

**OKLAHOMA STATE REGENTS
FOR HIGHER EDUCATION**

Financial Statements
And
Report of Independent Certified Public Accountants

June 30, 2012

OKLAHOMA STATE REGENTS
FOR HIGHER EDUCATION

June 30, 2012

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Independent Auditors' Report

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

We have audited the accompanying statements of the governmental activities, 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, 2012, which collectively comprise the State Regents' basic financial statements as listed in the Table of Contents. These financial statements are the responsibility of the State Regents' management. 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 of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, based upon our audit, 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 Oklahoma State Regents for Higher Education as of June 30, 2012 and the respective changes in financial position and cash flows, where applicable, thereof for the year then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued our report dated November 27, 2012, on our consideration of the Oklahoma State Regents for Higher Education's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting and compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

Accounting principles generally accepted in the United States of America require that the Management's Discussion and Analysis information on pages 3 to 14 and the schedules of funding progress for the supplemental benefit plan and other post employment insurance benefits on page 58 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.

Tulsa, Oklahoma
November 27, 2012

A handwritten signature in black ink that reads "Stanfield & O'Dell P.C." in a cursive, stylized script.

OKLAHOMA STATE REGENTS FOR HIGHER EDUCATION
Management's Discussion and Analysis
For the Year Ended June 30, 2012

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, 2012. 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, 2012, the Regents' operating fund net assets increased to \$105,000,541 from \$81,062,849 at June 30, 2011.
- Total recognized operating and non-operating revenues in the Regents' operating fund decreased by \$1,981,393 primarily due to a reduction in private gifts of \$1,903,602.
- Total operating and non-operating expenses in the Regents' operating fund decreased by \$10,008,616 primarily due to a decrease in OCIA on-behalf payments.
- At June 30, 2012, the OCAP's operating fund net assets increased to \$14,088,048 from \$14,062,613 in 2011.
- Total operating and non-operating revenues in the OCAP operating fund increased by \$2,053,198 primarily due to increased default loan collections income offset by decreases in administrative fees.

OKLAHOMA STATE REGENTS FOR HIGHER EDUCATION
Management's Discussion and Analysis (Continued)
For the Year Ended June 30, 2012

FINANCIAL HIGHLIGHTS (Continued)

- Total operating and non-operating expenses in the OCAP operating fund increased by \$1,622,767, primarily due to increases in collection agency expenses, net default aversion fees, and other operating expenses offset by reductions to salaries and benefits, processing charges, and default prevention vendor fee expenses.
- The endowment fund experienced a positive return on investment of \$6,434,033 in 2012, compared to a positive return on investment of \$46,765,074 in 2011, a decrease of \$40,331,041.

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 assets and a statement of activities. The statement of net assets presents information on the Regent's assets and liabilities with the difference being reported as net assets. Increases or decreases in net assets 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 assets, and when the reverse occurs, the result is a decrease in net assets.

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, 2012

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 Assets; the Statement of Revenues, Expenses, and Changes in Net Assets; and the Statement of Cash Flows.

The purpose of the Statement of Net Assets 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 Assets 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 assets, and when the reverse occurs, the result is a decrease in net assets. 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, 2012

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 Assets

	Governmental Activities		Business-Type Activities		Total	
	2012	2011	2012	2011	2012	2011
Current assets	\$ 71,379,610	\$ 169,961,960	\$ 136,294,048	\$ 103,755,899	\$ 207,673,658	\$ 273,717,859
Capital assets	-	-	24,884,555	19,314,847	24,884,555	19,314,847
Other noncurrent assets	378,952,210	283,092,415	180,371	1,491,780	379,132,581	284,584,195
Total assets	450,331,820	453,054,375	161,358,974	124,562,526	611,690,794	577,616,901
Current liabilities	50,388,972	40,772,222	29,794,993	17,188,295	80,183,965	57,960,517
Noncurrent liabilities	126,975,000	132,075,000	12,475,392	12,248,769	139,450,392	144,323,769
Total liabilities	177,363,972	172,847,222	42,270,385	29,437,064	219,634,357	202,284,286
Net assets:						
Invested in capital assets						
net of related debt	-	-	24,884,555	15,044,076	24,884,555	15,044,076
Restricted	272,967,848	280,207,153	37,822,524	29,327,263	310,790,372	309,534,416
Unrestricted	-	-	56,381,510	50,754,123	56,381,510	50,754,123
Total Net Assets	<u>\$ 272,967,848</u>	<u>\$ 280,207,153</u>	<u>\$ 119,088,589</u>	<u>\$ 95,125,462</u>	<u>\$ 392,056,437</u>	<u>\$ 375,332,615</u>

OKLAHOMA STATE REGENTS FOR HIGHER EDUCATION
Management's Discussion and Analysis (Continued)
For the Year Ended June 30, 2012

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

Condensed Statement of Activities

	Governmental activities		Business-type activities		Total	
	2012	2011	2012	2011	2012	2011
Operating revenues						
Administrative fees	\$ -	\$ -	\$ 1,519,302	\$ 1,690,404	\$ 1,519,302	\$ 1,690,404
Default loan collections	-	-	18,233,194	15,992,037	18,233,194	15,992,037
Grants, contracts and gifts	-	10,860	21,769,172	13,454,468	21,769,172	13,465,328
OneNet service fee	-	-	12,615,152	11,812,890	12,615,152	11,812,890
Other	-	-	1,676,646	614,751	1,676,646	614,751
Nonoperating revenues						
State appropriations	-	-	1,007,728,029	1,011,536,780	1,007,728,029	1,011,536,780
Other state income	-	-	13,870,710	12,732,624	13,870,710	12,732,624
Private gifts	-	-	-	1,903,602	-	1,903,602
On-behalf TRS contributions	-	-	1,241,066	1,121,658	1,241,066	1,121,658
Gain on disposal of capital assets	-	-	-	7,497,752	-	7,497,752
Return on investment	6,434,033	46,765,074	2,275,734	2,523,713	8,709,767	49,288,787
Total operating and nonoperating revenues	6,434,033	46,775,934	1,080,929,005	1,080,880,679	1,087,363,038	1,127,656,613
Operating expenses						
Personnel and other operating costs	330,532	379,437	35,775,847	36,052,133	36,106,379	36,431,570
Communications	-	-	9,492,583	8,892,482	9,492,583	8,892,482
Scholarships, tuition and other incentives	-	16,200	14,081,006	15,603,403	14,081,006	15,619,603
Default aversion fees	-	-	1,534,745	-	-	-
Other	786,988	1,674,064	11,547,038	7,520,754	12,334,026	9,194,818
Nonoperating expenses						
Interagency payments	18,471,224	18,901,606	8,935,785	12,802,574	27,407,009	31,704,180
Payments to institutions	-	-	952,495,271	954,603,920	952,495,271	954,603,920
OCIA on-behalf payments	-	-	9,791,620	16,260,168	9,791,620	16,260,168
Loss on disposal of capital assets	-	-	11,123	-	11,123	-
Interest expense	7,204,200	6,618,786	181,254	199,727	7,385,454	6,818,513
Total operating and nonoperating expenses	26,792,944	27,590,093	1,043,846,272	1,051,935,161	1,069,104,471	1,079,525,254
Net income (loss) before capital appropriations and other revenues	(20,358,911)	19,185,841	37,082,733	28,625,079	18,258,567	48,131,359
Capital appropriations	-	-	-	1,093,180	-	1,093,180
Transfers	13,119,606	14,066,188	(13,119,606)	(14,066,188)	-	-
Increase (decrease) in net assets	(7,239,305)	33,252,029	23,963,127	15,652,071	16,723,822	48,904,100
Net assets, beginning of year	280,207,153	246,955,124	95,125,462	79,473,391	375,332,615	326,428,515
Net assets, end of year	\$ 272,967,848	\$ 280,207,153	\$ 119,088,589	\$ 95,125,462	\$ 392,056,437	\$ 375,332,615

OKLAHOMA STATE REGENTS FOR HIGHER EDUCATION
Management's Discussion and Analysis (Continued)
For the Year Ended June 30, 2012

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, 2012, total operating and non-operating revenues increased by \$71,805 from June 30, 2011, with total operating and non-operating expenses decreasing by \$8,385,849 for the same period.

