University Center of Southern Oklahoma

Financial Statements with Independent Auditors' Report

June 30, 2013 and 2012

University Center of Southern Oklahoma
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June 30, 2013 and 2012

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COMPANY
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Strategic
Business Advisors

Independent Auditors' Report

Board of Trustees
University Center of Southern Oklahoma
Ardmore, Oklahoma

Report on the Financial Statements

We have audited the accompanying financial statements of the University Center of Southern Oklahoma as of and for the years ended June 30, 2013 and 2012, the related notes to the financial statements, which collectively, comprise the University Center of Southern Oklahoma's basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

Our responsibility is to express an opinion on these financial statements based on our audits. We conducted our audits in accordance with auditing standards generally accepted in the United States of America and *Government Auditing Standards* issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

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

An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

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Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the University Center of Southern Oklahoma as of June 30, 2013 and 2012, and the changes in financial position and its cash flows for the years then ended, in accordance with accounting principles generally accepted in the United States of America.

Other Matters

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis on pages i through vii 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 supplemental 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 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.

The additional comments required by University Center of Southern Oklahoma have not been subjected to the auditing procedures applied in the audit of the financial statements, and accordingly, we do not express an opinion or provide any assurance on it.

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated September 6, 2013 on our consideration of the Eastern Oklahoma Development District'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 result of that testing and not to provide an opinion on the internal control over financial reporting or 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.

Hinkle & Company, PC

Tulsa, Oklahoma
September 6, 2013

University Center of Southern Oklahoma
Management's Discussion and Analysis
For the Year Ended June 30, 2013

Management's Discussion and Analysis

The discussion and analysis of University Center of Southern Oklahoma (UCSO) financial statements provides an overview of UCSO's financial activities for the year ending June 30, 2013. 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 Position and Statement of Revenues, Expenses, and Changes in Net Position

The Statement of Net Position and the Statement of Revenues, Expenses, and Changes in Net Position report UCSO's net position and how they have changed. Net position is one way to measure UCSO's health. Over time, increases or decreases in UCSO's net position 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, deferred outflows 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, 2013

Financial Highlights (Continued)

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

Schedule A is prepared from UCSO's Statement of Net Position, and summarizes UCSO's assets, deferred outflows, liabilities, and net position at June 30, 2013, with comparative totals at June 30, 2012 and 2011, respectively.

Schedule A
Net Position at June 30, 2013
With Comparative Totals at June 30, 2012 and 2011
(in thousands)

	2013	2012	2011
Current assets	$ 1,440	$ 1,847	$ 2,478
Noncurrent assets			
Capital assets, net of depreciation	1,895	1,644	960
Other	61	58	55
Total assets	3,396	3,549	3,493
Deferred outflows	25	33	41
Current liabilities	153	320	307
Noncurrent liabilities	630	657	682
Total liabilities	783	977	989
Net position			
Net investment in capital assets	1,295	1,025	339
Restricted for capital projects	-	-	-
Unrestricted	1,343	1,580	2,206
Total net position	$ 2,638	$ 2,605	$ 2,545

At year ended June 30, 2013, capital assets increased by $231 or 15% from the year ended June 30, 2012 due to the increase in Construction in Progress paid for the new proposed building and campus. Current liabilities decreased by $167 or 64% due to a large Construction in Progress invoice in prior year.

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.

Financial Highlights (Continued)

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

Schedule B is prepared from UCSO's Statement of Revenues, Expenses, and Changes in Net Position for the year ended June 30, 2013, with comparative totals for the year ended June 30, 2012 and 2011, respectively.

Schedule B
Operating Results for the Year Ended June 30, 2013
With Comparative Totals for the Year Ended June 30, 2012 and 2011
(in thousands)

	2013	2012	2011
Operating revenues and expenses			
Tuition and fees	$ 958	$ 929	$ 1,000
Less operating expenses	(1,776)	(1,629)	(1,558)
Net operating expenses	(818)	(700)	(558)
Nonoperating revenues (expenses)			
State appropriations	647	641	687
On-behalf OTRS contributions	52	51	37
Gifts	66	38	32
Investment income	7	8	29
Interest expense/income	(36)	(20)	(13)
Net nonoperating revenues	736	718	772
Income before other revenues/expenses	(82)	18	214
Other revenues/expenses	115	43	60
Increase (decrease) in net position	$ 33	$ 61	$ 274

Revenues

Other revenues increased by $72, or 170%, over 2012 due to significant increases in capital funds provided by the Community Activities Foundation through the Southern Oklahoma Higher Education Foundation

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

Financial Highlights (Continued)

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

Expenses

Operating expenses increased by $147 or 9% in 2013 over the year ended June 30, 2012 as a result of increased compensation and depreciation expense.

