

**OKLAHOMA STATE REGENTS
FOR HIGHER EDUCATION**

June 30, 2014

OKLAHOMA STATE REGENTS
FOR HIGHER EDUCATION

June 30, 2014

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Independent Auditor's Report

Coordinating Board of Control
Oklahoma State Regents for Higher Education
Oklahoma City, Oklahoma

We have audited the accompanying financial statements of the governmental activities, the business-type activities and each major fund of the Oklahoma State Regents for Higher Education (the State Regents), a component unit of the State of Oklahoma, as of and for the year ended June 30, 2014, and the related notes to the financial statements, which collectively comprise the State Regents' basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

Our responsibility is to express an opinion on these financial statements based on our audit. 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 from material misstatement.

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

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinions.

Opinions

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business-type activities and each major fund of the State Regents' as of June 30, 2014, and the respective changes in financial position and cash flows thereof for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis on pages 4 - 15 and the schedules of funding progress for the supplemental benefit plan and other post employment insurance benefits on page 60 be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Other Supplementary Information

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the State Regents' basic financial statements. The Schedule of Expenditures of Federal Awards, as required by Office of Management and Budget Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*, are presented for purposes of additional analysis and are not a required part of the basic financial statements.

The Schedule of Expenditures of Federal Awards is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic financial statements or to the basic financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the Schedule of Expenditures of Federal Awards is fairly stated, in all material respects, in relation to the basic financial statements as a whole.

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated October 31, 2014 on our consideration of the State Regents' 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 internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the State Regents' internal control over financial reporting and compliance.

Tulsa, Oklahoma
October 31, 2014

Stanfield & O'Sell P.C.

OKLAHOMA STATE REGENTS FOR HIGHER EDUCATION
Management's Discussion and Analysis
For the Year Ended June 30, 2014

This discussion and analysis of the Oklahoma State Regents for Higher Education (the Regents) financial statements provides an overview of the Regents' financial performance during the year ended June 30, 2014. Since the Management's Discussion and Analysis (MD&A) is designed to focus on current activities, resulting changes, and current known facts, please read it in conjunction with the Regents' basic financial statements and the footnotes. Comparative analysis of financial data is presented along with an explanation of significant changes.

The State Regents has determined that the federal student loan reserve fund meets the requirements of GASB 34 regarding assets held in a trustee or agency capacity for the benefit of others, and as such, should be presented as a fiduciary fund. Also, the State Regents has determined that under GASB 34, the endowment is properly classified as a permanent fund. Therefore, the Regents present the assets, liabilities, revenues, and expenses of the federal student loan reserve fund and the endowment fund as separate fiduciary and governmental funds.

FINANCIAL HIGHLIGHTS

- At June 30, 2014, the Regents' operating fund net position decreased to \$86,385,617 from \$91,987,421 at June 30, 2013.
- Total recognized operating and non-operating revenues in the Regents' operating fund increased by \$28,907,124 primarily due to an increase in state appropriations of \$36,825,039 offset by a decrease in grants, contracts, and gifts, other state income, and returns on investment.
- Total operating and non-operating expenses in the Regents' operating fund increased by \$21,523,368 primarily due to an increase in OCIA on-behalf payments and an increase in payments to public institutions.
- At June 30, 2014, the OCAP's operating fund net position increased to \$34,435,107 from \$19,842,194 in 2013.
- Total operating and non-operating revenues in the OCAP operating fund increased by \$20,314,096 primarily due to increased default loan collections income and default aversion fee income offset by a decrease in administrative fees.

OKLAHOMA STATE REGENTS FOR HIGHER EDUCATION
Management's Discussion and Analysis (Continued)
For the Year Ended June 30, 2014

FINANCIAL HIGHLIGHTS (Continued)

- Total operating and non-operating expenses in the OCAP operating fund increased by \$11,475,329 primarily due to increases in default aversion, collection agency, portfolio management and retirement benefit expenses offset by reductions to salaries and benefits, rent, and processing charges.
- The endowment fund experienced a positive return on investment of \$83,740,436 in 2014, compared to a positive return on investment of \$193,329,543 in 2013, a decrease of \$109,589,107.

USING THIS REPORT

This discussion and analysis is intended to serve as an introduction to the Regent's basic financial statements. The basic financial statements are comprised of three components: 1) government-wide financial statements, 2) fund financial statements, and 3) notes to the financial statements. A brief description of the basic financial statements follows.

GOVERNMENT-WIDE FINANCIAL STATEMENTS

The government-wide financial statements consist of a statement of net position and a statement of activities. The statement of net position presents information on the Regent's assets and liabilities with the difference being reported as net position. Increases or decreases in net position over time may serve as an indicator of whether the financial position of the Regents is improving or deteriorating.

The statement of activities presents information on the Regents' activities as a whole to demonstrate the extent of changes in financial position as a result of the year's activities. When revenues exceed expenses, the result is an increase in net position, and when the reverse occurs, the result is a decrease in net position.

The Regents' governmental fund and proprietary funds are included in the government-wide financial statements. The fiduciary fund is not included in the government-wide financial statements.

OKLAHOMA STATE REGENTS FOR HIGHER EDUCATION
Management's Discussion and Analysis (Continued)
For the Year Ended June 30, 2014

USING THIS REPORT (Continued)

FUND FINANCIAL STATEMENTS

Fund financial statements are organized in a group of related funds which are considered to be separate accounting entities. The Regent's fund groupings include a governmental fund, two proprietary funds, and one fiduciary fund.

Governmental fund: The Regents' endowment fund is reported as a major governmental fund. The endowment fund is a permanent fund established to support the establishment of faculty chairs, professorships, lectureships and to provide scholarships at constituent institutions.

Proprietary funds: The Regents' operating fund and the Oklahoma College Assistance Program's ("OCAP") operating fund are reported as proprietary funds. These two funds are considered the major operational funds of the agency.

Fiduciary fund: The OCAP federal student loan reserve fund is reported as a fiduciary fund. This fund is used to account for the assets, liabilities, revenues, and expenses administered on behalf of the Federal government.

The proprietary fund financial statements consist of three reports: The Statement of Net Position; the Statement of Revenues, Expenses, and Changes in Net Position; and the Statement of Cash Flows.

The purpose of the Statement of Net Position is to report the financial position of the fund at a point in time, the report date. The difference between assets and liabilities is a way to measure the Regents' financial health, or financial position.

The Statement of Revenues, Expenses, and Changes in Net Position reports information on the Regents' activities as a whole to demonstrate the magnitude of changes in the Regents' financial position as a result of the year's activities. When revenues exceed expenses, the result is an increase in net position, and when the reverse occurs, the result is a decrease in net position. The relationship between revenues and expenses may be thought of as the Regents' operating results.

The Statement of Cash Flows presents the Regents' flows of cash by defined categories. The primary purpose of the Statement of Cash Flows is to provide information about the Regents' cash receipts and disbursements during the year.

OKLAHOMA STATE REGENTS FOR HIGHER EDUCATION
Management's Discussion and Analysis (Continued)
For the Year Ended June 30, 2014

FINANCIAL ANALYSIS OF THE REGENTS' GOVERNMENT WIDE ACTIVITIES

The following schedules are prepared from the Regents' government-wide financial statements. The statements are presented on the accrual basis of accounting whereby revenues are recognized when earned and expenses are recognized when a liability is incurred.

Condensed Statement of Net Position

	Governmental Activities		Business-Type Activities		Total	
	2014	2013	2014	2013	2014	2013
Current assets	\$ 71,233,286	\$ 121,139,599	\$ 127,976,935	\$ 123,488,712	\$ 199,210,221	\$ 244,628,311
Construction in progress	-	-	-	2,007,506	-	2,007,506
Capital assets	-	-	21,125,154	23,046,819	21,125,154	23,046,819
Other noncurrent assets	621,517,374	505,742,520	-	886,337	621,517,374	506,628,857
Deferred outflows	-	817,870	-	-	-	817,870
Total assets and deferred outflows of resources	692,750,660	627,699,989	149,102,089	149,429,374	841,852,749	777,129,363
Current liabilities	65,295,258	58,022,291	15,901,417	24,314,706	81,196,675	82,336,997
Noncurrent liabilities	116,460,000	121,785,000	12,379,948	13,285,053	128,839,948	135,070,053
Total liabilities	181,755,258	179,807,291	28,281,365	37,599,759	210,036,623	217,407,050
Net position						
Net investment in capital assets	-	-	21,125,154	25,054,325	21,125,154	25,054,325
Restricted	510,995,402	447,892,698	58,808,315	41,938,272	569,803,717	489,830,970
Unrestricted	-	-	40,887,255	44,837,018	40,887,255	44,837,018
Total Net Position	<u>\$ 510,995,402</u>	<u>\$ 447,892,698</u>	<u>\$ 120,820,724</u>	<u>\$ 111,829,615</u>	<u>\$ 631,816,126</u>	<u>\$ 559,722,313</u>

OKLAHOMA STATE REGENTS FOR HIGHER EDUCATION
Management's Discussion and Analysis (Continued)
For the Year Ended June 30, 2014

FINANCIAL ANALYSIS OF THE REGENTS' GOVERNMENT WIDE ACTIVITIES
(Continued)

Condensed Statement of Activities

	Governmental Activities		Business-Type Activities		Total	
	2014	2013	2014	2013	2014	2013
Operating revenues						
Administrative fees	\$ -	\$ -	\$ 1,235,040	\$ -	\$ 1,235,040	\$ -
AMF transfer not paid by DE	-	-	1,998,846	1,332,626	1,998,846	1,332,626
Default loan collections	-	-	44,523,778	26,198,028	44,523,778	26,198,028
Grants, contracts and gifts	2,500	2,500	12,567,197	19,936,313	12,569,697	19,938,813
OneNet service fee	-	-	14,847,753	13,555,667	14,847,753	13,555,667
Other	-	-	392,360	779,098	392,360	779,098
Nonoperating revenues						
State appropriations	-	-	1,051,737,525	1,014,912,486	1,051,737,525	1,014,912,486
Other state income	-	-	11,497,247	14,368,365	11,497,247	14,368,365
On-behalf TRS contributions	-	-	1,256,629	1,308,797	1,256,629	1,308,797
On-behalf payment OCIA	432,500	-	-	-	432,500	-
Fund released from OMES	-	5,915,867	-	-	-	5,915,867
Gain on disposal of capital assets	-	-	13,233	-	13,233	-
Return on investment	83,740,436	187,413,676	1,950,897	1,985,738	85,691,333	189,399,414
Total operating and nonoperating revenues	<u>84,175,436</u>	<u>193,332,043</u>	<u>1,142,020,505</u>	<u>1,094,377,118</u>	<u>1,226,195,941</u>	<u>1,287,709,161</u>
Operating expenses						
Personnel and other operating costs	372,607	328,346	67,243,475	57,040,835	67,616,082	57,369,181
Communications	-	-	10,591,546	10,329,204	10,591,546	10,329,204
Scholarships, tuition and other incentives	-	-	13,496,134	12,823,333	13,496,134	12,823,333
Other	2,102,166	1,162,115	-	-	2,102,166	1,162,115
Nonoperating expenses						
Interagency payments	-	-	508,326	2,322,177	508,326	2,322,177
Payments to public institutions	25,002,826	23,082,395	984,624,119	970,393,456	1,009,626,945	993,475,851
OCIA on-behalf payments	-	-	43,183,505	34,768,462	43,183,505	34,768,462
Loss on disposal of capital assets	-	-	-	513,900	-	513,900
Interest expense	6,853,532	7,092,736	123,892	158,766	6,977,424	7,251,502
Total operating and nonoperating expenses	<u>34,331,131</u>	<u>31,665,592</u>	<u>1,119,770,997</u>	<u>1,088,350,133</u>	<u>1,154,102,128</u>	<u>1,120,015,725</u>
Net income before capital appropriations and other revenues	<u>49,844,305</u>	<u>161,666,451</u>	<u>22,249,508</u>	<u>6,026,985</u>	<u>72,093,813</u>	<u>167,693,436</u>
Transfers	<u>13,258,399</u>	<u>13,258,399</u>	<u>(13,258,399)</u>	<u>(13,258,399)</u>	<u>-</u>	<u>-</u>
Change in net position	63,102,704	174,924,850	8,991,109	(7,231,414)	72,093,813	167,693,436
Net position, beginning of year	447,892,698	272,967,848	111,829,615	119,061,029	559,722,313	392,028,877
Net position, end of year	<u>\$ 510,995,402</u>	<u>\$ 447,892,698</u>	<u>\$ 120,820,724</u>	<u>\$ 111,829,615</u>	<u>\$ 631,816,126</u>	<u>\$ 559,722,313</u>

OKLAHOMA STATE REGENTS FOR HIGHER EDUCATION
Management's Discussion and Analysis (Continued)
For the Year Ended June 30, 2014

FINANCIAL ANALYSIS OF THE REGENTS BUSINESS-TYPE ACTIVITIES

The following schedules are prepared from the Regents' basic financial statements. With the exception of the Statement of Cash Flows, the statements are presented on the accrual basis of accounting, whereby revenues are recognized when earned and expenses are recorded when incurred and assets are capitalized and depreciated. During the year ended June 30, 2014, total operating and non-operating revenues increased by \$49,221,220 from June 30, 2013, with total operating and non-operating expenses increasing by \$32,998,697 for the same period.