Condensed Statement of Net Assets

	Regents		OCAP		Total	
	2012	2011	2012	2011	2012	2011
Current assets						
Unrestricted	\$ 92,528,809	\$ 66,082,672	\$ -	\$ -	\$ 92,528,809	\$ 66,082,672
Restricted	25,605,351	19,828,083	18,159,888	17,845,144	43,765,239	37,673,227
Total current assets	118,134,160	85,910,755	18,159,888	17,845,144	136,294,048	103,755,899
Noncurrent assets						
Other assets	180,371	1,491,780	-	-	180,371	1,491,780
Capital assets, net of depreciation	24,537,911	18,845,305	346,644	469,542	24,884,555	19,314,847
Total assets	142,852,442	106,247,840	18,506,532	18,314,686	161,358,974	124,562,526
Current liabilities	29,122,494	16,076,169	672,499	1,112,126	29,794,993	17,188,295
Noncurrent liabilities	8,729,407	9,108,822	3,745,985	3,139,947	12,475,392	12,248,769
Total liabilities	37,851,901	25,184,991	4,418,484	4,252,073	42,270,385	29,437,064
Net assets						
Invested in capital assets, net of related debt	24,537,911	14,574,534	346,644	469,542	24,884,555	15,044,076
Restricted-expendable	24,081,120	15,734,192	13,741,404	13,593,071	37,822,524	29,327,263
Unrestricted	56,381,510	50,754,123	-	-	56,381,510	50,754,123
Total net assets	\$ 105,000,541	\$ 81,062,849	\$ 14,088,048	\$ 14,062,613	\$ 119,088,589	\$ 95,125,462

OKLAHOMA STATE REGENTS FOR HIGHER EDUCATION
Management's Discussion and Analysis (Continued)
For the Year Ended June 30, 2012

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

Condensed Statement of Revenues, Expenses and Changes in Net Assets

	Regents		OCAP		Total	
	2012	2011	2012	2011	2012	2011
Operating revenues						
Administrative and other fees	\$ -	\$ -	\$ 1,519,302	\$ 1,690,404	\$ 1,519,302	\$ 1,690,404
Default loan collections	-	-	18,233,194	15,992,037	18,233,194	15,992,037
Grants, contracts, and gifts	21,769,172	13,454,468	-	-	21,769,172	13,454,468
OneNet service fees	12,615,152	11,812,890	-	-	12,615,152	11,812,890
Other	4,749,883	3,666,442	59,559	57,626	4,809,442	3,724,068
Nonoperating revenues						
State appropriations	1,007,728,029	1,011,536,780	-	-	1,007,728,029	1,011,536,780
Other state income	13,870,710	12,732,624	-	-	13,870,710	12,732,624
Private gifts	-	1,903,602	-	-	-	1,903,602
Return on investment	1,852,949	2,072,519	422,785	451,194	2,275,734	2,523,713
Gain on disposal of capital assets	-	7,497,752	-	-	-	7,497,752
On-behalf TRS contributions	885,620	775,831	355,446	345,827	1,241,066	1,121,658
Total operating and nonoperating revenue	<u>1,063,471,515</u>	<u>1,065,452,908</u>	<u>20,590,286</u>	<u>18,537,088</u>	<u>1,084,061,801</u>	<u>1,083,989,996</u>
Operating expenses						
Personnel and other operating costs	23,470,469	23,632,073	12,305,378	12,420,060	35,775,847	36,052,133
Communications	9,243,200	8,667,723	249,383	224,759	9,492,583	8,892,482
Scholarships, tuition, and other incentives	14,081,006	15,603,403	-	-	14,081,006	15,603,403
Default aversion fees	-	-	1,534,745	320,439	1,534,745	320,439
Other	8,204,818	4,653,245	6,475,016	5,976,826	14,679,834	10,630,071
Nonoperating expenses						
Interagency payments	8,935,785	12,802,574	-	-	8,935,785	12,802,574
Payments to system institutions	952,495,271	954,603,920	-	-	952,495,271	954,603,920
OCIA on-behalf payments	9,791,620	16,260,168	-	-	9,791,620	16,260,168
Loss on disposal of capital assets	10,794	-	329	-	11,123	-
Interest expense	181,254	199,727	-	-	181,254	199,727
Total operating and nonoperating expense	<u>1,026,414,217</u>	<u>1,036,422,833</u>	<u>20,564,851</u>	<u>18,942,084</u>	<u>1,046,979,068</u>	<u>1,055,364,917</u>
Income (loss) before appropriations and other revenues and expenses	37,057,298	29,030,075	25,435	(404,996)	37,082,733	28,625,079
Private gifts for capital assets	-	1,093,180	-	-	-	1,093,180
Transfers Out	<u>(13,119,606)</u>	<u>(14,066,188)</u>	<u>-</u>	<u>-</u>	<u>(13,119,606)</u>	<u>(14,066,188)</u>
Increase (decrease) in net assets	23,937,692	16,057,067	25,435	(404,996)	23,963,127	15,652,071
Net assets, beginning of year	81,062,849	65,005,782	14,062,613	14,467,609	95,125,462	79,473,391
Net assets, end of year	<u>\$ 105,000,541</u>	<u>\$ 81,062,849</u>	<u>\$ 14,088,048</u>	<u>\$ 14,062,613</u>	<u>\$ 119,088,589</u>	<u>\$ 95,125,462</u>

OKLAHOMA STATE REGENTS FOR HIGHER EDUCATION
Management's Discussion and Analysis (Continued)
For the Year Ended June 30, 2012

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

Analysis of Net Assets

	Regents		OCAP		Total	
	2012	2011	2012	2011	2012	2011
Net assets						
Invested in capital assets, net of related debt	\$ 24,537,911	\$ 14,574,534	\$ 346,644	\$ 469,542	\$ 24,884,555	\$ 15,044,076
Restricted						
Educational grants and scholarships	18,185,678	15,190,984	-	-	18,185,678	15,190,984
Oklahoma College Assistance Program	-	-	13,741,404	13,593,071	13,741,404	13,593,071
Capital Projects	5,895,442	543,208	-	-	5,895,442	543,208
Unrestricted	56,381,510	50,754,123	-	-	56,381,510	50,754,123
Total net assets	<u>\$ 105,000,541</u>	<u>\$ 81,062,849</u>	<u>\$ 14,088,048</u>	<u>\$ 14,062,613</u>	<u>\$ 119,088,589</u>	<u>\$ 95,125,462</u>

CAPITAL ASSETS AND DEBT ADMINISTRATION

At June 30, 2012, the Regents business-type activities had recorded a total of \$64,251,699 in capital assets and \$39,367,144 in accumulated depreciation. During the year ended June 30, 2012, the Regents acquired \$11,080,665 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, 2012, the Regents business-type activities had long-term liabilities of \$14,939,799. The current portion due within one year is \$2,464,407.

Capital Assets, Net

	Regents		OCAP		Total	
	2012	2011	2012	2011	2012	2011
Buildings	\$ 4,307,641	\$ 3,887,161	\$ -	\$ -	\$ 4,307,641	\$ 3,887,161
Equipment	56,738,086	48,494,397	2,900,560	3,154,516	59,638,646	51,648,913
Leasehold Improvements	-	-	35,932	35,932	35,932	35,932
Motor vehicles	249,573	237,224	19,907	19,907	269,480	257,131
Total	61,295,300	52,618,782	2,956,399	3,210,355	64,251,699	55,829,137
Less accumulated depreciation	(36,757,390)	(33,773,477)	(2,609,754)	(2,740,813)	(39,367,144)	(36,514,290)
Capital assets, net	<u>\$ 24,537,910</u>	<u>\$ 18,845,305</u>	<u>\$ 346,645</u>	<u>\$ 469,542</u>	<u>\$ 24,884,555</u>	<u>\$ 19,314,847</u>

OKLAHOMA STATE REGENTS FOR HIGHER EDUCATION
Management's Discussion and Analysis (Continued)
For the Year Ended June 30, 2012

CAPITAL ASSETS AND DEBT ADMINISTRATION (Continued)

Long-Term Liabilities

	Regents		OCAP		Total	
	2012	2011	2012	2011	2012	2011
Compensated absences	\$ 1,354,460	\$ 1,300,341	\$ 399,644	\$ 472,210	\$ 1,754,104	\$ 1,772,551
Accrued pension obligation	-	-	1,010,393	801,585	1,010,393	801,585
Accrued other post employment benefit	4,851,218	3,866,243	2,681,119	2,248,678	7,532,337	6,114,921
Master equipment leases payable	4,505,583	5,754,583	-	-	4,505,583	5,754,583
Unamortized bond premium	137,382	177,591	-	-	137,382	177,591
Leasehold payable	-	-	-	-	-	-
Accrued interest payable	-	-	-	-	-	-
Total long-term liabilities	<u>\$ 10,848,643</u>	<u>\$ 11,098,758</u>	<u>\$ 4,091,156</u>	<u>\$ 3,522,473</u>	<u>\$ 14,939,799</u>	<u>\$ 14,621,231</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, 2012, total expenses decreased by \$3,121,773 compared to June 30, 2011 with total distributions to the institutions decreasing by \$430,382 and lease payments decreasing by \$1,913,632 due to principal retirement. Total return on investments decreased by \$40,331,041.

Regents' Endowment Fund

	2012	2011
Cash and Investments	\$ 448,351,234	\$ 448,752,873
Receivables	344,847	598,371
Total Assets	<u>448,696,081</u>	<u>449,351,244</u>
Total Liabilities	<u>45,288,972</u>	<u>40,772,221</u>
Total Fund Balance	<u>\$ 403,407,109</u>	<u>\$ 408,579,023</u>

OKLAHOMA STATE REGENTS FOR HIGHER EDUCATION
Management's Discussion and Analysis (Continued)
For the Year Ended June 30, 2012

FINANCIAL ANALYSIS OF THE REGENTS' ENDOWMENT FUND (Continued)

Changes in Fund Balance

	<u>2012</u>	<u>2011</u>
Return on Investment	\$ 6,434,033	\$ 46,765,074
Private gifts	<u>-</u>	<u>10,860</u>
Total revenues	<u>6,434,033</u>	<u>46,775,934</u>
Contractual and other	1,117,520	1,879,079
Scholarships	-	16,200
Lease payments	5,136,808	7,050,440
Distributions to institutions	<u>18,471,224</u>	<u>18,901,606</u>
Total expenditures	<u>24,725,552</u>	<u>27,847,325</u>
Net proceeds from OCIA lease restructuring	-	128,803,523
Repayment on OCIA lease refunding	-	(28,670,000)
Transfers in	<u>13,119,606</u>	<u>14,066,188</u>
Total other financing sources	<u>13,119,606</u>	<u>114,199,711</u>
Change in endowment fund balance	<u>\$ (5,171,913)</u>	<u>\$ 133,128,320</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, 2012, total additions increased by \$30,011,122 from \$170,069,352 to \$200,080,474. Deductions increased by \$28,845,856 from \$172,418,632 to \$201,264,488. The additions increase was primarily due to increased reinsurance, loan collections, and fee revenues, offset by decreased interest income and other additions. The increase in deductions was primarily due to increased default loan purchases and default loan collection due to USDE offset by a decrease in the provision for default claims as a result of decreased loans outstanding as of June 30, 2012.

