill & Company

Tulsa, Oklahoma
August 25, 2012