Condensed Statement of Net Position

	Regents		OCAP		Total	
	2014	2013	2014	2013	2014	2013
Current assets						
Unrestricted	\$ 65,043,711	\$ 76,346,359	\$ -	\$ -	\$ 65,043,711	\$ 76,346,359
Restricted	<u>27,030,812</u>	<u>25,016,502</u>	<u>35,902,412</u>	<u>24,625,851</u>	<u>62,933,224</u>	<u>49,642,353</u>
Total current assets	92,074,523	101,362,861	35,902,412	24,625,851	127,976,935	125,988,712
Noncurrent assets						
Other assets	-	886,337	-	-	-	886,337
Construction in progress	-	2,007,506	-	-	-	2,007,506
Capital assets, net of depreciation	<u>20,826,250</u>	<u>22,647,199</u>	<u>298,904</u>	<u>399,620</u>	<u>21,125,154</u>	<u>23,046,819</u>
Total assets	<u>112,900,773</u>	<u>126,903,903</u>	<u>36,201,316</u>	<u>25,025,471</u>	<u>149,102,089</u>	<u>151,929,374</u>
Current liabilities	14,261,101	25,933,625	1,640,316	881,081	15,901,417	26,814,706
Noncurrent liabilities	<u>12,254,055</u>	<u>8,982,857</u>	<u>125,893</u>	<u>4,302,196</u>	<u>12,379,948</u>	<u>13,285,053</u>
Total liabilities	<u>26,515,156</u>	<u>34,916,482</u>	<u>1,766,209</u>	<u>5,183,277</u>	<u>28,281,365</u>	<u>40,099,759</u>
Net position						
Net Investment						
in Capital Assets	20,826,250	24,654,705	298,904	399,620	21,125,154	25,054,325
Restricted-expendable	24,672,112	22,495,698	34,136,203	19,442,574	58,808,315	41,938,272
Unrestricted	<u>40,887,255</u>	<u>44,837,018</u>	<u>-</u>	<u>-</u>	<u>40,887,255</u>	<u>44,837,018</u>
Total net position	<u>\$ 86,385,617</u>	<u>\$ 91,987,421</u>	<u>\$ 34,435,107</u>	<u>\$ 19,842,194</u>	<u>\$ 120,820,724</u>	<u>\$ 111,829,615</u>

OKLAHOMA STATE REGENTS FOR HIGHER EDUCATION
Management's Discussion and Analysis (Continued)
For the Year Ended June 30, 2014

FINANCIAL ANALYSIS OF THE REGENTS BUSINESS-TYPE ACTIVITIES (Continued)

Condensed Statement of Revenues, Expenses and Changes in Net Position

	Regents		OCAP		Total	
	2014	2013	2014	2013	2014	2013
Operating revenues						
Administrative and other fees	\$ -	\$ -	\$ 1,235,040	\$ -	\$ 1,235,040	\$ -
AMF transfer not paid by DE	-	-	1,998,846	1,332,626	1,998,846	1,332,626
Default loan collections	-	-	44,523,778	26,198,028	44,523,778	26,198,028
Grants, contracts, and gifts	12,567,197	19,936,313	-	-	12,567,197	19,936,313
OneNet service fees	14,847,753	13,555,667	-	-	14,847,753	13,555,667
Other	4,519,904	3,857,706	34,671	62,194	4,554,575	3,919,900
Nonoperating revenues						
State appropriations	1,051,737,525	1,014,912,486	-	-	1,051,737,525	1,014,912,486
Other state income	11,497,247	14,368,365	-	-	11,497,247	14,368,365
Intraagency transfer - OPEB and supplement benefit plans	555,345	-	-	-	555,345	-
On-behalf TRS contributions	970,715	999,598	285,914	309,199	1,256,629	1,308,797
Gain on disposal of capital assets	14,308	-	-	-	14,308	-
Return on investment	1,390,859	1,563,594	560,038	422,144	1,950,897	1,985,738
Total operating and nonoperating revenue	<u>1,098,100,853</u>	<u>1,069,193,729</u>	<u>48,638,287</u>	<u>28,324,191</u>	<u>1,146,739,140</u>	<u>1,097,517,920</u>
Operating expenses						
Personnel and other operating costs	37,985,081	37,832,352	30,536,794	18,045,629	68,521,875	55,877,981
Communications	10,523,201	10,183,477	68,345	145,727	10,591,546	10,329,204
Scholarships, tuition, and other incentives	13,496,134	12,823,333	-	-	13,496,134	12,823,333
Other	-	-	2,883,815	4,303,656	2,883,815	4,303,656
Nonoperating expenses						
Interagency payments	508,326	2,322,177	-	-	508,326	2,322,177
Payments to public institutions	984,624,119	970,393,456	-	-	984,624,119	970,393,456
Intraagency transfer - OPEB and supplement benefit plans	-	-	555,345	-	555,345	-
OCIA on-behalf payments	43,183,505	34,768,462	-	-	43,183,505	34,768,462
Loss on disposal of capital assets	-	438,867	1,075	75,033	1,075	513,900
Interest expense	123,892	158,766	-	-	123,892	158,766
Total operating and nonoperating expense	<u>1,090,444,258</u>	<u>1,068,920,890</u>	<u>34,045,374</u>	<u>22,570,045</u>	<u>1,124,489,632</u>	<u>1,091,490,935</u>
Income before appropriations and other revenues and expenses	7,656,595	272,839	14,592,913	5,754,146	22,249,508	6,026,985
Transfers Out	<u>(13,258,399)</u>	<u>(13,258,399)</u>	<u>-</u>	<u>-</u>	<u>(13,258,399)</u>	<u>(13,258,399)</u>
Increase (decrease) in net position	(5,601,804)	(12,985,560)	14,592,913	5,754,146	8,991,109	(7,231,414)
Net position, beginning of year	<u>91,987,421</u>	<u>104,972,981</u>	<u>19,842,194</u>	<u>14,088,048</u>	<u>111,829,615</u>	<u>119,061,029</u>
Net position, end of year	<u>\$ 86,385,617</u>	<u>\$ 91,987,421</u>	<u>\$ 34,435,107</u>	<u>\$ 19,842,194</u>	<u>\$ 120,820,724</u>	<u>\$ 111,829,615</u>

OKLAHOMA STATE REGENTS FOR HIGHER EDUCATION
Management's Discussion and Analysis (Continued)
For the Year Ended June 30, 2014

FINANCIAL ANALYSIS OF THE REGENTS BUSINESS-TYPE ACTIVITIES (Continued)

Analysis of Net Position

	Regents		OCAP		Total	
	2014	2013	2014	2013	2014	2013
Net position						
Net Investments						
in Capital Assets	20,826,250	24,654,705	298,904	399,620	21,125,154	25,054,325
Restricted						
Educational grants and scholarships	21,340,606	19,164,192	-	-	21,340,606	19,164,192
Oklahoma College Assistance Program	-	-	34,136,203	19,442,574	34,136,203	19,442,574
Capital Projects	3,331,506	3,331,506	-	-	3,331,506	3,331,506
Unrestricted	40,887,255	44,837,018	-	-	40,887,255	44,837,018
Total net position	<u>86,385,617</u>	<u>91,987,421</u>	<u>34,435,107</u>	<u>19,842,194</u>	<u>120,820,724</u>	<u>111,829,615</u>

CAPITAL ASSETS AND DEBT ADMINISTRATION

At June 30, 2014, the Regents business-type activities recorded a total of \$69,816,111 in capital assets and \$48,690,957 in accumulated depreciation. During the year ended June 30, 2014, the Regents acquired \$3,893,021 in capital assets of computer equipment, office furniture, and equipment. These acquisitions were primarily associated with upgrades of OneNet data communication equipment and data processing equipment and software.

At June 30, 2014, the Regents business-type activities had long-term liabilities of \$15,177,501. The current portion due within one year is \$2,671,741.

Capital Assets, Net

	Regents		OCAP		Total	
	2014	2013	2014	2013	2014	2013
Construction in progress	\$ -	\$ 2,007,506	\$ -	\$ -	\$ -	\$ 2,007,506
Buildings	7,953,504	7,942,522	-	-	7,953,504	7,942,522
Equipment	59,728,597	55,249,720	1,802,440	1,851,352	61,531,037	57,101,072
Leasehold Improvements	-	-	-	-	-	-
Motor vehicles	311,663	302,766	19,907	19,907	331,570	322,673
Total	67,993,764	65,502,514	1,822,347	1,871,259	69,816,111	65,366,267
Less accumulated depreciation	(47,167,514)	(40,847,809)	(1,523,443)	(1,471,639)	(48,690,957)	(42,319,448)
Capital assets, net	<u>\$ 20,826,250</u>	<u>\$ 24,654,705</u>	<u>\$ 298,904</u>	<u>\$ 399,620</u>	<u>\$ 21,125,154</u>	<u>\$ 23,046,819</u>

OKLAHOMA STATE REGENTS FOR HIGHER EDUCATION
Management's Discussion and Analysis (Continued)
For the Year Ended June 30, 2014

CAPITAL ASSETS AND DEBT ADMINISTRATION (Continued)

Long-Term Liabilities

	Regents		OCAP		Total	
	2014	2013	2014	2013	2014	2013
Compensated absences	\$ 1,479,372	\$ 1,308,715	\$ 251,705	\$ 306,792	\$ 1,731,077	\$ 1,615,507
Accrued pension obligation	8,333.00	-	-	1,238,443	8,333	1,238,443
Accrued other post employment benefit	11,453,044	6,456,504	-	3,120,171	11,453,044	9,576,675
Master equipment leases payable	1,928,083	3,234,333	-	-	1,928,083	3,234,333
Unamortized bond premium	56,964	97,173	-	-	56,964	97,173
Total long-term liabilities	<u>\$ 14,925,796</u>	<u>\$ 11,096,725</u>	<u>\$ 251,705</u>	<u>\$ 4,665,406</u>	<u>\$ 15,177,501</u>	<u>\$ 15,762,131</u>

FINANCIAL ANALYSIS OF THE REGENTS' ENDOWMENT FUND

The following schedules are prepared from the Regents' Endowment Fund basic financial statements. The statements are presented on a modified accrual basis of accounting whereby revenues are recognized when measurable and available and expenses are recorded when a liability is incurred. During the year ended June 30, 2014, total expenses increased by \$1,940,169 compared to June 30, 2013 with total distributions to the institutions increasing by \$1,920,431. Total return on investments decreased by \$109,589,107 from \$193,329,543 in 2013 to \$83,740,436 in 2014.

Regents' Endowment Fund

	2014	2013
Cash and Investments	\$ 691,336,565	\$ 626,101,957
Receivables	<u>1,414,095</u>	<u>780,162</u>
Total Assets	<u>692,750,660</u>	<u>626,882,119</u>
Total Liabilities	<u>59,970,258</u>	<u>52,832,291</u>
Total Fund Balance	<u>\$ 632,780,402</u>	<u>\$ 574,049,828</u>

OKLAHOMA STATE REGENTS FOR HIGHER EDUCATION
Management's Discussion and Analysis (Continued)
For the Year Ended June 30, 2014

FINANCIAL ANALYSIS OF THE REGENTS' ENDOWMENT FUND (Continued)

Changes in Fund Balance

	<u>2014</u>	<u>2013</u>
Return on Investment	\$ 83,740,436	\$ 193,329,543
OCIA on behalf payment	432,500	-
Private gifts	2,500	-
Total revenues	<u>84,175,436</u>	<u>193,329,543</u>
Contractual and other	2,474,773	1,487,961
Lease payments	11,225,662	12,192,736
Distributions to institutions	25,002,826	23,082,395
Total expenditures	<u>38,703,261</u>	<u>36,763,092</u>
Net proceeds from OCIA lease restructuring		
Repayment on OCIA lease refunding		
Transfers in	<u>13,258,399</u>	<u>13,258,399</u>
Total other financing sources	<u>13,258,399</u>	<u>13,258,399</u>
Change in endowment fund balance	<u>\$ 58,730,574</u>	<u>\$ 169,824,850</u>

**FINANCIAL ANALYSIS OF THE FEDERAL STUDENT LOAN RESERVE FUND
ACTIVITIES**

The following tables are prepared from the Federal Student Loan Reserve Funds basic financial statements. The statements are presented on an accrual basis of accounting whereby revenues are recognized when earned and expenses are recorded when incurred. During the year ended June 30, 2014, total additions increased by \$8,576,420 from \$164,913,900 to \$173,490,320. Deductions increased by \$10,893,713 from \$164,005,537 to \$174,899,250. The additions increase was primarily due to increased loan collections and interest income, offset by decreased reinsurance, fee revenues, and a reduction in the provision for default loans. The increase in deductions was primarily due to an increase in default loan collections due to USDE as a result of the increased loan collections and default aversion fees during the year offset by decreased default loan purchases.

OKLAHOMA STATE REGENTS FOR HIGHER EDUCATION
Management's Discussion and Analysis (Continued)
For the Year Ended June 30, 2014

FINANCIAL ANALYSIS OF THE FEDERAL STUDENT LOAN RESERVE FUND
ACTIVITIES (Continued)

Federal Student Loan Reserve Fund Net Position

	2014	2013
Capital assets	\$ -	\$ -
Other assets	20,807,641	18,623,664
Total Assets	<u>20,807,641</u>	<u>18,623,664</u>
Non-reinsured defaulted loans	6,586,127	8,754,197
Total Deferred Outflows of Resources	<u>6,586,127</u>	<u>8,754,197</u>
Total Liabilities	<u>9,838,500</u>	<u>7,920,553</u>
Allowance for default claims	1,888,006	2,381,116
Total Deferred Inflows of Resources	<u>1,888,006</u>	<u>2,381,116</u>
Net investment in capital assets	-	-
Restricted net assets	<u>15,667,262</u>	<u>17,076,192</u>
Total Net Position	<u>\$ 15,667,262</u>	<u>\$ 17,076,192</u>

Changes in Federal Student Loan Reserve Fund Net Position

	2014	2013
Federal reinsurance	\$ 75,347,875	\$ 98,362,847
Loan collections	96,762,982	64,290,444
Other additions	1,379,463	2,260,609
Total Additions	<u>173,490,320</u>	<u>164,913,900</u>
Purchase of defaulted loans	84,063,351	103,649,406
Loan collections due to USDE	88,836,910	60,326,450
Other deductions	1,998,989	29,681
Total Deductions	<u>174,899,250</u>	<u>164,005,537</u>
Change in Federal Fund Net Position	<u>\$ (1,408,930)</u>	<u>\$ 908,363</u>

OKLAHOMA STATE REGENTS FOR HIGHER EDUCATION
Management's Discussion and Analysis (Continued)
For the Year Ended June 30, 2014

ECONOMIC FACTORS AND THE REGENTS' FUTURE

The economic position of the Regents is closely tied to that of the State of Oklahoma. During the 2014 legislative session, the Oklahoma Legislature appropriated \$1,045,549,007 to the Regents for fiscal year 2014, an increase of \$33,288,729 compared to the fiscal year 2013 appropriations of \$1,012,260,278. Approximately 9.95% of the revenue for fiscal year 2014 comes from gross production tax.

