

**EAST CENTRAL  
UNIVERSITY**

**June 30, 2009**

EAST CENTRAL UNIVERSITY

June 30, 2009

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Independent Auditors' Report

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

We have audited the accompanying statement of net assets of East Central University (the "University"), a component unit of the State of Oklahoma, as of June 30, 2009, and the related statements of revenues, expenses and changes in net assets and cash flows for the year then ended. These financial statements are the responsibility of the University's management. Our responsibility is to express an opinion on these financial statements based on our audit. We did not audit the financial statements of the University's discretely presented component unit East Central University Foundation, Inc. (the "Foundation"). Those financial statements were audited by other auditors whose report thereon has been furnished to us, and our opinion, insofar as it relates to the amounts included for the Foundation, is based on the report of the other auditors.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. 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 the 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, based on our audit and the report of the other auditors, the financial statements referred to above present fairly, in all material respects, the respective financial position of East Central University and its discretely presented component unit, East Central University Foundation, Inc. as of June 30, 2009, and the respective changes in financial position and, where applicable, cash flows thereof for the year then ended in conformity with accounting principle generally accepted in the United States of America.



In accordance with *Government Auditing Standards*, we have also issued our report dated October 27, 2009 on our consideration of the University's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and is important in assessing the results of our audit.

Management's Discussion and Analysis and the Schedules of Funding Progress for the Supplemental Retirement Annuity Plan and Other Post-Employment Insurance Benefits Plan are not a required part of the basic financial statements but are supplementary information required by accounting principles generally accepted in the United States of America. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

Cole & Reed P.C.

Oklahoma City, Oklahoma  
October 27, 2009

**Managements' Discussion and Analysis (Unaudited)**  
**East Central University**  
**June 30, 2009**

*Overview of Financial Statements and Financial Analysis*

East Central University presents its financial statements for fiscal year 2009. Presented separately from the University are East Central University Foundation (The Foundation) financial statements. The Foundation is a discretely presented component unit of East Central University and has trustees that are independently elected. The Foundation also issues its financial statements in a separate report. Emphasis of discussions concerning these statements will be for the 2009 fiscal year data in comparison with the 2008 fiscal year data. While the 2008 data is not a part of the financial statements, significant fluctuations between the 2009 and 2008 data will be discussed. Comparative data will be included in future year's financial statements. The Foundation statements will not be a part of this discussion and analysis. The three financial statements, prepared in accordance with Governmental Accounting Standards Board (GASB) principles are: the Statement of Net Assets; the Statement of Revenues, Expenses, and Changes in Net Assets; and the Statement of Cash Flows. Dollar amounts presented in table and graph formats are in thousands of dollars and those presented in the discussion are rounded to thousands. This discussion and analysis of the University's financial statements is designed to assist the readers in understanding the accompanying financial statements and to summarily quantify the status, sources and uses of resources. The University will also utilize these statements in conjunction with prior year data to focus on trends and establish benchmark comparisons.

*Statement of Net Assets*

The statement of Net Assets presents the Assets (current and non-current), Liabilities (current and non-current), and Net Assets (assets minus liabilities) at the end of the fiscal year. The purpose of the Statement of Net Assets is to allow readers of the financial statements to determine the assets available to continue the operations of the University. They are also able to determine how much the University owes vendors, investors and lending institutions. Finally, the Statement of Net Assets provides a picture of the net assets (assets minus liabilities) and their availability for expenditure by the University. The change in net assets is an indicator of the overall financial condition of the University.

Net assets are divided into three major categories. The first category, Invested in Capital Assets, Net of Debt, provides the institution's equity in property, plant and equipment owned by the institution and is recorded at historical cost less accumulated depreciation. The next category, Restricted-Expendable Net Assets, measured in current value, is available for expenditure by the institution, but must be spent for purposes as determined by donors and/or external entities that have placed time or purpose restrictions on the use of the assets. The final category is Unrestricted Net Assets, also measured in current value. Unrestricted assets are available to the institution for any lawful purpose of the institution.

**Managements' Discussion and Analysis (Unaudited)--Continued**  
**East Central University**  
**June 30, 2009**

*Statement of Net Assets--Continued*

**Statement of Net Assets**  
(Thousands of Dollars)

	June 30	
	2009	2008
<b>ASSETS</b>		
Current assets	\$ 16,415	\$ 12,663
Capital assets, net	57,169	52,664
Other assets	7,655	10,503
<b>TOTAL ASSETS</b>	<b>81,239</b>	<b>75,830</b>
<b>LIABILITIES</b>		
Current Liabilities	4,987	5,015
Noncurrent Liabilities	28,060	28,517
<b>TOTAL LIABILITIES</b>	<b>33,047</b>	<b>33,532</b>
<b>NET ASSETS</b>		
Invested in capital assets, net of debt	30,410	25,712
Restricted-expendable	4,790	9,013
Unrestricted	12,992	7,573
<b>TOTAL NET ASSETS</b>	<b>\$ 48,192</b>	<b>\$ 42,298</b>

Current assets increased \$3,752,000 primarily due to an on-going management initiative to increase the cash reserve. Unrestricted cash and cash equivalents increased by \$3,131,000. This initiative has been implemented by conservative budgeting processes of numerous unfilled positions, computing tuition and fee revenues based on credit hours as opposed to student full time equivalent counts, and savings realized from unused utility costs budgeted for the Fine Arts Center that was not completed when expected.

The total liabilities as of June 30, 2009 decreased minimally from June 30, 2008 based on normal debt retirement, while new debt only consisted of the issuance of Oklahoma Development Finance Authority Master Lease funds of \$477,000 for the replacement of the University's telephone system. In the fiscal year ending June 30, 2009 the University retired \$978,000 of long-term debt.

**Managements' Discussion and Analysis (Unaudited)--Continued**  
**East Central University**  
**June 30, 2009**

*Statement of Net Assets--Continued*

From June 30, 2008 to June 30, 2009 the total net assets increased \$5,894,000 reflective of the increase in current assets noted above as well as the continuance of the Fine Arts Center building project. The Fine Arts Center, with a current cost of \$27,060,000 will be completed in the 2010 fiscal year. Additionally the University has added improvements to Norris Stadium of \$233,000, the new Pat O'Neal Strength and Conditioning Center of \$424,000 and is replacing the university-wide telephone system with a current cost of \$498,000. Funding sources for the Fine Arts Center include the Oklahoma Capital Improvement Authority (OCIA) bond issue of \$10,810,000, the 2005 Revenue Bonds of \$5,000,000, donations and other dedicated University funds.

Continued assessment of account classification necessitated a reclassification of accounts from restricted to unrestricted which is reflected in those amounts in the Net Asset category, however the majority decrease of restricted expendable net assets is due to the expended portion of the 2005 Revenue Bond proceeds for construction of the Fine Arts Center.

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

Another measure of an institution's fiscal stability is how operating revenues compare to operating expenses. Operating revenues are earned in exchange for providing goods and services and operating expenses are incurred in the normal operations of the University. While public institutions will not normally have an excess of operating revenues over operating expenses (State Appropriations, some federal and state grants, gifts and investment income are required to be reported as non-operating Revenues by GASB principles) the excess of operating revenues and non-operating revenues over expenses is normally an indication of the University's ability to operate within its available resources.

**Managements' Discussion and Analysis (Unaudited)--Continued**  
**East Central University**  
**June 30, 2009**

*Statement of Revenues, Expenses, and Changes in Net Assets--Continued*

**Statement of Revenues, Expenses and Changes in Net Assets**  
(Thousands of dollars)

	June 30,	
	2009	2008
OPERATING REVENUES		
Tuition, fees, housing & food service	\$ 16,257	\$ 16,378
Grants and contracts	15,560	16,342
Other operating revenues	1,636	1,888
TOTAL OPERATING REVENUES	33,453	34,608
OPERATING EXPENSES		
Compensation	31,055	32,149
Contractual services	4,177	6,334
Supplies & materials	5,000	4,145
Depreciation	2,070	2,148
Other operating expenses	16,539	15,623
TOTAL OPERATING EXPENSES	58,841	60,399
Operating income (loss)	(25,388)	(25,791)
NONOPERATING REVENUES (EXPENSES)		
State appropriations	19,010	18,977
Grants and contracts	8,830	7,774
Other revenues	2,932	2,036
Interest expense	(1,043)	(999)
NET NONOPERATING REVENUES (EXPENSES)	29,729	27,788
Income before other revenues and gains	4,341	2,507
OTHER REVENUES AND GAINS	1,553	1,573
Change in net assets	5,894	3,570
NET ASSETS		
Net assets, beginning of year	42,298	38,728
Net assets, end of year	\$ 48,192	\$ 42,298

**Managements' Discussion and Analysis (Unaudited)--Continued**  
**East Central University**  
**June 30, 2009**

*Statement of Revenues, Expenses, and Changes in Net Assets--Continued*

While there are no significant variances from fiscal year 2008 to fiscal year 2009 data on this statement, Jenzabar, the University's management information system initiated in 2004, is still being extensively reviewed as to the revenue allocation processes. The University has, over the past two years, modified the allocation processes based on these reviews and additional reports derived from the management information system developed by our information technology department. In reviewing the system processes it was noted in October 2008 that tuition, fee and housing revenue and the reciprocating scholarship and fellowship expense of \$1,800,000 were not recorded in fiscal year 2008. Fiscal year 2008 data includes this adjustment. There was no effect on net assets for fiscal year 2008.

While grants and contracts revenue only indicated a minimal variance from fiscal year 2008 to fiscal year 2009, a reclassification of Pell, SEOG, OTAG and other grants required by the Governmental Accounting Standards Board implementation guide have been reported in non-operating revenue. The reclassification was also applied to the fiscal year 2008 data.

The University did experience an increase in contributions of \$968,000 the majority of which was a one-time contribution for the Pat O'Neal Strength and Conditioning Center.

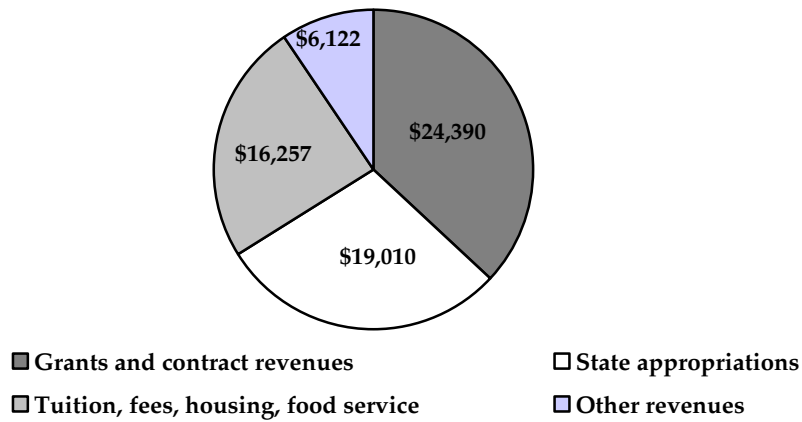
The scholarship and fellowship expense increased slightly due to management's decision to fully fund scholarships that had been partially funded in prior years. The University has also utilized the review of our management information system and the enhanced report generating capabilities of our information technology department to assist in the reclassification of expense categories for modifying processes in that area. Other minimal variances noted in operating expense categories from fiscal year 2008 to fiscal year 2009 are partially the result of those efforts.

**Managements' Discussion and Analysis (Unaudited)--Continued**  
**East Central University**  
**June 30, 2009**

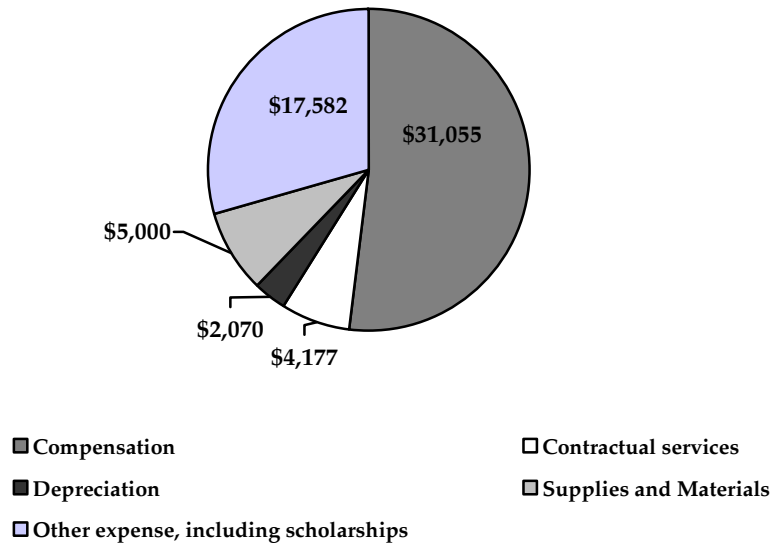
*Statement of Revenues, Expenses, and Changes in Net Assets--Continued*

The major sources of revenues and expenses (operating and non-operating) by the financial statement categories are summarized in the charts below (in thousands of dollars).

**Revenues**



**Expenses**



**Managements' Discussion and Analysis (Unaudited)--Continued**  
**East Central University**  
**June 30, 2009**

*Statement of Cash Flows*

The final statement presented by East Central University is the Statement of Cash Flows. The Statement of Cash Flows presents detailed information about the cash activity of the institution during the year.

