ARDMORE HIGHER EDUCATION CENTER

June 30, 2011

COLE + REED P.C.
CERTIFIED PUBLIC ACCOUNTANTS

ARDMORE HIGHER EDUCATION CENTER

June 30, 2011

AUDITED FINANCIAL STATEMENTS

REQUIRED SUPPLEMENTARY INFORMATION

REPORT REQUIRED BY *GOVERNMENT AUDITING STANDARDS*

COLE + REED P.C.
CERTIFIED PUBLIC ACCOUNTANTS

Independent Auditors' Report

Board of Trustees
Ardmore Higher Education Center
Ardmore, Oklahoma

We have audited the accompanying statements of net assets of Ardmore Higher Education (the "Center"), a component unit of the State of Oklahoma, as of June 30, 2011 and 2010, and the related statements of revenues, expenses, and changes in net assets, and statements of cash flows for the years then ended. We have also audited the financial statements of the Southern Oklahoma Higher Education Foundation, Inc. (the "Foundation"), a discrete component unit of the Center. These financial statements are the responsibility of the Center's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with auditing standards generally accepted in the United States of America and 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, assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of Ardmore Higher Education Center and its discretely presented component unit as of June 30, 2011 and 2010 and the respective changes in net assets and, where applicable, cash flows thereof for the years then ended, in conformity with accounting principles generally accepted in the United States of America.

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In accordance with *Government Auditing Standards*, we have also issued our report dated October 26, 2011, on our consideration of the Center's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audits.

Management's Discussion and Analysis and the Schedules of Funding Progress for the Supplemental Retirement 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 26, 2011

Ardmore Higher Education Center
Management's Discussion and Analysis
For the Year Ended June 30, 2010

Management's Discussion and Analysis

The discussion and analysis of Ardmore Higher Education Center (the "Center") financial statements provides an overview of CENTER's financial activities for the year ending June 30, 2011. Since this management's discussion and analysis is designed to focus on current activities, resulting changes and current known facts, please read it in conjunction with the Center's financial statements and footnotes. A comparative analysis of prior two years financial data is provided.

Using This Report

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

Financial Highlights

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

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

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

Financial Highlights (Continued)

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

Schedule A is prepared from the Center's Statement of Net Assets, and summarizes the Center's assets, liabilities, and net assets at June 30, 2011, with comparative totals at June 30, 2010 and 2009, respectively.

Schedule A
Net Assets at June 30, 2011
With Comparative Totals at June 30, 2010 and 2009
(in thousands)

	2011	2010	2009
Current assets	$ 2,478	$ 2,121	$ 1,896
Noncurrent assets			
Capital assets, net of depreciation	960	256	170
Other	96	678	749
Total assets	3,534	3,055	2,815
Current liabilities	307	146	129
Noncurrent liabilities	682	640	657
Total liabilities	989	786	786
Net assets			
Invested in capital assets, net of related debt	339	56	170
Restricted for capital projects	-	201	686
Unrestricted	2,206	2,012	1,173
Total net assets	$ 2,545	$ 2,269	$ 2,029

At year ended June 30, 2011, capital assets increased by $704 or 275% from the year ended June 30, 2010 due to the increase in construction in progress paid for with the proceeds from the OCIA 2005F Higher Education Bond funds. Current liabilities by $161 or 110% due to a large construction in progress invoice that was outstanding at year end.

At year ended June 30, 2010, accounts receivable increased by $11 or 23% from the year ended June 30, 2009 due to significant increases in enrollment. Other non-current assets include the OCIA 2005F Higher Education Bond funds in the amount of $625.

Financial Highlights (Continued)

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

Schedule B is prepared from the Center's Statement of Revenues, Expenses, and Changes in Net Assets for the year ended June 30, 2011, with comparative totals for the year ended June 30, 2010 and 2009, respectively.

Schedule B
Operating Results for the Year Ended June 30, 2011
With Comparative Totals for the Year Ended June 30, 2010 and 2009
(in thousands)

	2011	2010	2009
Operating revenues and expenses			
Tuition and fees	$ 1,000	$ 849	$ 693
Less operating expenses	(1,558)	(1,452)	(1,501)
Net operating expenses	(558)	(603)	(808)
Nonoperating revenues (expenses)			
State appropriations	687	693	723
On-behalf OTRS contributions	37	32	35
Gifts	32	33	29
Investment income	29	35	18
Interest expense	(13)	(31)	(32)
Net nonoperating revenues	772	762	773
Income before other revenues (expenses)	214	159	(35)
Other revenues	60	81	63
Increase in net assets	$ 274	$ 240	$ 28

Revenues

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

Student tuition and fees revenue increased by $156 or 22.5% over 2009 due to significant increases in enrollment.

Financial Highlights (Continued)

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

Expenses

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

Operating expenses decreased by $49 or 3.3% in 2010 over the year ended June 30, 2009 as a result of the discontinuance of enrollment services performed by the Center for its college and university partners, as well as completion of contracts with various service providers.

Schedule C summarizes the Center's operating expenses for the years ended June 30, 2011, 2010 and 2009, respectively.