The OCAP receives no appropriations from the State of Oklahoma. The OCAP's revenue is primarily derived from loan collection fees, administrative allowances paid by the Department of Education, and investment income.

CONTACTING THE REGENTS' FINANCIAL MANAGEMENT

This financial report is designed to provide our citizens, taxpayers, investors, and creditors with a general overview of the Regents' finances and to show the Regents' accountability for the money it receives. If you have any questions about this report or need additional financial information, contact the Business Office, Oklahoma State Regents for Higher Education, P.O. Box 108850, Oklahoma City, Oklahoma 73101-8850.

BASIC FINANCIAL STATEMENTS

STATEMENT OF NET POSITION

OKLAHOMA STATE REGENTS FOR HIGHER EDUCATION

June 30, 2014

	Governmental Activities	Business-Type Activities	Total
ASSETS			
CURRENT ASSETS			
Cash and cash equivalents	\$ -	\$ 57,530,477	\$ 57,530,477
Investments	-	877,828	877,828
Receivables			
Accounts receivable	-	4,442,622	4,442,622
Interest	-	67,127	67,127
Other assets	-	2,125,657	2,125,657
Restricted assets			
Cash and cash equivalents	69,819,191	56,193,308	126,012,499
Investments	-	1,269,083	1,269,083
Receivables			
Accounts receivable	-	2,323,826	2,323,826
Payable between funds	-	2,770,187	2,770,187
Administrative cost allowance	-	299,731	299,731
Interest	103,619	77,089	180,708
Other	1,310,476	-	1,310,476
TOTAL CURRENT ASSETS	71,233,286	127,976,935	199,210,221
NONCURRENT ASSETS			
Investments	621,517,374	-	621,517,374
Capital assets, net	-	21,125,154	21,125,154
TOTAL ASSETS	\$ 692,750,660	\$ 149,102,089	\$ 841,852,749

(Continued)

STATEMENT OF NET POSITION--Continued

OKLAHOMA STATE REGENTS FOR HIGHER EDUCATION

June 30, 2014

	Governmental Activities	Business-Type Activities	Total
LIABILITIES			
CURRENT LIABILITIES			
Accounts payable and accrued expenses	\$ -	\$ 6,015,669	\$ 6,015,669
Compensated absences	-	651,436	651,436
Accrued OPEB obligation	-	570,991	570,991
Other postemployment benefits	-	8,313	8,313
Liabilities payable from restricted assets			
Accounts payable and accrued expenses	95,534	1,801,050	1,896,584
Compensated absences	-	195,288	195,288
OCIA lease payable	5,325,000	-	5,325,000
Master lease payable	-	1,354,750	1,354,750
Unamortized bond premium	-	16,755	16,755
Deposits held in trust for system institutions	3,932,431	-	3,932,431
Undistributed interest on deposits held in trust	55,942,293	-	55,942,293
Undistributed state appropriations	-	5,287,165	5,287,165
TOTAL CURRENT LIABILITIES	<u>65,295,258</u>	<u>15,901,417</u>	<u>81,196,675</u>
NONCURRENT LIABILITIES			
Compensated absences	-	711,441	711,441
Other postemployment benefits	-	10,882,053	10,882,053
Noncurrent liabilities payable from restricted assets			
Compensated absences	-	172,912	172,912
OCIA lease payable	116,460,000	-	116,460,000
Master lease payable	-	573,333	573,333
Unamortized bond premium	-	40,209	40,209
TOTAL NONCURRENT LIABILITIES	<u>116,460,000</u>	<u>12,379,948</u>	<u>128,839,948</u>
TOTAL LIABILITIES	<u>181,755,258</u>	<u>28,281,365</u>	<u>210,036,623</u>
NET POSITION			
Net investment in capital assets	-	21,125,154	21,125,154
Restricted			
Educational grants and scholarships	-	21,340,606	21,340,606
Oklahoma College Assistance Program	-	34,136,203	34,136,203
Endowment - Nonexpendable	510,995,402	-	510,995,402
Capital Projects	-	3,331,506	3,331,506
Unrestricted	-	40,887,255	40,887,255
TOTAL NET POSITION	<u>\$ 510,995,402</u>	<u>\$ 120,820,724</u>	<u>\$ 631,816,126</u>

(Concluded)

See notes to financial statements.

STATEMENT OF ACTIVITIES

OKLAHOMA STATE REGENTS FOR HIGHER EDUCATION

Year Ended June 30, 2014

	Governmental Activities	Business-Type Activities	Total
OPERATING REVENUES			
Administrative fees	\$ -	\$ 1,235,040	\$ 1,235,040
Default aversion fees	-	1,998,846	1,998,846
Default loan collections	-	44,523,778	44,523,778
Federal grants and contracts	-	12,350,650	12,350,650
State and private gifts	2,500	216,547	219,047
OneNet service fees	-	14,847,753	14,847,753
Other	-	392,360	392,360
TOTAL OPERATING REVENUES	2,500	75,564,974	75,567,474
OPERATING EXPENSES			
Compensation	-	24,140,427	24,140,427
Contractual services	372,607	33,126,927	33,499,534
Communications	-	10,591,546	10,591,546
Scholarships, tuition, and other incentives	-	13,496,134	13,496,134
Supplies and materials	-	393,384	393,384
Utilities	-	62,679	62,679
Other	2,102,166	1,760,410	3,862,576
Depreciation and amortization	-	7,759,648	7,759,648
TOTAL OPERATING EXPENSES	2,474,773	91,331,155	93,805,928
OPERATING LOSS	(2,472,273)	(15,766,181)	(18,238,454)
NONOPERATING REVENUES (EXPENSES)			
State appropriations	-	1,051,737,525	1,051,737,525
Other state income	-	11,497,247	11,497,247
Payments to system institutions	(25,002,826)	(984,624,119)	(1,009,626,945)
OCIA on-behalf payments	432,500	(43,183,505)	(42,751,005)
Interagency payments	-	(508,326)	(508,326)
On-behalf Teachers' Retirement System contributions	-	1,256,629	1,256,629
Return on investment	83,740,436	1,950,897	85,691,333
Loss on disposal of capital assets	-	13,233	13,233
Interest expense	(6,853,532)	(123,892)	(6,977,424)
NET NONOPERATING REVENUES	52,316,578	38,015,689	90,332,267
NET INCOME BEFORE CAPITAL			
APPROPRIATIONS AND OTHER REVENUES	49,844,305	22,249,508	72,093,813
Transfers	13,258,399	(13,258,399)	-
INCREASE IN NET POSITION	63,102,704	8,991,109	72,093,813
NET POSITION AT BEGINNING OF YEAR	447,892,698	111,829,615	559,722,313
NET POSITION AT END OF YEAR	\$ 510,995,402	\$ 120,820,724	\$ 631,816,126

See notes to financial statements.

BALANCE SHEET--GOVERNMENTAL FUND

OKLAHOMA STATE REGENTS FOR HIGHER EDUCATION

June 30, 2014

	<u>Endowment Fund</u>
ASSETS	
Restricted assets	
Cash	\$ 69,819,191
Investments	621,517,374
Receivables:	
Interest	103,619
Other receivables	<u>1,310,476</u>
TOTAL ASSETS	<u>\$ 692,750,660</u>
LIABILITIES	
Deposits held in trust for system institutions	\$ 3,932,431
Accounts payable	95,534
Undistributed interest on deposits held in trust	<u>55,942,293</u>
TOTAL LIABILITIES	<u>59,970,258</u>
FUND BALANCE	
Endowment - Nonexpendable	<u>632,780,402</u>
TOTAL FUND BALANCE	<u>632,780,402</u>
TOTAL LIABILITIES AND FUND BALANCE	<u>\$ 692,750,660</u> (Continued)

BALANCE SHEET--GOVERNMENTAL FUND--Continued

OKLAHOMA STATE REGENTS FOR HIGHER EDUCATION

June 30, 2014

Reconciliation of the Governmental Fund

Balance Sheet to the Statement of Net Position:

Total fund balance - governmental fund	\$ 632,780,402
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Amounts reported for governmental activities in
the Statement of Net Position are different because:

Long-term liabilities, including bonds payable, are not due and payable in the current period and, therefore, are not reported in the funds.	<u>(121,785,000)</u>
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Net Position of governmental activities	<u>\$ 510,995,402</u> (Concluded)
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See notes to financial statements.

STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND
BALANCE--GOVERNMENTAL FUND

OKLAHOMA STATE REGENTS FOR HIGHER EDUCATION

Year Ended June 30, 2014

	<u>Endowment Fund</u>
REVENUES	
Investment return	\$ 83,740,436
On behalf payment from OCIA	432,500
Private gifts	<u>2,500</u>
Total Revenues	84,175,436
EXPENDITURES	
Contractual services	372,607
Payments to system institutions	25,002,826
Other	2,102,166
Lease payments:	
Principal retirement	5,190,000
Interest and other financing	<u>6,035,662</u>
Total expenditures	<u>38,703,261</u>
Excess of revenues over expenditures	45,472,175
OTHER FINANCING SOURCES	
Transfers in	<u>13,258,399</u>
Net change in fund balance	58,730,574
FUND BALANCE, BEGINNING OF YEAR	<u>574,049,828</u>
FUND BALANCE, END OF YEAR	<u>\$ 632,780,402</u>
	(Continued)

See notes to financial statements.

STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND
BALANCE--GOVERNMENTAL FUND--Continued

OKLAHOMA STATE REGENTS FOR HIGHER EDUCATION

Year Ended June 30, 2014

Reconciliation of the Statement of Revenues, Expenditures and Changes
in Fund Balances of Governmental Funds to the Statement of Activities:

Net change in fund balance- total governmental funds \$ 58,730,574

Amounts reported for governmental activities in
the Statement of Activities are different because:

Capital lease principal payments expensed in fund financial
statements are treated as a reduction of outstanding
debt in government-wide statements 5,190,000

Some expenses reported in the Statement of Activities do not
require the use of current financial resources and, therefore,
are not reported as expenditures in governmental funds:
Amortization of Lease Refinancing Discount/Prepaid (817,870)

Change in fund balance of governmental activities \$ 63,102,704
(Concluded)

See notes to financial statements.

STATEMENT OF NET POSITION--PROPRIETARY FUNDS

OKLAHOMA STATE REGENTS FOR HIGHER EDUCATION

June 30, 2014

	Regents <u>Operating Fund</u>	OCAP <u>Operating Fund</u>	<u>Total</u>
ASSETS			
CURRENT ASSETS			
Cash and cash equivalents	\$ 57,530,477	\$ -	\$ 57,530,477
Investments	877,828	-	877,828
Receivables			
Accounts receivable	4,442,622	-	4,442,622
Interest	67,127	-	67,127
Other assets	2,125,657	-	2,125,657
Restricted assets			
Cash and cash equivalents	23,620,038	32,573,270	56,193,308
Investments	1,269,083	-	1,269,083
Receivables			
Accounts receivable	2,115,139	208,687	2,323,826
Payable between funds	-	2,770,187	2,770,187
Administrative cost allowance	-	299,731	299,731
Interest	26,552	50,537	77,089
TOTAL CURRENT ASSETS	92,074,523	35,902,412	127,976,935
NONCURRENT ASSETS			
Capital assets, net	20,826,250	298,904	21,125,154
TOTAL ASSETS	112,900,773	36,201,316	149,102,089

(Continued)

STATEMENT OF NET POSITION--PROPRIETARY FUNDS--Continued

OKLAHOMA STATE REGENTS FOR HIGHER EDUCATION

June 30, 2014

	Regents Operating Fund	OCAP Operating Fund	Total
LIABILITIES			
CURRENT LIABILITIES			
Accounts payable and accrued expenses	\$ 6,015,669	\$ -	\$ 6,015,669
Compensated absences	651,436	-	651,436
Accrued OPEB obligation	570,991	-	570,991
Other postemployment benefits	8,313	-	8,313
Liabilities payable from restricted assets:			
Accounts payable and accrued expenses	286,546	1,514,504	1,801,050
Compensated absences	69,476	125,812	195,288
Master lease payable	1,354,750	-	1,354,750
Unamortized bond premium	16,755	-	16,755
Undistributed state appropriation	5,287,165	-	5,287,165
TOTAL CURRENT LIABILITIES	<u>14,261,101</u>	<u>1,640,316</u>	<u>15,901,417</u>
LONG-TERM LIABILITIES			
Compensated absences	711,441	-	711,441
Other postemployment benefits	10,882,053	-	10,882,053
Master lease payable	573,333	-	573,333
Long-term liabilities payable from restricted assets:			
Compensated absences	47,019	125,893	172,912
Unamortized bond premium	40,209	-	40,209
TOTAL LONG-TERM LIABILITIES	<u>12,254,055</u>	<u>125,893</u>	<u>12,379,948</u>
TOTAL LIABILITIES	<u>26,515,156</u>	<u>1,766,209</u>	<u>28,281,365</u>
NET POSITION			
Net investment in capital assets	20,826,250	298,904	21,125,154
Restricted			
Educational grants and scholarships	21,340,606	-	21,340,606
Oklahoma College Assistance Program	-	34,136,203	34,136,203
Capital Projects	3,331,506	-	3,331,506
Unrestricted	40,887,255	-	40,887,255
TOTAL NET POSITION	<u>\$ 86,385,617</u>	<u>\$ 34,435,107</u>	<u>\$ 120,820,724</u>
			(Concluded)

See notes to financial statements.