**Statement of Cash Flows**  
(Thousands of Dollars)

	June 30	
	2009	2008
CASH PROVIDED (USED) BY:		
Operating Activities	\$ (22,471)	\$ (22,386)
Noncapital financing activities	28,613	26,721
Capital and related financing activities	(6,070)	(3,696)
Investing activities	320	429
Net Change in Cash	392	1,068
CASH, BEGINNING OF YEAR	16,341	15,273
CASH, END OF YEAR	\$ 16,733	\$ 16,341

The statement is divided into five parts. The first part deals with operating cash flows and shows the net cash used by the operating activities of the institution. The second section reflects cash flows from non-capital financing activities. This section reflects the cash received and spent for non-operating, non-investing, and non-capital financing purposes. The third section deals with cash flows from capital and related financing activities. This section reflects the cash used for the acquisition and construction of capital related items. The fourth section reflects cash flows from investing activities and shows the purchases, proceeds, and interest received from investing activities. The fifth section reconciles the net cash used to the operating income or loss reflected on the Statement of Revenues, Expenses, and Changes in Net Assets.

Overall cash flows for the year ended June 30, 2009 varied only slightly in comparison with the year ended June 30, 2008. The only significant variance is the \$2,373,000 decrease in net cash used in capital and related financing activities which transpired as the bond and debt proceeds for the Fine Arts Center have been expended as it nears completion.

**Managements' Discussion and Analysis (Unaudited)--Continued**  
**East Central University**  
**June 30, 2009**

*Economic Outlook*

During the 2009 fiscal year the University operated within its available resources as total revenues exceeded total expenses by \$5,894,000 and management's goal of increasing cash reserves has been effective. In fiscal year 2009 tuition, fee, housing and food service revenue accounted for 25% of the University's total revenue. While enrollment experienced a slight up-turn, economic conditions and three consecutive years of tuition and fee increases will probably limit any substantial increases in tuition and fees for the next few years. In fiscal year 2010, tuition did not increase and only a minimal fee increase was added.

State appropriations, approximately 29% of total revenues, have taken a temporary decrease for fiscal year 2010 based on a short-fall in state revenue collections. This temporary decrease, 5% for July and August appropriations, has the potential to become permanent and is expected to negatively impact this revenue source for at least the next two fiscal years.

Grant and contract revenue, representing 37% of total revenues for the University have continued to grow. While the student loan and grant programs have not experienced an immediate impact from the national economic set-back, the University will continue to monitor this area. The University has prepared numerous contingency plans based on state appropriation cuts and the national economic status and has not incurred any significant new debt.

## STATEMENT OF NET ASSETS

## EAST CENTRAL UNIVERSITY

June 30, 2009

	<u>University</u>	<u>Component Unit</u>
ASSETS		
CURRENT ASSETS		
Cash and cash equivalents	\$ 13,397,649	\$ 1,606,785
Accounts receivable, net	1,095,775	251,988
Grants and contracts receivable	1,748,650	
Receivable from estate	-	-
Interest receivable	13,084	93,997
Current portion of student loans receivable, net	160,000	-
	<u>16,415,158</u>	<u>1,952,770</u>
TOTAL CURRENT ASSETS		
NONCURRENT ASSETS		
Restricted cash and cash equivalents	3,334,946	-
Restricted investments	848,811	-
Investments	-	17,143,087
Real estate held as investments	-	105,000
Investments held by others	549,795	-
Receivable from OCIA	342,894	-
Receivable from OSRHE Endowment Trust Fund	202,510	
Student loans receivable, net	1,351,917	-
Net Pension Asset	413,055	-
Net OPEB Asset	145,130	
Other assets	466,174	10,026
Capital assets, net	57,168,990	2,485
	<u>64,824,222</u>	<u>17,260,598</u>
TOTAL NONCURRENT ASSETS		
TOTAL ASSETS	<u>\$ 81,239,380</u>	<u>\$ 19,213,368</u>
LIABILITIES		
CURRENT LIABILITIES		
Accounts and scholarships payable	\$ 1,657,987	\$ 1,309,419
Accrued payroll	72,805	-
Accrued interest	174,045	-
Deferred revenue	1,485,734	2,100,000
Deposits held in custody for others	131,149	13,042
Other liabilities	-	301,819
Current portion of non current liabilities	1,464,922	-
	<u>4,986,642</u>	<u>3,724,280</u>
TOTAL CURRENT LIABILITIES		
NONCURRENT LIABILITIES		
Accrued compensated absences	391,338	-
Federal loan program contributions refundable	1,358,507	-
Bonds payable	10,755,000	-
ODFA master lease obligation	4,749,000	-
Premium on Bonds	305,416	-
Lease obligation payable to OCIA	10,500,927	-
	<u>28,060,188</u>	<u>-</u>
TOTAL NONCURRENT LIABILITIES		
TOTAL LIABILITIES	<u>33,046,830</u>	<u>3,724,280</u>
NET ASSETS		
Invested in capital assets, net of debt	30,410,500	-
Restricted		
Nonexpendable		
Grants, bequests and contributions	-	14,114,234
Expendable		
Scholarships, instruction and other	141,593	2,146,588
Loans	188,142	-
Capital projects	3,300,213	-
Debt service	1,159,850	-
Unrestricted	12,992,252	(771,734)
	<u>48,192,550</u>	<u>15,489,088</u>
TOTAL NET ASSETS	<u>\$ 48,192,550</u>	<u>\$ 15,489,088</u>

See notes to financial statements.

STATEMENT OF REVENUES, EXPENSES, AND CHANGES IN NET ASSETS

EAST CENTRAL UNIVERSITY

Year Ended June 30, 2009

	<u>University</u>	<u>Component Unit</u>
<b>OPERATING REVENUES</b>		
Student tuition and fees, net of scholarship discounts and allowances of \$6,767,853 (revenues of \$557,690 pledged as security on University Center Revenue Bonds of 1993, revenues of \$375,511 pledged as security on Fine Arts Center Revenue Bonds of 2005).	\$ 12,771,996	\$ -
Federal grants and contracts	7,284,570	-
State and local grants and contracts	8,275,638	-
Bookstore operations	141,766	-
Housing and food service (revenues of \$2,433,964 pledged as security on Student Housing Revenue bonds of 2003).	3,343,571	-
Net investment income (loss)	-	(3,001,977)
Contributions	-	1,073,905
Interest earned on loans to students	17,768	-
Other operating revenues	<u>1,617,378</u>	<u>3,675</u>
<b>TOTAL OPERATING REVENUES</b>	<b>33,452,687</b>	<b>(1,924,397)</b>
<b>OPERATING EXPENSES</b>		
Compensation and employee benefits	31,055,366	-
Contractual services	4,177,178	-
Supplies and materials	5,000,257	-
Depreciation	2,070,240	881
Utilities	1,417,289	-
Communication expense	292,508	-
Scholarships and fellowships	9,360,983	188,406
Other operating expenses	<u>5,466,731</u>	<u>2,378,713</u>
<b>TOTAL OPERATING EXPENSES</b>	<b>58,840,552</b>	<b>2,568,000</b>
<b>OPERATING INCOME (LOSS)</b>	<b>(25,387,865)</b>	<b>(4,492,397)</b>
<b>NONOPERATING REVENUES (EXPENSES)</b>		
State appropriations	19,010,415	-
Federal Grants	6,060,026	-
State Grants	2,769,693	-
On-behalf contributions for OTRS	1,526,000	-
Gifts and contributions	977,728	-
Investment income	263,426	-
Other non-operating revenues	164,479	-
Interest expense	<u>(1,043,177)</u>	<u>-</u>
<b>NET NONOPERATING REVENUE (EXPENSES)</b>	<b>29,728,590</b>	<b>-</b>
Income before other revenues, expenses, gains and losses	4,340,725	(4,492,397)
<b>CAPITAL GIFTS AND GRANTS</b>		
State appropriations restricted for capital purposes	794,362	-
OCIA on-behalf state appropriations	<u>759,280</u>	<u>-</u>
<b>TOTAL CAPITAL GIFTS AND GRANTS</b>	<b>1,553,642</b>	<b>-</b>
Change in net assets	5,894,367	(4,492,397)
<b>NET ASSETS</b>		
NET ASSETS, BEGINNING OF YEAR (restated)	<u>42,298,183</u>	<u>19,981,485</u>
NET ASSETS, END OF YEAR	<u>\$ 48,192,550</u>	<u>\$ 15,489,088</u>

See notes to financial statements.

STATEMENT OF CASH FLOWS

EAST CENTRAL UNIVERSITY

Year Ended June 30, 2009

CASH FLOWS FROM OPERATING ACTIVITIES	
Tuition and fees	\$ 12,034,489
Grants and contracts	15,745,735
Auxiliary enterprise charges	3,651,050
Other operating receipts	1,676,053
Payments to employees for salaries and benefits, net of on-behalf payments	(29,474,433)
Payments to suppliers	<u>(26,104,269)</u>
NET CASH USED IN OPERATING ACTIVITIES	<u>(22,471,375)</u>
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES	
State appropriations	19,010,415
Non-operating grants	8,829,719
Other student financial assistance received	15,388,652
Payments of other student financial assistance	(15,388,652)
Contributions	609,100
Cash received from Non-Operating Revenues	<u>163,967</u>
NET CASH PROVIDED BY NON CAPITAL FINANCING ACTIVITIES	<u>28,613,201</u>
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES	
Cash paid for capital assets	(5,437,505)
Capital appropriations received	794,362
Proceeds of capital debt and leases	493,984
Repayments of capital debt and leases	(858,798)
Interest paid on capital debt and leases	<u>(1,061,742)</u>
NET CASH USED IN CAPITAL AND RELATED FINANCING ACTIVITIES	<u>(6,069,699)</u>
CASH FLOWS FROM INVESTING ACTIVITIES	
Purchases of investments	(2,047,022)
Proceeds from sales and maturities of investments	2,103,562
Interest received on investments	<u>263,426</u>
NET CASH PROVIDED BY INVESTING ACTIVITIES	<u>319,966</u>
NET CHANGE IN CASH AND CASH EQUIVALENTS	392,093
CASH AND CASH EQUIVALENTS AT BEGINNING OF YEAR	<u>16,340,502</u>
CASH AND CASH EQUIVALENTS AT END OF YEAR	<u>\$ 16,732,595</u>

STATEMENT OF CASH FLOWS--Continued

EAST CENTRAL UNIVERSITY

Year Ended June 30, 2009

RECONCILIATION OF OPERATING LOSS TO NET CASH  
USED IN OPERATING ACTIVITIES

Operating loss	\$ (25,387,865)
Adjustments to reconcile operating loss to net cash used in operating activities:	
Depreciation expense	2,070,240
Non-cash adjustment - to reconcile cash	47,034
Net loss on disposal of fixed assets	1,891
On-behalf contributions to teachers' retirement system	1,526,000
Changes in assets and liabilities	
Student accounts receivable	(852,434)
Other receivables	192,008
Net Pension and OPEB Assets	76,177
Accounts payable and accrued liabilities	(417,863)
Deferred revenue	315,066
Compensated absences	<u>(41,629)</u>
NET CASH USED IN OPERATING ACTIVITIES	<u>\$ (22,471,375)</u>

NONCASH INVESTING, NONCAPITAL FINANCING AND  
CAPITAL AND RELATED FINANCING ACTIVITIES

Principal and interest on capital debt paid by state agency on behalf of the College	<u>\$ 759,280</u>
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RECONCILIATION OF CASH AND CASH EQUIVALENTS TO  
STATEMENTS OF NET ASSETS

Current assets	
Cash and cash equivalents	\$ 13,397,649
Noncurrent assets	
Restricted cash and cash equivalents	<u>3,334,946</u>
	<u>\$ 16,732,595</u>

See notes to financial statements.

## NOTES TO FINANCIAL STATEMENTS

### EAST CENTRAL UNIVERSITY

June 30, 2009

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

Nature of Organization: East Central University (the "University") is a regional University operating under the jurisdiction of the Regional University System of Oklahoma and the Oklahoma State Regents for Higher Education.

Reporting Entity: The financial reporting entity, as defined by Governmental Accounting Standards Board (GASB) Statement No. 14, *The Financial Reporting Entity* and Governmental Accounting Standards Board (GASB) Statement No. 39, *Determining Whether Certain Organizations Are Component Units-an amendment of GASB Statement No. 14*, includes the accounts and funds of the University and its discretely presented component unit, East Central University Foundation, Inc. (the "Foundation"). The University 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.

Discretely Presented Component Units: The University implemented GASB Statement No. 39 in 2004. East Central University Foundation, Inc. (the "Foundation") is a component unit of the University under GASB 39 that is discretely presented with the financial statements of the University. The University is the beneficiary of the Foundation, a separate legal entity with its own Board of Trustees. The Foundation is organized for the benefit of the University, and its faculty, student body and programs. The purposes for which the Foundation is organized are exclusively scientific, literary, charitable, educational, and artistic for the benefit of the University, its faculty, its student body, and its programs. Additional and selected disclosures for the Foundation are located in this report beginning with Note N. A complete report of the Foundation's financial statements and footnotes can be requested from the Foundation's director.

The Foundation is a private nonprofit organization that reports under the Financial Accounting Standards Board ("FASB") standards, including FASB Statement No. 117, *Financial Reporting for Not-for-Profit Organizations*. As such, certain revenue recognition criteria and presentation features are different from GASB revenue recognition criteria and presentation features. No modifications have been made to the Foundation's financial information in the College's financial reporting entity for these differences.