Schedule C
Operating Expenses for the Year Ended June 30, 2011
With Comparative Totals for the Year Ended June 30, 2010 and 2009
(in thousands)

	2011	2010	2009
Compensation and benefits	$ 850	$ 838	$ 823
Contractual services	384	322	438
Supplies and materials	49	51	33
Utilities	53	42	48
Communications	21	19	17
Depreciation	118	93	81
Other	83	87	61
Total Operating Expenses	$ 1,558	$ 1,452	$ 1,501

Statement of Cash Flows

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

Financial Highlights (Continued)

Statement of Cash Flows (Continued)

Schedule D is prepared from the Center's Statement of Cash Flows, and summarizes the Center's cash flows for the year ended June 30, 2011, with comparative totals for the year ended June 30, 2010 and 2009, respectively.

Schedule D
Cash Flows for the Year Ended June 30, 2011
With Comparative Totals for the Year Ended June 30, 2010 and 2009
(in thousands)

	2011	2010	2009
Cash provided (used) by:			
Operating activities	$ (391)	$ (448)	$ (634)
Noncapital financing activities	718	727	752
Capital and related financing activities	24	(76)	(9)
Investing activities	10	11	5
Net increase in cash	361	214	114
Cash, beginning of year	2,066	1,852	1,738
Cash, end of year	$ 2,427	$ 2,066	$ 1,852

Capital Assets and Debt Administration

For 2011, the Center recorded a total of $4,229 in capital assets and $3,269 in accumulated depreciation. During the year ended June 30, 2011 the Center acquired $821 in capital assets consisting of construction in progress, leasehold improvements, library resources, office and institutional equipment, and computer equipment. Construction in progress of $676 is the largest addition, and is for architectual fees for design of a new campus building.

For 2010, the Center recorded a total of $3,408 in capital assets and $3,152 in accumulated depreciation. During the year ended June 30, 2010 the Center acquired $179 in capital assets consisting of construction in progress, leasehold improvements, library resources, office and institutional equipment, and computer equipment.

Financial Highlights (Continued)

Capital Assets and Debt Administration (Continued)

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

At June 30, 2010, the Center had long-term liabilities of $640, an decrease of 2.6% over 2009 long-term liabilities.

Schedule E
Capital Assets, Net
June 30, 2011
With Comparative Totals at June 30, 2010 and 2009
(in thousands)

	2011	2010	2009
Construction in progress	$ 761	$ 85	$ -
Leasehold improvements	1,737	1,705	1,687
Equipment	1,013	908	840
Library materials	718	710	702
Total	4,229	3,408	3,229
Less accumulated depreciation	(3,269)	(3,152)	(3,059)
Capital assets, net	$ 960	$ 256	$ 170

Schedule F
Long-Term Liabilities
June 30, 2011
With Comparative Totals at June 30, 2010 and 2009
(in thousands)

	2011	2010	2009
Capital lease payable	$ 652	$ 599	$ 623
Accrued compensated absences	-	-	1
Other post employment benefits	30	29	20
Lease premium	-	12	13
Total long-term liabilities	$ 682	$ 640	$ 657

Ardmore Higher Education Center
Management's Discussion and Analysis (Continued)
For the Year Ended June 30, 2010

Other Financial Information

Economic Outlook

Tuition and fees have grown into a greater proportion of the Center's funding than state appropriations due to continued cuts in state appropriations and significant increases in student enrollment in recent years. Thus, the Center has avoided budget deficits through the collection of more tuition and fees due to increased student enrollment. The Center facilities are quickly reaching capacity usage and some academic programming is becoming stressed by the limitations of the existing facilities, particularly in the sciences. During FY09 the Center entered into a partnership with the City of Ardmore to construct a new campus. A master plan, building designs, and construction documents will be completed by the summer of 2012. Pending legislation proposing to transition the Center to a university branch campus has stalled fundraising efforts until after the 2012 legislative session. The Center will likely deplete most of its accumulated capital funds to complete the architectural plans for the new campus prior to the implementation of a capital campaign and other revenue-raising initiatives. The Center is not aware of any other matters that could significantly affect its financial position.