STATEMENT OF REVENUES, EXPENSES, AND CHANGES IN NET POSITION
--PROPRIETARY FUNDS

OKLAHOMA STATE REGENTS FOR HIGHER EDUCATION

Year Ended June 30, 2014

	Regents Operating Fund	OCAP Operating Fund	Total
OPERATING REVENUES			
Administrative fees	\$ -	\$ 1,235,040	\$ 1,235,040
Default aversion fees	-	1,998,846	1,998,846
Default loan collections	-	44,523,778	44,523,778
Federal grants and contracts	12,350,650	-	12,350,650
State and private givts	216,547	-	216,547
OneNet service fees	14,847,753	-	14,847,753
Other	4,519,904	34,671	4,554,575
TOTAL OPERATING REVENUES	31,934,854	47,792,335	79,727,189
OPERATING EXPENSES			
Compensation	18,704,694	5,435,733	24,140,427
Contractual services	8,169,718	24,957,209	33,126,927
Communications	10,523,201	68,345	10,591,546
Scholarships, tuition, and other incentives	13,496,134	-	13,496,134
Supplies and materials	358,492	34,892	393,384
Utilities	62,679	-	62,679
Other	3,038,810	2,883,815	5,922,625
Depreciation and amortization	7,650,688	108,960	7,759,648
TOTAL OPERATING EXPENSES	62,004,416	33,488,954	95,493,370
OPERATING INCOME/(LOSS)	(30,069,562)	14,303,381	(15,766,181)
NONOPERATING REVENUES (EXPENSES)			
State appropriations	1,051,737,525	-	1,051,737,525
Other state income	11,497,247	-	11,497,247
Payments to public institutions	(984,624,119)	-	(984,624,119)
OCIA on-behalf payments	(43,183,505)	-	(43,183,505)
Interagency payment	(508,326)	-	(508,326)
On-behalf Teachers' Retirement System contributions	970,715	285,914	1,256,629
Return on investment	1,390,859	560,038	1,950,897
Loss/gain on disposal of capital assets	14,308	(1,075)	13,233
Intra-agency transfer - OPEB and supplemental benefit plan	555,345	(555,345)	-
Interest expense	(123,892)	-	(123,892)
NET NONOPERATING REVENUES	37,726,157	289,532	38,015,689
INCOME BEFORE CAPITAL APPROPRIATIONS AND OTHER REVENUES AND EXPENSES	7,656,595	14,592,913	22,249,508
Transfers out	(13,258,399)	-	(13,258,399)
INCREASE (DECREASE) IN NET POSITION	(5,601,804)	14,592,913	8,991,109
NET POSITION AT BEGINNING OF YEAR	91,987,421	19,842,194	111,829,615
NET POSITION AT END OF YEAR	\$ 86,385,617	\$ 34,435,107	\$ 120,820,724

See notes to financial statements.

STATEMENT OF CASH FLOWS--PROPRIETARY FUNDS

OKLAHOMA STATE REGENTS FOR HIGHER EDUCATION

Year Ended June 30, 2014

	Regents Operating Fund	OCAP Operating Fund	Total
CASH FLOWS FROM OPERATING ACTIVITIES			
Receipts for collections	\$ -	\$ 43,557,513	\$ 43,557,513
Receipts from Admin Fees	-	1,257,042	1,257,042
Receipts from Federal government	18,293,760	-	18,293,760
Receipts from state and private sources	216,547	-	216,547
Receipts for OneNet services	14,961,006	-	14,961,006
Receipts from other sources	4,010,788	34,805	4,045,593
Receipts for default aversion fees	-	1,875,410	1,875,410
Payments for default aversion fee	-	(707,403)	(707,403)
Payments to suppliers	(21,146,442)	(26,341,642)	(47,488,084)
Payments to employees	(16,575,642)	(4,675,337)	(21,250,979)
Payments for scholarships and fellowships	(13,448,219)	-	(13,448,219)
NET CASH PROVIDED BY (USED IN) OPERATING ACTIVITIES	(13,688,202)	15,000,388	1,312,186
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES			
Receipt of state appropriations	1,032,342,950	-	1,032,342,950
Receipt of other state income	11,497,247	-	11,497,247
Receipts (payments) for Intra-agency transfer to fund OPEB and Supplemental Plans	2,599,880	(2,599,880)	-
Payments for assistance grants	(43,183,505)	-	(43,183,505)
Payments to public institutions	(986,070,108)	-	(986,070,108)
NET CASH PROVIDED BY (USED IN) NONCAPITAL FINANCING ACTIVITIES	17,186,464	(2,599,880)	14,586,584
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES			
Acquisition of capital assets	(7,628,437)	(15,287)	(7,643,724)
Interest paid on leases	(123,892)	-	(123,892)
NET CASH USED IN CAPITAL AND RELATED FINANCING ACTIVITIES	(7,752,329)	(15,287)	(7,767,616)
CASH FLOWS FROM INVESTING ACTIVITIES			
Proceeds from sales and maturities of investments	619,820	-	619,820
Interest received	1,324,261	545,778	1,870,039
NET CASH PROVIDED BY INVESTING ACTIVITIES	1,944,081	545,778	2,489,859
NET CHANGE IN CASH	(2,309,986)	12,930,999	10,621,013
CASH AND CASH EQUIVALENTS AT BEGINNING OF YEAR	83,460,501	19,642,271	103,102,772
CASH AND CASH EQUIVALENTS AT END OF YEAR	\$ 81,150,515	\$ 32,573,270	\$ 113,723,785

(Continued)

See notes to financial statements.

STATEMENT OF CASH FLOWS--PROPRIETARY FUNDS--Continued

OKLAHOMA STATE REGENTS FOR HIGHER EDUCATION

Year Ended June 30, 2014

	Regents Operating Fund	OCAP Operating Fund	Total
RECONCILIATION OF OPERATING INCOME (LOSS) TO NET CASH USED IN OPERATING ACTIVITIES			
Operating loss/income	\$ (30,069,562)	\$ 14,303,381	\$ (15,766,181)
Adjustments to reconcile operating loss to net cash used in operating activities			
Depreciation and amortization	7,650,688	108,960	7,759,648
On-behalf TRS contributions	970,715	285,914	1,256,629
Changes in operating assets and liabilities			
Accounts receivable	6,250,314	(1,122,998)	5,127,316
Accounts payable and accrued expenses	1,509,643	1,425,131	2,934,774
Total adjustments	<u>16,381,360</u>	<u>697,007</u>	<u>17,078,367</u>
NET CASH PROVIDED BY (USED IN) OPERATING ACTIVITIES	<u>\$ (13,688,202)</u>	<u>\$ 15,000,388</u>	<u>\$ 1,312,186</u>
NONCASH INVESTING, CAPITAL AND RELATED FINANCING ACTIVITIES			
Unrealized gain on investments	<u>\$ 68,127</u>	<u>\$ -</u>	<u>\$ 68,127</u>
Loss/gain on disposal of capital assets	<u>\$ 14,308</u>	<u>\$ (1,075)</u>	<u>\$ 13,233</u>
RECONCILIATION OF CASH AND CASH EQUIVALENTS TO STATEMENTS OF NET ASSETS			
Current Assets			
Cash and cash equivalents	\$ 57,530,477	\$ -	\$ 57,530,477
Restricted cash and cash equivalents	<u>23,620,038</u>	<u>32,573,270</u>	<u>56,193,308</u>
TOTAL CASH AND CASH EQUIVALENTS	<u>\$ 81,150,515</u>	<u>\$ 32,573,270</u>	<u>\$ 113,723,785</u>
			(Concluded)

See notes to financial statements.

STATEMENT OF FIDUCIARY NET POSITION--FIDUCIARY FUND

OKLAHOMA STATE REGENTS FOR HIGHER EDUCATION
OKLAHOMA COLLEGE ASSISTANCE PROGRAM

June 30, 2014

	<u>Federal Fund</u>
ASSETS	
CURRENT ASSETS	
Cash	\$ 12,357,266
Receivables	
Federal reinsurance	4,913,515
Loan collections	3,501,455
Other	<u>35,405</u>
TOTAL CURRENT ASSETS	<u>20,807,641</u>
TOTAL ASSETS	<u>\$ 20,807,641</u>
DEFERRED OUTFLOWS OF RESOURCES	
Non-reinsured defaulted loans	<u>\$ 6,586,127</u>
TOTAL DEFERRED OUTFLOWS OF RESOURCES	<u>\$ 6,586,127</u>
LIABILITIES	
CURRENT LIABILITIES	
Accounts payable and accrued expenses	\$ 75,399
Payable between funds	2,770,187
Default loan collections due to USDE	<u>6,992,914</u>
TOTAL CURRENT LIABILITIES	<u>9,838,500</u>
TOTAL LIABILITIES	<u>\$ 9,838,500</u>
DEFERRED INFLOWS OF RESOURCES	
Allowance for default claims	<u>\$ 1,888,006</u>
TOTAL DEFERRED INFLOWS OF RESOURCES	<u>\$ 1,888,006</u>
NET POSITION	
Held in trust for Federal government	<u>\$ 15,667,262</u>
TOTAL NET POSITION	<u>\$ 15,667,262</u>

See notes to financial statements.

STATEMENT OF CHANGES IN FIDUCIARY NET POSITION--FIDUCIARY FUND

OKLAHOMA STATE REGENTS FOR HIGHER EDUCATION
OKLAHOMA COLLEGE ASSISTANCE PROGRAM

Year Ended June 30, 2014

	<u>Federal Fund</u>
ADDITIONS	
Federal reinsurance	\$ 75,347,875
Loan collections	96,762,982
Default aversion fees	690,357
Interest income	195,996
Provision for default loans	<u>493,110</u>
TOTAL ADDITIONS	<u>173,490,320</u>
DEDUCTIONS	
Purchase of defaulted Loans	84,063,351
Default loan collections due to USDE	88,836,910
Default aversion fees	1,998,846
Other deductions	<u>143</u>
TOTAL DEDUCTIONS	<u>174,899,250</u>
DECREASE IN NET POSITION	(1,408,930)
NET POSITION, BEGINNING OF YEAR	<u>17,076,192</u>
NET POSITION, END OF YEAR	<u>\$ 15,667,262</u>

See notes to financial statements.

NOTES TO BASIC FINANCIAL STATEMENTS

OKLAHOMA STATE REGENTS FOR HIGHER EDUCATION

June 30, 2014

NOTE A--NATURE OF OPERATIONS

Nature of Operations: The Oklahoma State Regents for Higher Education ("State Regents") is a component unit included in the financial statements of the State of Oklahoma. The State Regents was created by Article XIII-A of the Oklahoma State Constitution in 1941. The State Regents serve as the coordinating board of control for The Oklahoma State System of Higher Education (the State System) and in this capacity has responsibilities which include the following:

- To prescribe standards of higher education applicable to each constituent institution;
- To determine the functions and courses of study at each of the constituent institutions and ensure that such functions and courses of study conform to the standards prescribed;
- To grant degrees and other forms of academic recognition for completion of the prescribed courses of study in constituent institutions;
- To recommend to the State Legislature budget allocations for each constituent institution;
- To recommend to the State Legislature proposed fees for educational courses at constituent institutions; and,
- To allocate funds, through official resolutions of the State Regents, to each constituent institution based on its needs and functions from lump-sum appropriations made by the State Legislature to the State Regents.

The State Regents sponsor a variety of programs, certain programs of which are as follows:

- *Educational programs* are established to make higher education available to those persons who cannot otherwise attend an institution of higher education. The funds for these programs are provided from state resources.
- *Student assistance programs* are established to aid students in higher education through the use of scholarships, grants, guaranteed loans and contract programs. These programs are funded from both state and federal resources.
- *The Oklahoma Teacher Preparation Professional Development Program* was established to evaluate first-year teachers in the State Public School System. This program is funded by state resources.
- *The endowment fund program* involves state-appropriated and privately donated funds for the creation of an endowment program to support the establishment of faculty chairs, professorships, lectureships and to provide scholarships for the Academic Scholar Program at constituent institutions.

NOTES TO BASIC FINANCIAL STATEMENTS

OKLAHOMA STATE REGENTS FOR HIGHER EDUCATION

June 30, 2014

NOTE A--NATURE OF OPERATIONS--Continued

- *Other assistance programs* involve providing certain two year colleges and regional universities with financial assistance. These programs are funded by state resources.

The State Regents also operate Oklahoma's telecommunication and information network, known as OneNet. OneNet electronically links public schools, vocational-technical schools, colleges and universities, courts, libraries and local, county, state, tribal and federal government agencies across the state. This network is funded from state resources and user fees.

NOTE B--SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

These financial statements are prepared as required by generally accepted accounting principles promulgated by the Governmental Accounting Standards Board ("GASB"). The State Regents has elected to apply all applicable GASB pronouncements as well as Financial Accounting Standards Board ("FASB") pronouncements and Accounting Principles Board ("APB") opinions issued on or before November 30, 1989, unless those pronouncements conflict with, or contradict, GASB pronouncements. The accounting and reporting framework and the more significant accounting policies are discussed in subsequent sections of this note.

Reporting Entity: The accompanying financial statements include only the accounts for operations and activities directly supervised by the State Regents, including its principal offices and core operations and the Oklahoma College Assistance Program ("OCAP"), both located in Oklahoma City.

Basis of Presentation: The State Regents follow GASB Statement No. 34 "Basic Financial Statements and Management's Discussion and Analysis - for State and Local Governments" and related pronouncements in the preparation of its financial statements. Under the provisions of the standard, the State Regents are considered a special-purpose government engaged in governmental and business-type activities and are thereby required to provide both government-wide statements and fund financial statements, along with required supplementary information (RSI) that includes management's discussion and analysis ("MD&A"). The financial statement presentation required by GASB Statement No. 34 and as modified by GASB Statement No. 63 and 65 provides a comprehensive, entity-wide perspective of the State Regents' assets, liabilities, net position, revenues, expenses, changes in net position and cash flows.