NOTES TO FINANCIAL STATEMENTS--Continued

EAST CENTRAL UNIVERSITY

June 30, 2009

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

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

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

The University has the option to apply all Financial Accounting Standards Board (FASB) pronouncements issued after November 30, 1989, unless FASB conflicts with GASB. The University has elected to not apply FASB pronouncements issued after the applicable date.

Cash Equivalents: For purposes of the statements of cash flows, the University considers all highly liquid investments with an original maturity of three months or less to be cash equivalents. Funds invested through the State Treasurer's Cash Management Program are considered cash equivalents.

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

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

NOTES TO FINANCIAL STATEMENTS--Continued

EAST CENTRAL UNIVERSITY

June 30, 2009

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

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

Capital Assets: Capital assets are recorded at cost at the date of acquisition, or fair market value at the date of donation in the case of gifts. For equipment, the University's capitalization policy includes all items with a unit cost of \$2,500 or more, and an estimated useful life of greater than one year. Renovations to buildings, infrastructure, and land improvements that significantly increase the value or extend the useful life of the structure are capitalized. Routine repairs and maintenance are charged to operating expense in the year in which the expense was incurred.

Depreciation is computed using the straight-line method over the estimated useful lives of the assets, generally 40 to 60 years for buildings, 20 to 30 years for infrastructure and land improvements, and 5 to 10 years for library materials and equipment. Depreciation expense includes amortization of assets held under capital lease obligations.

Deferred Revenue: Deferred revenues include amounts received for tuition and fees and certain auxiliary activities prior to the end of the fiscal year but related to the subsequent accounting period. Deferred revenues also include amounts received from grant and contract sponsors that have not yet been earned.

Compensated Absences: Employee vacation pay is accrued at year-end for financial statement purposes. The liability and expense incurred are recorded at year-end as accrued vacation payable in the statement of net assets, and as a component of compensation and benefit expense in the statement of revenues, expenses and changes in net assets.

Noncurrent liabilities: Noncurrent liabilities include (1) principal amounts of revenue bonds payable, notes payable, and capital lease obligations with contractual maturities greater than one year, (2) estimated amounts for accrued compensated absences and other liabilities that will not be paid within the next fiscal year, and (3) other liabilities that, although payable within one year, are to be paid from funds that are classified as noncurrent assets.

NOTES TO FINANCIAL STATEMENTS--Continued

EAST CENTRAL UNIVERSITY

June 30, 2009

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

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

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

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

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

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

Classification of Revenues: The University 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 (1) student tuition and fees, net of scholarship discounts and allowances, (2) sales and services of auxiliary enterprises, net of scholarship discounts and allowances, (3) certain federal and state grants and contracts, and (4) interest on institutional student loans.

Nonoperating revenues: Nonoperating revenues include activities that have the characteristics of nonexchange transactions, such as gifts and contributions, and other revenue sources that are defined as nonoperating revenues by GASB No. 9 *Reporting Cash Flows of Proprietary Fund Accounting*, and GASB No. 34, such as state appropriations, governmental and other pass-through grants, and investment income.

NOTES TO FINANCIAL STATEMENTS--Continued

EAST CENTRAL UNIVERSITY

June 30, 2009

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

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

Change in Accounting Policy: In 2009, certain federal student financial aid revenues were reclassified from operating revenues to nonoperating revenue based on the University's administrative involvement in the programs and because the grants are nonexchange transactions. The reclassifications were also made to the 2008 financial statements to conform with the 2009 presentation. This change in accounting policy was a result of an amendment to the GASB Staff *"Comprehensive Implementation Guide, Chapter 7: Basic Financial Statements and Management's Discussion and Analysis"*.

Income Taxes: The University, as a political subdivision of the State of Oklahoma, is exempt from all federal income taxes under Section 115(1) of the Internal Revenue Code, as amended.

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

NOTES TO FINANCIAL STATEMENTS--Continued

EAST CENTRAL UNIVERSITY

June 30, 2009

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

Prior Period Adjustment: During the fiscal year ended June 30, 2009, the University determined that capital leases transactions entered into with OCIA for which principal and interest payments are made by the State of Oklahoma on behalf of the University incorporate characteristics more closely resembling a capital grant or gift than a traditional bond financed transaction. As such, interest expense previously capitalized during construction financed by OCIA capital leases have been restated to be reflected as interest expense in the statement of revenues, expenses and changes in net assets. The net assets as of July 1, 2008, have been restated, as shown in the table below:

	Invested in			
	<u>Capital Assets</u>	<u>Restricted</u>	<u>Unrestricted</u>	<u>Total</u>
Net assets as previously reported July 1, 2008	\$ 27,029,068	\$ 9,013,131	\$ 7,572,739	\$ 43,614,938
Restatement adjustment:				
Removal of capitalized interest expense	<u>(1,316,755)</u>	<u>-</u>	<u>-</u>	<u>(1,316,755)</u>
Restated net assets at July 1, 2008	<u>\$ 25,712,313</u>	<u>\$ 9,013,131</u>	<u>\$ 7,572,739</u>	<u>\$ 42,298,183</u>

NOTES TO FINANCIAL STATEMENTS--Continued

EAST CENTRAL UNIVERSITY

June 30, 2009

NOTE B--DEPOSITS AND INVESTMENTS

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

At June 30, 2009, the carrying amount of all University deposits with the OST and other financial institutions were \$16,732,595. This amount consists of deposits with the OST (\$16,717,345) and change funds (\$15,250). Of funds on deposit with the OST, amounts invested in *OK INVEST* total \$4,307,848 in 2009.

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

NOTES TO FINANCIAL STATEMENTS--Continued

EAST CENTRAL UNIVERSITY

June 30, 2009

NOTE B--DEPOSITS AND INVESTMENTS--Continued

Deposits--Continued:

<u>OK INVEST Portfolio</u>	<u>Cost</u>	<u>Market Value</u>
U.S. Agency securities	\$ 1,895,919	\$ 1,952,732
Money market mutual funds	339,651	339,651
Certificates of deposits	274,555	274,555
Tri-party repurchase agreements	336,488	336,488
Mortgage backed agency securities	976,817	988,657
Municipal bonds	69,275	69,842
Foreign bonds	8,207	8,207
U.S. Treasury Obligations	406,936	421,156
TOTAL	<u>\$ 4,307,848</u>	<u>\$ 4,391,288</u>

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 OST establish the primary objectives and guidelines governing the investment of funds in *OK INVEST*. Safety, liquidity, and return on investment are the objectives which establish the framework for the day to day *OK INVEST* management with an emphasis on safety of the capital and the probable income to be derived and meeting the State and its funds and agencies' daily cash flow requirements.

Guidelines in the Investment Policy address credit quality requirements, diversification percentages and specify the types and maturities of allowable investments, and the specifics regarding these policies can be found on the OST website at <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 two years.

NOTES TO FINANCIAL STATEMENTS--Continued

EAST CENTRAL UNIVERSITY

June 30, 2009

NOTE B--DEPOSITS AND INVESTMENTS--Continued

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

Investments: Investment *credit risk* is the risk that an issuer or other counterparty to an investment will not fulfill its obligations. Generally, the University's investments are managed by the State Treasurer excluding restricted investments held by bond trustees as discussed in Note A. In accordance with state statutes the State Treasurer may only purchase and invest in (a) obligations of the United States government, its agencies and instrumentalities; (b) prime banker's acceptances; (c) investment grade obligations of state and local governments; (d) money market funds; (e) collateralized or insured certificates of deposits; (f) negotiable certificates of deposits; (g) prime commercial paper; and (h) repurchase agreements. *Interest rate risk* is the risk that changes in interest rates will adversely affect the fair value of an investment. Investments that are held for longer periods of time are subject to increased risk of adverse interest changes. Neither the University nor state statutes limit investment maturities as a means of managing exposure to fair value losses arising from increasing interest rates; however, the OST Investment policy limits the average maturity on its portfolio to four (4) years, with certain individual securities having more restrictive limits as defined in the policy. *Concentration of credit risk* is the risk of loss attributed to the magnitude of the University's investment in a single issuer. Neither the University's investment policy nor state statutes place limits on amounts that can be invested in any one issuer; however, the OST Investment Policy states that, with the exception of U.S. Treasury securities, no more than 50% of the State's total funds may be invested in a single security type or with a single financial institution, with diversification percentages being more restrictive on individual securities.

NOTES TO FINANCIAL STATEMENTS--Continued

EAST CENTRAL UNIVERSITY

June 30, 2009

NOTE B--DEPOSITS AND INVESTMENTS--Continued

Investments--Continued: *Custodial credit risk* for investments is the risk that, in the event of failure of the counterparty, the University will not be able to recover the value of its investments or collateral securities in the possession of an outside party. As of June 30, 2009, none of the University's investments were subject to custody credit risk.

At June 30, 2009, the University had cash and cash equivalents totaling \$549,795 as a part of the OFDA Lease program. These funds had a fair market value of \$549,795 at June 30, 2009. These funds are labeled Investments Held By Others on the University's statement of net assets.

Bond fund cash and investments: Certain non-pooled cash and investments are restricted in purpose by policies incorporated in applicable bond indentures. *Credit risk* policy generally restricts investing to cash, investments fully insured by the FDIC and U.S. government and agency securities or mutual funds investing in these types of securities. There may be some variance among the investments authorized by the specific bond indentures of University bond issues. The OST and/or a trustee bank generally provide the management of restricted, non-pooled investments. *Custodial credit risk* is not addressed by bond indentures. *Interest rate risk* in bond indentures provide that investments mature in no more than six to sixty months depending on the purpose of the funds and the requirements of the account in which the funds are deposited (i.e. construction, reserve, operations and maintenance, etc.) *Concentration of credit risk* is not addressed.

At June 30, 2009, the University had cash and investments in restricted bond funds totaling \$4,183,757. The restricted investments in these bond funds amounted to \$848,811 at June 30, 2009. The investment funds had a fair market value of \$848,811 at June 30, 2009. The invested bond funds are not subject to maturity dates and are due on demand. Invested bond funds of \$255,899 had an average credit rating of AAAM, and the invested bond funds of \$592,912 had an average credit rating of AAAM/AA at June 30, 2009, according to Standard and Poor's.

NOTE C--ACCOUNTS RECEIVABLE

Accounts receivable consisted of the following at June 30, 2009:

Student tuition and fees	\$ 2,785,566
Auxiliary enterprises and other operating activities	558,248
	<u>3,343,814</u>
Less allowance for doubtful accounts	<u>(2,248,039)</u>
Net accounts receivable	<u>\$ 1,095,775</u>

NOTES TO FINANCIAL STATEMENTS--Continued

EAST CENTRAL UNIVERSITY

June 30, 2009

NOTE D--NOTES RECEIVABLE

Student loans made through the Federal Perkins Loan Program (the "Program") comprise substantially all of the loans receivable at June 30, 2009. Under this Program, the federal government provides funds for approximately 75% of the total contribution for student loans with the University providing the balance. Under certain conditions such loans can be forgiven at annual rates of 10% to 30% of the original balance up to maximums of 50% to 100% of the original loan. The federal government reimburses the University to the extent of 10% of the amounts forgiven for loans originated prior to July 1, 1993 under the Federal Perkins Loan Program. No reimbursements are provided for loans originated after this date. The amount refundable to the U.S. Government upon cessation of the Program of \$1,358,507 at June 30, 2009, is reflected in the accompanying statement of net assets as noncurrent liabilities.

As the University determines loans are uncollectible and not eligible for reimbursement by the federal government, the loans are written off and assigned to the U.S. Department of Education. The allowance for uncollectible loans only applies to University funded loans and the University portions of federal student loans, as the University is not obligated to fund the federal portion of uncollected student loans. The University has provided an allowance for uncollectible loans that, in management's opinion, is sufficient to absorb loans that will ultimately be written off.

At June 30, loans receivable consisted of the following:

Perkins loans	\$ 1,540,706
Other loans	<u>39,687</u>
Total loans receivable	1,580,393
Less allowance for uncollectible loans	<u>(68,476)</u>
Net loans receivable	<u>\$ 1,511,917</u>

NOTES TO FINANCIAL STATEMENTS--Continued

EAST CENTRAL UNIVERSITY

June 30, 2009

NOTE E--CAPITAL ASSETS

Following are the changes in capital assets for the year ended June 30, 2009:

	Balance June 30, 2008	Additions	Retirements/ Adjustments	Balance June 30, 2009
Capital assets not being depreciated				
Land	\$ 3,291,341	\$ 486,948	\$ -	\$ 3,778,289
Construction in progress	<u>21,743,446</u>	<u>4,848,932</u>	-	<u>26,592,378</u>
Total assets not being depreciated	<u>\$ 25,034,787</u>	<u>\$ 5,335,880</u>	<u>\$ -</u>	<u>\$ 30,370,667</u>
Other capital assets				
Non-major infrastructure networks	\$ 222,646	\$ -	\$ -	\$ 222,646
Land improvements	966,329	16,715	-	983,044
Buildings	47,289,306	165,082	-	47,454,388
Furniture, fixtures and equipment	7,841,399	900,802	(471,568)	8,270,633
Software	868,644	-	-	868,644
Library materials	<u>5,501,848</u>	<u>158,658</u>	<u>(86,145)</u>	<u>5,574,361</u>
Total other capital assets	62,690,172	1,241,257	(557,713)	63,373,716
Less accumulated depreciation for				-
Non-major infrastructure networks	(191,461)	(4,047)	-	(195,508)
Land improvements	(783,824)	(35,544)	-	(819,368)
Buildings	(22,584,885)	(972,569)	-	(6,170,437)
Furniture, fixtures and equipment	(5,885,757)	(754,357)	469,677	(849,875)
Software	(792,059)	(57,816)	-	(4,982,751)
Library materials	<u>(4,822,989)</u>	<u>(245,907)</u>	<u>86,145</u>	<u>(36,575,393)</u>
Total accumulated depreciation	(35,060,975)	(2,070,240)	555,822	(26,798,323)
Other capital assets, net	<u>\$ 27,629,197</u>	<u>\$ (828,983)</u>	<u>\$ (1,891)</u>	<u>\$ 26,798,323</u>
Capital asset summary:				
Capital assets not being depreciated	\$ 25,034,787	\$ 5,335,880	\$ -	\$ 30,370,667
Other capital assets, at cost	<u>62,690,172</u>	<u>1,241,257</u>	<u>(557,713)</u>	<u>63,373,716</u>
Total cost of capital assets	87,724,959	6,577,137	(557,713)	93,744,383
Less accumulated depreciation	<u>(35,060,975)</u>	<u>(2,070,240)</u>	<u>555,822</u>	<u>(36,575,393)</u>
Capital assets, net	<u>\$ 52,663,984</u>	<u>\$ 4,506,897</u>	<u>\$ (1,891)</u>	<u>\$ 57,168,990</u>

Capital assets acquired with funds under capital lease programs are included in the above capital assets. The University maintains various collections of inexhaustible assets for which no value can be determined. Such collections include works of art, historical treasures, and literature.