Contacting the Program's Financial Management

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

STATEMENTS OF NET ASSETS

ARDMORE HIGHER EDUCATION CENTER

	June 30 2011		June 30 2010	
	Primary Government	Component Unit	Primary Government	Component Unit
	Ardmore Higher Education Center	Southern Oklahoma Higher Education Foundation, Inc	Ardmore Higher Education Center	Southern Oklahoma Higher Education Foundation, Inc.
ASSETS				
Current assets				
Cash and cash equivalents	$ 2,426,732	$ 34,052	$ 2,065,870	$ 31,968
Accounts receivable	50,876	-	55,393	-
Accrued interest receivable	763	144	-	166
Investments	-	175,342	-	178,811
Total current assets	2,478,371	209,538	2,121,263	210,945
Noncurrent assets				
Receivable from OCIA	-	-	624,722	-
Deferred charge on OCIA lease restructuring	40,977	-	-	-
Other assets	100	-	112	-
Prepaid pension asset	55,016	-	53,441	-
Capital assets, net	959,854	-	256,158	-
Total noncurrent assets	1,055,947	-	934,433	-
TOTAL ASSETS	$ 3,534,318	$ 209,538	$ 3,055,696	$ 210,945
LIABILITIES				
Current liabilities				
Accounts payable and accrued expenses	$ 276,568	$ -	$ 95,220	$ -
Current portion of noncurrent liabilities	31,219	-	50,660	-
Total current liabilities	307,787	-	145,880	-
Noncurrent liabilities, net of current portion				
Other post employment benefit obligation	30,427	-	28,462	-
Lease obligation payable to state agency	651,440	-	599,252	-
Lease premium	-	-	11,750	-
Total noncurrent liabilities	681,867	-	639,464	-
TOTAL LIABILITIES	989,654	-	785,344	-
NET ASSETS				
Invested in capital assets, net of related debt	338,664	-	56,219	-
Restricted:				
Restricted for capital projects	-	-	201,442	-
Restricted for scholarships	-	175,852	-	181,686
Unrestricted	2,206,000	33,686	2,012,691	29,259
TOTAL NET ASSETS	$ 2,544,664	$ 209,538	$ 2,270,352	$ 210,945

See notes to financial statements.

STATEMENTS OF REVENUES, EXPENSES, AND CHANGES IN NET ASSETS

ARDMORE HIGHER EDUCATION CENTER

	Year Ended June 30 2011		Year Ended June 30 2010	
	Primary Government Ardmore Higher Education Center	Component Unit Southern Oklahoma Higher Education Foundation, Inc.	Primary Government Ardmore Higher Education Center	Component Unit Southern Oklahoma Higher Education Foundation, Inc.
OPERATING REVENUES				
Student tuition and fees	$ 1,000,176	$ -	$ 849,007	$ -
OPERATING EXPENSES				
Compensation and employee benefits	850,213	-	837,632	-
Contractual services	384,522	-	322,660	-
Supplies and materials	48,680	937	50,714	1,833
Utilities	52,778	-	42,223	-
Communications	21,297	-	18,799	-
Depreciation	117,674	-	93,234	-
Other operating expenses	82,888	-	86,816	-
General and administrative	-	2,243	-	2,224
Scholarships and fellowships	-	83,204	-	28,907
Total operating expenses	1,558,052	86,384	1,452,078	32,964
OPERATING LOSS	(557,876)	(86,384)	(603,071)	(32,964)
NONOPERATING REVENUES (EXPENSES)				
State appropriations	686,840	-	693,242	-
On-behalf Teachers' Retirement System contributions	37,069	-	31,532	-
Private gifts and other contributions	31,537	83,502	33,647	23,897
Investment income	29,231	1,475	34,866	2,168
Interest expense	(12,831)	-	(30,924)	-
Net nonoperating revenues	771,846	84,977	762,363	26,065
INCOME (LOSS) BEFORE OTHER REVENUES, EXPENSES GAINS OR LOSSES	213,970	(1,407)	159,292	(6,899)
Capital grants and gifts	32,673	-	17,652	-
OCIA on-behalf state appropriations	27,669	-	63,468	-
NET CHANGE IN NET ASSETS	274,312	(1,407)	240,412	(6,899)
NET ASSETS, BEGINNING OF YEAR	2,270,352	210,945	2,029,940	217,844
NET ASSETS, END OF YEAR	$ 2,544,664	$ 209,538	$ 2,270,352	$ 210,945

See notes to financial statements.

STATEMENTS OF CASH FLOWS

ARDMORE HIGHER EDUCATION CENTER

	Year Ended June 30 2011		Year Ended June 30 2010	
	Primary Government Ardmore Higher Education Center	Component Unit Southern Oklahoma Higher Education Foundation, Inc.	Primary Government Ardmore Higher Education Center	Component Unit Southern Oklahoma Higher Education Foundation, Inc.
CASH FLOWS FROM OPERATING ACTIVITIES				
Tuition and fees	$ 1,004,693	$ -	$ 838,555	$ -
Payments to employees for salaries and benefits	(817,209)	-	(792,178)	-
Payments to suppliers	(578,449)	(3,180)	(493,980)	(4,057)
Payments for scholarships and fellowships	-	(83,204)	-	(28,907)
NET CASH USED IN OPERATING ACTIVITIES	(390,965)	(86,384)	(447,603)	(32,964)
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES				
State appropriations	686,840	-	693,242	-
Gifts and contributions	31,537	83,502	33,647	23,897
NET CASH PROVIDED BY NONCAPITAL FINANCING ACTIVITIES	718,377	83,502	726,889	23,897
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES				
Purchases of capital assets	(619,740)	-	(160,804)	-
Proceeds of capital debt and leases	643,400	-	85,067	-
NET CASH PROVIDED BY (USED IN) CAPITAL AND RELATED FINANCING ACTIVITIES	23,660	-	(75,737)	-
CASH FLOWS FROM INVESTING ACTIVITIES				
Purchases of investments	-	(1,430)	-	(2,231)
Proceeds from sales and maturities of investments	-	4,900	-	3,900
Interest income received	9,790	1,496	10,866	2,296
NET CASH PROVIDED BY INVESTING ACTIVITIES	9,790	4,966	10,866	3,965
NET CHANGE IN CASH AND CASH EQUIVALENTS	360,862	2,084	214,415	(5,102)
CASH AND CASH EQUIVALENTS, BEGINNING OF YEAR	2,065,870	31,968	1,851,455	37,070
CASH AND CASH EQUIVALENTS, END OF YEAR	$ 2,426,732	$ 34,052	$ 2,065,870	$ 31,968

(Continued)

See notes to financial statements.