OKLAHOMA STATE REGENTS FOR HIGHER EDUCATION
Management's Discussion and Analysis (Continued)
For the Year Ended June 30, 2012

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

Federal Student Loan Reserve Fund Net Assets

	<u>2012</u>	<u>2011</u>
Capital assets	\$ -	\$ -
Other assets	<u>25,605,311</u>	<u>26,600,359</u>
Total Assets	<u>25,605,311</u>	<u>26,600,359</u>
 Total Liabilities	 <u>9,437,482</u>	 <u>9,248,516</u>
Net assets invested in capital, net of debt	-	-
Restricted net assets	<u>16,167,829</u>	<u>17,351,843</u>
Total Net Assets	<u>\$ 16,167,829</u>	<u>\$ 17,351,843</u>

Changes in Federal Student Loan Reserve Fund Net Assets

	<u>2012</u>	<u>2011</u>
Federal reinsurance	\$ 150,261,047	\$ 126,404,582
Loan collections	48,145,415	43,261,005
Other additions	<u>1,674,012</u>	<u>403,765</u>
Total Additions	<u>200,080,474</u>	<u>170,069,352</u>
 Purchase of defaulted loans	 157,994,568	 132,381,711
Loan collections due to USDE	43,867,593	40,236,199
Other deductions	<u>(597,673)</u>	<u>(199,278)</u>
Total Deductions	<u>201,264,488</u>	<u>172,418,632</u>
Change in Federal Fund Net Assets	<u>\$ (1,184,014)</u>	<u>\$ (2,349,280)</u>

OKLAHOMA STATE REGENTS FOR HIGHER EDUCATION
Management's Discussion and Analysis (Continued)
For the Year Ended June 30, 2012

ECONOMIC FACTORS AND THE REGENTS' FUTURE

The economic position of the Regents is closely tied to that of the State of Oklahoma. During the 2012 legislative session, the Oklahoma Legislature appropriated \$1,012,260,277 to the Regents for fiscal year 2013, an increase of \$3,800,000 compared to the fiscal year 2012 appropriations of \$1,008,460,277. Approximately 9.4% of the revenue for fiscal year 2013 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.

STATEMENT OF NET ASSETS

OKLAHOMA STATE REGENTS FOR HIGHER EDUCATION

June 30, 2012

	Governmental Activities	Business-Type Activities	Total
ASSETS			
CURRENT ASSETS			
Cash and cash equivalents	\$ -	\$ 73,796,854	\$ 73,796,854
Investments	-	2,213,896	2,213,896
Receivables			
Accounts receivable	-	13,243,455	13,243,455
Interest	-	78,866	78,866
Other assets	-	3,195,738	3,195,738
Restricted assets			
Cash and cash equivalents	69,399,024	37,116,074	106,515,098
Investments	-	1,101,086	1,101,086
Receivables			
Accounts receivable	-	5,092,291	5,092,291
Bond proceeds receivable	-	6,292	6,292
Administrative cost allowance	-	360,154	360,154
Interest	135,838	61,784	197,622
Loans	-	-	-
Other	209,009	-	209,009
Other assets	1,635,739	27,558	1,663,297
TOTAL CURRENT ASSETS	71,379,610	136,294,048	207,673,658
NONCURRENT ASSETS			
Prepaid pension asset	378,952,210	180,371	379,132,581
Capital assets, net	-	24,884,555	24,884,555
TOTAL ASSETS	<u>\$ 450,331,820</u>	<u>\$ 161,358,974</u>	<u>\$ 611,690,794</u>

(Continued)

	Governmental Activities	Business-Type Activities	Total
LIABILITIES			
CURRENT LIABILITIES			
Accounts payable and accrued expenses	\$ -	\$ 12,758,534	\$ 12,758,534
Compensated absences	-	601,257	601,257
Other postemployment benefits	-	165,332	165,332
Undistributed fiscal year 2012 state appropriations	-	6,956,066	6,956,066
Liabilities payable from restricted assets			
Accounts payable and accrued expenses	216,771	2,003,045	2,219,816
Compensated absences	-	266,753	266,753
Accrued pension obligation	-	91,267	91,267
Other postemployment benefits	-	28,339	28,339
OCIA lease payable	5,100,000	-	5,100,000
Master lease payable	-	1,271,250	1,271,250
Unamortized bond premium	-	40,209	40,209
Due to colleges	-	335,473	335,473
Deposits held in trust for system institutions	3,800,617	-	3,800,617
Undistributed interest on deposits held in trust	41,271,584	-	41,271,584
Undistributed fiscal year 2012 state appropriations	-	5,277,468	5,277,468
TOTAL CURRENT LIABILITIES	50,388,972	29,794,993	80,183,965
NONCURRENT LIABILITIES			
Compensated absences	-	656,038	656,038
Other postemployment benefits	-	4,685,886	4,685,886
Noncurrent liabilities payable from restricted assets			
Compensated absences	-	230,056	230,056
Accrued pension obligation	-	919,126	919,126
Other postemployment benefits	-	2,652,780	2,652,780
OCIA lease payable	126,975,000	-	126,975,000
Master lease payable	-	3,234,333	3,234,333
Unamortized bond premium	-	97,173	97,173
TOTAL NONCURRENT LIABILITIES	126,975,000	12,475,392	139,450,392
TOTAL LIABILITIES	177,363,972	42,270,385	219,634,357
NET ASSETS			
Invested in capital assets, net of related debt	-	24,884,555	24,884,555
Restricted			
Educational grants and scholarships	-	18,185,678	18,185,678
Guaranteed Student Loan Program	-	13,741,404	13,741,404
Endowment - Nonexpendable	272,967,848	-	272,967,848
Capital Projects	-	5,895,442	5,895,442
Unrestricted	-	56,381,510	56,381,510
TOTAL NET ASSETS	\$ 272,967,848	\$ 119,088,589	\$ 392,056,437

(Concluded)

See notes to financial statements.

STATEMENT OF ACTIVITIES

OKLAHOMA STATE REGENTS FOR HIGHER EDUCATION

Year Ended June 30, 2012

	Governmental Activities	Business-Type Activities	Total
OPERATING REVENUES			
Administrative fees	\$ -	\$ 1,519,302	\$ 1,519,302
Default loan collections	-	18,233,194	18,233,194
Federal grants and contracts	-	21,769,172	21,769,172
Private gifts	-	559,665	559,665
OneNet service fees	-	12,615,152	12,615,152
Other	-	1,116,981	1,116,981
TOTAL OPERATING REVENUES	-	55,813,466	55,813,466
OPERATING EXPENSES			
Compensation	-	23,847,034	23,847,034
Contractual services	330,532	11,928,813	12,259,345
Communications	-	9,492,583	9,492,583
Scholarships, tuition, and other incentives	-	14,081,006	14,081,006
Supplies and materials	-	416,655	416,655
Utilities	-	56,690	56,690
Default aversion fees	-	1,534,745	1,534,745
Other	786,988	5,743,030	6,530,018
Depreciation and amortization	-	5,330,663	5,330,663
TOTAL OPERATING EXPENSES	1,117,520	72,431,219	73,548,739
OPERATING LOSS	(1,117,520)	(16,617,753)	(17,735,273)
NONOPERATING REVENUES (EXPENSES)			
State appropriations	-	1,007,728,029	1,007,728,029
Other state income	-	13,870,710	13,870,710
Payments to system institutions	-	(952,495,271)	(952,495,271)
OCIA on-behalf payments	-	(9,791,620)	(9,791,620)
Interagency payments	(18,471,224)	(8,935,785)	(27,407,009)
On-behalf Teachers' Retirement System contributions	-	1,241,066	1,241,066
Return on investment	6,434,033	2,275,734	8,709,767
Loss on disposal of capital assets	-	(11,123)	(11,123)
Interest expense	(7,204,200)	(181,254)	(7,385,454)
NET NONOPERATING REVENUES	(19,241,391)	53,700,486	34,459,095
NET INCOME/(LOSS) BEFORE CAPITAL APPROPRIATIONS AND OTHER REVENUES	(20,358,911)	37,082,733	16,723,822
Transfers	13,119,606	(13,119,606)	-
INCREASE (DECREASE) IN NET ASSETS	(7,239,305)	23,963,127	16,723,822
NET ASSETS AT BEGINNING OF YEAR	280,207,153	95,125,462	375,332,615
NET ASSETS AT END OF YEAR	\$ 272,967,848	\$ 119,088,589	\$ 392,056,437

See notes to financial statements.

BALANCE SHEET--GOVERNMENTAL FUND

OKLAHOMA STATE REGENTS FOR HIGHER EDUCATION

June 30, 2012

	<u>Endowment Fund</u>
ASSETS	
Restricted assets	
Cash	\$ 69,399,024
Investments	378,952,210
Receivables:	
Interest	135,838
Other receivables	<u>209,009</u>
TOTAL ASSETS	<u>\$ 448,696,081</u>
LIABILITIES	
Deposits held in trust for system institutions	\$ 3,800,617
Accounts Payable	216,771
Undistributed interest on deposits held in trust	<u>41,271,584</u>
TOTAL LIABILITIES	<u>45,288,972</u>
FUND BALANCE	
Endowment - Nonexpendable	<u>403,407,109</u>
TOTAL FUND BALANCE	<u>403,407,109</u>
TOTAL LIABILITIES AND FUND BALANCE	<u>\$ 448,696,081</u> (Continued)

See notes to financial statements.