During the year ended June 30, 2009, total interest costs were \$1,238,095 of which \$194,918 was capitalized as construction-in-progress.

NOTES TO FINANCIAL STATEMENTS--Continued

EAST CENTRAL UNIVERSITY

June 30, 2009

NOTE F--LONG-TERM LIABILITIES

Long-term liability activity for the year ended June 30, 2009 was as follows:

	Balance June 30, 2008	Additions	Reductions	Balance June 30, 2009	Amounts due within one year
Bonds payable and capital lease obligations					
University Center - Series 1993	\$ 1,295,000	\$ -	\$ (190,000)	\$ 1,105,000	\$ 200,000
Student Housing - Series 2003	5,620,000	-	(135,000)	5,485,000	135,000
Fine Arts Center - Series 2005	4,710,000	-	(105,000)	4,605,000	105,000
ODFA Series 2002C lease obligation	4,826,000	119,000	(250,000)	4,695,000	255,000
ODFA Series 2008A lease obligation	-	477,000	(74,000)	403,000	94,000
O CIA lease obligation	10,954,185	-	(223,798)	10,730,387	229,460
Total bonds and capital lease	27,405,185	596,000	(977,798)	27,023,387	1,018,460
Other liabilities					
Accrued compensated absences	879,950	-	(42,150)	837,800	446,462
Federal loan program contributions	1,358,507	-	-	1,358,507	-
Total other liabilities	2,238,457	-	(42,150)	2,196,307	446,462
Total long-term liabilities	<u>\$ 29,643,642</u>	<u>\$ 596,000</u>	<u>\$ (1,019,948)</u>	<u>\$ 29,219,694</u>	<u>\$ 1,464,922</u>

Revenue Bonds Payable

*Board of Regents of Oklahoma Colleges University Center Revenue Bonds, Series 1993*

During 1993, the University issued the Board of Regents of Oklahoma Colleges University Center Revenue Bonds, Series 1993 (the "Bonds") for \$3,175,000 for the purpose of constructing a Student University Center. The Bonds are due in annual installments varying from \$85,000 to \$245,000 plus semiannual interest ranging from 4.2% to 10%, with the final installment being due in the year 2014. The Bonds are secured by the gross receipts from the University Center student fees and all monies in funds and accounts held by the trustee bank and available for debt service payments. Under the terms of the Trust Indenture, the University maintains debt service reserve funds totaling \$200,000 at June 30, 2009.

NOTES TO FINANCIAL STATEMENTS--Continued

EAST CENTRAL UNIVERSITY

June 30, 2009

NOTE F--LONG-TERM LIABILITIES--Continued

Revenue Bonds Payable--Continued:

*Board of Regents of Oklahoma Colleges Student Housing Revenue Bonds, Series 2003*

During 2003, the University issued the Board of Regents of Oklahoma Colleges Student Housing Revenue Bonds, Series 2003 (the "Bonds") for \$6,000,000 for the purpose of constructing and renovating certain Student Housing Facilities. The Bonds are due in annual installments varying from \$125,000 to \$350,000 plus semiannual interest ranging from 2% to 4.55%, with the final installment being due in the year 2034. The Bonds are secured by the revenues to be derived from the Student Housing and Food Services Department and all monies in funds and accounts held by the trustee bank and available for debt service payments. Under the terms of the Trust Indenture, the University maintains a capitalized interest fund, which totals \$96,349 at June 30, 2009.

*Board of Regents of Oklahoma Colleges fine Arts Center Revenue Bonds, Series 2005*

During 2005, the University issued the Board of Regents of Oklahoma Colleges Fine Arts Center Revenue Bonds, Series 2005 (the "Bonds") for \$5,000,000 for the purpose of constructing a Fine Arts Center. The Bonds are due in annual installments varying from \$95,000 to \$2,365,000 plus semiannual interest ranging from 3.0% to 4.6%, with the final installment being due in the year 2035. The Bonds are secured by the gross receipts from the Fine Arts Center student fees and all monies in funds and accounts held by the trustee bank and available for debt service payments.

NOTES TO FINANCIAL STATEMENTS--Continued

EAST CENTRAL UNIVERSITY

June 30, 2009

NOTE F--LONG-TERM LIABILITIES--Continued

Revenue Bonds Payable--Continued:

Future aggregate maturities of principal and interest requirements on the Bonds payable at June 30, are as follows:

Year Ending June 30:	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2010	\$ 440,000	\$ 477,078	\$ 917,078
2011	460,000	459,750	919,750
2012	480,000	441,479	921,479
2013	490,000	421,991	911,991
2014	515,000	401,575	916,575
2015-2019	1,525,000	1,786,703	3,311,703
2020-2024	1,850,000	1,447,075	3,297,075
2025-2029	2,295,000	999,876	3,294,876
2030-2034	2,855,000	427,576	3,282,576
2035-2039	285,000	12,825	297,825
	<u>\$ 11,195,000</u>	<u>\$ 6,875,928</u>	<u>\$ 18,070,928</u>

Capital Lease Obligations

*Oklahoma Development Finance Authority Master Lease Program*

In December, 2002, the Oklahoma Development Finance Authority ("ODFA") issued the ODFA Master Lease Revenue Bonds, Series 2002C ("2002 Bonds"). The 2002 Bonds were issued to fund capital improvements at several state colleges and universities in Oklahoma. ODFA allocated the 2002 Bond proceeds to colleges and universities in the form of financing leases. East Central University's portion of this allocation totaled \$5,880,000. The University has recorded capital improvements funded by the lease and the resulting capital lease obligation in its statement of net assets.

The lease agreement calls for monthly payments to ODFA in an amount that equal debt service requirements on the portion of the bonds used to finance the lease. The final payment on the lease is due December 1, 2022.

NOTES TO FINANCIAL STATEMENTS--Continued

EAST CENTRAL UNIVERSITY

June 30, 2009

NOTE F--LONG-TERM LIABILITIES--Continued

Capital Lease Obligations--Continued:

*Oklahoma Development Finance Authority Master Lease Program--Continued*

After payment of bond closing costs, the net 2002 Bond proceeds were deposited into ODFA trust accounts as required by the bond indenture. At June 30, 2009, trust accounts balances total \$549,795 and are captioned Investments Held By Others on the University's statement of net assets.

Monies in the acquisition fund are restricted for the project being funded by the Series 2002C program. Debt Service reserve funds are restricted for the payment of principal and interest pursuant to the agreements, and capitalized interest funds are restricted for the payment of interest during the construction period.

In December 2008, the University entered into a 15 year lease agreement with the ODFA and the State Regents as beneficiary of a portion of the proceeds from the Oklahoma Development Finance Authority Oklahoma State Regents for Higher Education Master Equipment Lease Revenue Bonds, Series 2008A (the "Master Equipment Lease"). The College financed \$500,000, (includes \$23,000 of bond premium) for improvements to the College's equipment.

*Oklahoma Capital Improvement Authority Leases*

In September 1999, the Oklahoma Capital Improvement Authority (OCIA) issued is OCIA Bond Issues, 1999 Series A, B and C. Of the total bond indebtedness, the State Regents for Higher Education allocated \$1,100,000 to the University. Concurrently with the allocation, the University entered into a lease agreement with OCIA, which includes the two projects being funded by the OCIA bonds. The lease agreement provides for the University to make specified monthly payments to OCIA over the term of the agreement. One of the projects has a twenty (20) year repayment term, and the other project has a five (5) year repayment term. The proceeds of the bonds and subsequent leases are to provide for capital improvements at the University.

In 2004, the OCIA issued bond series 2004A that refunded a significant portion of the 1999A bonds. Consequently, the amortization of the 1999A bond issue will end in 2010. The lease agreement will no longer secure the 1999A bond issue but will now act as security for the 2004A bond issue over the term of the lease through the year 2020. As a result, there are two amortization schedules, which have been combined, related to this one lease agreement.

NOTES TO FINANCIAL STATEMENTS--Continued

EAST CENTRAL UNIVERSITY

June 30, 2009

NOTE F--LONG-TERM LIABILITIES--Continued

Capital Lease Obligations--Continued:

*Oklahoma Capital Improvement Authority Leases--Continued*

In November 2005, the Oklahoma Capital Improvement Authority (OCIA) issued its OCIA Bond Issues, 2005 Series F and G. Of the total bond indebtedness, the State Regents For Higher Education allocated \$10,810,882 to the University. Concurrently with the allocation, the University entered into a lease agreement with OCIA, which includes the two projects being funded by the OCIA bonds. The lease agreement provides for the University to make specified monthly payments to OCIA over the term of the agreement. Both projects have a thirty (30) year repayment term. The proceeds of the bonds and subsequent leases are to provide for capital improvements at the University.

Through June 30, 2009, the University has drawn down \$10,810,882 of its total allotment, there were no draw downs during the year ended June 30, 2009 for expenses incurred in connection with the specific projects. These expenses have been capitalized as investments in capital assets or recorded as operating expenses, in accordance with the University's policy. The University has recorded a receivable totaling \$342,894 at June 30, 2009 for its allotment not drawn down as of those dates, plus interest allocated by OSRHE in fiscal year 2009 in the amount of \$6,016 which is also available for draw downs. The University has recorded lease obligations payable to OCIA for the total above allotments, less repayments made on the University's behalf. Lease payments to OCIA totaling \$759,280 during the year ended June 30, 2009 were made by the State of Oklahoma on behalf of the College. These on-behalf payments have been recorded as restricted state appropriations in the statement of revenues, expenses and changes in net assets.

NOTES TO FINANCIAL STATEMENTS--Continued

EAST CENTRAL UNIVERSITY

June 30, 2009

NOTE F--LONG-TERM LIABILITIES--Continued

Capital Lease Obligations--Continued:

*Oklahoma Capital Improvement Authority Leases--Continued*

Future minimum lease payments under the College's obligations to the OCIA and ODFFA are as follows:

Year Ending June 30:	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2010	\$ 578,460	\$ 750,329	\$ 1,328,789
2011	680,682	727,098	1,407,780
2012	709,599	698,698	1,408,297
2013	739,815	668,318	1,408,133
2014	658,538	635,283	1,293,821
2015-2019	4,021,693	2,685,141	6,706,834
2020-2024	4,292,610	1,646,696	5,939,306
2025-2029	3,369,241	712,662	4,081,903
2030	777,749	38,625	816,374
	<u>\$ 15,828,387</u>	<u>\$ 8,562,850</u>	<u>\$ 24,391,237</u>

NOTE G--RETIREMENT PLANS

The University's academic and nonacademic personnel are covered by various retirement plans. The plans available to University personnel include the Oklahoma Teachers' Retirement System, which is a State of Oklahoma public employees retirement system, the Teachers' Insurance Annuity Association, which is a defined contribution plan, and the Supplemental Retirement Annuity (SRA), a single employer defined benefit pension plan available to employees hired prior to July 1, 1987. The University does not maintain the accounting records, hold the investments for, or administer these plans.

*Oklahoma Teachers' Retirement System (OTRS)*

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

NOTES TO FINANCIAL STATEMENTS--Continued

EAST CENTRAL UNIVERSITY

June 30, 2009

NOTE G--RETIREMENT PLANS--Continued

*Oklahoma Teachers' Retirement System (OTRS)--Continued*

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

Funding Policy: The University is required to contribute a fixed percentage of annual compensation on behalf of active members. The employer contribution rate was 7.05% for fiscal year 2007 and was 7.05% for the first six months of fiscal year 2008. On January 1, 2008 the contribution rate changed to 7.55%. On January 1, 2009 the contribution rate changed to 8.55%. This rate is applied to annual compensation, and is determined by state statute.

Employees' contributions are also determined by state statute. For all employees, the contribution rate was 7% of covered salaries and fringe benefits in 2009, 2008 and 2007, respectively. For compensation in excess of \$25,000, the employee's contributions are paid directly by the University to the OTRS.

The University's contributions to the OTRS for the years ended June 30, 2009, 2008 and 2007, were approximately \$3,456,000, \$3,192,000 and \$2,987,000, respectively. These contributions included the University's statutory contribution and the share of the employee's contribution paid directly by the University.