STATEMENTS OF CASH FLOWS--Continued

ARDMORE HIGHER EDUCATION CENTER

	Year Ended June 30 2011		Year Ended June 30 2010	
	Primary Government Ardmore Higher Education Center	Component Unit Southern Oklahoma Higher Education Foundation, Inc.	Primary Government Ardmore Higher Education Center	Component Unit Southern Oklahoma Higher Education Foundation, Inc.
RECONCILIATION OF OPERATING LOSS TO CASH USED IN OPERATING ACTIVITIES				
Operating loss	$ (557,876)	$ (86,384)	$ (603,071)	$ (32,964)
Adjustments to reconcile operating loss to net cash used in operating activities:				
Depreciation expense	117,674	-	93,234	-
On-behalf Teachers' Retirement System contributions	37,069	-	31,532	-
Changes in assets and liabilities:				
Accounts receivable	4,517	-	(10,452)	-
Accounts payable and accrued expenses	12,391	-	27,232	-
Prepaid pension asset	(1,575)	-	9,303	-
Other post employment benefit obligation	1,965	-	8,807	-
Accrued compensated absences	(5,130)	-	(4,188)	-
NET CASH USED IN OPERATING ACTIVITIES	$ (390,965)	$ (86,384)	$ (447,603)	$ (32,964)
NONCASH INVESTING, NONCAPITAL FINANCING, AND CAPITAL AND RELATED FINANCING TRANSACTIONS				
Interest on capital debt paid by state agency on behalf of the Center	$ 5,694	$ -	$ 32,045	$ -
Principal on capital debt paid by state agency on behalf of the Center	$ 10,225	$ -	$ 31,423	$ -
Net premium adjustment due to restructure	$ 11,750	$ -	$ -	$ -
Capital assets received as gifts and contributions	$ 32,673	$ -	$ 17,652	$ -
Deferred cost on OCIA lease restructure	$ 49,173	$ -	$ -	$ -

See notes to financial statements.

NOTE A--NATURE OF OPERATIONS AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Nature of Operations: The Ardmore Higher Education Center (the "Center") is located in Ardmore, Oklahoma, and was established in accordance with Title 70, Section 3213 et seq. of the Oklahoma Statutes as the Ardmore Higher Education Program. Pursuant to this statute, the Oklahoma State Regents for Higher Education (the "State Regents") has made educational program resources in the Oklahoma State System of Higher Education (the "State System") available to people in the Ardmore area by drawing upon the educational programs of institutions best suited to provide the kinds of educational programs needed.

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

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

Financial Statement Presentation: As a component unit of the State of Oklahoma, the Center has prepared its financial statements in accordance with the requirements of Governmental Accounting Standards Board ("GASB") Statement No. 34, *Basic Financial Statements and Management Discussion and Analysis for State and Local Governments* and GASB Statement No. 35, *Basic Financial Statements and Management's Discussion and Analysis for Public Colleges and Universities*. The financial statement presentation required by GASB Statements No. 34 and 35 provides a comprehensive, entity-wide perspective of the Center's assets, liabilities, net assets, revenues, expenses, changes in net assets and cash flows.

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

NOTE A--NATURE OF OPERATIONS AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES--Continued

Reporting Entity--Continued: The accompanying financial statements include the accounts and funds of the Center. The Center is a state agency and a non-institution member of the State System, which is under the governance of the State Regents. The Center is a component unit of the State of Oklahoma and is included in the general-purpose financial statements of the State as part of the higher education component unit.

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

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

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

The Center has the option to apply all FASB pronouncements issued after November 30, 1989, unless FASB conflicts with GASB. The Center has elected to not apply FASB pronouncements issued after the applicable date.

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

NOTE A--NATURE OF OPERATIONS AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES--Continued

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

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

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

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

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

NOTE A--NATURE OF OPERATIONS AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES--Continued

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

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

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

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

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

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

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

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

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

NOTE A--NATURE OF OPERATIONS AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES--Continued

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

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

NOTE B--DEPOSITS AND INVESTMENTS

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

At June 30, 2011 and 2010, the carrying amounts of the Center's deposits with the State Treasurer were $2,426,732 and $2,065,870, respectively. The Foundation had deposits at a financial institution with carrying amounts of $34,052 and $31,968 as of June 30, 2011 and 2010, respectively.