NOTES TO BASIC FINANCIAL STATEMENTS

OKLAHOMA STATE REGENTS FOR HIGHER EDUCATION

June 30, 2014

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

Government-wide financial statements - The statement of net position and statement of activities display information about the State Regents as a whole. They include all funds of the reporting entity except for fiduciary funds. The statements distinguish between governmental and business-type activities. Governmental activities generally are financed through taxes, intergovernmental revenues, and other non-exchange revenues. Business-type activities are financed in whole or in part by fees charged to external parties for goods or services.

Fund financial statements - Fund financial statements of the reporting entity are organized into funds, each of which is considered to be separate accounting entities. Separate financial statements are provided for governmental funds, proprietary funds, and fiduciary funds, even though the latter are excluded from the government-wide financial statements. Each fund is accounted for by providing a separate set of self-balancing accounts which constitute its assets, liabilities, fund equity, revenues, and expenditures/expenses.

The State Regents report the following major governmental fund:

Endowment Fund - a permanent fund established to support the establishment of faculty chairs, professorships, lectureships and to provide scholarships at constituent institutions.

The State Regents report the following major proprietary funds:

Regents Operating Fund - an enterprise fund established to facilitate general operations of the State Regents, including oversight of constituent institutions, allocation of funding, and operation of the OneNet network.

OCAP Operating Fund - an enterprise fund established to issue loan guarantees, provide default aversion assistance to lenders for delinquent loans, and collect loans on which default claims have been paid.

The State Regents report the following fiduciary fund:

OCAP Federal Fund - a private-purpose trust fund used to account for assets, liabilities, revenues, and expenses administered on behalf of the Federal government.

NOTES TO BASIC FINANCIAL STATEMENTS

OKLAHOMA STATE REGENTS FOR HIGHER EDUCATION

June 30, 2014

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

Measurement Focus and Basis of Accounting: The government-wide financial statements are reported using the *economic resources measurement focus* and the *accrual basis of accounting*, as are the proprietary fund and fiduciary fund financial statements. Revenues are recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows.

Governmental fund financial statements are reported using the *current financial resources measurement focus* and the *modified accrual basis of accounting*. Revenues are recognized as soon as they are both measurable and available. Measurable means knowing or being able to reasonably estimate the amount. Available means collectible within the current period or soon enough thereafter to pay current liabilities. Expenditures are recorded when a liability is incurred, except for long-term debt principal and interest and accrued compensated absences, which are recorded to the extent they have matured. Proceeds of general long-term debt and capital leases are reported as other financing sources.

Restricted Assets: Certain assets of State Regents are classified as restricted assets because their use is completely restricted by grant agreements or donor-imposed stipulations. Management has adopted the policy to spend restricted funds before the use of unrestricted resources when grant requirements have been met.

Use of Estimates in the Preparation of Financial Statements: 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 at the date of the financial statements and the reported amounts of revenues and expenditures during the reporting period. Actual results could differ from those estimates.

Significant estimates made by the State Regents include the depreciation of capital assets, an accrued pension obligation, an accrued other postemployment benefits obligation, a receivable for non-reinsured defaulted loans, and an allowance for default claims. 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 E). Determination of collectible non-reinsured defaulted loans and the allowance for default claims is made as discussed below in this note. It is reasonably possible that the State Regents' estimates for such items could change in the near term.

NOTES TO BASIC FINANCIAL STATEMENTS

OKLAHOMA STATE REGENTS FOR HIGHER EDUCATION

June 30, 2014

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

Investments: Investments are under control of the State Treasurer, the Common Fund, the Teachers' Insurance Annuity Association - College Retirement Equities Fund ("TIAA/CREF"), and other various outside investment managers and are recorded at fair value based on the value reported by independent sources as of June 30, 2014. The net change in fair value of investments is recorded as investment return on the statement of revenues, expenses, and changes in net position and includes the unrealized and realized gains and losses on investments.

Receivables: Receivables consist primarily of funds that are due to the State Regents in relation to the operation of the OCAP and OneNet. Major items include federal reinsurance on defaulted claims, administrative allowances from the U.S. Department of Education ("USDE"), and charges by OneNet for internet and other telecommunication services.

Capital Assets: Capital assets consist of buildings, equipment and motor vehicles, recorded at cost (when purchased by the State Regents), or at estimated fair market value at date of acquisition (when acquired other than by purchase) less accumulated depreciation. Capital assets are defined as long-lived assets with initial costs equal to or greater than \$500.

Depreciation is computed on the straight-line method over the following estimated useful lives:

Buildings	39 years
Equipment	3 - 5 years
Motor vehicles	5 years

Expenses that increase values, change capacities, or extend useful lives are capitalized. Routine maintenance, repairs, and renewals are charged to operations. Upon disposition, the cost and related accumulated depreciation are removed from the accounts and the resulting gain or loss is reflected in the period in which the asset is disposed.

Equipment includes routing and switching devices as well as fiber optic cable and 56 communication sites that are used in support of the OneNet system.

NOTES TO BASIC FINANCIAL STATEMENTS

OKLAHOMA STATE REGENTS FOR HIGHER EDUCATION

June 30, 2014

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

Compensated Absences: Full time employees 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, 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. The obligation and expenditure incurred during the year are recorded as a liability and an expense as the benefits accrue to employees.

Allowance for Default Claims: An estimated allowance for loan default claims in excess of amounts covered by federal reinsurance is made through an annual charge to operations in the Federal fund and is reported as a deferred inflow of resources.

Non-reinsured Defaulted Loans: OCAP estimates collections on non-reinsured defaulted loans based upon historical recovery experience. The historical collection rate for June 30, 2014 is 55.90%. The non-reinsured defaulted loans are reported in the Federal fund as a deferred outflow of resources.

The allowance for default claims is determined by using the current year default rates, outstanding loan portfolio, and loan loss rates based on the methodology provided by USDE.

In February 2006, the Higher Education Reconciliation Act of 2005 ("HERA") was signed into law. HERA eliminated the optional 1% guarantee fee and established a mandatory 1% Federal default fee. OCAP began collecting the Federal default fee on loans guaranteed on or after July 1, 2006.

Income Taxes: The income of the State Regents, a political subdivision of the State of Oklahoma, is excluded from federal income tax under Section 115(1) of the Internal Revenue Code.

Subsequent Events: The State Regents has evaluated subsequent events through October 31, 2014, the date the financial statements were available to be issued.

NOTES TO BASIC FINANCIAL STATEMENTS

OKLAHOMA STATE REGENTS FOR HIGHER EDUCATION

June 30, 2014

NOTE C--DEPOSITS AND INVESTMENTS

Deposits: Custodial Credit Risk is the risk that in the event of the failure of a counter party, the Regents will be unable to recover the value of its investments. Deposits are exposed to custodial risk if they are uninsured and uncollateralized. The State Regents 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. By Oklahoma Statute, the State Treasurer is required 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 United States 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. 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 that are considered part of the State of Oklahoma and invests them in (a) U.S. treasury securities; (b) U.S. agency securities; (c) money market mutual funds; and (d) investments related to tri-party repurchase agreements and other various investments, as allowed by law.

At June 30, 2014, the carrying amount of the State Regents' deposits with the State Treasurer was approximately \$195,900,242. Of the funds on deposit with OST, \$178,184,434 is invested in *OK INVEST*.

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

<i>OK INVEST</i> Portfolio	Cost	Market Value
U.S. Treasury	\$ 2,121,386	\$ 2,626,114
U.S. Agency Securities	81,751,580	81,592,636
Money Market Mutual Fund	8,603,066	8,603,066
End of Day Commercial Paper SWEEP	3,749,718	3,749,718
Mortgage Backed Agency Securities	73,199,835	74,710,261
Municipal Bonds	2,733,654	3,027,496
Foreign Bonds	1,399,802	1,399,802
Certificates of Deposit	4,625,393	4,625,393
Totals	<u>\$ 178,184,434</u>	<u>\$ 180,334,486</u>

NOTES TO BASIC FINANCIAL STATEMENTS

OKLAHOMA STATE REGENTS FOR HIGHER EDUCATION

June 30, 2014

NOTE C--DEPOSITS AND INVESTMENTS--Continued

Deposits--Continued: Agencies and funds that are considered to be part of the State's reporting entity in the State's Comprehensive Annual Financial Report and who have funds deposited with the OST may 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.

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. Accordingly, *OK INVEST* maintains a variable net asset value that may fluctuate with changes in the market. *OK INVEST* maintains an overall weighted average maturity of less than 2 years. The main risks of investing in *OK INVEST* 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.

NOTES TO BASIC FINANCIAL STATEMENTS

OKLAHOMA STATE REGENTS FOR HIGHER EDUCATION

June 30, 2014

NOTE C--DEPOSITS AND INVESTMENTS--Continued

Investments:

The State Regents had the following investments as of June 30, 2014:

<u>Type of Investment</u>	<u>Fair Value / Carrying Amount</u>	<u>Average Credit Quality/ Rating</u>	<u>Effective Duration</u>	<u>Average Life</u>	<u>Average Maturity</u>
Governmental activities					
Endowment Fund					
Equity					
Common stock	\$ 24,587,738	N/A			
Equity index fund	93,835,297	N/A			
International equity fund	64,604,997	N/A			
Limited liability company	809,331	N/A			
Limited partnership	36,532,522	N/A			
Fixed income					
Multi-strategy bond fund	26,966,056	A+	4.2 yrs	7.2 yrs	NA
Global bond fund	25,454,303	AA -	5.5 yrs	NA	7.67 yrs
Commingled funds-fixed	124,373,850	BBB+	4.53 yrs	1.64 yrs	3.05 yrs
Hedge funds	221,840,923	N/A			
Cash equivalent funds	<u>2,512,357</u>				
Total Endowment Fund	<u>621,517,374</u>				
Governmental activities investments	<u>\$ 621,517,374</u>				

NOTES TO BASIC FINANCIAL STATEMENTS

OKLAHOMA STATE REGENTS FOR HIGHER EDUCATION

June 30, 2014

NOTE C--DEPOSITS AND INVESTMENTS--Continued

Investments--Continued:

The State Regents had the following investments as of June 30, 2014:

<u>Type of Investment</u>	<u>Fair Value / Carrying Amount</u>	<u>Average Credit Quality / Rating</u>	<u>Effective Duration</u>	<u>Average Life</u>	<u>Average Maturity</u>
<i>Business-type Activities</i>					
Academic Scholars' Trust Fund					
Equity					
Multi-strategy fund	\$ 219,353	N/A			
Fixed income					
Multi-strategy bond fund	<u>1,049,730</u>	A+	4.2 yrs	7.2 yrs	N/A
Total Academic Scholars' Trust Fund	<u>\$ 1,269,083</u>				
Retirement Fund					
Equity					
CREF stock fund	\$ 319,288	N/A			
Fixed income					
CREF bond market fund	499,721	N/A	5.09 yrs	N/A	6.85 yrs
Money market					
CREF money market fund	<u>58,819</u>	N/A			
Total Retirement Fund	<u>877,828</u>				
Business-type activities investments	<u>\$ 2,146,911</u>				

NOTES TO BASIC FINANCIAL STATEMENTS

OKLAHOMA STATE REGENTS FOR HIGHER EDUCATION

June 30, 2014

NOTE C--DEPOSITS AND INVESTMENTS--Continued

Investments--Continued:

In accordance with Title 70 O.S. 2001 § 3951, the Oklahoma State Regents for Higher Education are designated as trustees of the "Oklahoma State Regents' Endowment Trust Fund." The Trust Fund principal shall consist of monies the Legislature appropriates or transfers to the Oklahoma State Regents for Higher Education for the Trust Fund and any monies or assets contributed to the Trust Fund from any other source, public or private. Trust Fund principal shall not be diminished.

The pooled Endowment Trust balance as of June 30, 2014 is \$691,705,183, which includes investments, cash deposited with OST, and other investment receivables. A portion of these assets are held on behalf of Langston University in the amount of \$41,380,279. These funds have also been presented in the financial statements for Langston University as an asset of the University.

Interest Rate Risk

Interest rate risk is the risk that changes in interest rates will adversely affect the fair value of an investment. Investments can be highly sensitive to changes in interest rates due to their terms or characteristics.

State Regents' investment policy is that any funds invested in equities must be able to tolerate the volatility associated with the stock market. As a general rule, funds which cannot be invested for more than five years should not have equity exposure. For investments other than those made in endowment funds, maturities should coincide with cash need.

Investments-Credit Risk and Concentration of Credit Risk

Credit risk is the risk that an issuer or other counterparty to an investment will not fulfill its obligations. This risk is measured by the credit quality ratings of investments in debt securities as described by the nationally recognized statistical rating organizations (rating agencies) such as Standard & Poor's (S&P) and Moody's. The concentration of credit risk is the risk of loss that may occur due to the amount of investments in a single issuer, not including investments issued or guaranteed by the U.S. Government, investments in mutual funds or external investment pools.

NOTES TO BASIC FINANCIAL STATEMENTS

OKLAHOMA STATE REGENTS FOR HIGHER EDUCATION

June 30, 2014

NOTE C--DEPOSITS AND INVESTMENTS--Continued

Investments--Continued:

Endowment Trust Fund

The Endowment Trust Fund's investing activities are managed under the custody of investment managers. Each investment manager is evaluated against the appropriate comparative benchmark to ensure investing is performed in accordance with internal investment policies. Endowment Trust Funds may be invested in Domestic Equity, International Equity, Private Equity, Domestic/Global Fixed Income, International Fixed Income, Hedge Funds, Domestic Inflation Protected Fixed Assets and REITS/Real Estate.