BALANCE SHEET--GOVERNMENTAL FUND--Continued

OKLAHOMA STATE REGENTS FOR HIGHER EDUCATION

June 30, 2012

Reconciliation of the Governmental Fund

Balance Sheet to the Statement of Net Assets:

Total fund balance - governmental fund	\$ 403,407,109
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Amounts reported for governmental activities in
the Statement of Net Assets are different because:

Bond issue costs are not available to pay for current-period expenditures and, therefore, are not recorded in the funds	1,635,739
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Long-term liabilities, including bonds payable, are not due and payable in the current period and, therefore, are not reported in the funds	<u>(132,075,000)</u>
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Net assets of governmental activities	<u>\$ 272,967,848</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, 2012

	<u>Endowment Fund</u>
REVENUES	
Investment return	\$ 6,434,033
EXPENDITURES	
Contractual services	330,532
Payments to system institutions	18,471,224
Other	786,988
Interest and other financing	<u>5,136,808</u>
Total expenditures	<u>24,725,552</u>
Deficiency of revenues over expenditures	(18,291,519)
OTHER FINANCING SOURCES	
Transfers in	<u>13,119,606</u>
Net change in fund balance	(5,171,913)
FUND BALANCE, BEGINNING OF YEAR	<u>408,579,022</u>
FUND BALANCE, END OF YEAR	<u>\$ 403,407,109</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, 2012

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 \$ (5,171,913)

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

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 (2,067,393)

Change in net assets of governmental activities \$ (7,239,306)
(Concluded)

See notes to financial statements.

STATEMENT OF NET ASSETS--PROPRIETARY FUNDS

OKLAHOMA STATE REGENTS FOR HIGHER EDUCATION

June 30, 2012

	Regents <u>Operating Fund</u>	OCAP <u>Operating Fund</u>	<u>Total</u>
ASSETS			
CURRENT ASSETS			
Cash and cash equivalents	\$ 73,796,854	\$ -	\$ 73,796,854
Investments	2,213,896	-	2,213,896
Receivables			
Accounts receivable	13,243,455	-	13,243,455
Interest	78,866	-	78,866
Other assets	3,195,738	-	3,195,738
Restricted assets			
Cash and cash equivalents	21,253,659	15,862,415	37,116,074
Investments	1,101,086	-	1,101,086
Receivables			
Accounts receivable	3,186,110	1,906,181	5,092,291
Bond proceeds receivable	6,292	-	6,292
Administrative cost allowance	-	360,154	360,154
Interest	30,646	31,138	61,784
Other Assets	27,558	-	27,558
TOTAL CURRENT ASSETS	118,134,160	18,159,888	136,294,048
NONCURRENT ASSETS			
Prepaid pension asset	180,371	-	180,371
Capital assets, net	24,537,911	346,644	24,884,555
TOTAL ASSETS	142,852,442	18,506,532	161,358,974

(Continued)

STATEMENT OF NET ASSETS--PROPRIETARY FUNDS--Continued

OKLAHOMA STATE REGENTS FOR HIGHER EDUCATION

June 30, 2012

	Regents <u>Operating Fund</u>	OCAP <u>Operating Fund</u>	<u>Total</u>
LIABILITIES			
CURRENT LIABILITIES			
Accounts payable and accrued expenses	\$ 12,758,534	\$ -	\$ 12,758,534
Compensated absences	601,257	-	601,257
Other postemployment benefits	165,332	-	165,332
Undistributed fiscal year 2012 state appropriations	6,956,066	-	6,956,066
Liabilities payable from restricted assets:			
Accounts payable and accrued expenses	1,675,717	327,328	2,003,045
Compensated absences	41,188	225,565	266,753
Accrued pension obligation	-	91,267	91,267
Other postemployment benefits	-	28,339	28,339
Master lease payable	1,271,250	-	1,271,250
Unamortized bond premium	40,209	-	40,209
Due to colleges	335,473	-	335,473
Undistributed fiscal year 2012 state appropriations	5,277,468	-	5,277,468
TOTAL CURRENT LIABILITIES	<u>29,122,494</u>	<u>672,499</u>	<u>29,794,993</u>
LONG-TERM LIABILITIES			
Compensated absences	656,038	-	656,038
Other postemployment benefits	4,685,886	-	4,685,886
Long-term liabilities payable from restricted assets:			
Compensated absences	55,977	174,079	230,056
Accrued pension obligation	-	919,126	919,126
Other postemployment benefits	-	2,652,780	2,652,780
Master lease payable	3,234,333	-	3,234,333
Unamortized bond premium	97,173	-	97,173
TOTAL LONG-TERM LIABILITIES	<u>8,729,407</u>	<u>3,745,985</u>	<u>12,475,392</u>
TOTAL LIABILITIES	<u>37,851,901</u>	<u>4,418,484</u>	<u>42,270,385</u>
NET ASSETS			
Invested in capital assets, net of related debt	24,537,911	346,644	24,884,555
Restricted			
Educational grants and scholarships	18,185,678	-	18,185,678
Oklahoma College Assistance Program	-	13,741,404	13,741,404
Capital Projects	5,895,442	-	5,895,442
Unrestricted	56,381,510	-	56,381,510
TOTAL NET ASSETS	<u>\$ 105,000,541</u>	<u>\$ 14,088,048</u>	<u>\$ 119,088,589</u>
			(Concluded)

See notes to financial statements.

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

OKLAHOMA STATE REGENTS FOR HIGHER EDUCATION

Year Ended June 30, 2012

	Regents Operating Fund	OCAP Operating Fund	Total
OPERATING REVENUES			
Administrative fees	\$ -	\$ 1,519,302	\$ 1,519,302
Default loan collections	-	18,233,194	18,233,194
Federal grants and contracts	21,769,172	-	21,769,172
Private gifts	559,665	-	559,665
OneNet service fees	12,615,152	-	12,615,152
Other	4,190,218	59,559	4,249,777
TOTAL OPERATING REVENUES	39,134,207	19,812,055	58,946,262
OPERATING EXPENSES			
Compensation	17,096,724	6,750,310	23,847,034
Contractual services	6,373,745	5,555,068	11,928,813
Communications	9,243,200	249,383	9,492,583
Scholarships, tuition, and other incentives	14,081,006	-	14,081,006
Supplies and materials	350,244	66,411	416,655
Utilities	56,690	-	56,690
Other	2,646,755	6,229,071	8,875,826
Default aversion fees	-	1,534,745	1,534,745
Depreciation and amortization	5,151,129	179,534	5,330,663
TOTAL OPERATING EXPENSES	54,999,493	20,564,522	75,564,015
OPERATING LOSS	(15,865,286)	(752,467)	(16,617,753)
NONOPERATING REVENUES (EXPENSES)			
State appropriations	1,007,728,029	-	1,007,728,029
Other state income	13,870,710	-	13,870,710
Payments to system institutions	(952,495,271)	-	(952,495,271)
OCIA on-behalf payments	(9,791,620)	-	(9,791,620)
Interagency payments	(8,935,785)	-	(8,935,785)
On-behalf Teachers' Retirement System contributions	885,620	355,446	1,241,066
Return on investment	1,852,949	422,785	2,275,734
Loss on disposal of capital assets	(10,794)	(329)	(11,123)
Interest expense	(181,254)	-	(181,254)
NET NONOPERATING REVENUES	52,922,584	777,902	53,700,486
LOSS BEFORE CAPITAL APPROPRIATIONS AND OTHER REVENUES AND EXPENSES	37,057,298	25,435	37,082,733
Private gifts for capital assets	-	-	-
Transfers out	(13,119,606)	-	(13,119,606)
INCREASE IN NET ASSETS	23,937,692	25,435	23,963,127
NET ASSETS AT BEGINNING OF YEAR	81,062,849	14,062,613	95,125,462
NET ASSETS AT END OF YEAR	\$ 105,000,541	\$ 14,088,048	\$ 119,088,589

See notes to financial statements.

STATEMENT OF CASH FLOWS--PROPRIETARY FUNDS

OKLAHOMA STATE REGENTS FOR HIGHER EDUCATION

Year Ended June 30, 2012

	Regents Operating Fund	OCAP Operating Fund	Total
CASH FLOWS FROM OPERATING ACTIVITIES			
Receipts for guarantee service	\$ -	\$ 17,949,295	\$ 17,949,295
Receipts from Federal government	21,968,186	-	21,968,186
Receipts from state and private sources	559,665	-	559,665
Receipts for OneNet services	1,500,269	-	1,500,269
Receipts from other sources	4,469,738	59,323	4,529,061
Payments to suppliers	(18,571,239)	(12,604,321)	(31,175,560)
Payments to employees	(14,609,300)	(5,823,783)	(20,433,083)
Payments for scholarships and fellowships	(13,535,546)	-	(13,535,546)
NET CASH USED IN OPERATING ACTIVITIES	(18,218,227)	(419,486)	(18,637,713)
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES			
Receipt of state appropriations	1,008,591,776	-	1,008,591,776
Receipt of other state income	13,870,710	-	13,870,710
Payments for assistance grants	(9,791,620)	-	(9,791,620)
Payments to system institutions	(960,620,894)	-	(960,620,894)
Transfers to other funds	(13,119,606)	-	(13,119,606)
NET CASH PROVIDED BY NONCAPITAL FINANCING ACTIVITIES	38,930,366	-	38,930,366
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES			
Acquisition of capital assets	(4,286,507)	(68,818)	(4,355,325)
Principal payments on leases	913,696	-	913,696
Interest paid on leases	(181,258)	-	(181,258)
NET CASH USED IN CAPITAL AND RELATED FINANCING ACTIVITIES	(3,554,069)	(68,818)	(3,622,887)
CASH FLOWS FROM INVESTING ACTIVITIES			
Proceeds from sales and maturities of investments	546,003	-	546,003
Earnings reinvested	1,838	-	1,838
Interest received	1,793,854	424,447	2,218,301
NET CASH PROVIDED BY INVESTING ACTIVITIES	2,341,695	424,447	2,766,142
NET CHANGE IN CASH	19,499,765	(63,857)	19,435,908
CASH AND CASH EQUIVALENTS AT BEGINNING OF YEAR	<u>75,550,748</u>	<u>15,926,272</u>	<u>91,477,020</u>
CASH AND CASH EQUIVALENTS AT END OF YEAR	<u>\$ 95,050,513</u>	<u>\$ 15,862,415</u>	<u>\$ 110,912,928</u>

(Continued)

See notes to financial statements.