NOTE B--DEPOSITS AND INVESTMENTS--Continued

Deposits--Continued: Some deposits with the State Treasurer are placed in the State Treasurer's internal investment pool *OK INVEST*. *OK INVEST* pools the resources of all state funds and agencies and invests them in (a) U.S. treasury securities which are explicitly backed by the full faith and credit of the U.S. government; (b) U.S. agency securities which carry an implicit guarantee of the full faith and credit of the U.S. government; (c) money market mutual funds which participates in investments, either directly or indirectly, in securities issued by the U.S. Treasury and/or agency and repurchase agreements relating to such securities; (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; (e) collateralized certificates of deposits; (f) commercial paper; (g) obligations of state and local governments; and (h) State of Israel bonds.

Of funds on deposit with the State Treasurer, amounts invested in *OK INVEST* total $347,496 in 2011 and $363,878 in 2010.

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

	2011		2010	
OK INVEST Portfolio	Cost	Market Value	Cost	Market Value
U.S. Agency securities	$ 126,918	$ 127,935	$ 139,423	$ 141,764
Money market mutual funds	38,205	38,205	31,851	31,851
Certificates of deposit	16,408	16,408	20,697	20,697
Tri-party repurchase agreements	23,449	23,449	23,336	23,336
Mortgage backed agency securities	126,055	131,622	128,732	134,325
Municipal bonds	6,926	7,501	7,840	8,406
Foreign bonds	1,292	1,292	1,459	1,442
Commercial paper	3,230	3,230	-	-
U.S. Treasury Obligations	5,013	5,940	10,540	11,157
TOTAL	$ 347,496	$ 355,582	$ 363,878	$ 372,978

NOTE B--DEPOSITS AND INVESTMENTS--Continued

Deposits--Continued: Agencies and funds that are considered to be part of the State's reporting entity in the State's Comprehensive Annual Financial Report are allowed to participate in *OK INVEST*. Oklahoma statutes and the State Treasurer establish the primary objectives and guidelines governing the investment of funds in *OK INVEST*. Safety, liquidity, and return on investment are the objectives which establish the framework for the day to day *OK INVEST* management with an emphasis on safety of the capital and the probable income to be derived and meeting the State and its funds' and agencies' daily cash flow requirements. Guidelines in the Investment Policy address credit quality requirements, diversification percentages and the types and maturities of allowable investments. The specifics regarding these policies can be found on the State Treasurer's website at *http://www.treasurer.state.ok.us/*. The State Treasurer, at his discretion, may further limit or restrict such investments on a day to day basis. *OK INVEST* includes a substantial investment in securities with an overnight maturity as well as in U.S. government securities with a maturity of up to ten years. *OK INVEST* maintains an overall weighted average maturity of no more than four years.

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

NOTE B--DEPOSITS AND INVESTMENTS--Continued

Investments: As of June 30, 2011 and 2010, the Center had no investments. The Foundation's investments consist of two CDs, one with Citizens Bank and Trust and one with First National Bank & Trust of Ardmore. The Citizens Bank CD was renewed on March 23, 2011 with an interest rate of 0.75% and matures on March 22, 2012. The First National CD opened April 20, 2011 with an interest rate of 0.75% and matures on April 20, 2012. As of June 30, 2011 and 2010, the Foundation's investments balance was as follows:

Types of Investment	2011	2010
Citizens Bank CD	$ 88,190	$ 89,834
First National Bank CD	87,152	88,977
Total investments	$ 175,342	$ 178,811

NOTE C--CAPITAL ASSETS

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

	2011			
	Balance June 30, 2010	Additions	Retirements	Balance June 30, 2011
Capital assets not being depreciated				
Construction in progress	$ 85,067	$ 675,644	$ -	$ 760,711
Other capital assets				
Leasehold improvements	$ 1,704,418	$ 32,673	-	$ 1,737,091
Equipment	908,100	104,638	-	1,012,738
Library materials	710,120	8,415	-	718,535
Total capital assets	3,322,638	145,726	-	3,468,364
Less accumulated depreciation				
Leasehold improvements	(1,704,418)	(32,673)		(1,737,091)
Equipment	(782,718)	(68,367)	-	(851,085)
Library materials	(664,411)	(16,634)		(681,045)
Total accumulated depreciation	(3,151,547)	(117,674)	-	(3,269,221)
Other capital assets, net	$ 171,091	$ 28,052	$ -	$ 199,143
Total cost of capital assets	$ 3,407,705	$ 821,370	$ -	$ 4,229,075
Less accumulated depreciation	(3,151,547)	(117,674)	-	(3,269,221)
Capital assets, net	$ 256,158	$ 703,696	$ -	$ 959,854