The State of Oklahoma is also required to contribute to the OTRS on behalf of the participating employers. For 2009, the State of Oklahoma contributed 5% of state revenues from sales and use taxes and individual income taxes, to the OTRS on behalf of participating employers. The University has estimated the amounts contributed to the OTRS by the State of Oklahoma on its behalf by multiplying the ratio of its covered salaries to total covered salaries for the OTRS for the year by the applicable percentage of taxes collected during the year. For the year ended June 30, 2009, the total amount contributed to the OTRS by the State of Oklahoma on behalf of the University was approximately \$1,526,000. These on behalf payments have been recorded as both revenues and expenses in the statement of revenues, expenses and changes in net assets.

NOTES TO FINANCIAL STATEMENTS--Continued

EAST CENTRAL UNIVERSITY

June 30, 2009

NOTE G--RETIREMENT PLANS--Continued

*Defined Contribution 403(b) Plan*

The University also has a defined contribution 403(b) plan (DCP) available to full-time employees. The DCP is administered by the RUSO System, and the plan provisions are established and may be amended by the Board of Regents. Plan members may make voluntary contributions in accordance with IRS regulations. The University has no contribution requirements, and no contributions were made during the years ended June 30, 2009, 2008 and 2007.

*Supplemental Retirement Annuity (SRA)*

Plan Description: The University's SRA plan is a single employer, defined benefit pension plan administered by the University's Board of Regents. The SRA was established by the University's Board of Regents to provide supplemental retirement and death benefits to University employees who were hired prior to July 1, 1987, or to those eligible employees' beneficiaries. The authority to amend the SRA's benefit provisions rests with the University's Board of Regents. The SRA does not issue a stand-alone financial report nor is it included in the financial report of another entity.

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

Actuarial Method and Assumptions: The annual required contributions for 2009 was determined as part of an actuarial valuation on June 30, 2009, using the projected unit credit actuarial cost method. The actuarial assumptions included (a) a discount rate of 8% per year to determine the present value of future benefit payments; (b) retirement at age 65; (c) an 8% rate of return on investments; (d) projected salary increases of 3.5% per year; and (e) a 6% interest rate for post-retirement individual annuity settlement benefits.

The value of the SRA assets is based on the TIAA-CREF group annuity account asset value. The unfunded actuarial accrued liability is being amortized over fifteen years as a level dollar amount on a closed basis.

NOTES TO FINANCIAL STATEMENTS--Continued

EAST CENTRAL UNIVERSITY

June 30, 2009

NOTE G--RETIREMENT PLANS--Continued

*Supplemental Retirement Annuity (SRA)--Continued:*

Annual Pension Cost and Net Pension Obligation (Asset): Annual pension cost and net pension obligation (asset) of the SRA for 2009 is as follows:

Annual required contribution	\$ 575,396
Interest on net pension obligation	(39,898)
Adjustment to annual required contribution	<u>50,796</u>
Annual pension cost	586,294
Contributions made	<u>(500,623)</u>
Increase (decrease) in net pension obligation	85,671
Net pension obligation (asset) at beginning of year	<u>(498,726)</u>
Net pension obligation (asset) at end of year	<u><u>\$ (413,055)</u></u>

Funded Status and Funding Progress: The funded status of the plan as of June 30, 2009, was as follows:

Actuarial accrued liability (AAL)	\$ 7,895,738
Actuarial value of plan assets	<u>2,445,527</u>
Unfunded actuarial accrued liability (UAAL)	<u><u>\$ 5,450,211</u></u>
Funded ratio (actuarial value of plan assets/AAL)	30.97%
Annual covered payroll (active plan members)	\$ 5,157,940
UAAL as a percentage of annual covered payroll	105.67%

Trend Information: Three-year trend information on the percentage of the annual pension cost funded through contributions and the change in the net pension obligation (asset) is as follows:

Year Ended <u>June 30</u>	Annual Pension Cost (APC)	Percentage of APC Contributed	Net Pension Obligation (Asset)
2009	\$ 586,294	85.4%	\$ (413,055)
2008	\$ 608,424	80.0%	\$ (498,726)
2007	\$ 588,246	153.0%	\$ (620,150)

NOTES TO FINANCIAL STATEMENTS--Continued

EAST CENTRAL UNIVERSITY

June 30, 2009

NOTE H--OTHER POST-EMPLOYEMENT INSURANCE BENEFITS

*Postemployment Healthcare Plan*

Plan Description: The University's postemployment healthcare plan is an agent multiple-employer defined benefit plan administered by the Regional University System of Oklahoma Board of Regents (the RUSO Board). The plan provides medical and life insurance benefits to eligible retired employees until age 65. A retiring employee must have been employed full-time in the Regional University System of Oklahoma for not less than ten years immediately preceding the date of retirement; been a member of the Oklahoma Teachers' Retirement System during that time; and elected to receive a vested benefit under the provision of the Oklahoma Teachers' Retirement System. As of June 30, 2009, there were 454 active participants in the plan. The retirement insurance program was adopted by the Board of Regents in 1985. In March of 2008, the Retiree Medical Trust for Regional University system of Oklahoma was established to hold assets and pay benefits on behalf of the University's postemployment healthcare plan, and was administered by The Bank of Oklahoma, N.A. Prior to the establishment of the trust, the insurance benefits were accounted for on a pay-as-you-go basis so that premiums were made from current operating funds.

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

NOTES TO FINANCIAL STATEMENTS--Continued

EAST CENTRAL UNIVERSITY

June 30, 2009

NOTE H--OTHER POST-EMPLOYMENT INSURANCE BENEFITS--Continued

*Postemployment Healthcare Plan--Continued*

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

Projections of benefits for financial reporting purposes are based on the substantive plan and include the types of benefits provided at the time of each valuation. The actuarial methods and assumptions used include techniques that are designed to reduce short-term volatility in actuarial accrued liabilities and the actuarial value of assets, consistent with the long-term perspective of the calculations. For the June 30, 2009 actuarial valuation, the projected unit credit cost method was used. The actuarial assumptions included a 7.0% investment rate of return and an annual healthcare cost inflationary increase of 9.5%.

Annual OPEB Cost and Net OPEB Obligation (Asset)

Annual OPEB cost and net OPEB obligation (asset) for 2009 is as follows:

Annual required contribution	\$	289,254
Interest on prior year net OPEB obligation		(9,494)
Adjustment to annual required contribution		-
Annual OPEB cost		<u>279,760</u>
Contributions made		<u>(289,254)</u>
Increase (decrease) in net OPEB obligation		(9,494)
OPEB obligation (asset) at beginning of year		<u>(135,636)</u>
OPEB obligation (asset) at end of year	\$	<u><u>(145,130)</u></u>

NOTES TO FINANCIAL STATEMENTS--Continued

EAST CENTRAL UNIVERSITY

June 30, 2009

NOTE H--OTHER POST-EMPLOYMENT INSURANCE BENEFITS--Continued

*Postemployment Healthcare Plan--Continued*

Funded Status and Funding Progress

The funded status of the plan as of June 30, 2009 was as follows:

Actuarial accrued liability (AAL)	\$ 2,835,065
Actuarial value of plan assets	625,603
Unfunded actuarial accrued liability (UAAL)	<u>\$ 2,209,462</u>
Funded ratio (actuarial value of plan assets/AAL)	22.07%
Annual covered payroll (active plan members)	\$ 23,105,592
UAAL as a percentage of annual covered payroll	9.56%

Trend Information

GASB 45 was not implemented until FY 2008; therefore, only two years of trend information is available.

<u>Fiscal Year Ended</u>	<u>Annual OPEB Cost</u>	<u>Percentage of Annual OPEB Cost Contributed</u>	<u>Net OPEB Obligation (Asset)</u>
6/30/2007	N/A	N/A	N/A
6/30/2008	\$ 335,000	140%	\$ (135,636)
6/30/2009	\$ 279,760	103%	\$ (145,130)

## NOTES TO FINANCIAL STATEMENTS--Continued

### EAST CENTRAL UNIVERSITY

June 30, 2009

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

Beneficial Interest in State School Land Funds: The University has a beneficial interest in the "Section Thirteen Fund State Educational Institutions" and the "New College Fund" administered by the Commissioners of the Land Office as trustees for the various educational institutions entitled thereto. The University has the right to receive annually 3.7% of the distributions of income produced by "Section Thirteen Fund State Educational Institutions" assets and 100% of the distributions of income produced by East Central University's "New College Fund". The University received approximately \$739,000 during the year ended June 30, 2009, which is restricted to the construction or acquisition of buildings, equipment, or other capital items. These amounts are recorded as state appropriations restricted for capital purposes in the statement of revenues, expenses and changes in net assets. State law prohibits the distribution of any corpus of these funds to the beneficiaries. The total trust reserve for East Central University, held in trust by the commissioners of Land Office, was approximately \$12,047,000 at June 30, 2009.

Oklahoma State Regents Endowment Trust Fund: In connection with the Oklahoma State Regents' Endowment Program (the Endowment Program), the State of Oklahoma has matched contributions received under the program. The state match amounts, plus any retained accumulated earnings, totaled approximately \$2,891,000 at June 30, 2009, and is invested by the Oklahoma State Regents on behalf of the University. The University is entitled to receive an annual distribution of 4.5% of the three-year average of the June 30<sup>th</sup> market values on these funds. As legal title of the State Regents matching endowment funds is retained by the Oklahoma State Regents, only the funds available for distribution, or approximately \$202,500 at June 30, 2009, has been reflected as assets in the statement of net assets.

#### NOTE J--RELATED PARTY TRANSACTIONS

The Foundation is a not-for-profit corporation organized for the purpose of receiving and administering gifts for the benefit of the University. Distributions of amounts held by the Foundation are subject to the approval of the Foundation's Board of Trustees. The Foundation's primary function is to provide assistance to students of the University in the form of scholarships and awards, and during 2009 the Foundation provided approximately \$188,000 in scholarships to students. Additionally, the Foundation provides financial assistance to the faculty and staff of the University, as well as the University's programs and projects, and during 2009 the Foundation provided approximately \$1,158,000 in aid to programs, faculty and staff. Many of the contributions received by the Foundation are designated by the donors to be used for specific purposes or by specific departments. In these instances, the Foundation serves essentially as a conduit. Contributions that are not designated are used where the need is considered the greatest, as determined by the Foundation.

## NOTES TO FINANCIAL STATEMENTS--Continued

### EAST CENTRAL UNIVERSITY

June 30, 2009

#### NOTE K--COMMITMENTS AND CONTINGENCIES

The University conducts certain programs pursuant to various grants and contracts that are subject to audit by federal and state agencies from various sources of the University.

The University participates in the Federal Family Education Loan Program (the "FFEL" program). The FFEL Program does not require the University to draw down cash; however, the University is required to perform certain administrative functions under the FFEL Program. Failure to perform such functions may require the University to reimburse the loan guarantee agencies. For the year ended June 30, 2009, approximately \$15,389,000 of FFEL Program loans were provided to University students.

During the ordinary course of business, the University may be subjected to various lawsuits and civil action claims. Management believes that resolution of any such matters pending at June 30, 2009, will not have material adverse impact to the University.

#### NOTE L--RISK MANAGEMENT

The University is exposed to various risks of loss from torts; theft of, damage to, and destruction of assets; business interruptions; employee injuries and illness; natural disasters; and employee health, life, and accident benefits. Commercial insurance coverage is purchased for claims arising from such matters other than torts, property, and workers' compensation. Settled claims have not exceeded this commercial coverage in any of the three preceding years.

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

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

NOTES TO FINANCIAL STATEMENTS--Continued

EAST CENTRAL UNIVERSITY

June 30, 2009

NOTE M--ACCOUNTING STANDARDS ISSUED NOT YET ADOPTED

In 2007, GASB issued Statement No. 51, *Accounting and Financial Reporting for Intangible Assets*. GASB No. 51 establishes standards of accounting and financial reporting for intangible assets and requires that all intangible assets not specifically excluded by its scope provisions be classified as capital assets. Accordingly, existing authoritative guidance related to the accounting and financial reporting for capital assets should be applied to these intangible assets, as applicable. This Statement also establishes guidance specific to intangible assets related to amortization. The requirements of this Statement are effective for financial statements for periods beginning after June 15, 2009 and generally are required to be applied retroactively. Management has not yet determined the effect this Statement will have on the University's financial condition or results of operations.

In 2008, GASB issued Statement No. 53, *Accounting and Financial Reporting for Derivative Instruments*. GASB No. 53 addresses the recognition, measurement, and disclosure of information regarding derivative instruments entered into by state and local governments. A key provision in this Statement is that derivative instruments covered in its scope, with the exception of synthetic guaranteed investment contracts (SGICs) that are fully benefit-responsive, are reported at fair value. The requirements of this Statement are effective for financial statements for periods beginning after June 15, 2009. Earlier application is encouraged. Management is evaluating the effect this Statement will have on the University's financial condition or results of operations.

NOTES TO FINANCIAL STATEMENTS--Continued

EAST CENTRAL UNIVERSITY

June 30, 2009

NOTE N--EAST CENTRAL UNIVERSITY FOUNDATION, INC.

SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

General: The East Central University Foundation, Inc. (the "Foundation") is a nonprofit corporation. The purposes for which the Foundation is organized are exclusively scientific, literary, charitable, educational, and artistic for the benefit of East Central University (the "University"), Ada, Oklahoma, its faculty, its student body, and its programs. The Foundation may also serve as trustee of charitable lead trusts, charitable remainder trusts, and other private trusts of which the Foundation and/or University are beneficiaries notwithstanding the facts that the donors of such trusts retain a beneficial interest therein or that other charitable organizations are designated as beneficiaries of such trusts.

As gifts are received by the Foundation, they are placed into new or existing funds, as appropriate, in accordance with the stipulations of the donors. Distributions of amounts held by the Foundation are subject to the approval of the Board of Trustees (the "Board"). The purposes for which the Foundation is organized are exclusively for the benefit of the University, its faculty, its student body, and its programs. As such, the University and the Foundation are considered financially interrelated as defined by generally accepted accounting principles.

Basis of Presentation: The financial statement presentation follows accounting principles generally accepted in the United States for not-for-profit entities. The statements have been prepared on the accrual basis of accounting. Under U.S. generally accepted accounting principles, net assets and revenues, gains and losses are classified based on the existence or absence of donor-imposed restrictions as follows:

Unrestricted net assets: Consists of gifts received by the Foundation without stipulation and accumulated earnings in which the Foundation uses for its operations.

Temporarily restricted net assets: Primarily consists of gifts received by the Foundation which will have been designated for a particular project or activity and accumulated earnings from endowment funds to be used in accordance with the donor's instructions. When a donor restriction is satisfied, temporarily restricted net assets are reclassified to unrestricted net assets.

NOTES TO FINANCIAL STATEMENTS--Continued

EAST CENTRAL UNIVERSITY

June 30, 2009

NOTE N--EAST CENTRAL UNIVERSITY FOUNDATION, INC.--Continued

SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES--Continued

Basis of Presentation--Continued:

Permanently restricted net assets: This category represents gifts received by the Foundation with donor restrictions which require principle to be invested in perpetuity. Generally, income earned from these assets is available to be used for purposes established by the donors in the year received unless restricted to future fiscal periods.

Contributions: Contributions, including unconditional promises to give, are recognized as revenues in the period received by the Foundation. Conditional promises to give are not recognized until the conditions on which they depend are substantially met. Contributions of assets other than cash are recorded at their estimated fair value at the date of the gift. Allowance is made for uncollectible contributions based upon management's judgment and analysis of the creditworthiness of the donors, past collection experience, and other relevant factors. As of June 30, 2009 no allowance was considered necessary.

Contributions are reported as increases in the appropriate category of net assets. Expenses are reported as decreases in unrestricted net assets. Temporary restrictions on gifts to acquire long-lived assets are considered met in the period in which the assets are acquired or placed in service. Gifts of property and equipment are recorded as unrestricted support. Expirations of temporary restrictions (i.e., the donor-stipulated purpose has been fulfilled and/or the stipulated time period has elapsed) are reported as net assets released from restrictions. Contributions which are received and whose restrictions are met in the same period are recognized as unrestricted contributions.

Income and gains on investments are reported as increases in permanently restricted net assets if the terms of the gift that gave rise to the investment of applicable law require such amounts be added to permanent endowment principal. Income and gains are reported as increases in temporarily restricted net assets if the of the gift or applicable law impose restrictions on the use of the income and as increases in unrestricted net assets in all other cases.

NOTES TO FINANCIAL STATEMENTS--Continued

EAST CENTRAL UNIVERSITY

June 30, 2009

NOTE N--EAST CENTRAL UNIVERSITY FOUNDATION, INC.--Continued

SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES--Continued

Contributions--Continued: Generally, losses on investments of restricted endowments reduce temporarily restricted net assets to the extent donor-imposed temporary restrictions on the net appreciation of investments have not been met before the loss occurs. Any remaining losses reduce unrestricted net assets. Subsequent investment gains are applied first to unrestricted net assets to the extent that losses have previously been recognized, and then to temporarily restricted net assets. During the year ended June 30, 2009, \$839,340 of investment losses, realized and unrealized, that resulted in deficit balances of individual accounts of temporarily restricted net assets were reclassified to unrestricted net assets.

Cash and Cash Equivalents: The Foundation considers all highly liquid debt instruments with a maturity of 3 months or less when purchased to be cash equivalents.

Pledges: The Foundation records pledges as income in the period in which a written or oral agreement to contribute cash investments or other assets is received.

Investments: The Foundation maintains the majority of its endowment assets in a pooled investment fund. Additional investments are maintained separately in accordance with the donor's instructions. Investments are presented in the financial statements of the Foundation at fair value. Investment securities with readily determinable market value information are adjusted to market value, with realized and unrealized appreciation and/or depreciation on investments to be recorded in the statement of activities. Investments included in the pool are certificates of deposits, corporate stock, corporate bonds, municipal bonds, international bonds, and U.S. Government securities.

The Foundation's investment committee monitors the performance of all investments and instructs Foundation management as to the mix of assets maintained in the investment pool. Investments are made in accordance with the investment policy of the Foundation.

Earnings from investments are distributed quarterly from the pooled investment fund and are received by the separately maintained funds.

Real Estate Held for Investments: Real estate held for investments is stated at cost if purchased or at appraised value at date of gift. The real estate is reviewed periodically for impairment. Any impairment is recognized when known. The real estate can be revalued up to its original amounts based on appraised values.

NOTES TO FINANCIAL STATEMENTS--Continued

EAST CENTRAL UNIVERSITY

June 30, 2009

NOTE N--EAST CENTRAL UNIVERSITY FOUNDATION, INC.--Continued

SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES--Continued

Investment Income: Investment earnings are allocated to the individual sub-funds of the Foundation on a quarterly basis. These earnings are allocated based upon the participant's percentage of participation in the investment pool. Realized and unrealized gains and losses are determined using the specific identification method; however, these transactions are included in the pool's income for allocation purposes.

A portion of unrealized investment earnings is allocated to support the operations of the Foundation. The Foundation historically has allocated 25% of the realized investment earnings to operations. The amounts allocated are recorded in the unrestricted net asset classification in the accompanying statement of activities. Amounts so transferred in excess of the current operations requirements remain in the unrestricted net asset classification for future use as deemed necessary by the Foundation management and to support the Foundation's scholarship program.

Furniture and Equipment: Furniture and equipment are stated at cost if purchased or at appraised value if received by donation. Furniture and equipment are being depreciated on a straight-line basis over their estimated useful lives, which range from 3 to 10 years.

Unsettled investment activity: The balance in the unsettled investment activity account represents investment sales and purchases which had occurred at June 30, 2009, but were not settled until after June 30, 2009. Investment transactions are recognized on trade date and not settlement date.

Income Tax: The income earned by the Foundation has been determined to be exempt from income taxes by the Internal Revenue Service in accordance with I.R.C. Section 501(c)(3).

However, unrelated business income earned by the Foundation is subject to tax. Additionally, the Foundation has been determined not to be a private foundation within the meaning of Section 509(a) of the Code.

Use of Estimates: The preparation of the accompanying financial statements in conformity with accounting principles generally accepted in the United State requires management to make estimates and assumptions that affect the amounts reported in the financial statements and accompanying notes. Actual results could differ from those in the estimates.

NOTES TO FINANCIAL STATEMENTS--Continued

EAST CENTRAL UNIVERSITY

June 30, 2009

NOTE N--EAST CENTRAL UNIVERSITY FOUNDATION, INC.--Continued

SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES--Continued

Scholarship Awards: The Foundation's Scholarship Committee awards scholarships for the upcoming fall and spring semesters prior to June 30<sup>th</sup>. Presently, the awarded scholarships are accrued and recorded as scholarship expense in the year awarded. At June 30, 2009, the Foundation's Scholarship Committee had awarded scholarships for the 2009-2010 fall and spring semesters of \$160,000.

Fundraising Costs: All costs associated with fundraising are expensed as incurred.

A summary of the cash and cash equivalents at June 30, 2009 is as follows:

Cash in bank	\$ 357,159
Money market account held at Smith Barney Investors	<u>1,249,626</u>
	<u>\$ 1,606,785</u>

Custodial Credit Risks-Deposits: The Foundation had the following depository accounts as of June 30, 2009. All deposits are carried at cost.

2009		
Depository Account	Reported Amount	Bank Balance
Insured	\$ 357,159	\$ 276,645
Uninsured and uncollateralized	<u>1,249,626</u>	<u>1,249,626</u>
	<u>\$ 1,606,785</u>	<u>\$ 1,526,271</u>

Custodial credit risk is the risk that in the event of a bank failure, the Foundation's deposits may not be returned. While the Foundation's investment policy does not address bank balances that are uninsured or uncollateralized, deposits are generally required to be insured or collateralized.

NOTES TO FINANCIAL STATEMENTS--Continued

EAST CENTRAL UNIVERSITY

June 30, 2009

NOTE N--EAST CENTRAL UNIVERSITY FOUNDATION, INC.--Continued

INVESTMENTS

Investment Policies: Investing is performed in accordance with investment policies adopted and approved by the Investment Committee of the Board of Trustees. Foundation funds may be invested in:

Short-Term Investments:

- U.S. Government issues, all obligations of or guaranteed by the U.S. Government or agencies thereof.
- Certificates of deposit, when insured.
- Commercial paper of major corporations which have a Moody's rating of "Prime I" (PI) and/or Standard & Poor's rating of "AI."
- Banker's acceptance notes of the ten highest rated banks in the United States, not to exceed \$100,000 per bank.
- Money market funds available through banking and brokerage institutions which allow check-writing privileges, not to exceed insured limits.
- Mutual funds which invest in securities which are otherwise eligible for direct ownership by the Foundation.

Equity Investments: The equity portfolio shall be invested in at least 30 different common stocks, with no individual stock representing more than 5% of the total market value of the stock portfolio. Stocks will be diversified in a manner similar to the Standard & Poor's 500 Stock Index, which is divided into ten major industry categories, and the portfolio shall have a representation in each. At least 65% of the market value of the stock portion of the portfolio must be in stocks that are part of the Standard & Poor's 500 Stock Index. No stocks generally considered speculative in nature shall be purchased.

Short sales, options, margin purchases, and restricted stock purchases are prohibited transactions except for the writing of covered call options on stocks held in the portfolio for the purpose of enhancing income. Investment in foreign securities is prohibited except for those listed on the New York Stock Exchange.

NOTES TO FINANCIAL STATEMENTS--Continued

EAST CENTRAL UNIVERSITY

June 30, 2009

NOTE N--EAST CENTRAL UNIVERSITY FOUNDATION, INC.--Continued

INVESTMENTS--Continued

Fixed Income Investments:

- Fixed income investments include debt securities issued or guaranteed by the U.S. Government or agencies, corporate bonds or debentures, and other forms of debt obligation. The policy allows up to 60% of the investments to be in fixed-income securities.
- All corporate bonds purchased shall have a rating of "A" or better by either of the two major rating services, Moody's or Standard & Poor's. Any bond whose rating is "BBB" must be liquidated unless it matures in less than 1 year.
- Up to 25% of the bond portfolio may be invested in convertible bonds and/or convertible preferred stocks, but must have a rating of A or better by the two major rating services.
- At least 80% of the bonds held in the portfolio must be noncallable.
- The total face value of bonds issued by any one corporation cannot exceed 5% of the total face value of the fixed income portfolio.

Investment securities are presented at fair value. Fair values were determined on the basis of closing prices at June 30, 2009, as quoted on major stock exchanges or over-the-counter markets.

	<u>Cost</u>	<u>Market</u>	<u>Excess (Deficit) of Market Over Cost</u>
International bonds	\$ 123,288	\$ 132,778	\$ 9,490
U.S. Government securities	2,667,257	2,774,107	106,850
Corporate bonds	3,065,777	3,127,177	61,400
Common stock	7,886,554	8,086,254	199,700
Certificates of deposit	3,030,000	3,022,771	(7,229)
	<u>\$ 16,772,876</u>	<u>\$ 17,143,087</u>	<u>\$ 370,211</u>

NOTES TO FINANCIAL STATEMENTS--Continued

EAST CENTRAL UNIVERSITY

June 30, 2009

NOTE N--EAST CENTRAL UNIVERSITY FOUNDATION, INC.--Continued

INVESTMENTS--Continued

Fixed Income Investments--Continued: The Foundation recognized \$(2,818,464) during 2009 from net (losses) gains on sale of investments. These gains have been combined with other earnings on investments and allocated throughout the year through the consolidated investment pool and have been netted with other earnings in these financial statements.

Interest Rate Risk: Interest rate risk is the risk that changes in interest rates will adversely affect the fair value of an investment. Investments held for longer periods are subject to increased risk of adverse interest rate changes.

The Foundation's investment policy states that average maturity of the bond portfolio will be determined by the investment committee and can be changed as market conditions dictate.

The following table provides information as of June 30, 2009, concerning the fair value of maturity of investments.