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.

Schedule C summarizes UCSO's operating expenses for the years ended June 30, 2013, 2012 and 2011, respectively.

Schedule C
Operating Expenses for the Year Ended June 30, 2013
With Comparative Totals for the Year Ended June 30, 2012 and 2011
(in thousands)

	2013	2012	2011
Compensation and benefits	$ 1,018	$ 985	$ 850
Contractual services	401	362	384
Supplies and materials	45	47	49
Utilities	54	49	53
Communications	15	18	21
Depreciation	143	97	118
Other	100	71	83
Total Operating Expenses	$ 1,776	$ 1,629	$ 1,558

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, 2013, with comparative totals for the year ended June 30, 2012 and 2011, respectively.

Schedule D
Cash Flows for the Year Ended June 30, 2013
With Comparative Totals for the Year Ended June 30, 2012 and 2011
(in thousands)

	2013	2012	2011
Cash provided (used) by:			
Operating activities	$ (607)	$ (534)	$ (391)
Noncapital financing activities	713	673	718
Capital and related financing activities	(507)	(783)	24
Investing activities	7	8	10
Net increase in cash	(394)	(636)	361
Cash, beginning of year	1,791	2,427	2,066
Cash, end of year	$ 1,397	$ 1,791	$ 2,427

Capital Assets and Debt Administration

For 2013, UCSO recorded a total of $5,373 in capital assets and $3,478 in accumulated depreciation. During the year ended June 30, 2013 UCSO acquired $363 in capital assets consisting of leasehold improvements, library resources, office and institutional equipment, and computer equipment.

For 2012, UCSO recorded a total of $5,010 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.

Financial Highlights (Continued)

Capital Assets and Debt Administration (Continued)

At June 30, 2013, UCSO had long-term liabilities of $630,000, a decrease of 4.1% over 2012 long-term liabilities.

At June 30, 2012, UCSO had long-term liabilities of $656,000, a decrease of 4% over 2011 long-term liabilities as a result of payments applied towards existing bond programs.

Schedule E
Capital Assets, Net
June 30, 2013
With Comparative Totals at June 30, 2012 and 2011
(in thousands)

	2013	2012	2011
Construction in progress	$ 1,630	$ 1,373	$ 761
Leasehold improvements	1,818	1,757	1,737
Equipment	1,181	1,149	1,013
Library materials	744	731	718
Total	5,373	5,010	4,229
Less accumulated depreciation	(3,478)	(3,366)	(3,269)
Capital assets, net	$ 1,895	$ 1,644	$ 960

Schedule F
Long-Term Liabilities
June 30, 2013
With Comparative Totals at June 30, 2012 and 2011
(in thousands)

	2013	2012	2011
Capital lease payable	$ 598	$ 625	$ 652
Other post employment benefits	32	31	30
Total long-term liabilities	$ 630	$ 656	$ 682

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 2013-14 state appropriations will remain stable or slightly increase. However, student enrollment for the Fall semester of FY 2013—14 has dipped and credit hours have decreased slightly more than budget projections, indicating the need for some budget tightening for FY 2013-14. If enrollment continues to decline significantly through the Spring semester, then the use of some reserves may be required to balance the budget for the year and some personnel cuts may have to be implemented for FY 2014-15.

In February, 2013 UCSO began a capital campaign to construct a new campus. Eighty acres of property near the existing campus are being donated as the site for the new campus. Funding to construct the first phase of the new campus, a Health, Science and Math Center, will include $16 million from external sources and about $1.5 million from UCSO resources (of which over $900,000 has already been appropriated and spent). To date, $13 million has been raised (including UCSO resources) and construction is planned to begin in January, 2014. (Construction won't begin until all funds have been raised.) Construction will take approximately 18 months.