Asset allocation guidelines for the Endowment Trust Fund are as follows:

	<u>Minimum</u>	<u>Target</u>	<u>Maximum</u>
Growth Assets			
Domestic Equity	12%	12%	45%
International Equity	5%	6%	25%
Private Equity	0%	8%	15%
Risk Reduction Assets			
Domestic/Global Fixed Income	5%	21%	30%
International Fixed Income	0%	5%	10%
Absolute Return (Hedge Funds)	0%	18%	25%
Cash	0%	12%	15%
Inflation Protected Assets			
Domestic Inflation Protected Fixed	0%	11%	15%
REITS/Real Estate	0%	7%	15%

The Endowment Trust Fund's investment policy prohibits investment of more than 5% of its assets in the securities of any one issuer for the domestic equity and domestic fixed income investments. Domestic fixed income securities must be rated at least "A" by Moody's or by S&P. The State Regents may exempt any fixed income manager from this restriction and allow the manager to invest in securities rated "BBB" or better by Moody's or by S&P if they consider it necessary for that manager to accomplish his investment objective.

NOTES TO BASIC FINANCIAL STATEMENTS

OKLAHOMA STATE REGENTS FOR HIGHER EDUCATION

June 30, 2014

NOTE C--DEPOSITS AND INVESTMENTS--Continued

Investments--Continued:

Academic Scholars Trust Fund

The Academic Scholars Trust Fund's investing activities are managed under the custody of investment managers. Each investment manager is evaluated against the appropriate comparative benchmark to ensure investing is performed in accordance with internal investment policies. The Academic Scholars Trust Funds may be invested in Core Equity, Small Cap Equity, International Equity, Core Fixed Income and Intermediate Funds.

Asset allocation guidelines for the Academic Scholars Trust Fund are as follows:

	<u>Minimum</u>	<u>Target</u>	<u>Maximum</u>
Equities			
Core	32%	37%	42%
Small Cap	2%	7%	12%
International	10%	15%	20%
Fixed income			
Core	18%	23%	28%
Intermediate	10%	15%	20%
Cash	0%	3%	8%

Retirement Funds

The Retirement Fund's investing activities are managed under the custody of investment managers. The long-term horizon of these funds permits exposure to volatility associated with equity investments. Equity and equity like investments should comprise no more than 50% of the portfolio.

Investment of All Other Funds

All other funds investing activities are managed under the custody of investment managers. These funds shall be restricted to fixed income investments.

Foreign Currency Risk

Foreign currency risk is the risk that changes in exchange rates will adversely affect the fair value of an investment.

NOTES TO BASIC FINANCIAL STATEMENTS

OKLAHOMA STATE REGENTS FOR HIGHER EDUCATION

June 30, 2014

NOTE C--DEPOSITS AND INVESTMENTS--Continued

Investments--Continued:

Endowment Fund

The international equity manager will invest primarily in non-dollar denominated equity securities. The managers are required to operate under certain restrictions including: regional constraints, diversification requirements and percentage of U.S. securities as dictated by the terms of the commingled or mutual funds in which they are invested.

The international fixed income manager may enter into forward currency exchange contracts, agreements to exchange one currency for another at a future date, in order to manage risk arising from exposure to changing currency fluctuations; buy or sell futures and options contracts relating to foreign currencies; purchase securities indexed to foreign currencies, contingent upon their being within those countries comprising the Salomon Non-U.S. Bond Index or denominated in the U.S. dollar; and hedge portfolio securities from time to time by shifting investment exposure from one currency to another, contingent upon the currencies being within those countries comprising the Salomon Non-U.S. Bond Index.

The Endowment Trust Fund also invests in alternative investments. Alternative investments include private equities, hedge funds and real estate. Alternative investments are based upon fair values of the underlying assets as reported by the entities through audited financial statements by Independent Certified Public Accountants and as determined by the fund manager. In some cases, the underlying assets are marketable securities with quoted market prices. In other situations, the underlying assets are not marketable and the fund managers determine valuations. Due to the inherent uncertainty of valuation of nonmarketable and restricted investments, those estimated values may differ significantly from the values that would have been used had a ready market for the securities existed.

The Endowment Trust Fund invests in various limited liability companies and limited partnerships. In connection with these investments and other alternative investments, State Regents was subject to various subscription agreements and other funding commitments as of June 30, 2014.

NOTES TO BASIC FINANCIAL STATEMENTS

OKLAHOMA STATE REGENTS FOR HIGHER EDUCATION

June 30, 2014

NOTE D--CAPITAL ASSETS

A summary of the changes in capital assets is as follows for the year ended June 30, 2014:

	Balance June 30, 2013	Additions	Retirements	Transfers	Balance June 30, 2014
<i>Business-type activities</i>					
Regents Operating Fund:					
Capital assets					
Construction in progress	\$ 2,007,506	\$ -	\$ -	(2,007,506)	\$ -
Buildings	7,942,522	25,982	(15,000)	-	7,953,504
Equipment	55,249,720	3,832,457	(1,361,086)	2,007,506	59,728,597
Motor vehicles	302,766	34,582	(25,685)	-	311,663
Total capital assets	65,502,514	3,893,021	(1,401,771)	-	67,993,764
Less accumulated depreciation					
Buildings	(6,546,269)	(42,886)	15,000	-	(6,574,155)
Equipment	(34,135,222)	(7,608,350)	1,330,498	-	(40,413,074)
Motor vehicles	(166,318)	(39,652)	25,685	-	(180,285)
Total accumulated depreciation	(40,847,809)	(7,690,888)	1,371,183	-	(47,167,514)
Capital assets, net	24,654,705	(3,797,867)	(30,588)	-	20,826,250
OCAP Operating Fund:					
Capital assets					
Equipment	1,851,352	11,530	(60,442)	-	1,802,440
Motor vehicles	19,907	-	-	-	19,907
Total capital assets	1,871,259	11,530	(60,442)	-	1,822,347
Less accumulated depreciation					
Equipment	(1,451,732)	(108,960)	57,156	-	(1,503,536)
Motor vehicles	(19,907)	-	-	-	(19,907)
Total accumulated depreciation	(1,471,639)	(108,960)	57,156	-	(1,523,443)
Capital assets, net	399,620	(97,430)	(3,286)	-	298,904
Business-type activities capital assets	67,373,773	3,904,551	(1,462,213)	-	69,816,111
Business-type activities accumulated depreciation	(42,319,448)	(7,799,848)	1,428,339	-	(48,690,957)
Business-type activities capital assets, net	\$ 25,054,325	\$ (3,895,297)	\$ (33,874)	\$ -	\$ 21,125,154

NOTES TO BASIC FINANCIAL STATEMENTS

OKLAHOMA STATE REGENTS FOR HIGHER EDUCATION

June 30, 2014

NOTE D--CAPITAL ASSETS--Continued

A summary of the changes in capital assets for fiduciary fund is as follows for the year ended June 30, 2014:

	Balance June 30, 2013	Additions	Retirements	Balance June 30, 2014
<i>Fiduciary Fund</i>				
Capital assets				
Equipment	\$ 451,746	\$ -	\$ (140,684)	\$ 311,062
Motor vehicles	17,049	-	-	17,049
Total capital assets	468,795	-	(140,684)	328,111
Less accumulated depreciation				
Equipment	(451,746)	-	140,684	(311,062)
Motor vehicles	(17,049)	-	-	(17,049)
Total accumulated depreciation	(468,795)	-	140,684	(328,111)
Fiduciary fund capital assets, net	\$ -	\$ -	\$ -	\$ -

NOTES TO BASIC FINANCIAL STATEMENTS

OKLAHOMA STATE REGENTS FOR HIGHER EDUCATION

June 30, 2014

NOTE E--EMPLOYEE RETIREMENT BENEFITS

1. *Oklahoma Teachers' Retirement System*

Plan Description – The State Regents contribute to the Oklahoma Teachers' Retirement System ("OTRS"), a cost sharing, multiple-employer, public employee retirement system which is self-administered. OTRS provides retirement, disability, and death benefits to plan members and beneficiaries. The benefit provisions are established and may be amended by the legislature of the State of Oklahoma. Title 70 of the Oklahoma State Statutes, Sections 17-101 through 17-120, assigns the authority for management and operation of the plan to the Board of Trustees of OTRS. OTRS issues a publicly available annual financial report that includes financial statements and required supplementary information for OTRS. That annual report may be obtained by writing to OTRS, P.O. Box 53524, Oklahoma City, OK 73152-3524 or by calling 1-405-521-2387.

Funding Policy – OTRS members and the State Regents are required to contribute at a rate set by statute. The contribution requirements of system members and the State Regents are established and may be amended by the legislature of the State of Oklahoma.

The actual contribution rate due from the State Regents was 9.5% from January 1, 2010 through June 30, 2014, 9.0% from July 1, 2009 through December 31, 2009, 9.00% from January 1, 2009 through June 30, 2009, 8.50% from July 1, 2008 through December 31, 2008, and 8.35% from January 1, 2008 through June 30, 2008. The contribution rate for OTRS members is 7% of total compensation. The employee's share of the contribution is paid directly by the Regents. As provided by state statute, contributions of 5.0% of the State's annual sales, use and income tax revenues shall be paid to OTRS, which is considered an on-behalf payment made by the State of Oklahoma for the State Regents' employees. The amount of tax benefiting the State Regents' employees is estimated at \$1,256,629 and \$1,308,797, respectively, for the years ended June 30, 2014 and 2013, based on an allocation of the State Regents' covered payroll to total covered payroll for OTRS. This on-behalf payment is recorded as non-operating revenue and an operating expense as salaries and benefits.

The State Regents' contributions to the OTRS for the years ended June 30, 2014, 2013 and 2012 were approximately \$2,929,869, \$2,872,173, and \$2,834,691, respectively. These contributions included the Regent's statutory contribution and the share of the employee's contribution paid directly by the Regents.

NOTES TO BASIC FINANCIAL STATEMENTS

OKLAHOMA STATE REGENTS FOR HIGHER EDUCATION

June 30, 2014

NOTE E--EMPLOYEE RETIREMENT BENEFITS--Continued

2. *Defined Contribution Plan*

Plan Description – The State Regents contribute to the Teachers’ Insurance Annuity Association – College Retirement Equities Fund (“TIAA/CREF”). TIAA/CREF is a non-contributory defined contribution plan qualified under Internal Revenue Code Section 401(a). The authority for contributing to TIAA/CREF is contained in the policy document, “State Regents for Higher Education, Board Minutes,” dated June 28, 1991. By action taken in June 1998, the State Regents suspended participation in the TIAA/CREF plan for employees whose date of employment is July 1, 1998, or thereafter.

Funding Policy – TIAA/CREF provisions and contribution requirements are established and may be amended by the State Regents. For staff members classified as executive, the State Regents’ contribution rate is 15% of the employee’s salary over \$9,000. For all other non-executive staff members the State Regents’ contribution rate is 10% of the employee’s total salary minus \$9,000. Total contributions to TIAA/CREF were \$134,440 for the year ended June 30, 2014. Employees are not required to contribute to TIAA/CREF. Contributions vest as they are made.

3. *Supplemental Benefit Plan*

If the previously mentioned plans do not provide a minimum computed amount of retirement benefits, the State Regents provide for the difference under the Supplemental Benefit Plan.

Plan Description – The State Regents sponsor an IRS qualified Supplemental Benefit Plan (the “Plan”) for all employees that provides for a supplemental retirement benefit to employees who do not receive a calculated minimum amount from other State Regents’ plans and social security. By action taken March 1999, the State Regents suspended participation in the Plan for employees whose date of employment is March 12, 1999, or thereafter. The authority to amend the Supplemental Benefit Plan’s benefit provisions rests with the Board of Regents. The Supplemental Benefit Plan does not issue a stand-alone financial report nor is it included in the financial report of another entity.

Funding Policy – Contribution requirements of the Regents are established and may be amended by the State Board of Regents. All contributions are made by the Regents. Eligible employees are not required to make contributions to the Plan. Benefits are funded under a “pay as you go” funding method; however, expenses are recorded as benefits accumulate.

NOTES TO BASIC FINANCIAL STATEMENTS

OKLAHOMA STATE REGENTS FOR HIGHER EDUCATION

June 30, 2014

NOTE E--EMPLOYEE RETIREMENT BENEFITS--Continued

3. *Supplemental Benefit Plan--Continued*

Annual Pension Cost and Net Pension Obligation (Asset)

The Regent's annual pension cost and net pension asset of the Plan for the year ended June 30, 2014 were as follows:

	<u>Regents</u>	<u>OCAP</u>	<u>Total</u>
Annual required contribution	\$ 205,953	\$ 30,005	\$ 235,958
Interest on net pension obligation (asset)	(11,724)	-	(11,724)
Adjustment to annual required contribution	<u>77,209</u>	<u>-</u>	<u>77,209</u>
Annual pension cost	271,438	30,005	301,443
Contributions made	<u>(645,236)</u>	<u>-</u>	<u>(645,236)</u>
Change in net pension obligation (asset)	(373,798)	30,005	(343,793)
Net pension obligation (asset)			
at beginning of year	<u>(886,337)</u>	<u>1,238,443</u>	<u>352,106</u>
Net pension obligation (asset) at end of year	<u><u>\$ (1,260,135)</u></u>	<u><u>\$ 1,268,448</u></u>	<u><u>\$ 8,313</u></u>

At June 30, 2014, the Regent's business-type activity includes the net pension asset in non-current assets. The net obligations of the Supplemental Benefit Plan at June 30, 2014 for OCAP are included within the State Regents report.

The annual required contribution for the current year was determined as part of an actuarial valuation on June 30, 2014, using the projected unit credit method. The actuarial assumptions included: (a) a discount rate of 6.5% per year compounded annually, (b) projected salary increases of 2.5% including inflation and merit, compounded annually, (c) projected annuity increases of 6.5% compounded annually, and (d) 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). The value of the Supplemental Benefit Plan assets is based on the TIAA-CREF retirement trust account asset value. The unfunded actuarial liability is being amortized over fifteen years as a level percentage amount on an open basis.