Type of Investment	6 Months or Less	More Than 6 Months to to 1 Year	More Than 1 Year to 3 Years	More Than 3 Years to 5 Years	More Than 5 Years	Total Fair Value	Cost
International bonds	\$ -	\$ -	\$ -	\$ 132,778	\$ -	\$ 132,778	\$ 123,288
U.S. Government securities	418,763	351,227	578,698	1,344,513	80,906	2,774,107	2,667,257
Corporate bonds	110,391	370,486	1,764,929	811,784	69,587	3,127,177	3,065,777
Common stock	-	-	-	-	-	8,086,254	7,886,554
Certificates of deposit	850,453	1,486,695	685,623	-	-	3,022,771	3,030,000
	<u>\$ 1,379,607</u>	<u>\$ 2,208,408</u>	<u>\$ 3,029,250</u>	<u>\$ 2,289,075</u>	<u>\$ 150,493</u>	<u>\$ 17,143,087</u>	<u>\$ 16,772,876</u>

NOTES TO FINANCIAL STATEMENTS--Continued

EAST CENTRAL UNIVERSITY

June 30, 2009

NOTE N--EAST CENTRAL UNIVERSITY FOUNDATION, INC.--Continued

INVESTMENTS--Continued

Credit Risk: Credit risk is the risk that an insurer or other counter party to an investment will not fulfill its obligation. The following table provides information concerning credit risk as of June 30, 2009:

Moody's Rating	Fair Value (FV)	Cost	FV as a % of Total FV
AAA	\$ 110,015	\$ 108,290	0.642%
AA1	104,878	102,979	0.612%
AA2	155,177	151,215	0.905%
AA3	276,556	261,947	1.613%
A1	666,487	639,003	3.888%
A2	1,438,547	1,421,828	8.391%
A3	183,651	175,543	1.071%
BAA1	111,216	104,694	0.649%
BAA2	213,428	223,566	1.245%
Not rated:			
U.S. Government securities:			
Federal Home Loan Mortgage Corp.	367,098	352,347	2.141%
Federal Home Loan Bank Consolidated	746,993	725,010	4.357%
Federal National Mortgage Association	1,132,253	1,076,178	6.605%
Federal Farm Credit Bank Consolidated	479,605	466,864	2.798%
Other	48,158	46,858	0.281%
Common stock	8,086,254	7,886,554	47.169%
Certificates of deposit	3,022,771	3,030,000	17.633%
	\$ 17,143,087	\$ 16,772,876	100.000%

Custodial Risk: For investments, custodial risk is the risk that in the event of the failure of the counterparty, the Foundation will not be able to recover the value of its investments or collateral securities in the possession of an outside party.

NOTES TO FINANCIAL STATEMENTS--Continued

EAST CENTRAL UNIVERSITY

June 30, 2009

NOTE N--EAST CENTRAL UNIVERSITY FOUNDATION, INC.--Continued

DEFERRED REVENUE

The Foundation has received \$2,100,000 of a \$4,000,000 commitment from the Chickasaw Nation of Oklahoma for the expansion of the East Central University, College of business building. The College of Business will house the following:

- Classrooms
- Teacher Offices
- Business departments
- Lounge area

The College of Business will serve to strengthen the partnership between the faculty and students.

To date, construction of the College of Business has not begun. Because construction of the College of Business is still in the planning stages and funds for the complete project are pending, the \$2,100,000 received by the Foundation and the \$1,900,000 remaining commitment have not been recognized as revenue. Such recognition will be made in the future as construction plans and funding for the College of Business are finalized.

EAST CENTRAL FINE ARTS BUILDING

During the year ended June 30, 2009, the Foundation had total expenditures related to the East Central University Fine Arts Building of approximately \$1,009,000, which was accrued as a payable at June 30, 2009. During July 2009, the \$1,009,000 was paid, as well as an additional \$9,000 to close all accounts related to the East Central University Fine Arts Building. All the monies were transferred directly to the University for expenditures. The Foundation did not pay any construction costs directly.

During each of the years ended June 30, 2009 and 2008, approximately \$15,000 was paid from unrestricted funds of the Foundation as part of its \$500,000 commitment for the East Central University Fine Arts Building. As of June 30, 2009, approximately \$410,000 (\$350,000 was paid in a lump sum in 2005) had been paid by the Foundation, and the balance of \$90,000 will be paid over the remaining 6 years of the original 10-year commitment.

NOTES TO FINANCIAL STATEMENTS--Continued

EAST CENTRAL UNIVERSITY

June 30, 2009

NOTE N--EAST CENTRAL UNIVERSITY FOUNDATION, INC.--Continued

ENDOWMENTS

The Foundation's endowments consist of 221 individual donor-restricted funds established for a variety of scholarships and activities. As required by accounting principles generally accepted in the United States, net assets associated with endowment funds are classified and reported based on donor-imposed restrictions. The endowments represent only those net assets that are under the control of the Foundation.

**Interpretation of Relevant Law**

The Foundation has interpreted UPMIFA as requiring the preservation of the purchasing power of the donor-restricted endowment funds absent explicit donor stipulations to the contrary. Therefore, the Foundation classifies as permanently restricted net assets 1) the original value of endowed gifts, 2) any subsequent gifts, and 3) any accumulations to the permanent endowment made in accordance with the direction of the donor gift instrument.

**Spending Policy**

The Foundation has approved an endowment distribution or spending policy whereby distributions are limited to 5% of the endowment fund's average fair value over the preceding 12 quarters, beginning with the previous fiscal year-end. The spending policy may be adjusted if a donor requests a specific spending policy and such policy is documented in the donor agreement.

The Foundation's investment objective is to position the funds to maintain a balance between long-term investment growth and annual distributions. The policy sets forth two important goals. First, the purchasing power of the endowment is maintained, and this preserves a Fund's ability to meet the future needs of the Foundation and its programs. Second, application of the spending policy reduces the endowment's vulnerability to significant fluctuations in the stock and bond markets.

NOTES TO FINANCIAL STATEMENTS--Continued

EAST CENTRAL UNIVERSITY

June 30, 2009

NOTE N--EAST CENTRAL UNIVERSITY FOUNDATION, INC.--Continued

ENDOWMENTS--Continued

**Net Asset Composition of Endowments**

The net asset composition of endowments by type of fund as of June 30, 2009, was as follows:

	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Permanently Restricted</u>	<u>Total</u>
Donor-restricted endowment funds	\$ -	\$ -	\$ 14,114,234	\$ 14,114,234

As can be seen, all of the Foundation's endowments are classified as permanently restricted.

**Changes in Net Assets of Endowments**

Changes in the net assets of endowments for the year ended June 30, 2009, were as follows:

	<u>Permanently Restricted</u>
Net assets, beginning of year	\$ 13,719,808
Investment gains (losses):	
Investment loss	(56,358)
Total investment losses	(56,358)
Contributions	199,347
Transfer from other net assets	251,437
Net assets, end of year	\$ 14,114,234

NOTES TO FINANCIAL STATEMENTS--Continued

EAST CENTRAL UNIVERSITY

June 30, 2009

NOTE N--EAST CENTRAL UNIVERSITY FOUNDATION, INC.--Continued

ENDOWMENTS--Continued

**Disclosure about Fair Value of Financial Instruments**

Fair values of financial instruments measured in accordance with SFAS 157, at June 30, 2009, were as follows:

	Assets Measured at Fair Value	Fair Value Measurements at Reporting Date Using		
		Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
International bonds	\$ 132,778	\$ -	\$ 132,778	\$ -
U.S. government securities	2,774,107	-	2,774,107	-
Corporate bonds	3,127,177	-	3,127,177	-
Common stock	8,086,254	8,086,254	-	-
Certificates of deposit	3,022,771	-	3,022,771	-
	<u>\$ 17,143,087</u>	<u>\$ 8,086,254</u>	<u>\$ 9,056,833</u>	<u>\$ -</u>

SFAS 157, Fair Value Measurements, establishes a fair value hierarchy that prioritizes the inputs to valuation techniques used to measure fair value. This hierarchy consists of three broad levels: Level 1 inputs consist of unadjusted quoted prices in active markets for identical assets and have the highest priority, Level 2 inputs consist of observable inputs other than quoted prices for identical assets, and Level 3 inputs have the lowest priority. The Foundation uses appropriate valuation techniques based on the available inputs to measure the fair value of its investments. There were no Level 3 inputs.

**Level 1 Fair Value Measurement**

The fair values of common stocks are based on quoted prices for similar assets in active markets.

**Level 2 Fair Value Measurement**

The fair value of international and corporate bonds, U.S. government securities, and certificates of deposit are based on quoted prices for similar assets in active and non-active markets. Also, bonds, securities, and certificates of deposit are primarily derived from or corroborated by observable market data.

EAST CENTRAL UNIVERSITY

REQUIRED SUPPLEMENTARY INFORMATION

June 30, 2009

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

Actuarial Valuation Date	Actuarial Value of Assets ( a )	Actuarial Accrued Liability (AAL) ( b )	Unfunded AAL (UAAL) ( b-a )	Funded Ratio ( a/b )	Covered Payroll ( c )	UAAL as a percentage of Covered Payroll ( b-a )/( c )
6/30/2007	2,235,012	7,287,369	5,052,357	30.67%	6,190,576	81.61%
6/30/2008	2,341,913	7,314,541	4,972,628	32.02%	5,770,396	86.17%
6/30/2009	2,445,527	7,895,738	5,450,211	30.97%	5,157,940	105.67%

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

**SCHEDULE OF FUNDING PROGRESS FOR OTHER POST-EMPLOYMENT INSURANCE BENEFITS**

Actuarial Valuation Date	Actuarial Value of Assets ( a )	Actuarial Accrued Liability (AAL) ( b )	Unfunded AAL (UAAL) ( b-a )	Funded Ratio ( a/b )	Covered Payroll ( c )	UAAL as a percentage of Covered Payroll ( b-a )/( c )
6/30/2008	\$ 335,020	\$ 2,559,361	\$ 2,224,341	13.09%	\$ 22,198,298	10.02%
6/30/2009	\$ 625,603	\$ 2,835,065	\$ 2,209,462	22.07%	\$ 23,105,592	9.56%

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

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

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

We have audited the financial statements of East Central University (the "University"), a component unit of the State of Oklahoma, as of and for the year ended June 30, 2009, and have issued our report thereon dated October 27, 2009. Our report was modified to include a reference to other auditors. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States. Other auditors audited the financial statements of East Central University Foundation, Inc., the University's discretely presented component unit, as described in our report on the University's financial statements. This report does not include the results of the other auditors' testing of internal control over financial reporting or compliance and other matters that are reported on separately by those auditors.

Internal Control Over Financial Reporting

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

Our consideration of internal control over financial reporting was for the limited purpose described in the preceding paragraph and would not necessarily identify all deficiencies in internal control over financial reporting that might be significant deficiencies or material weaknesses. However, as discussed below, we identified certain deficiencies in internal control over financial reporting that we consider to be a significant deficiency.



A control deficiency 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 significant deficiency is a control deficiency, or combination of control deficiencies, that adversely affects the entity's ability to initiate, authorize, record, process, or report financial data reliably in accordance with generally accepted accounting principles such that there is more than a remote likelihood that a misstatement of the entity's financial statements that is more than inconsequential will not be prevented or detected by the entity's internal control. We consider the deficiency described in the accompanying schedule of findings and questioned costs as Finding 2009-01 to be a significant deficiency in internal control over financial reporting.

A material weakness is a significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood that a material misstatement of the financial statements will not be prevented or detected by the entity's internal control.

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 and, accordingly, would not necessarily disclose all significant deficiencies that are also considered to be material weaknesses. However, we do not believe that the significant deficiency described above is a material weakness.

#### Compliance and Other matters

As part of obtaining reasonable assurance about whether the University's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, non-compliance 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 non-compliance or other matters that are required to be reported under *Government Auditing Standards*.

The University's response to the finding identified in our audit is described in the accompanying schedule of findings and questioned costs. We did not audit the University's response and, accordingly, we express no opinion on it.

This report is intended solely for the information and use of the Board of Regents, 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.

Cole & Reed P.C.

Oklahoma City, Oklahoma  
October 27, 2009

Independent Auditors' Report on Compliance with Requirements  
Applicable to Each Major Program and Internal Control Over  
Compliance in Accordance with OMB Circular A-133

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

Compliance

We have audited the compliance of East Central University (the "University"), a component unit of the State of Oklahoma, with the types of compliance requirements described in the U.S. Office of Management and Budget (OMB) Circular A-133 *Compliance Supplement* that are applicable to each of its major federal programs for the year ended June 30, 2009. The University's major federal programs are identified in the summary of auditors' results section of the accompanying Schedule of Findings and Questioned Costs. Compliance with the requirements of laws, regulations, contracts, and grants applicable to each of its major federal programs is the responsibility of the University's management. Our responsibility is to express an opinion on the University's compliance based on our audit.

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

In our opinion, the University complied, in all material respects, with the requirements referred to above that are applicable to each of its major federal programs for the year ended June 30, 2009. However, the results of our auditing procedures disclosed instances of noncompliance with those requirements that are required to be reported in accordance with OMB Circular A-133 and which are described in the accompanying Schedule of Findings and Questioned Costs as Finding 2009-02.

## Internal Control Over Compliance

The management of East Central University is responsible for establishing and maintaining effective internal control over compliance with the requirements of laws, regulations, contracts, and grants applicable to federal programs. In planning and performing our audits, we considered the University's internal control over compliance with the requirements that could have a direct and material effect on a major federal program in order to determine our auditing procedures for the purpose of expressing our opinion on compliance, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of the University's internal control over compliance.

A control deficiency in an entity's internal control over compliance 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 noncompliance with a type of compliance requirement of a federal program on a timely basis. A significant deficiency is a control deficiency, or combination of control deficiencies, that adversely affects the entity's ability to administer a federal program such that there is more than a remote likelihood that noncompliance with a type of compliance requirement of a federal program that is more than inconsequential will not be prevented or detected by the entity's internal control.

A material weakness is a significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood that material noncompliance with a type of compliance requirement of a federal program will not be prevented or detected by the entity's internal control.