STATEMENT OF CASH FLOWS--PROPRIETARY FUNDS--Continued

OKLAHOMA STATE REGENTS FOR HIGHER EDUCATION

Year Ended June 30, 2012

	Regents <u>Operating Fund</u>	OCAP <u>Operating Fund</u>	<u>Total</u>
RECONCILIATION OF OPERATING LOSS TO NET CASH USED IN OPERATING ACTIVITIES			
Operating loss	\$ (15,865,286)	\$ (752,467)	\$ (16,617,753)
Adjustments to reconcile operating loss to net cash used in operating activities			
Depreciation and amortization	5,151,129	179,534	5,330,663
On-behalf TRS contributions	885,620	355,446	1,241,066
Changes in operating assets and liabilities			
Accounts receivable	(13,604,678)	(380,263)	(13,984,941)
Accounts payable and accrued expenses	5,214,988	178,264	5,393,252
Total adjustments	<u>(2,352,941)</u>	<u>332,981</u>	<u>(2,019,960)</u>
NET CASH USED IN OPERATING ACTIVITIES	<u>\$ (18,218,227)</u>	<u>\$ (419,486)</u>	<u>\$ (18,637,713)</u>
NONCASH INVESTING, CAPITAL AND RELATED FINANCING ACTIVITIES			
Unrealized gain on investments	<u>\$ 60,537</u>	<u>\$ -</u>	<u>\$ 60,537</u>
Loss on disposal of capital assets	<u>\$ (10,794)</u>	<u>\$ (329)</u>	<u>\$ (11,123)</u>
RECONCILIATION OF CASH AND CASH EQUIVALENTS TO STATEMENTS OF NET ASSETS			
Current Assets			
Cash and cash equivalents	\$ 73,796,854	\$ -	\$ 73,796,854
Restricted cash and cash equivalents	<u>21,253,659</u>	<u>15,862,415</u>	<u>37,116,074</u>
TOTAL CASH AND CASH EQUIVALENTS	<u>\$ 95,050,513</u>	<u>\$ 15,862,415</u>	<u>\$ 110,912,928</u>
			(Concluded)

See notes to financial statements.

STATEMENT OF FIDUCIARY NET ASSETS--FIDUCIARY FUND

OKLAHOMA STATE REGENTS FOR HIGHER EDUCATION

June 30, 2012

	<u>OCAP Federal Fund</u>
ASSETS	
CURRENT ASSETS	
Cash	\$ 8,796,846
Receivables	
Federal reinsurance	7,826,203
Non-reinsured defaulted loans	8,918,485
Other	<u>63,777</u>
TOTAL CURRENT ASSETS	<u>25,605,311</u>
TOTAL ASSETS	<u>25,605,311</u>
LIABILITIES	
CURRENT LIABILITIES	
Accounts payable and accrued expenses	1,779,892
Default loan collections due to USDE	<u>4,111,111</u>
TOTAL CURRENT LIABILITIES	5,891,003
Long-term liabilities	
Allowance for default claims	<u>3,546,479</u>
TOTAL LIABILITIES	9,437,482
NET ASSETS	
Held in trust for Federal government	<u>16,167,829</u>
TOTAL NET ASSETS	<u>16,167,829</u>
TOTAL LIABILITIES AND NET ASSETS	<u>\$ 25,605,311</u>

See notes to financial statements.

STATEMENT OF CHANGES IN FIDUCIARY NET ASSETS--FIDUCIARY FUND

OKLAHOMA STATE REGENTS FOR HIGHER EDUCATION

Year Ended June 30, 2012

	<u>OCAP Federal Fund</u>
ADDITIONS	
Federal reinsurance	\$ 150,261,047
Loan collections	48,145,415
Fee revenues	1,534,164
Interest income	91,324
Other additions	<u>48,524</u>
TOTAL ADDITIONS	<u>200,080,474</u>
DEDUCTIONS	
Purchase of defaulted Loans	157,994,568
Default loan collections due to USDE	43,867,593
Provision for default loans	<u>(597,673)</u>
TOTAL DEDUCTIONS	<u>201,264,488</u>
DECREASE IN NET ASSETS	(1,184,014)
NET ASSETS, BEGINNING OF YEAR	<u>17,351,843</u>
NET ASSETS, END OF YEAR	<u>\$ 16,167,829</u>

See notes to financial statements.

NOTES TO BASIC FINANCIAL STATEMENTS

OKLAHOMA STATE REGENTS FOR HIGHER EDUCATION

June 30, 2012

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--Continued

OKLAHOMA STATE REGENTS FOR HIGHER EDUCATION

June 30, 2012

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 not to apply those 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).

Government-wide financial statements - The statement of net assets 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.

NOTES TO BASIC FINANCIAL STATEMENTS--Continued

OKLAHOMA STATE REGENTS FOR HIGHER EDUCATION

June 30, 2012

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

Basis of Presentation--Continued:

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--Continued

OKLAHOMA STATE REGENTS FOR HIGHER EDUCATION

June 30, 2012

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--Continued

OKLAHOMA STATE REGENTS FOR HIGHER EDUCATION

June 30, 2012

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, 2012. The net change in fair value of investments is recorded as investment return on the statement of revenues, expenses, and changes in net assets 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"), estimated collectible non-reinsured defaulted loans, and charges by OneNet for internet and other telecommunication services. The estimate of collectible non-reinsured defaulted loans is based on historical recovery experience.

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 49 communication sites that are used in support of the OneNet system.

NOTES TO BASIC FINANCIAL STATEMENTS--Continued

OKLAHOMA STATE REGENTS FOR HIGHER EDUCATION

June 30, 2012

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 by the OCAP through an annual charge to operations in the Federal Fund. 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.

Deferred Guarantee Fees: OCAP collected guarantee fees from student borrowers at the time of loan disbursement by lending institutions. Effective July 1, 2001, with the approval from the State Regents, OCAP began waiving the guarantee fees normally collected from student borrowers.

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 November 27, 2012, the date the financial statements were available to be issued.

NOTES TO BASIC FINANCIAL STATEMENTS--Continued

OKLAHOMA STATE REGENTS FOR HIGHER EDUCATION

June 30, 2012

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, 2012, the carrying amount of the State Regents' deposits with the State Treasurer was approximately \$189,109,677. Of the funds on deposit with OST, \$149,973,037 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:

<u>OK INVEST Portfolio</u>	<u>Cost</u>	<u>Market Value</u>
U.S. Agency Securities	\$ 53,023,081	\$ 53,178,931
Money Market Mutual Fund	20,528,358	20,528,358
Mortgage Backed Agency Securities	66,195,795	70,330,243
Municipal Bonds	2,690,046	3,069,034
Foreign Bonds	754,696	754,696
U.S. Treasury Obligations	1,937,020	2,416,568
Commercial Paper/Certificates of Deposit	4,844,041	4,844,041
Totals	<u>\$ 149,973,037</u>	<u>\$ 155,121,871</u>

NOTES TO BASIC FINANCIAL STATEMENTS--Continued

OKLAHOMA STATE REGENTS FOR HIGHER EDUCATION

June 30, 2012

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--Continued

OKLAHOMA STATE REGENTS FOR HIGHER EDUCATION

June 30, 2012

NOTE C--DEPOSITS AND INVESTMENTS--Continued

Investments:

The State Regents had the following investments as of June 30, 2012:

<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	\$ 17,576,398	N/A			
Equity index fund	47,015,940	N/A			
International equity fund	26,109,835	N/A			
Limited liability company	3,198,977	N/A			
Limited partnership	34,183,535	N/A			
Fixed income					
Multi-strategy bond fund	37,929,323	AA	4.0 yrs		7.42 yrs
Global bond fund	23,832,680	AA	5.8 yrs		7.94 yrs
Commingled funds-fixed	51,075,393	AA+	4.52 yrs	7.33 yrs	7.34 yrs
Hedge funds	137,030,156	N/A			
Cash equivalent funds	999,973				
Total Endowment Fund	378,952,210				
Governmental activities investments	\$ 378,952,210				

NOTES TO BASIC FINANCIAL STATEMENTS--Continued

OKLAHOMA STATE REGENTS FOR HIGHER EDUCATION

June 30, 2012

NOTE C--DEPOSITS AND INVESTMENTS--Continued

Investments--Continued:

The State Regents had the following investments as of June 30, 2012:

<u>Type of Investment</u>	<u>Fair Value / Carrying Amount</u>	<u>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	\$ 145,699	N/A			
Fixed income					
Multi-strategy bond fund	<u>955,387</u>	AA	4.0 yrs	7.42 yrs	
Total Academic Scholars' Trust Fund	<u>\$ 1,101,086</u>				
Retirement Fund					
Equity					
CREF stock fund	\$ 216,987	N/A			
Fixed income					
CREF bond market fund	1,938,091	N/A	5.09 yrs		6.85 yrs
Money market					
CREF money market fund	<u>58,818</u>	N/A			
Total Retirement Fund	<u>2,213,896</u>				
Money Market					
Ready assets	<u>-</u>	N/A			
Total money market	<u>-</u>				
Business-type activities investments	<u>\$ 3,314,982</u>				

NOTES TO BASIC FINANCIAL STATEMENTS--Continued

OKLAHOMA STATE REGENTS FOR HIGHER EDUCATION

June 30, 2012

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, 2012 is \$447,536,852, 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 \$35,330,010. 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--Continued

OKLAHOMA STATE REGENTS FOR HIGHER EDUCATION

June 30, 2012

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--Continued

OKLAHOMA STATE REGENTS FOR HIGHER EDUCATION

June 30, 2012

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 Funds 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--Continued

OKLAHOMA STATE REGENTS FOR HIGHER EDUCATION

June 30, 2012

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, 2012.

NOTES TO BASIC FINANCIAL STATEMENTS--Continued

OKLAHOMA STATE REGENTS FOR HIGHER EDUCATION

June 30, 2012

NOTE D--CAPITAL ASSETS

A summary of the changes in capital assets is as follows for the year ended June 30, 2012:

	Balance June 30, 2011	Additions	Retirements	Balance June 30, 2012
<i>Business-type activities</i>				
Regents Operating Fund:				
Capital assets				
Buildings	\$ 3,887,161	\$ 420,480	\$ -	\$ 4,307,641
Equipment	48,335,969	10,578,015	(2,175,898)	56,738,086
Motor vehicles	237,224	82,170	(69,821)	249,573
Total capital assets	<u>52,460,354</u>	<u>11,080,665</u>	<u>(2,245,719)</u>	<u>61,295,300</u>
Less accumulated depreciation				
Buildings	(2,661,851)	(100,746)	-	(2,762,597)
Equipment	(30,773,470)	(5,240,188)	2,173,212	(33,840,446)
Motor vehicles	(179,729)	(36,331)	61,713	(154,347)
Total accumulated depreciation	<u>(33,615,050)</u>	<u>(5,377,265)</u>	<u>2,234,925</u>	<u>(36,757,390)</u>
Capital assets, net	<u>18,845,304</u>	<u>5,703,400</u>	<u>(10,794)</u>	<u>24,537,910</u>
OCAP Operating Fund:				
Capital assets				
Equipment	3,154,516	56,965	(310,921)	2,900,560
Leasehold improvements	35,932	-	-	35,932
Motor vehicles	19,907	-	-	19,907
Total capital assets	<u>3,210,355</u>	<u>56,965</u>	<u>(310,921)</u>	<u>2,956,399</u>
Less accumulated depreciation				
Equipment	(2,706,533)	(172,348)	310,592	(2,568,289)
Leasehold improvements	(14,372)	(7,186)	-	(21,558)
Motor vehicles	(19,907)	-	-	(19,907)
Total accumulated depreciation	<u>(2,740,812)</u>	<u>(179,534)</u>	<u>310,592</u>	<u>(2,609,754)</u>
Capital assets, net	<u>469,543</u>	<u>(122,569)</u>	<u>(329)</u>	<u>346,645</u>
Business-type activities capital assets	55,670,709	11,137,630	(2,556,640)	64,251,699
Business-type activities accumulated depreciation	<u>(36,355,862)</u>	<u>(5,556,799)</u>	<u>2,545,517</u>	<u>(39,367,144)</u>
Business-type activities capital assets, net	<u>\$ 19,314,847</u>	<u>\$ 5,580,831</u>	<u>\$ (11,123)</u>	<u>\$ 24,884,555</u>

NOTES TO BASIC FINANCIAL STATEMENTS--Continued

OKLAHOMA STATE REGENTS FOR HIGHER EDUCATION

June 30, 2012

NOTE D--CAPITAL ASSETS--Continued

A summary of the changes in capital assets is as follows for the year ended June 30, 2012:

	<u>June 30, 2011</u>	<u>Additions</u>	<u>Retirements</u>	<u>June 30, 2012</u>
<i>Fiduciary Fund</i>				
Capital assets				
Equipment	\$ 846,428	\$ -	\$ (18,987)	\$ 827,441
Motor vehicles	<u>17,049</u>	<u>-</u>	<u>-</u>	<u>17,049</u>
Total capital assets	<u>863,477</u>	<u>-</u>	<u>(18,987)</u>	<u>844,490</u>
Less accumulated depreciation				
Equipment	(846,428)	-	18,987	(827,441)
Motor vehicles	<u>(17,049)</u>	<u>-</u>	<u>-</u>	<u>(17,049)</u>
Total accumulated depreciation	<u>(863,477)</u>	<u>-</u>	<u>18,987</u>	<u>(844,490)</u>
Fiduciary fund capital assets, net	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>

NOTES TO BASIC FINANCIAL STATEMENTS--Continued

OKLAHOMA STATE REGENTS FOR HIGHER EDUCATION

June 30, 2012

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, 2012, 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, 8.35% from January 1, 2008 through June 30, 2008, and 7.85% from July 1, 2007 through December 31, 2007. The contribution rate for OTRS members is 7% of total compensation. The employee's share of the contribution is paid directly by the State 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 \$1,241,066 and \$1,121,658 respectively, for the years ended June 30, 2012 and 2011, 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, 2012, 2011 and 2010 were approximately \$2,834,691, \$2,897,600, and \$2,908,700, respectively. These contributions included the State Regent's statutory contribution and the share of the employee's contribution paid directly by the State Regents.

NOTES TO BASIC FINANCIAL STATEMENTS--Continued

OKLAHOMA STATE REGENTS FOR HIGHER EDUCATION

June 30, 2012

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 \$155,643 for the year ended June 30, 2012. 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 State Regents are established and may be amended by the State Board of Regents. All contributions are made by the State 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--Continued

OKLAHOMA STATE REGENTS FOR HIGHER EDUCATION

June 30, 2012

NOTE E--EMPLOYEE RETIREMENT BENEFITS--Continued

3. *Supplemental Benefit Plan--Continued*

Annual Pension Cost and Net Pension Obligation (Asset)

The State Regent's annual pension cost and net pension asset of the Plan for the year ended June 30, 2012 were as follows:

	<u>Regents</u>	<u>OCAP</u>	<u>Total</u>
Annual required contribution	\$ 838,304	\$ 303,571	\$ 1,141,875
Interest on net pension obligation (asset)	(30,872)	60,119	29,247
Adjustment to annual required contribution	<u>43,378</u>	<u>(84,473)</u>	<u>(41,095)</u>
Annual pension cost	850,810	279,217	1,130,027
Contributions made	<u>(619,556)</u>	<u>(70,409)</u>	<u>(689,965)</u>
Change in net pension obligation	231,254	208,808	440,062
Net pension obligation (asset)			
at beginning of year	<u>(411,625)</u>	<u>801,585</u>	<u>389,960</u>
Net pension obligation (asset) at end of year	<u>\$ (180,371)</u>	<u>\$ 1,010,393</u>	<u>\$ 830,022</u>

At June 30, 2012 the State Regent's business-type activity includes the net pension asset in non-current assets. The OCAP business-type activity includes the net pension obligation in current and non-current liabilities.

The annual required contribution for the current year was determined as part of an actuarial valuation on June 30, 2012, using the projected unit credit method. The actuarial assumptions included: (a) a discount rate of 7.5% per year compounded annually, (b) projected salary increases of 2.0% including inflation and merit, compounded annually, (c) projected annuity increases of 6.0% 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 Bank of Oklahoma 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--Continued

OKLAHOMA STATE REGENTS FOR HIGHER EDUCATION

June 30, 2012

NOTE E--EMPLOYEE RETIREMENT BENEFITS--Continued

3. *Supplemental Benefit Plan--Continued*

Trend Information

Year Ended June 30	Annual Pension Cost	% of APC Contributed	Net Pension Obligation
2012	\$ 1,130,027	61.1%	\$ 830,022
2011	\$ 1,108,518	61.7%	\$ 389,960
2010	\$ 931,191	65.3%	\$ (34,220)

Funded Status

The funded status of the Plan as of June 30, 2012 was as follows:

	2012
Actuarial accrued liability (AAL)	\$ 9,991,725
Actuarial value of plan assets	101
Unfunded actuarial accrued liability (UAAL)	<u>\$ 9,991,624</u>
Funded ratio (actuarial value of plan assets/AAL)	0.00%
Covered payroll (active plan members)	\$ 5,968,420
UAAL as a percentage of covered payroll	167.41%

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--Continued

OKLAHOMA STATE REGENTS FOR HIGHER EDUCATION

June 30, 2012

NOTE E--EMPLOYEE RETIREMENT BENEFITS--Continued

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

Funding Policy - Contribution requirements of the State Regents are established and may be amended by the State Board of Regents. All contributions are made by the State Regents. Benefits are funded under a "pay as you go" funding method; however expenses are recorded as benefits accumulate.