UCSO will vacate all temporary facilities currently occupied by the ECU nursing program and the MSC admissions staff and the funds to rent, maintain and operate those facilities will be applied towards the operations of the new facilities.

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 University Center of Southern Oklahoma, 611 Veterans Boulevard, Ardmore, Oklahoma 73401.

University Center of Southern Oklahoma
Statements of Financial Position
June 30, 2013 and 2012

	2013		2012	
	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	$1,396,646	$ 26,515	$1,790,562	$166,797
Accounts receivable	42,855	—	55,715	—
Accrued interest receivable	503	—	634	69
Investments	—	166,453	—	87,808
	1,440,004	192,968	1,846,911	254,674
Other Assets				
Prepaid pension asset	—	—	88	—
Other assets	60,708	—	57,725	—
Capital assets, net	1,895,451	—	1,644,117	—
	1,956,159	—	1,701,930	—
Total Assets	3,396,163	192,968	3,548,841	254,674
DEFFERED OUTFLOWS				
Deferred charge on OCIA lease restructuring	24,585	—	32,781	—
LIABILITIES				
Current Liabilities				
Accounts payable and accrued	95,482	—	262,889	—
Current portion of noncurrent liabilities	57,517	—	56,898	—
	152,999	—	319,787	—
Noncurrent Liabilities				
Accrued compensated absences	32,236	—	31,410	—
Capital leases	597,688	—	625,205	—
	629,924	—	656,615	—
Total Liabilities	782,923	—	976,402	—
NET POSITION				
Invested in capital assets, net of related debt	1,294,830	—	1,025,458	—
Restricted:				
Donor restrictions	—	166,453	—	173,881
Unrestricted	1,342,995	26,515	1,579,762	80,793
Total Net Position	$ 2,637,825	$ 192,968	$ 2,605,220	$ 254,674

University Center of Southern Oklahoma
Statements of Activities
Years Ended June 30, 2013 and 2012

	2013		2012	
	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	$ 957,864	$ —	$ 928,720	$ —
Operating Expenses				
Compensation and employee benefits	1,021,935	—	984,912	—
Contractual services	400,879	—	361,990	—
Supplies and material	45,233	428	46,421	1,476
Utilities	54,045	—	49,351	—
Communications	15,110	—	17,942	—
Depreciation	143,452	—	97,185	—
Other operating expense	99,571	63,679	71,347	—
General and administrative	—	1,710	—	2,089
Scholarships awarded	—	141,245	—	66,286
Total operating expenses	1,780,225	207,062	1,629,148	69,851
Operating Loss	(822,361)	(207,062)	(700,428)	(69,851)
Nonoperating Revenues (Expenses)				
State appropriations	647,396	—	640,619	—
On-behalf OTRS	56,232	—	51,132	—
Other Income	65,631	148,355	38,187	113,846
Investment income	6,917	980	8,285	1,141
Net unrealized loss on investments		(3,979)		
Interest expense	(36,204)	—	(19,803)	—
Total Expenses	739,972	145,356	718,420	114,987
Income Before Other Revenues, Expenses, Gains or Losses	(82,389)	(61,706)	17,992	45,136
Gifts and donations	60,839	—	20,242	—
On-behalf OCIA	54,155	—	22,322	—
Net Change In Net Assets	32,605	(61,706)	60,556	45,136
Net Assets, Beginning of Year	2,605,220	254,674	2,544,664	209,538
Net Assets, End of Year	$2,637,825	$ 192,968	$2,605,220	$ 254,674

University Center of Southern Oklahoma
Statements of Cash Flows
Years Ended June 30, 2013 and 2012