NOTES TO BASIC FINANCIAL STATEMENTS

OKLAHOMA STATE REGENTS FOR HIGHER EDUCATION

June 30, 2014

NOTE E--EMPLOYEE RETIREMENT BENEFITS--Continued

3. *Supplemental Benefit Plan--Continued*

Trend Information

June 30	Cost	Contributed	Obligation
2014	\$ 301,443	214.0%	\$ 8,313
2013	\$ 309,804	254.3%	\$ 352,107
2012	\$ 1,130,027	61.1%	\$ 830,022

Funded Status

The funded status of the Plan as of June 30, 2014 was as follows:

	2014
Actuarial accrued liability (AAL)	\$ 13,323,822
Actuarial value of plan assets*	-
Unfunded actuarial accrued liability (UAAL)	\$ 13,323,822
Funded ratio (actuarial value of plan assets/AAL)	0.00%
Covered payroll (active plan members)	\$ 5,284,759
UAAL as a percentage of covered payroll	252.12%

*At June 30, 2014, management has set aside \$12,608,581 in cash to fund these obligations. The actuarial accrued liability is based on the projected unit credit method.

4. *Other Post-employment Insurance Benefits - Health and Dental Insurance Program*

As authorized by Title 70, Section 3205, of the Oklahoma State Statutes, the State Regents cover the cost of health and dental insurance for any employee retiring after March 12, 1999 who has been a full-time employee for not less than ten (10) years immediately preceding the date of retirement and has been a member of the OTRS during that time and elected to receive a monthly life annuity under the provisions of OTRS regulations immediately upon retirement, less any amount paid by OTRS for that purpose through the month in which the retiree reaches age 65 and becomes eligible for Medicare. If the retiree receives Medicare benefits, the State Regents will continue to pay on behalf of the retiree the Medicare supplemental insurance costs, less any amount paid by OTRS for that purpose, for the remaining life of the employee.

NOTES TO BASIC FINANCIAL STATEMENTS

OKLAHOMA STATE REGENTS FOR HIGHER EDUCATION

June 30, 2014

NOTE E--EMPLOYEE RETIREMENT BENEFITS--Continued

4. Other Post-employment Insurance Benefits - Health and Dental Insurance Program--Continued

Funding Policy - Contribution requirements of the Regents are established and may be amended by the State Board of Regents. All contributions are made by the Regents. Benefits are funded under a "pay as you go" funding method; however expenses are recorded as benefits accumulate. The net obligations of the OPEB at June 30, 2014 for OCAP are included within the State Regents report.

Annual OPEB cost and net OPEB obligation

The Regents' annual other post-employment benefit ("OPEB") cost and net OPEB obligations of the OPEB health and dental insurance plan for 2014 are as follows:

	<u>Regents</u>	<u>OCAP</u>	<u>Total</u>
Annual required contribution	\$ 1,694,894	\$ 447,612	\$ 2,142,506
Interest on net OPEB obligation	419,673	-	419,673
Adjustment to annual required contribution	<u>(562,431)</u>	<u>-</u>	<u>(562,431)</u>
Annual OPEB cost (expense)	1,552,136	447,612	1,999,748
Contributions made	<u>(123,379)</u>	<u>-</u>	<u>(123,379)</u>
Increase in net OPEB obligation	1,428,757	447,612	1,876,369
Net OPEB obligation at beginning of year	<u>6,456,504</u>	<u>3,120,171</u>	<u>9,576,675</u>
Net OPEB obligation at end of year	<u><u>\$ 7,885,260</u></u>	<u><u>\$ 3,567,783</u></u>	<u><u>\$ 11,453,044</u></u>

The net pension obligation at June 30, 2014 for both the Regent's and OCAP business-type activities is included in current and non-current liabilities.

NOTES TO BASIC FINANCIAL STATEMENTS

OKLAHOMA STATE REGENTS FOR HIGHER EDUCATION

June 30, 2014

NOTE E--EMPLOYEE RETIREMENT BENEFITS--Continued

4. Other Post-employment Insurance Benefits - Health and Dental Insurance Program--Continued

This obligation is currently unfunded. The annual required contribution for 2014 was determined as part of an actuarial valuation on June 30, 2014, using the projected unit credit actuarial cost method. The actuarial assumptions included (a) discount rate of 6.5% 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 3-6.5% 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 State Regents and plan members to that point. Actuarial methods reflect a long-term perspective, and actuarial valuations involve estimates of the value of reported amounts and assumptions about the probability of events far into the future. As such, actuarial amounts are subject to continual revision as results are compared to past expectations and new estimates are made about the future.

Trend Information

Year Ended June 30	Annual Pension Cost	% of APC Contributed	Net Pension Obligation
2014	\$ 1,999,748	6.2%	\$ 11,453,044
2013	\$ 2,219,637	5.7%	\$ 9,576,675
2012	\$ 1,544,850	8.2%	\$ 7,532,337

Funded Status

The funded status of the plan as of June 30, 2014 was as follows:

	2014
Actuarial accrued liability (AAL)	\$ 12,490,141
Actuarial value of plan assets*	-
Unfunded actuarial accrued liability (UAAL)	\$ 12,490,141
Funded ratio (actuarial value of plan assets/AAL)	0.00%
Covered payroll (active plan members)	\$ 13,629,677
UAAL as a percentage of covered payroll	91.64%

NOTES TO BASIC FINANCIAL STATEMENTS

OKLAHOMA STATE REGENTS FOR HIGHER EDUCATION

June 30, 2014

NOTE E--EMPLOYEE RETIREMENT BENEFITS--Continued

4. *Other Post-employment Insurance Benefits - Health and Dental Insurance Program--Continued*

*At June 30, 2014, management has set aside \$2,071,880 in cash to fund these obligations. The actuarial accrued liability is based on the projected unit credit method.

OCAP Supplemental Benefit Plan and OPEB obligations

The State Regents has assumed OCAP's pension and supplemental benefits plan obligations. OCAP has transferred to the State Regents \$2,500,000 as of June 30, 2013, an additional \$2,599,880 as of June 30, 2014 for a total of \$5,099,880 with a remaining payable due from OCAP of \$291,696. The total of these payments liquidated OCAP's liabilities of \$4,358,614; and the current annual required contributions of \$477,617. The amount transferred in excess of current obligations of \$555,345 is expected to fund future benefit payments. The net obligations of the Supplemental Benefit Plan and OPEB at June 30, 2014 for OCAP are included within the State Regents report.

NOTES TO BASIC FINANCIAL STATEMENTS

OKLAHOMA STATE REGENTS FOR HIGHER EDUCATION

June 30, 2014

NOTE F--OKLAHOMA COLLEGE ASSISTANCE PROGRAM

The State Regents administer the Oklahoma College Assistance Program ("OCAP"). The purpose of the OCAP is to operate the Federal Family Education Loan Program which provides the guarantee of loans made by private and public lending institutions to students who qualify for financial assistance at any eligible educational institution approved by the United States Department of Education ("USDE"). As of June 30, 2014, outstanding loans totaled \$1,812,699,729.

On March 30, 2010, President Obama signed into law the Health Care and Education Reconciliation Act (H.R. 4872). The Student Aid and Fiscal Responsibility Act ("SAFRA"), an attachment to H.R. 4872, ended OCAP's authority to guarantee new loans under the FFEL program after June 30, 2010. All new Federal Stafford, PLUS, and Consolidation student loans were made under the William D. Ford Federal Direct Loan Program beginning July 1, 2010. OCAP continues to maintain loan guarantees including compliance and program reviews, provides financial literacy and college access activities, provides default aversion assistance to lenders for delinquent loans, pays lender claims for loans in default and collects on loans on which default claims have been paid for the existing FFEL portfolio. OCAP's student support initiatives were further supported by an amendment to their enabling statute which authorizes State Regents to contract with any necessary parties to provide these types of services.

The OCAP has a reinsurance agreement for defaulted loans with the USDE. For loans made on or after October 1, 1998, the reinsurance coverage is 95%, provided reimbursement payments during any federal fiscal year are less than 5% of loans in repayment at the end of the preceding federal fiscal year, as defined by the USDE. In the event reimbursement payments are 5% or more, but less than 9%, of loans in repayment at the end of the preceding federal fiscal year, the reinsurance coverage on subsequent defaulted loans is 85%. When reimbursement payments are 9% or more of loans in repayment at the end of the preceding federal fiscal year, the reinsurance on subsequent defaulted loans is 75%. The respective reinsurance rates on loans made between October 1, 1993 and September 30, 1998 are 98%, 88%, and 78%.

In accordance with its reinsurance agreement with the USDE, the OCAP submits claims to the USDE on loans that are uncollectible due to default, death, disability, closed schools, false certifications or bankruptcy after reimbursing the lender for the applicable amount. As of June 30, 2014, \$4,913,515 was due from the USDE to the OCAP federal fund for claims submitted.

Additionally, students with loans that have previously defaulted are responsible to begin repayment of the balance to the OCAP. Of the payments received from students on defaulted

NOTES TO BASIC FINANCIAL STATEMENTS

OKLAHOMA STATE REGENTS FOR HIGHER EDUCATION

June 30, 2014

NOTE F--OKLAHOMA COLLEGE ASSISTANCE PROGRAM--Continued

loans, varying percentages of the repayment depending on the type of collection and loan is retained by OCAP with the remainder remitted to the USDE. As of June 30, 2014, \$6,992,914 was due to the USDE from the OCAP federal fund for collections on defaulted loans.

NOTE G--TRANSFERS TO SYSTEM INSTITUTIONS

Transfers to system institutions consist principally of funds for educational and general operations, capital improvements, and technical and other educational programs. Such transfers are made for designated purposes subsequent to official resolutions of the State Regents.

NOTE H--RELATED PARTY TRANSACTIONS

The Kerr Conference Center located in Poteau, Oklahoma is owned by the State Regents and managed by Carl Albert State College on behalf of the State Regents.

NOTE I--LEASE COMMITMENTS

Master Equipment Lease - Series 2009B

In November 2009, the State Regents entered into a six year capital lease agreement with the Oklahoma Development Finance Authority as a beneficiary of a portion of the proceeds from the Oklahoma Development Finance Authority Master Lease Revenue Bonds, Series 2009B. The amount of \$6,292 is held in trust for the State Regents for the purchase of data processing and telecommunications equipment.

The following is a schedule of annual future minimum payments as of June 30, 2014:

<u>Year Ending June 30,</u>	<u>Principal</u>	<u>Interest</u>
2015	\$ 1,354,750	\$ 75,468
2016	573,333	22,495
	<u>\$ 1,928,083</u>	<u>\$ 97,963</u>

NOTES TO BASIC FINANCIAL STATEMENTS

OKLAHOMA STATE REGENTS FOR HIGHER EDUCATION

June 30, 2014

NOTE I--LEASE COMMITMENTS--Continued

OCIA Lease – Endowed Chairs Funding and Refunding Program Bonds – Series 2010

The Oklahoma Capital Improvement Authority (“OCIA”) issued \$132,075,000 aggregate original principal amount of its bonds, designated as Oklahoma Capitol Improvement Authority, Oklahoma State Regents for Higher Education Endowed Chairs Funding and Refunding Program Bonds, Federally Taxable Series 2010. The Series 2010 Bonds, dated as of the date of delivery, were issued pursuant to a Resolution adopted by the Authority on September 29, 2004, as supplemented by a 2010 Supplemental Resolution adopted by the Authority on April 21, 2010 and collectively with the Original Resolution. Under the Resolution, the State Treasurer serves as Paying Agent and Registrar for the Series 2010 Bonds.

The Authority previously issued its Oklahoma State Regents for Higher Education, Endowed Chairs Funding Program Bonds, Federally taxable Series 2006 on February 22, 2006, in the original principal amount of \$50,000,000, of which \$22,650,000 is outstanding as of the June 30, 2014.

The proceeds from the sale of the Series 2010 Bonds will be issued (i) to fund a portion of the State of Oklahoma matching contribution to the Oklahoma State Regents’ Endowment Trust Fund established pursuant to Title 70, Oklahoma Statutes 2001, Sections 3951 *et seq.*, (ii) to advance refund \$28,670,000 principal amount of the Series 2006 Bonds maturing July 1, 2011-2015, inclusive, and (iii) to pay costs of issuance of the Series 2010 Bonds.

The Series 2010 Bonds are payable solely from payments to be received by the Authority from the State Regents pursuant to the terms of an Amended Agreement for Use of Bond Proceeds dated as of July 1, 2010. The payments under the Agreement are payable from moneys budgeted and appropriated by the Oklahoma State Legislature and allocated by the State Regents to such payments.

NOTES TO BASIC FINANCIAL STATEMENTS

OKLAHOMA STATE REGENTS FOR HIGHER EDUCATION

June 30, 2014

NOTE I--LEASE COMMITMENTS--Continued

The following is a schedule of annual future minimum payments as of June 30, 2014:

<u>Year Ending June 30,</u>	<u>Principal</u>	<u>Interest</u>
2015	\$ 5,325,000	\$ 6,162,678
2016	5,495,000	5,993,876
2017	5,700,000	5,788,363
2018	5,930,000	5,555,233
2019	6,205,000	5,281,267
2020-2024	35,905,000	21,524,273
2025-2029	46,350,000	11,089,192
2030-2033	<u>10,875,000</u>	<u>610,088</u>
Total	<u>\$ 121,785,000</u>	<u>\$ 62,004,970</u>

NOTES TO BASIC FINANCIAL STATEMENTS

OKLAHOMA STATE REGENTS FOR HIGHER EDUCATION

June 30, 2014

NOTE I--LEASE COMMITMENTS--Continued

Operating Leases

The State Regents are engaged in various operating lease agreements.

The State Regents lease office space for its core operations from the University of Oklahoma Health Science Center (formerly Presbyterian Health Foundation). Rental expense of approximately \$771,564 was paid to the OUHSC for the State Regents' operating facilities for the year ended June 30, 2014.