Annual OPEB cost and net OPEB obligation

The State Regents' annual other post employment benefit ("OPEB") cost and net OPEB obligations of the OPEB health and dental insurance plan for 2012 are as follows:

	2012		
	Regents	OCAP	Total
Annual required contribution	\$ 1,189,700	\$ 525,682	\$ 1,715,382
Interest on net OPEB obligation	202,978	118,056	321,034
Adjustment to annual required contribution	<u>(310,799)</u>	<u>(180,766)</u>	<u>(491,565)</u>
Annual OPEB cost	1,081,879	462,972	1,544,851
Contributions made	<u>(96,904)</u>	<u>(30,531)</u>	<u>(127,435)</u>
Increase in net OPEB obligation	984,975	432,441	1,417,416
Net OPEB obligation at beginning of year	<u>3,866,243</u>	<u>2,248,678</u>	<u>6,114,921</u>
Net OPEB obligation at end of year	<u>\$ 4,851,218</u>	<u>\$ 2,681,119</u>	<u>\$ 7,532,337</u>

The net pension obligation at June 30, 2012 for both the Regent's and OCAP business-type activities is included in current and non-current liabilities.

NOTES TO BASIC FINANCIAL STATEMENTS--Continued

OKLAHOMA STATE REGENTS FOR HIGHER EDUCATION

June 30, 2012

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 2012 was determined as part of an actuarial valuation on June 30, 2012, using the projected unit credit actuarial cost method. The actuarial assumptions included (a) discount rate of 5.25% per year compounded annually, (b) retirement at the earlier of (1) attainment of age 62 and completion of 10 years of OTRS service, or (2) when age plus OTRS service total at least 80 (90 for members joining OTRS after June 30, 1992), and (c) medical, dental, and vision rates increasing 3-6.5% 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
2012	\$ 1,544,850	8.2%	\$ 7,532,337
2011	\$ 1,765,154	7.2%	\$ 6,114,921
2010	\$ 1,439,976	6.8%	\$ 4,477,203

Funded Status

The funded status of the plan as of June 30, 2012 was as follows:

	2012
Actuarial accrued liability (AAL)	\$ 10,398,801
Actuarial value of plan assets	-
Unfunded actuarial accrued liability (UAAL)	\$ 10,398,801
Funded ratio (actuarial value of plan assets/AAL)	0.00%
Covered payroll (active plan members)	\$ 13,377,852
UAAL as a percentage of covered payroll	77.73%

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

NOTES TO BASIC FINANCIAL STATEMENTS--Continued

OKLAHOMA STATE REGENTS FOR HIGHER EDUCATION

June 30, 2012

NOTE F--OKLAHOMA COLLEGE ASSISTANCE PROGRAM

The State Regents administer the Oklahoma College Assistance Program ("OCAP"). Prior to March 10, 2011, OCAP was known as the Oklahoma Guaranteed Student Loan Program (OGSLP). 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, 2012, outstanding loans totaled \$2,222,820,648.

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, provide financial literacy and college access activities, provide default aversion assistance to lenders for delinquent loans, pay lender claims for loans in default and collect on loans on which default claims have been paid for the existing FFELP portfolio.

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, 2012, \$7,826,203 was due from the USDE to the OCAP federal fund for claims submitted.

Additionally, students with loans that have previously defaulted will begin repayment of the balance to the OCAP. Of the payments received from students on defaulted loans, varying percentages of the repayment depending on the type of collection and loan is retained by the OCAP with the remainder remitted to the USDE. As of June 30, 2012, \$4,111,111 was due to the USDE from the OCAP federal fund for collections on defaulted loans.

NOTES TO BASIC FINANCIAL STATEMENTS--Continued

OKLAHOMA STATE REGENTS FOR HIGHER EDUCATION

June 30, 2012

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, 2012:

<u>Year Ending June 30,</u>	<u>Principal</u>	<u>Interest</u>
2013	\$ 1,271,250	\$ 158,766
2014	1,306,250	123,892
2015	1,354,750	75,468
2016	573,333	22,495
2017	-	-
	<u>\$ 4,505,583</u>	<u>\$ 380,621</u>

NOTES TO BASIC FINANCIAL STATEMENTS--Continued

OKLAHOMA STATE REGENTS FOR HIGHER EDUCATION

June 30, 2012

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, are being 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 will serve 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 \$28,670,000 will be outstanding as of the date of the issuance.

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--Continued

OKLAHOMA STATE REGENTS FOR HIGHER EDUCATION

June 30, 2012

NOTE I--LEASE COMMITMENTS--Continued

The following is a schedule of annual future minimum payments as of June 30, 2012:

<u>Year Ending June 30,</u>	<u>Principal</u>	<u>Interest</u>
2013	\$ 5,100,000	\$ 6,386,331
2014	5,190,000	6,296,061
2015	5,325,000	6,162,678
2016	5,495,000	5,993,876
2017	5,700,000	5,788,363
2018-2021	25,445,000	20,499,980
2022-2026	39,660,000	17,773,917
2027-2030	<u>40,160,000</u>	<u>5,786,154</u>
Total	<u>\$ 132,075,000</u>	<u>\$ 74,687,360</u>

Operating Leases

The State Regents are engaged in various operating lease agreements.

The State Regents lease office space for its core operations from the Presbyterian Health Foundation (PHF). Rental expense of approximately \$782,100 was paid to the PHF for the State Regents' operating facilities for the year ended June 30, 2012.

After months of negotiating the terms of a new lease agreement, PHF has reduced the current rental rate from \$17.44 per square foot to \$15.00 per square foot from August 1, 2011 through July 31, 2014, \$16.00 per square foot from August 1, 2014 through July 31, 2017; and \$17.00 per square foot from August 1, 2017 through July 31, 2021. In return for these lower rental rates, OSRHE agreed to a ten-year lease term. OSRHE is allowed to terminate the agreement at any time, with or without cause, by providing thirty (30) days written notice of such termination.

The State Regents lease office space for OCAP from Oklahoma Law Enforcement Retirement System. Rental expense of approximately \$419,000 was paid by OCAP for the year ended June 30, 2012. OCAP's current lease agreement, effective February 2009, with yearly renewal options, will expire January 31, 2013 as OCAP has elected to terminate the lease as of that period in time. OCAP has elected to enter into a new lease agreement for a reduced amount of office space from PHF effective February 1, 2013 which will expire July 31, 2021.

NOTES TO BASIC FINANCIAL STATEMENTS--Continued

OKLAHOMA STATE REGENTS FOR HIGHER EDUCATION

June 30, 2012

NOTE I--LEASE COMMITMENTS--Continued

OCAP has entered into an agreement with Sallie Mae for a student loan guaranty servicing system. Processing charges were approximately \$1,391,000 for the year ended June 30, 2012. 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 \$1,000,000.

Rental expense of \$27,700 was paid for storage facilities for the year ended June 30, 2012. Rental expense of \$60,900 was paid for parking facilities for the year ended June 30, 2012.

NOTE J--LONG-TERM LIABILITIES

Long-term liability activity was as follows for the year ended June 30, 2012:

	2012				
	Balance June 30, 2011	Additions	Deletions	Balance June 30, 2012	Due Within One Year
<i>Business-type activities</i>					
Regents Operating Fund:					
Compensated absences	\$ 1,300,341	\$ 748,979	\$ (694,860)	\$ 1,354,460	\$ 642,445
Accrued post-employment benefits	3,866,243	1,081,879	(96,904)	4,851,218	165,332
Master equipment leases payable	5,754,583	-	(1,249,000)	4,505,583	1,271,250
Unamortized bond premium	177,591	-	(40,209)	137,382	40,209
	<u>11,098,758</u>	<u>1,830,858</u>	<u>(2,080,973)</u>	<u>10,848,643</u>	<u>2,119,236</u>
OCAP Operating Fund:					
Compensated absences	472,210	171,505	(244,071)	399,644	225,565
Accrued pension obligation	801,585	279,217	(70,409)	1,010,393	91,267
Accrued post-employment benefits	<u>2,248,678</u>	<u>462,971</u>	<u>(30,530)</u>	<u>2,681,119</u>	<u>28,339</u>
	<u>3,522,473</u>	<u>913,693</u>	<u>(345,010)</u>	<u>4,091,156</u>	<u>345,171</u>
Business-type Activities Total	<u>\$ 14,621,231</u>	<u>\$ 2,744,551</u>	<u>\$ (2,425,983)</u>	<u>\$ 14,939,799</u>	<u>\$ 2,464,407</u>
<i>Governmental Activities</i>					
OCIA lease payable	<u>\$ 132,075,000</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 132,075,000</u>	<u>\$ 5,100,000</u>
<i>Fiduciary Fund</i>					
Allowance for default claims	<u>\$ 4,144,152</u>	<u>\$ -</u>	<u>\$ (597,673)</u>	<u>\$ 3,546,479</u>	<u>\$ -</u>
	<u>\$ 4,144,152</u>	<u>\$ -</u>	<u>\$ (597,673)</u>	<u>\$ 3,546,479</u>	<u>\$ -</u>

NOTES TO BASIC FINANCIAL STATEMENTS--Continued

OKLAHOMA STATE REGENTS FOR HIGHER EDUCATION

June 30, 2012

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 coverages. 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 2011, The Governmental Accounts Standards Board (GASB) issued Statement No. 63, *Financial Reporting of Deferred Outflows of Resources, Deferred Inflows of Resources, and Net Position*, which establishes guidance for reporting deferred outflows of resources, deferred inflows of resources, and net position in a statement of financial position. The Statement specifies that the statement of net position should report all assets, deferred outflows of resources, liabilities, deferred inflows of resources, and net position. Statement 63 also specifies that the statement of net position should report the residual amount as net position rather than net assets. Under the Statement, net position should be displayed in three components similar to those currently required for net assets; net investment in capital assets, restricted, and unrestricted. The provisions of this Statement are effective for periods beginning after December 15, 2012 and will be applied on a prospective basis. The State Regents is currently evaluating the effects that Statement No. 63 may have on their financial statements.