	2013		2012	
	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	$ 970,724	$ —	$ 929,770	$ —
Compensation and benefits	(960,458)	—	(919,434)	—
Cash paid to suppliers	(757,458)	(2,139)	(544,344)	(3,565)
Cash paid to University Center	—	(63,679)		
Cash paid for scholarships	—	(141,244)	—	(66,286)
Net Cash Used in Operating Activities	(747,192)	(207,062)	(534,008)	(69,851)
Cash Flows From Noncapital Financing Activities				
State Appropriation	647,396	—	640,619	—
Gifts and contributions	65,631	148,355	32,298	113,846
Other income	60,839	—	—	—
Net Cash Provided by Noncapital Financial Activities	773,866	148,355	672,917	113,846
Cash Flows From Capital and Related Financing Activities				
Purchases of capital assets	(416,371)	—	(783,493)	—
Interest expense	(11,267)	—	—	—
Net Cash Provided by (Used in) Capital and Related Financing Activities	(427,638)	—	(783,493)	—
Cash Flows From Investing Activities				
Purchases of investments	—	(170,784)	—	(1,150)
Maturities of investments	—	88,160	—	88,684
Interest expense	7,048	1,049	8,414	1,216
Net Cash Provided by Investing Activities	7,408	(81,575)	8,414	88,750
Net Change In Net Assets	(393,916)	(140,282)	(636,170)	132,745
Net Assets, Beginning of Year	1,790,562	166,797	2,426,732	34,052
Net Assets, End of Year	$1,396,646	$ 26,515	$1,790,562	$ 166,797

University Center of Southern Oklahoma
Statements of Cash Flows
Years Ended June 30, 2013 and 2012
(Continued)

	2013		2012	
	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	$ (822,361)	$ (207,062)	$ (700,428)	$(69,851)
Adjustments to reconcile operating income (loss) to net cash provided by (used in) operating activities				
Depreciation	143,452	—	97,185	—
OTRS On-behalf	56,232	—	37,069	—
Changes in assets and liabilities				
Accounts receivable	12,860	—	4,517	—
Accounts payable and accrued expenses	(138,452)	—	32,389	—
Prepaid pension asset	88	—	(1,575)	—
Other postemployment benefit obligation	826	—	1,965	—
Accrued compensated absences	163	—	(5,130)	—
Net Cash Used in Operating Activities	$ (747,192)	$ (207,062)	$ (534,008)	$ (69,851)
Noncash Investing, Noncaptial Financing, and Capital and Related Financing Transactions				
Interest on capital debt paid by state agency on behalf of the Program	$ 27,920	$ —	$ 11,595	$ —
Principal on capital debt paid by state agency on behalf of the Program	26,235	—	10,727	—
Capital assets received as gifts and contributions	60,839	—	20,242	—

University Center of Southern University
Notes to Financial Statements
Year Ended June 30, 2013 and 2012

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 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.

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, 2013 and 2012

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.

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.

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.

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, 2013 and 2012, the carrying amounts of the Center's deposits with the State Treasurer were $1,395,946 and $1,789,862, respectively. The Foundation had deposits at a financial institution with carrying amounts of $26,515 and $166,797 as of June 30, 2013 and 2012, 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 $307,857 in 2013 and $328,610 in 2012.

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:

	2013		2012	
OK INVEST Portfolio	Cost	Market Value	Cost	Market Value
U.S. Agency securities	$ 121,013	$ 120,502	$ 116,180	$ 116,522
Money market mutual funds	28,888	28,888	44,980	44,980
End of Day Commercial Paper Sweep	6,471	6,471		
Certificates of deposit	7,864	7,864	10,614	10,614
Tri-party repurchase agreements	-	-	-	-
Mortgage backed agency securities	132,287	132,936	145,044	154,102
Municipal bonds	5,187	5,741	5,894	6,725
Foreign bonds	2,432	2,430	1,654	1,654
Commercial paper	-	-	-	-
U.S. Treasury Obligations	3,715	4,534	4,244	5,295
TOTAL	$ 307,857	$ 309,366	$ 328,610	$ 339,892

Note 2: Cash and Cash Equivalents *(Continued)*

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, 2013 and 2012, 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 matured on April 20, 2013. As of June 30, 2013 and 2012, the Foundation's investments balance was as follows:

Types of Investment	2013	2012
First National Bank CD	$ -	$ 87,808
Short-term investment fund	$ 61,481	$ -
Index investment fund	104,972	-
Total investments	$ 166,453	$ 87,808

Note 3: Capital Assets

The following is a summary of the changes in capital assets for the year ended June 30, 2013:

	2013			
	Balance June 30, 2012	Additions	Retirements	Balance June 30, 2013
Capital assets not being depreciated				
Construction in progress	$ 1,373,071	$ 256,509	$ -	$ 1,629,580
Other capital assets				
Leasehold improvements	$ 1,757,333	$ 60,839	$ -	$ 1,818,172
Equipment	1,148,723	64,676	(31,955)	1,181,444
Library materials	731,396	12,762	-	744,158
Total capital assets	3,637,452	138,277	(31,955)	3,743,774
Less accumulated depreciation				
Leasehold improvements	(1,757,333)	(60,839)		(1,818,172)
Equipment	(913,745)	(73,417)	31,955	(955,207)
Library materials	(695,328)	(9,196)		(704,524)
Total accumulated depreciation	(3,366,406)	(143,452)	31,955	(3,477,903)
Other capital assets, net	$ 271,046	$ (5,175)	$ -	$ 265,871
Total cost of capital assets	$ 5,010,523	$ 394,786	$ (31,955)	$ 5,437,264
Less accumulated depreciation	(3,366,406)	(143,452)	31,955	(3,541,813)
Capital assets, net	$ 1,644,117	$ 251,334	$ -	$ 1,895,451

Note 3: Capital Assets *(Continued)*

The following is a summary of the changes in capital assets for the years ended June 30, 2012:

	2012			
	Balance June 30, 2011	Additions	Retirements	Balance June 30, 2012
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	3,468,364	169,088	-	3,637,452
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	(3,269,221)	(97,185)	-	(3,366,406)
Other capital assets, net	$ 199,143	$ 71,903	$ -	$ 271,046
Total cost of capital assets	$ 4,229,075	$ 781,448	$ -	$ 5,010,523
Less accumulated depreciation	(3,269,221)	(97,185)	-	(3,366,406)
Capital assets, net	$ 959,854	$ 684,263	$ -	$ 1,644,117

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;

	2013	2012
Construction in progress	$ 600,000	$ 600,000
Leasehold improvements	200,000	200,000
Less accumulated depreciation	(200,000)	(200,000)
	$ 600,000	$ 600,000

Note 4: Noncurrent Liabilities

The following is a summary of noncurrent liability transactions of the Center for the years ended June 30, 2013 and 2012;

	2013				
	Balance June 30, 2012	Additions	Deductions	Balance June 30, 2013	Current Portion June 30, 2013
OCIA capital lease obligation	$ 651,440	$ -	$ (26,235)	625,205	$ 27,517
Accrued compensated absences	30,663	30,000	(30,663)	30,000	30,000
Other post employment benefits	31,410	7,128	(6,302)	32,236	-
	$ 713,513	$ 37,128	$ (63,200)	$ 687,441	$ 57,517

	2012				
	Balance June 30, 2011	Additions	Deductions	Balance June 30, 2012	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	-
	$ 713,086	$ 37,831	$ (37,404)	$ 713,513	$ 54,630

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.

Note 5: Oklahoma Capital Improvement Authority Leases *(Continued)*

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, 2013 and 2012, the unamortized bond issuance costs totaled $0 and $88, 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, 2013 and 2012, OCIA made lease principal and interest payments totaling $52,385 and $37,069, 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, 2013:

Year Ending June 30,	Principal	Interest	Total
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	69,299	21,513	90,812
2019-2023	128,573	76,167	204,740
2024-2028	163,876	44,554	208,430
2029-2030	77,542	5,836	83,378
Total future minimum lease payments	$ 625,205	$ 249,411	$ 874,616

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, 2013 and 2012 was approximately $746,000 and $695,000 respectively. Total covered payroll, which refers to all compensation paid by the Center to active employees covered by American Fidelity, amounted to $292,000 in 2013 and $310,000 in 2012. The Center contributed approximately $23,000 in 2013 and $23,000 in 2012, which represents 7.50% and 7.50% of covered payroll respectively, for each year. As of June 30, 2013 and 2012, there were no related party investments between American Fidelity and the Center.

Note 6: Employee Retirement Benefits *(Continued)*

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, 2013 and 2012, the Center made payments of $21,500 and $21,115, 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,

	2013	2012
Annual required contribution	$ 16,173	$ 16,173
Interest on net pension obligation	(3,031)	(2,888)
Adjustment to annual required contribution	5,374	5,121
Annual pension cost	18,516	18,406
Contributions made	21,500	21,115
Increase in net pension asset	2,984	2,709
Net pension asset, beginning of year	57,725	55,016
Net pension asset, end of year	$ 60,709	$ 57,725

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.