The State Regents leased office space for OCAP from the University of Oklahoma Health Science Center (formerly Presbyterian Health Foundation). Rental expense for leased office space of approximately \$226,890 was paid by OCAP for the year ended June 30, 2014. The current lease agreement with the University of Oklahoma Health Science Center, effective February 2013, with yearly renewal options, will expire July 31, 2021.

Rental expense of \$5,529 was paid for Regents storage facilities for the year ended June 30, 2014 and OCAP paid \$6,362 for their storage facilities. Rental expense of \$60,550 was paid for Regents parking facilities for the year ended June 30, 2014. OCAP paid \$24,100 rental expense for parking facilities for the year ended June 30, 2014.

OCAP has an agreement with Sallie Mae for a student loan guaranty servicing system. Processing charges were approximately \$932,308 for the year ended June 30, 2014. The current agreement, effective January 1, 2011 with yearly renewal options, will expire on December 31, 2015. OCAP estimates the future annual charges to be approximately \$900,000.

NOTES TO BASIC FINANCIAL STATEMENTS

OKLAHOMA STATE REGENTS FOR HIGHER EDUCATION

June 30, 2014

NOTE J--LONG-TERM LIABILITIES

Long-term liability activity was as follows for the year ended June 30, 2014:

	2014				
	Balance June 30, 2013	Additions	Deletions	Balance June 30, 2014	Due Within One Year
<i>Business-type activities</i>					
Regents Operating Fund:					
Compensated absences	\$ 1,308,715	\$ 891,569	\$ (720,912)	\$ 1,479,372	\$ 720,912
Accrued post-employment benefits	6,456,504	5,004,873	-	11,461,377	579,324
Master equipment leases payable	3,234,333	-	(1,306,250)	1,928,083	1,354,750
Unamortized bond premium	97,173	-	(40,209)	56,964	16,755
Leasehold payable	-	-	-	-	-
Accrued interest payable	-	-	-	-	-
	<u>11,096,725</u>	<u>5,896,442</u>	<u>(2,067,371)</u>	<u>14,925,796</u>	<u>2,671,741</u>
OCAP Operating Fund:					
Compensated absences	306,792	70,725	(125,812)	251,705	125,812
Accrued pension obligation	1,238,443	-	(1,238,443)	-	-
Accrued post-employment benefits	<u>3,120,171</u>	<u>-</u>	<u>(3,120,171)</u>	<u>-</u>	<u>-</u>
	<u>4,665,406</u>	<u>70,725</u>	<u>(4,484,426)</u>	<u>251,705</u>	<u>125,812</u>
Business-type Activities Total	<u>\$ 15,762,131</u>	<u>\$ 5,967,167</u>	<u>\$ (6,551,797)</u>	<u>\$ 15,177,501</u>	<u>\$ 2,797,553</u>
<i>Governmental Activities</i>					
OCIA lease payable	<u>\$ 126,975,000</u>	<u>\$ -</u>	<u>\$ (5,190,000)</u>	<u>\$ 121,785,000</u>	<u>\$ 5,325,000</u>
<i>Fiduciary Fund</i>					
Allowance for default claims	<u>\$ 2,381,116</u>	<u>\$ -</u>	<u>\$ (493,110)</u>	<u>\$ 1,888,006</u>	<u>\$ -</u>
	<u>\$ 2,381,116</u>	<u>\$ -</u>	<u>\$ (493,110)</u>	<u>\$ 1,888,006</u>	<u>\$ -</u>

NOTES TO BASIC FINANCIAL STATEMENTS

OKLAHOMA STATE REGENTS FOR HIGHER EDUCATION

June 30, 2014

NOTE K--RISK MANAGEMENT

The State Regents are 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 State Regents pay an annual premium to the Risk Management Division of the State of Oklahoma Department of Central Services for its tort liability, vehicle liability, property loss and general liability insurance coverage. The State Regents purchase commercial employee life insurance. The State Regents, as a state agency, participates in the Oklahoma State and Education Employee's Group Insurance Board (the Board), a public entity risk pool. The State Regents pay an annual premium to the Board for its employee health insurance coverage. The Board is self-insured and self-sustaining through member premiums. The State Regents carry insurance with the State Insurance Fund for other risks of loss including workers' compensation and employee accident insurance. Settled claims resulting from these risks have not exceeded insurance coverage in any of the past three fiscal years.

NOTE L--COMMITMENTS AND CONTINGENCIES

The State Regents have received certain federal and state grants that are subject to review and audit by grantor agencies. Such audits could lead to requests for reimbursement to the grantor agency for expenditures disallowed under the terms of the grant. The State Regents' management believes that disallowances, if any, would not be material.

NOTE M--ACCOUNTING STANDARDS ISSUED NOT YET ADOPTED

In June, 2012, the Governmental Accounting Standards Board (GASB) issued Statement No. 68, *Accounting and Financial Reporting for Pensions*, which improves accounting and financial reporting of public employee pensions by state and local governments. Statement No. 68 requires governments providing defined benefit pensions to recognize their long-term obligation for pension benefits as a liability for the first time, and to more comprehensively and comparably measure the annual costs of pension benefits. The provisions in Statement No. 68 are effective for fiscal years beginning after June 15, 2014. However, early application is encouraged. The State Regents is currently evaluating the effects that Statement No. 68 will have on their financial statements.

REQUIRED SUPPLEMENTARY INFORMATION

REQUIRED SUPPLEMENTARY INFORMATION--UNAUDITED

OKLAHOMA STATE REGENTS FOR HIGHER EDUCATION

June 30, 2014

SCHEDULE OF FUNDING PROGRESS FOR SUPPLEMENTAL BENEFIT 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)
6/30/2010	\$ 101	\$ 7,894,823	\$ 7,894,722	0.00%	\$ 5,195,808	151.9%
6/30/2011	101	9,682,439	9,682,338	0.00%	9,682,439	100.0%
6/30/2012	101	9,991,725	9,991,624	0.00%	5,968,420	167.4%
6/30/2013	-	12,778,673	12,778,673	0.00%	5,144,971	248.4%
6/30/2014	- *	13,323,822	13,323,822	0.00%	5,284,759	252.1%

* At June 30, 2014, management has set aside \$12,608,581 in cash to fund these obligations.

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)
6/30/2010	\$ -	\$ 8,561,656	\$ 8,561,656	0.0%	\$ 17,608,309	48.6%
6/30/2011	-	10,903,694	10,903,694	0.0%	13,814,383	78.9%
6/30/2012	-	10,398,801	10,398,801	0.0%	13,377,852	77.7%
6/30/2013	-	11,580,942	11,580,942	0.0%	13,285,896	87.2%
6/30/2014	- *	12,490,141	12,490,141	0.0%	13,629,677	91.6%

* At June 30, 2014, management has set aside \$2,071,880 in cash to fund these obligations.

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

REPORT REQUIRED BY
GOVERNMENT AUDITING STANDARDS



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

Coordinating Board of Control
Oklahoma State Regents for Higher Education
Oklahoma City, Oklahoma

We have audited, 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, the financial statements of the governmental activities, the business-type activities and each major fund of the Oklahoma State Regents for Higher Education (the "State Regents"), a component unit of the State of Oklahoma, as of and for the year ended June 30, 2014, and the related notes to the financial statements, which collectively comprise the State Regent's basic financial statements, and have issued our report thereon dated October 31, 2014.

Internal Control Over Financial Reporting

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

A deficiency in internal control exists when the design or operation of a control does not allow management or employees in the normal course of performing their assigned functions, to prevent, or detect and correct misstatements on a timely basis. A *material weakness* is a deficiency, or a combination of deficiencies, in internal control, such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected on a timely basis. A *significant deficiency* is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

Our consideration of internal control 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 material weaknesses or significant deficiencies. Given these limitations, during our audit we did not identify any deficiencies in internal control over financial reporting that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

Compliance and Other Matters

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

Purpose of this Report

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

Tulsa, Oklahoma
October 31, 2014

Stanfield & O'Sell P.C.

REPORTS REQUIRED BY
OMB CIRCULAR A-133



Independent Auditor's Report on Compliance
With Requirements Applicable to each Major Program
and Internal Control over Compliance in Accordance with
OMB Circular A-133

Coordinating Board of Control
Oklahoma State Regents for Higher Education
Oklahoma City, Oklahoma

We have audited the Oklahoma State Regents for Higher Education's (the "State Regents"), a component unit of the State of Oklahoma, compliance with the types of compliance requirements described in the U.S. Office of Management and Budget (OMB) Circular A-133 *Compliance Supplement* that could have a direct and material effect on each of the State Regents' major federal programs for the year ended June 30, 2014. The State Regents' major federal programs are identified in the summary of auditor's results section of the accompanying schedule of findings and questioned costs.

Management's Responsibility

Management is responsible for compliance with the requirements of laws, regulations, contracts, and grants applicable to its federal programs.

Auditor's Responsibility

Our responsibility is to express an opinion on compliance for each of the State Regents' major federal programs based on our audit of the types of compliance requirements referred to above. We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. Those standards and OMB Circular A-133 require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about the State Regents' 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 on compliance for each major federal program. However, our audit does not provide a legal determination of the State Regents' compliance.

Opinion on Each Major Federal Program

In our opinion, the State Regents complied, in all material respects, with the types of compliance requirements referred to above that could have a direct and material effect on each of its major federal programs for the year ended June 30, 2014.

Report on Internal Control over Compliance

Management of the State Regents is responsible for establishing and maintaining effective internal control over compliance with the types of compliance requirements referred to above. In planning and performing our audit of compliance, we considered the State Regents' internal control over compliance with the types of that could have a direct and material effect on each major federal program as a basis for designing auditing procedures that are appropriate in the circumstances for the purpose of requirements expressing an opinion on compliance for each major federal program and to test and report on internal control over compliance in accordance with OMB Circular A-133, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of the State Regents' internal control over compliance.

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

Our consideration of internal control over compliance 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 compliance that might be material weaknesses or significant deficiencies. We did not identify any deficiencies in internal control over compliance that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

The purpose of this report on internal control over compliance is solely to describe the scope of our testing of internal control over compliance and the results of that testing based on the requirements of OMB Circular A-133. Accordingly, this report is not suitable for any other purpose.

Tulsa, Oklahoma
October 31, 2014

Stanfield & O'Sell P.C.

SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS

OKLAHOMA STATE REGENTS FOR HIGHER EDUCATION

June 30, 2014

<u>Federal Grantor/Program Title</u>	<u>Federal CFDA Number</u>	<u>Expenditures</u>
<u>U.S. Department of Commerce:</u>		
DOC Recovery Act - Oklahoma Community Anchor Network (OCAN)	11.557	\$ 210,400
<u>U.S. Department of Education:</u>		
Federal Family Education Loan Program	84.032	174,208,893
Gaining Early Awareness and Readiness for Undergraduate Programs	84.334	4,739,515
Teacher and Principal Training and Recruiting	84.367	806,259
College Access Challenge Grant Program	84.378A	1,514,891
<u>U.S. Department of Health and Human Services:</u>		
Pass-through program from Oklahoma Department of Human Services		
Oklahoma Youth Suicide Prevention	93.243	35,823
Temporary Assistance to Needy Families	93.558	2,697,568
Child Care and Development Block Grant	93.575	1,997,507
<u>Corporation for National and Community Service:</u>		
Volunteer in Service to America	94.013	<u>4,526</u>
 TOTAL EXPENDITURES OF FEDERAL AWARDS		 <u>\$ 186,215,382</u>

See notes to schedule of federal awards.

NOTES TO SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS

OKLAHOMA STATE REGENTS FOR HIGHER EDUCATION

For the Year Ended June 30, 2014

NOTE A--SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The accompanying schedule of expenditures of federal awards is presented on the accrual basis of accounting.

NOTE B--SUB-RECIPIENTS

Of the federal expenditures presented in the schedule, the State Regents provided federal awards to sub-recipients as follows:

<u>Program Title</u>	<u>Federal CFDA Number</u>	<u>Amount Provided to Subrecipients</u>
Teacher and Principal Training and Recruiting	84.367	\$ 763,523
College Access Challenge Grant Program	84.378A	\$ 612,502
Temporary Assistance to Needy Families	93.558	\$ 2,597,568
Child Care and Development Block Grant	93.575	\$ 1,616,654
Gaining Early Awareness and Readiness for Undergraduate Program	84.334	\$ 1,712,844

NOTE C--LOANS OUTSTANDING

Total loans outstanding under the Federal Family Education Loan Program were \$1,812,699,729 at June 30, 2014.

SCHEDULE OF FINDINGS AND QUESTIONED COSTS

OKLAHOMA STATE REGENTS FOR HIGHER EDUCATION

June 30, 2014

Section I--Summary of Auditors' Results

Financial statements

Type of auditors' report issued:

Unqualified

Internal control over financial reporting:

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

Noncompliance material to financial statements noted?

_____ yes X no

Federal Awards

Internal control over major programs:

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

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 X no

Identification of major programs:

<u>Program</u>	<u>CFDA Number</u>
Federal Family Education Loan Program	84.032
Gaining Early Awareness and Readiness for Undergraduate Programs	84.334
College Access Challenge Grant Program	84.378A
Child Care and Development Block Grant	93.575

Dollar threshold used to distinguish between type A and type B programs: \$360,195

Auditee qualified as low-risk auditee? X yes _____ no

SCHEDULE OF FINDINGS AND QUESTIONED COSTS--Continued

OKLAHOMA STATE REGENTS FOR HIGHER EDUCATION

For the Year Ended June 30, 2014

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

None to report for the June 30, 2014 period.

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

None to report for the June 30, 2014 period.

SUMMARY SCHEDULE OF PRIOR YEAR AUDIT FINDINGS

OKLAHOMA STATE REGENTS FOR HIGHER EDUCATION

For the Year Ended June 30, 2013

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

None to report for the June 30, 2013 period.

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

None to report for the June 30, 2013 period.