NOTES TO BASIC FINANCIAL STATEMENTS--Continued

OKLAHOMA STATE REGENTS FOR HIGHER EDUCATION

June 30, 2012

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

In April 2012, the Governmental Accounting Standards Board (GASB) issued Statement No. 65, *Items Previously Reported as Assets and Liabilities*, which clarifies the appropriate reporting of deferred outflows of resources and deferred inflows of resources to ensure consistency in financial reporting. Statement No. 65 reclassifies and recognizes certain items currently being reported as assets and liabilities as one of four financial statement elements: deferred outflows of resources, outflows of resources, deferred inflows of resources, or inflows of resources. The provisions of this Statement are effective for periods beginning after December 15, 2012, and will be applied on a prospective basis. The State Regents is currently evaluating the effects that Statement No. 65 may have on their financial statements.

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, 2012

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)
6/30/2008	\$ 100	\$ 5,658,818	\$ 5,658,718	0.00%	\$ 6,446,989	87.8%
6/30/2009	\$ 101	\$ 7,999,618	\$ 7,999,517	0.00%	\$ 7,333,359	109.1%
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%

SCHEDULE OF FUNDING PROGRESS FOR OTHER POST EMPLOYMENT INSURANCE BENEFITS

Actuarial Valuation Date	Actuarial Value of Assets (a)	Actuarial Accrued Liability (AAL) (b)	Unfunded AAL (UAAL) (b-a)	Funded Ratio (a/b)	Covered Payroll (c)	UAAL as a percentage of Covered Payroll (b-a)/(c)
6/30/2008	\$ -	\$ 7,015,122	\$ 7,015,122	0.0%	\$ 17,137,063	40.9%
6/30/2009	\$ -	\$ 6,679,869	\$ 6,679,869	0.0%	\$ 18,314,105	36.5%
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%

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*

To the Coordinating Board of Control
Oklahoma State Regents for Higher Education

We have audited the financial statements of the governmental activities, the business-type activities and each major fund of Oklahoma State Regents for Higher Education (the "State Regents"), as of and for the year ended June 30, 2012, which collectively comprise the State Regents' basic financial statements, and have issued our report thereon dated November 27, 2012. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Internal Control over Financial Reporting

Management of the State Regents' is responsible for establishing and maintaining effective internal control over financial reporting. In planning and performing our audit, we considered the State Regents' internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the State Regents' internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the State Regents' internal control over financial reporting.

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

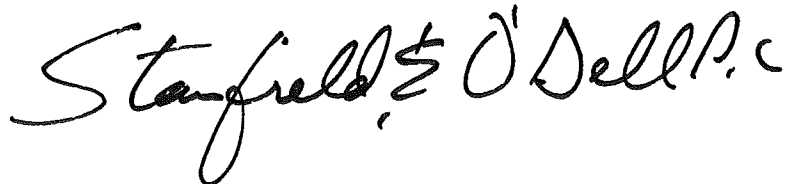
Our consideration of internal control over financial reporting was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over financial reporting that might be deficiencies, significant deficiencies, or material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

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*.

This report is intended solely for the information and use of the Coordinating Board of Control, management, federal awarding agencies and pass-through entities and is not intended to be and should not be used by anyone other than these specified parties.

Tulsa, Oklahoma
November 27, 2012

A handwritten signature in black ink that reads "Stanfield & O'Dell P.C." in a cursive, stylized script.

REPORTS REQUIRED BY
OMB CIRCULAR A-133

Independent Auditors' Report on Compliance
With Requirements Applicable to each Major Program
and Internal Control over Compliance in Accordance with OMB
Circular A-133 and the Schedule of Expenditures of Federal Awards

To the Coordinating Board of Control
Oklahoma State Regents for Higher Education

Compliance

We have audited the compliance of the Oklahoma State Regents for Higher Education (the "State Regents"), with the types of compliance requirements describe 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 its major federal programs for the year ended June 30, 2012. 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. Compliance with the requirements of laws, regulations, contracts, and grants applicable to each of its major federal programs is the responsibility of the State Regents' management. Our responsibility is to express an opinion on the State Regents' compliance based on our audit.

We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and U.S. Office of Management and Budget 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. Our audit does not provide a legal determination on the State Regents' compliance with those requirements.

In our opinion, the State Regents complied, in all material respects, with the requirements referred to above that are applicable to each of its major federal programs for the year ended June 30, 2012.

Internal Control over Compliance

The management of the State Regents is responsible for establishing and maintaining effective internal control over compliance with the requirements of laws, regulations, contracts, and grants applicable to federal programs. In planning and performing our audit, we considered the State Regents' internal control over compliance with requirements that could have a direct and material effect on a major federal program as a basis for designing our auditing procedures for the purpose of expressing our opinion on compliance 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.

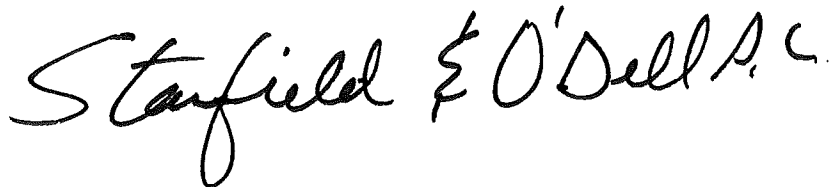
Our consideration of internal control over compliance was for the limited purpose described in the first paragraph of this section and would not necessarily identify all deficiencies in internal control over compliance that might be deficiencies, significant deficiencies, or material weaknesses. We did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

Schedule of Expenditures of Federal Awards

We have audited the basic financial statements of the State Regents as of and for the year ended June 30, 2012, and have issued our report thereon dated November 27, 2012. Our audit was conducted for the purpose of forming an opinion on the financial statements as a whole. The accompanying schedule of expenditures of federal awards is presented for purposes of additional analysis and is not a required part of the financial statements. Such information is the responsibility of management and was derived from and related directly to the underlying accounting and other records used to prepare the financial statements. The information has been subjected to the auditing procedures applied in the audit of the financial statement and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements or to the financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the information is fairly stated in all material respects in relation to the financial statements as a whole.

This report is intended solely for the information and use of the Coordinating Board of Control, management and federal awarding agencies and pass-through entities and is not intended to be and should not be used by anyone other than those specified parties.

Tulsa, Oklahoma
November 27, 2012

A handwritten signature in black ink that reads "Stanfield & O'Dell A.C." The signature is written in a cursive, flowing style.

SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS

OKLAHOMA STATE REGENTS FOR HIGHER EDUCATION

June 30, 2012

<u>Federal Grantor/Program Title</u>	<u>Federal CFDA Number</u>	<u>Expenditures</u>
<u>U.S. Department of Commerce:</u>		
Pass-through program from the Oklahoma Office of State Finance:		
DOC Recovery Act - Oklahoma Community Anchor Network (OCAN) - ARRA Funds	11.557	\$ 10,113,477
<u>U.S. Department of Education:</u>		
Federal Family Education Loan Program	84.032	200,327,417
Gaining Early Awareness and Readiness for Undergraduate Programs	84.334	3,839,087
Teacher and Principal Training and Recruiting	84.367	655,669
College Access Challenge Grant Program	84.378A	1,950,660
State Student Incentive Grants	84.069	6,903
<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	36,530
Temporary Assistance to Needy Families	93.558	4,179,642
Child Care and Development Block Grant	93.575	2,109,028
<u>Corporation for National and Community Service:</u>		
Volunteer in Service to America	94.013	<u>58,075</u>
TOTAL EXPENDITURES OF FEDERAL AWARDS		<u>\$ 223,276,488</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, 2012

NOTE A--SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The accompanying schedule of expenditures of federal awards has been prepared on the basis of accounting as defined by OMB Circular A-133. Under this basis, expenditures are recognized when the activity related to the award occurs.

NOTE B--SUB-RECIPIENTS

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

Teacher and Principal Training and Recruiting	84.367	\$	612,933
College Access Challenge Grant Program	84.378A	\$	831,185
Temporary Assistance to Needy Families	93.558	\$	4,179,642
Child Care and Development Block Grant	93.575	\$	1,737,798
Gaining Early Awareness and Readiness for Undergraduate Program	84.334	\$	332,000

SCHEDULE OF FINDINGS AND QUESTIONED COSTS

OKLAHOMA STATE REGENTS FOR HIGHER EDUCATION

June 30, 2012

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
DOC Recovery Act - Oklahoma Community Anchor Network (OCAN)	11.557

Dollar threshold used to distinguish between type A and type B programs: \$688,472

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

SCHEDULE OF FINDINGS AND QUESTIONED COSTS--Continued

OKLAHOMA STATE REGENTS FOR HIGHER EDUCATION

For the Year Ended June 30, 2012

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

None to report for the June 30, 2012 period.

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

None to report for the June 30, 2012 period.

SUMMARY SCHEDULE OF PRIOR AUDIT FINDINGS

OKLAHOMA STATE REGENTS FOR HIGHER EDUCATION

For the Year Ended June 30, 2012

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

None to report for the June 30, 2011 period.

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

None to report for the June 30, 2011 period.