NOTES TO FINANCIAL STATEMENTS--Continued

ARDMORE HIGHER EDUCATION CENTER

June 30, 2011

NOTE C--CAPITAL ASSETS--Continued

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

	2010			
	Balance June 30, 2009	Additions	Retirements	Balance June 30, 2010
Capital assets not being depreciated				
Construction in progress	$ -	$ 85,067	$ -	$ 85,067
Other capital assets				
Leasehold improvements	$ 1,686,766	$ 17,652	$ -	$ 1,704,418
Equipment	839,624	68,476	-	908,100
Library materials	702,384	7,736	-	710,120
Total capital assets	3,228,774	93,864	-	3,322,638
Less accumulated depreciation				
Leasehold improvements	(1,686,766)	(17,652)		(1,704,418)
Equipment	(725,863)	(56,855)	-	(782,718)
Library materials	(645,684)	(18,727)		(664,411)
Total accumulated depreciation	(3,058,313)	(93,234)	-	(3,151,547)
Other capital assets, net	$ 170,461	$ 630	$ -	$ 171,091
Total cost of capital assets	$ 3,228,774	$ 178,931	-	$ 3,407,705
Less accumulated depreciation	(3,058,313)	(93,234)	-	(3,151,547)
Capital assets, net	$ 170,461	$ 85,697	$ -	$ 256,158

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

	2011	2010
Construction in progress	$ 600,000	$ 85,000
Leasehold improvements	200,000	200,000
Less accumulated depreciation	(200,000)	(200,000)
	$ 600,000	$ 85,000

NOTE D--NONCURRENT LIABILITIES

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

	2011				
	Balance June 30, 2010	Additions	Deductions	Balance June 30, 2011	Current Portion June 30, 2011
OCIA capital lease obligation	$ 623,219	$ 191,438	$ (152,490)	$ 662,167	$ 10,727
Accrued compensated absences	25,622	29,326	(34,456)	20,492	20,492
Other post employment benefits	28,462	7,636	(5,671)	30,427	-
Lease premium	12,821	-	(12,821)	-	-
	$ 690,124	$ 228,400	$ (205,438)	$ 713,086	$ 31,219

	2010				
	Balance June 30, 2009	Additions	Deductions	Balance June 30, 2010	Current Portion June 30, 2010
OCIA capital lease obligation	$ 654,642	$ -	$ (31,423)	623,219	$ 23,967
Accrued compensated absences	29,810	29,450	(33,638)	25,622	25,622
Other post employment benefits	19,655	14,063	(5,256)	28,462	-
Lease premium	13,954	-	(1,133)	12,821	1,071
	$ 718,061	$ 43,513	$ (71,450)	$ 690,124	$ 50,660

NOTE E--OKLAHOMA CAPITAL IMPROVEMENT AUTHORITY LEASES

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

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

NOTE E--OKLAHOMA CAPITAL IMPROVEMENT AUTHORITY LEASES--Continued

All of the OCIA 1999 Series A, B, and C has been drawn down for expenditures incurred in connection with the specific projects. These expenditures are recorded as capital assets or as non-capitalized expenditures, in accordance with the Center's policy. The Center has recorded a lease obligation payable to OCIA for the total amount of the allotment, less repayment made during the fiscal year. The Center has also recorded an asset for its pro-rata share of the bond issuance costs, and is amortizing that asset over the term of the lease agreement. At June 30, 2011 and 2010, the unamortized bond issuance costs totaled $100 and $112, respectively. As of June 30, 2011, funds of $624,722 were drawn down on the OCIA 2005F Series allocation representing all of the Center's allocation. The Center has recorded a lease obligation payable to OCIA for the total amount of the allotment, less repayments made.

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

During the years ended June 30, 2011 and 2010, OCIA made lease principal and interest payments totaling $27,669 and $63,468, respectively, on behalf of the Center. These on-behalf payments have been recorded as restricted state appropriations in the Center's statements of revenues, expenses, and changes in net assets.

NOTE E--OKLAHOMA CAPITAL IMPROVEMENT AUTHORITY LEASES--Continued

Future minimum lease payments under the Center's obligation to OCIA are as follows as of June 30, 2011:

Year Ending June 30,	Principal	Interest	Total
2012	10,727	11,595	22,322
2013	11,256	12,192	23,448
2014	26,800	27,382	54,182
2015	53,665	26,117	79,782
2016	55,422	24,196	79,618
2017-2021	207,725	94,051	301,776
2022-2026	115,959	65,574	181,533
2027-2031	180,613	27,819	208,432
Total future minimum lease payments	$ 662,167	$ 288,926	$ 951,093

NOTE F--EMPLOYEE RETIREMENT BENEFITS

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

Defined Contribution Plan

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

NOTE F--EMPLOYEE RETIREMENT BENEFITS--Continued

Defined Contribution Plan--Continued: The Center's total payroll for the years ended June 30, 2011 and 2010 was approximately $569,000 and $553,000 respectively. Total covered payroll, which refers to all compensation paid by the Center to active employees covered by American Fidelity, amounted to $309,000 in 2011 and $311,000 in 2010. The Center contributed approximately $23,000 in 2011 and $23,000 in 2010, which represents 7.44% and 7.40% of covered payroll respectively, for each year. As of June 30, 2011, there were no related party investments between American Fidelity and the Center.

Defined Benefit Plan:

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

Funding Policy – Benefits are funded on a "pay as you go" basis. During the fiscal years ending June 30, 2011 and 2010, the Center made payments of $20,500 and $20,500, respectively, which were recorded against the accrued pension liability.