Note 6: Employee Retirement Benefits *(Continued)*

Three-Year Trend Information

Ended	Cost (APC)	Contributed	Obligation
June 30, 2011	29,803	69%	161,619
June 30, 2012	18,925	108%	180,000
June 30, 2013	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,

	2013	2012
Annual required contribution	$ 16,173	$ 16,173
Interest on net pension obligation	(3,031)	(2,888)
Adjustment to annual required contribution	4,374	5,121
Annual pension cost	17,516	18,406
Contributions made	21,500	21,115
Increase in net pension asset	3,984	2,709
Net pension asset, beginning of year	57,725	55,016
Net pension asset, end of year	$ 61,709	$ 57,725

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, 2011	18,925	108%	180,000
June 30, 2012	18,406	115%	173,739
June 30, 2013	18,516	115%	173,739

Note 6: Employee Retirement Benefits *(Continued)*

Funded Status and Funding Progress

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

	2013	2012
Actuarial accrued liability (AAL)	$ 173,739	$ 173,739
Actuarial value of plan assets	-	-
Unfunded actuarial accrued liability (UAAL)	$ 173,739	$ 173,739
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%

<u>*Oklahoma Teachers' Retirement System*</u>

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% for fiscal years 2013, 2012, 2011. Employees' contributions are also determined by State statute. For all employees, the contribution rate was 7% of covered salaries and fringe benefits in 2013, 2012, and 2011. For 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.

Note 6: Employee Retirement Benefits *(Continued)*

The Center's contribution to OTRS for the years ended June 30, 2013, 2012 and 2011, 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 2013 and 2012, 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, 2013 and 2012, the total amount contributed to the OTRS by the State of Oklahoma on behalf of the Center was approximately $52,385 and $51,132, 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,

	2013	2012
Annual required contribution	$ 8,403	$ 8,403
Interest on net OPEB obligation	1,649	1,597
Adjustment to annual required contribution	(2,924)	(2,832)
Annual OPEB cost (expense)	7,128	7,168
Contributions made	6,302	6,185
Increase in net OPEB obligation	(826)	(983)
Net OPEB obligation, beginning of year	(31,410)	(30,427)
Net OPEB obligation, end of year	$ (32,236)	$ (31,410)

Note 6: Employee Retirement Benefits *(Continued)*

This obligation is currently unfunded. The annual required contribution for 2013 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
2011	$ 7,636	37.37%	$ 30,427
2012	$ 7,168	74.27%	$ 31,410
2013	$ 7,128	86.77%	$ 32,236

Funded Status and Funding Progress

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

	2013	2012
Actuarial accrued liability (AAL)	$ 90,271	$ 90,271
Actuarial value of plan assets	-	-
Unfunded actuarial accrued liability (UAAL)	$ 90,271	$ 90,271
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%

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 $60,839 and $20,242 and supplies and other items of $2,841 and $1,960 in 2013 and 2012, 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, 2013 and 2012, the Foundation awarded scholarships totaling approximately $79,000 and $29,000, 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 $183,000 and $143,400, respectively, per year, was paid to the School District during the years ended June 30, 2013 and 2012.

Note 10: Accounting Standards Issued Not Yet Adopted

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 College has not yet determined the impact that implementation of GASB No. 68 will have on its net pension.

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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, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of the University Center of Southern Oklahoma, as of and for the year ended June 30, 2013, and the related notes to the financial statements, which collectively comprise Tulsa Industrial Authority's basic financial statements, and have issued our report thereon dated September 6, 2013.

Internal Control over Financial Reporting

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

A *deficiency in internal control* exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, misstatements on a timely basis. A *material weakness* is a deficiency, or a 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. A *significant deficiency* is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

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

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Compliance and Other Matters

As part of obtaining reasonable assurance about whether University Center of Southern Oklahoma 's financial statements are free from material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

Purpose of this Report

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

Hinkle & Company, PC

Tulsa, Oklahoma
September 6, 2013