Our consideration of internal control over compliance 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 compliance that we consider to be material weaknesses, as defined above.

## Schedule of Expenditures of Federal Awards

We have audited the basic financial statements of the University as of and for the year ended June 30, 2009, and have issued our report thereon dated October 27, 2009. Our audit was performed for the purpose of forming an opinion on the basic financial statements taken as a whole. The accompanying schedule of expenditures of federal awards is presented for purposes of additional analysis as required by OMB Circular A-133 and is not a required part of the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, is fairly stated, in all material respects, in relation to the basic financial statements taken as a whole.

The University's response to the finding identified in our audit is described in the accompanying Schedule of Findings and Questioned Costs. We did not audit the University's response and, accordingly, we express no opinion on it.

This report is intended solely for the information and use of the Board of Regents, 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.

Cole & Reed P.C.

Oklahoma City, Oklahoma  
October 27, 2009

EAST CENTRAL UNIVERSITY

SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS

Year Ended June 30, 2009

Federal Grantor / Pass-Through Grantor / Program Title	CFDA Number	Pass-Through Entity Identification Number	June 30, 2009 Amount Expended
U.S. Department of Education			
Direct programs			
Student financial aid cluster			
Federal Pell Grant Program	84.063	N/A	\$ 5,750,302
Federal Supplemental Education Opportunity Grants	84.007	N/A	114,469
Federal Work Study Program	84.033	N/A	398,595
Federal Family Education Loan Program	84.032	N/A	15,388,652
Federal Perkins Loan Program	84.038	N/A	166,000
Academic Competitiveness Grant	84.375	N/A	160,175
National Smart Grant	84.376	N/A	<u>109,385</u>
Total student financial aid cluster			22,087,577
Trio cluster			
Upward Bound	84.047	N/A	1,074,628
Talent Search	84.044	N/A	542,646
McNair Scholars Program	84.217	N/A	231,907
Educational Opportunity Centers	84.066	N/A	<u>462,591</u>
Total trio cluster			2,311,772
Other direct programs			
Rehabilitation	84.129	N/A	182,078
Teaching American History	84.215	N/A	355,115
Title III, Strengthening Institutions	84.031	N/A	186,849
Native American Voices	84.382	N/A	348,524
Gear Up	84.334	N/A	<u>232,220</u>
Total other direct programs			<u>1,304,786</u>
Total U.S. Department of Education			25,704,135
U.S. Department of Health and Human Services			
Direct programs			
Title IV: Child Welfare	93.575	N/A	61,806
Bridges to Baccalaureate	93.859	N/A	100,912
Basic Nurses Education and Practice Program	93.359	N/A	221,141
Geriatric Educational Centers	93.969	N/A	21,792
Center for Learning & Leadership	93.632	N/A	9,239
Passed through Oklahoma State Department of Human Services Developmental Disabilities In-Service Training	93.778	00001273	<u>558,712</u>
Total U.S. Department of Health and Human Services			973,602

EAST CENTRAL UNIVERSITY

SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS--Continued

Year Ended June 30, 2009

Federal Grantor / Pass-Through Grantor / Program Title	CFDA Number	Pass-Through Entity Identification Number	June 30, 2009 Amount Expended
U.S. Environmental Protection Agency Environmental Research Apprenticeship	66.607	N/A	100,323
U.S. Department of Agriculture Child and Adult Care Food Program	10.558	DC-62-014	23,059
East Main Street Planning RBOG	10.447	N/A	89,483
Rural Business Enterprise Grant	10.769	N/A	<u>209,605</u>
Total U.S. Department of Agriculture			322,147
Small Business Administration Passed through Southeastern Oklahoma State University Small Business Development Center	59.037	0-7620-0038-17	141,350
U.S. Department of Labor Veterans Workforce Investment Program	17.802	N/A	796,244
National Science Foundation Passed through Oklahoma State University Various programs	47.076	AA-5-58610	60,839
U.S. Department of Justice COPS, Tribal Police Training	16.710	N/A	85,370
Forensic Justice Center	16.560	N/A	84,541
OK State Victim Assistance	16.582	N/A	11,388
Center of Excellence, Criminal Justice	16.580	N/A	18,356
Reduce violent crimes against women on campus	16.525	N/A	165,239
RUSO VPP	16.525	N/A	<u>114,917</u>
Total U.S. Department of Justice			479,811
Federal Emergency Management Assistance Passed through Oklahoma Department of Emergency Management Flood disaster recovery funds	97.036	FEMA-1712-DR-OK	160,942
Institute of Museum and Library Services IMLS Library Media Grant	45.313	N/A	206,294
National Endowment for the Arts American Masterpieces	45.024	N/A	11,944
Total expenditures of federal awards			<u>\$ 28,957,631</u>

See notes to schedule of expenditures of federal awards.

NOTES TO SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS

EAST CENTRAL UNIVERSITY

June 30, 2009

NOTE A--SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

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

NOTE B--FEDERAL FAMILY EDUCATION LOAN

The University participates in the Federal Family Education Loan Program (the FFEL Program), CFDA number 84.032, which includes the Federal Stafford Loan Program, Federal Parents Loans for Undergraduate Students. The FFEL Program does not require the University to draw down cash; however, the University is required to perform certain administrative functions under the FFEL Program. Failure to perform such functions may require the University to reimburse the loan guarantee agencies.

NOTE C--LOANS OUTSTANDING

During the year ended June 30, 2009, the University issued Perkins loans totaling \$166,000, which are included as expenditures in the schedule of expenditures of federal awards. The University has \$1,540,706 in Federal Perkins loans outstanding at June 30, 2009.

NOTE D--SUB-RECIPIENTS

During the year ended June 30, 2009, the University provided federal awards to sub-recipients as follows:

Program	CFDA No.	Sub-recipient	Amount provided
Bridges to Baccalaureate	93.960	Seminole State College	\$ 1,284
Bridges to Baccalaureate	93.960	Murray State College	3,358
Bridges to Baccalaureate	93.960	Eastern Oklahoma State College	6,456
Bridges to Baccalaureate	93.960	Eastern Oklahoma State College	4,985
Bridges to Baccalaureate	93.960	Redlands Community College	3,140
Bridges to Baccalaureate	93.960	Eastern Oklahoma State College	2,745
RUSO VPP	16.525	Northwestern Oklahoma State University	1,461
			<u>\$ 23,428</u>

SCHEDULE OF FINDINGS AND QUESTIONED COSTS

EAST CENTRAL UNIVERSITY

June 30, 2009

**Section I--Summary of Auditors' Results**

*Financial statements*

Type of auditors' report issued: *Unqualified*

Internal control over financial reporting:

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

Noncompliance material to financial statements noted?  yes  no

*Federal Awards*

Internal control over major programs:

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

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

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

Identification of major programs:

<u>Program/Cluster</u>	<u>CFDA Number</u>
Student Financial aid cluster	*
Trio Cluster	*

\* Refer to the Schedule of Expenditures of Federal Awards for CFDA numbers related to these programs.

Dollar threshold used to distinguish between type A and type B programs: \$868,729

Auditee qualified as low-risk auditee?  yes  no

SCHEDULE OF FINDINGS AND QUESTIONED COSTS--Continued

EAST CENTRAL UNIVERSITY

June 30, 2009

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

See Finding 2009-01.

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

See Finding 2009-02.

SCHEDULE OF FINDINGS AND QUESTIONED COSTS--Continued

EAST CENTRAL UNIVERSITY

June 30, 2009

Findings Required to be Reported by Government Auditing Standards

**FINDING 2009-01**

Criteria: Appropriately designed internal controls should incorporate a top-level review of financial statement balances for reasonableness against established benchmarks with a scope designed to identify significant misstatements.

Condition: Such reviews do not appear to have been appropriately implemented during the current year financial reporting process for (1) student tuition, fee and housing revenues and (2) scholarship and fellowship expenses.

Cause: The year-end closing procedures and financial reporting processes were significantly amended during the current year. While the University typically does incorporate top-level reviews as discussed above, these critical reviews do not appear to have been sufficiently completed for the above referenced balances.

Effect: The above referenced revenues and expenses were initially each overstated by approximately \$5,500,000 for the year ended June 30, 2009. The University corrected its financial statements prior to issuance.

Recommendation: As noted above, top-level reasonableness tests should be consistently implemented at a level to identify significant misstatements.

Views of Responsible Official:

University management concurs with the finding, but would emphasize the point that the finding resulted in a zero effect upon ending net assets for the current year. We agree that the cause for this error is primarily the result of significantly modified year-end closing procedures transitioning from methodology based upon percentage allocations to a more precise detail oriented methodology of deriving actual amounts. We believe, in the long-term, these changes will be beneficial to the University in compiling financial statements and sufficiently implementing in-place internal controls.

SCHEDULE OF FINDINGS AND QUESTIONED COSTS--Continued

EAST CENTRAL UNIVERSITY

June 30, 2009

Findings Required to be Reported by OMB Circular A-133

**FINDING 2009-02**

Program CFDA No:

84.063

CFDA Program Title:

Federal Pell Grant Program (PELL)

Federal Award Year:

June 30, 2009

Finding:

In the Pell disbursement testing, noted that one student did not have their Pell disbursements reported to the Common Origination and Disbursement (COD) System.

Criteria:

In accordance with 34 CFR 690.83, "...an institution shall submit in accordance with deadline dates established by the Secretary, through publication in the Federal Register, other reports and information the Secretary requires in connection with the funds advanced to it and shall comply with the procedures the Secretary finds necessary to ensure that the reports are correct."

The institution submits Pell payment data to the Education Department through the COD System. COD processes origination and/or disbursement records and returns acknowledgements to the school. Schools are required to report all grant transactions within 30 days of the transaction.

Cause:

The institution completes periodic reconciliations between Jenzabar, internal financial aid software, and the COD disbursement reports. During one of the Jenzabar updates that occurred in fiscal year 08-09 a code was added to some Pell recipients that caused many of the Pell recipients to not be included in the disbursement report sent to COD. Thereby, these students were never shown as receiving funds on the COD system. The reconciliation reports pulled the data in the same manner as the reports sent to COD so both the Jenzabar and the COD reports appeared to reconcile without any exceptions because neither included the newly coded Jenzabar students.

## SCHEDULE OF FINDINGS AND QUESTIONED COSTS--Continued

EAST CENTRAL UNIVERSITY

June 30, 2009

### **FINDING 2009-02--Continued**

#### Effect:

Incorrect reporting of disbursements to COD does not allow the Department of Education to properly track and monitor awarding Pell grants. This can create a situation where a student can be awarded Pell based on the incorrect or missing information. This reporting is especially important when dealing with transfer students between schools as much of their Pell assessments are based on this information.

#### Context:

Per review of updated reconciliation reports, with all Pell students being included, the reports showed the incorrect reporting of 47 students with a total of \$68,989 of funds not reported to COD as being disbursed. There is no known or projected monetary error as this compliance reporting may or may not create an over award and no students tested in the file testing were given over awards.

#### Recommendation:

We recommend that Pell reconciliation reports be recomputed for fiscal year 08-09 to include all students receiving Pell. All students who have been identified as being incorrectly reported should be resubmitted to COD showing their proper disbursement amounts. We further recommend reconciliation reports used from Jenezabar should be tied to the actual disbursement amounts to confirm accuracy and periodic spot checks of reporting values should be conducted to ensure the reports' validity.

#### Institution Response:

East Central University has utilized the Jenezabar financial aid management system for several years to report Pell Grant payment data to the U. S. Department of Education's Common Origination and Disbursement (COD) system. Our IT department had created an automated program that compared our reconciliation files from COD with the data in our Jenezabar system and notified us of any discrepancies. This automated program had always worked perfectly prior to Spring 2009.

In the spring 2009 semester, Jenezabar provided an update to our financial aid management system. After the update, our automated reconciliation program was unable to identify and notify us of 47 students totaling \$68,989 that needed to be reported to COD. Following the Jenezabar update, the automated reconciliation program appeared to still be working and was generating lists of students that needed to be reported to COD.

## SCHEDULE OF FINDINGS AND QUESTIONED COSTS--Continued

EAST CENTRAL UNIVERSITY

June 30, 2009

### **FINDING 2009-02--Continued**

#### Institution Response--Continued:

Once the discrepancy was identified during the audit, our IT department reviewed the reconciliation program and discovered the issue caused by the spring update to our software. The IT department fixed the program and identified the 47 students that ECU needed to report to COD. The institution immediately began submitting origination and disbursement records to COD. All 47 students have subsequently been reported to COD and no over awards or other issues have occurred. COD has accepted the disbursements. The Financial Aid Director has balanced the grant payments and completed reconciliation of the funds.

To ensure that East Central University reports all grant transactions within 30 days as required in future, we have implemented the following changes to our procedures:

1. East Central University will not solely rely on our automated reconciliation program to identify students that need to be reported to COD.
2. Periodically throughout the award year, the Financial Aid Director will randomly select grant recipients from our Jenzabar financial aid management system and review the COD records to ensure timely reporting to COD.
3. At least once each month, the Financial Aid Office will order a reconciliation file from COD. The Financial Aid Director will compare the total grant payments in Jenzabar with the total grant payments in COD and with the list generated of students that need to be reported by our automatic reconciliation program and reconcile them to ensure that they balance.

SUMMARY SCHEDULE OF PRIOR AUDIT FINDINGS

EAST CENTRAL UNIVERSITY

June 30, 2009

No matters were reportable.