NOTE F--EMPLOYEE RETIREMENT BENEFITS--Continued

Defined Benefit Plan--Continued:

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

	2011	2010
Annual required contribution	$ 16,756	$ 17,032
Interest on net pension obligation	(2,806)	(2,770)
Adjustment to annual required contribution	4,975	15,541
Annual pension cost	18,925	29,803
Contributions made	20,500	20,500
Increase (decrease) in net pension asset	1,575	(9,303)
Prepaid pension asset, beginning of year	53,441	62,744
Prepaid pension asset, end of year	$ 55,016	$ 53,441

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

Three-Year Trend Information

Fiscal Year Ended	Annual Pension Cost (APC)	Percentage of APC Contributed	Prepaid Pension Asset
June 30, 2009	15,764	179%	62,744
June 30, 2010	29,803	69%	53,441
June 30, 2011	18,925	108%	55,016

NOTE F--EMPLOYEE RETIREMENT BENEFITS--Continued

Defined Benefit Plan--Continued:

Funded Status and Funding Progress

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

	2011	2010
Actuarial accrued liability (AAL)	$ 180,000	$ 161,619
Actuarial value of plan assets	-	-
Unfunded actuarial accrued liability (UAAL)	$ 180,000	$ 161,619
Funded ratio (actuarial value of plan assets/AAL)	0.0%	0.0%
Covered payroll (active plan members)	$ -	$ -
UAAL as a percentage of covered payroll	0.0%	0.0%

Oklahoma Teachers' Retirement System:

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

Funding Policy – The Center is required to contribute a fixed percentage of annual compensation on behalf of active members. The employer contribution rates applied to annual compensation are determined by state statute. The employer contribution rate was 9.50% from January 1, 2010 through June 30, 2011, 9.00% from January 1, 2009 through December 31, 2009, and 8.50% from July 1, 2008 through December 31, 2008.

NOTE F--EMPLOYEE RETIREMENT BENEFITS--Continued

Oklahoma Teachers' Retirement System--Continued:

Funding Policy--Continued: Employees' contributions are also determined by State statute. For all employees, the contribution rate was 7% of covered salaries and fringe benefits in 2011, 2010, and 2009. For Center employees meeting the requirements of the Center's defined benefit plan, and other employees who opted to enroll in OTRS prior to July 1, 1993, substantially all of the members' OTRS contributions are made directly by the Center.

The Center's contribution to OTRS for the years ended June 30, 2011, 2010 and 2009, were approximately $91,000, $93,000, and $89,000 respectively, equal to the required contribution for each year. These contributions included the Center's statutory contribution and the share of the employee's contribution paid directly by the Center.

The State of Oklahoma is also required to contribute to the OTRS on behalf of the participating employers. For 2011 and 2010, the State of Oklahoma contributed 5% of State revenues from sales and use taxes and individual income taxes. The Center has estimated the amounts contributed to the OTRS by the State of Oklahoma on its behalf by multiplying the ratio of its covered salaries to total covered salaries for OTRS for the year by the applicable percentage of taxes collected during the year. For the years ended June 30, 2011 and 2010, the total amount contributed to the OTRS by the State of Oklahoma on behalf of the Center was approximately $37,000 and $32,000, respectively. These on-behalf payments have been recorded as both revenues and expenses in the statements of revenues, expenses, and changes in net assets.

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

The Center covers the cost of health and dental insurance for two retired employees. The Center has no policy for providing health and dental insurance for any current employees upon retirement.

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

NOTE F--EMPLOYEE RETIREMENT BENEFITS--Continued

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

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

	2011	2010
Annual required contribution	$ 8,792	$ 14,208
Interest on net OPEB obligation	1,494	1,475
Adjustment to annual required contribution	(2,650)	(1,620)
Annual OPEB cost (expense)	7,636	14,063
Contributions made	5,671	5,256
Increase in net OPEB obligation	(1,965)	(8,807)
Net OPEB obligation, beginning of year	(28,462)	(19,655)
Net OPEB obligation, end of year	$ (30,427)	$ (28,462)

This obligation is currently unfunded. The annual required contribution for 2010 was determined as part of an actuarial valuation on June 30, 2011, using the projected unit credit actuarial cost method. The actuarial assumptions included (a) discount rate of 5.25% per year compounded annually, (b) retirement at the earlier of (1) attainment of age 62 and completion of 10 years of OTRS service, or (2) when age plus OTRS service total at least 80 (90 for members joining OTRS after June 30, 1992), and (c) medical, dental, and vision rates increasing 3-8% annually.

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

NOTE F--EMPLOYEE RETIREMENT BENEFITS--Continued

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

Trend Information

Year Ended June 30	Annual OPEB Cost	% of APC Contributed	Net OPEB Obligation
2009	$ 14,064	33.43%	$ 19,655
2010	$ 14,063	37.37%	$ 28,462
2011	$ 7,636	74.27%	$ 30,427

Funded Status and Funding Progress

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

	2011	2010
Actuarial accrued liability (AAL)	$ 94,432	$ 134,819
Actuarial value of plan assets	-	-
Unfunded actuarial accrued liability (UAAL)	$ 94,432	$ 134,819
Funded ratio (actuarial value of plan assets/AAL)	0.0%	0.0%
Covered payroll (active plan members)	$ -	$ -
UAAL as a percentage of covered payroll	0.0%	0.0%

NOTE G--RELATED PARTY TRANSACTIONS

Community Activities, Inc. of Ardmore, Oklahoma serves as a fund-raising foundation on behalf of the Center and other community services operating in the Ardmore area. The Center received from Community Activities, Inc. leasehold improvements of $32,673 and $17,652 and supplies and other items of $3,874 and $1,671 in 2011 and 2010, respectively.

The Center and Foundation have an agreement for providing the Foundation with services including office space and part-time service of Center staff. In exchange, the Foundation provides the Center with program support that includes, but is not limited to, administration of scholarships and other academic and program enhancements. During the years ended June 30, 2011 and 2010, the Foundation awarded scholarships totaling approximately $27,000 and $29,000, respectively, to students.

NOTE H--RISK MANAGEMENT

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

NOTE I--LEASE COMMITMENTS

The Center, as lessor, leases an educational facility from the Board of Education, Independent School District No. 19, Carter County, Oklahoma. The lease is on a year-to-year basis. Rental expense of approximately $126,000 and $130,000, respectively, per year, was paid to the School District during the years ended June 30, 2011 and 2010.

NOTE J--ACCOUNTING STANDARDS ISSUED NOT YET ADOPTED

In November 2010, GASB issued Statement No. 60, *Accounting and Financial Reporting for Service Concession Arrangements*. GASB No. 60 addresses issues related to service concession arrangements (SCAs), which are a type of public-private or public-public partnership. This Statement applies only to those arrangements in which specific criteria determining whether a transferor has control over the facility are met. The requirements of this Statement are effective for financial statements for periods beginning after December 15, 2011.

In November 2010, GASB issued Statement No. 61, *The Financial Reporting Entity: Omnibus – An Amendment of GASB Statements No. 14 and No. 34*. GASB No. 61 modifies certain requirements for inclusion of component units in the financial reporting entity. This Statement also amends the criteria for reporting component units as if they were part of the primary government (that is, blending) in certain circumstances. The requirements of this Statement are effective for financial statements for periods beginning after June 15, 2012. Earlier application is encouraged.

NOTE J--ACCOUNTING STANDARDS ISSUED NOT YET ADOPTED--Continued

In December 2010, the GASB issued Statement No. 62, *Codification of Accounting and Financial Reporting Guidance Contained in Pre-November 30, 1989 FASB and AICPA Pronouncements*. GASB No. 62 is intended to enhance the usefulness of its Codification by incorporating guidance that previously could only be found in certain FASB and AICPA pronouncements. The requirements of this Statement are effective for financial statements for periods beginning after December 15, 2011. Earlier application is encouraged.

In June 2011, the GASB issued Statement No. 63, *Financial Reporting of Deferred Outflows of Resources, Deferred Inflows of Resources, and Net Position*. GASB No. 63 provides financial reporting guidance for deferred outflows of resources and deferred inflows of resources. Previous financial reporting standards do not include guidance for reporting those financial statement elements, which are distinct from assets and liabilities. The requirements of this Statement are effective for financial statements for periods beginning after December 15, 2011. Earlier application is encouraged.

Management is currently evaluating the effects that the above GASB Pronouncements will have on its financial statements.

REQUIRED SUPPLEMENTARY INFORMATION--UNAUDITED

ARDMORE HIGHER EDUCATION CENTER

June 30, 2011

SCHEDULE OF FUNDING PROGRESS FOR SUPPLEMENTAL RETIREMENT 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)
6/30/2009	-	166,340	166,340	0.0%	-	0.0%
6/30/2010	-	161,619	161,619	0.0%	-	0.0%
6/30/2011	-	180,000	180,000	0.0%	-	0.0%

SCHEDULE OF FUNDING PROGRESS FOR OTHER POST EMPLOYMENT BENEFITS 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)
6/30/2009	-	134,493	134,493	0.0%	-	0.0%
6/30/2010	-	134,819	134,819	0.0%	-	0.0%
6/30/2011	-	94,432	94,432	0.0%	-	0.0%

The actuarial 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 Trustees
Ardmore Higher Education Center
Ardmore, Oklahoma

We have audited the financial statements of Ardmore Higher Education Center (the "Center"), a component unit of the State of Oklahoma, as of and for the year ended June 30, 2011, and have issued our report thereon dated October 26, 2011. 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.

Internal Control Over Financial Reporting

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

A *deficiency in internal control* exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct misstatements on a timely basis. A *material weakness* is a deficiency, or combination of deficiencies, in internal control, such that there is a reasonable possibility that a material misstatement of the Center's financial statements will not be prevented, or detected and corrected on a timely basis.

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

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Compliance and Other matters

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

This report is intended solely for the information and use of the Board of Trustees, 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 26, 2011