

Re: 016861

NOV 17 2011

**OKLAHOMA STATE REGENTS
FOR HIGHER EDUCATION**

June 30, 2011

OKLAHOMA STATE REGENTS
FOR HIGHER EDUCATION

June 30, 2011

INDEPENDENT AUDITORS' REPORT.....	1
REQUIRED SUPPLEMENTARY INFORMATION	
Management's Discussion and Analysis.....	3
 BASIC FINANCIAL STATEMENTS	
<i>Government-Wide Financial Statements</i>	
Statement of Net Assets.....	15
Statement of Activities.....	17
<i>Fund Financial Statements</i>	
Balance Sheet--Governmental Fund	18
Statement of Revenues, Expenditures and	
Changes in Fund Balance--Governmental Fund.....	20
Statement of Net Assets--Proprietary Funds	22
Statement of Revenues, Expenses, and	
Changes in Net Assets--Proprietary Funds	24
Statement of Cash Flows--Proprietary Funds	25
Statement of Fiduciary Net Assets--Fiduciary Fund	27
Statement of Changes in Fiduciary Net Assets--Fiduciary Fund	28
Notes to Basic Financial Statements.....	29
 REQUIRED SUPPLEMENTARY INFORMATION	
Schedules of Funding Progress for Supplemental Benefit Plan	
and Other Post Employment Insurance Benefits--Unaudited	57

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*.....58

REPORTS REQUIRED BY OMB CIRCULAR A-133

Independent Auditors' Report on Compliance with Requirements That
Could Have a Direct and Material Effect on Each Major Program and on
Internal Control Over Compliance in Accordance With OMB Circular
A-133 and on the Schedule of Expenditures of Federal Awards60
Schedule of Expenditures of Federal Awards63
Notes to Schedule of Expenditures of Federal Awards64
Schedule of Findings and Questioned Costs65
Summary Schedule of Prior Audit Findings67

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, 2011, 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. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and the significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, based 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, 2011, 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 9, 2011, on our consideration of the State Regents' internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

Management's discussion and analysis and the schedules of funding progress for the supplemental benefit plan and other post employment insurance benefits, as listed in the table of contents, are not a required part of the basic financial statements, but are supplementary information required by accounting principles generally accepted in the United States of America. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the supplementary information. However, we did not audit the information and express no opinion on it.

Cole & Reed P.C.

Oklahoma City, Oklahoma
November 9, 2011

OKLAHOMA STATE REGENTS FOR HIGHER EDUCATION
Management's Discussion and Analysis
For the Year Ended June 30, 2011

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, 2011. 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, 2011, the Regents' operating fund net assets increased to \$81,062,849 from \$65,005,782 at June 30, 2010.
- Total recognized operating and non-operating revenues in the Regents' operating fund increased by \$668,349 primarily due to a gain on disposal of capital assets and private gifts, offset by a decrease in state appropriations.
- Total operating and non-operating expenses in the Regents' operating fund decreased by \$8,215,582 primarily due to a decrease in principal payments on the refinance of the Series 2010 Bond.
- At June 30, 2011, the Oklahoma College Assistance Program's ("OCAP") operating fund net assets decreased to \$14,062,613 from \$14,467,609 in 2010.
- Total operating and non-operating revenues in the OCAP operating fund decreased by \$1,522,070 primarily due to a decrease in administrative fees. The decreases were partially offset by an increase in default loan collections income.

OKLAHOMA STATE REGENTS FOR HIGHER EDUCATION
Management's Discussion and Analysis (Continued)
For the Year Ended June 30, 2011

FINANCIAL HIGHLIGHTS (Continued)

- Total operating and non-operating expenses in the OCAP operating fund decreased by \$5,345,390, primarily due to a significant reduction of default fee expenses related to paying half the mandatory 1% Federal Default Fee on behalf of borrowers associated with the ending of OCAP's ability to guarantee new loans, in addition to reductions to salaries and benefits, processing charges, contractual services, other operating and default prevention fee expenses. The decreases were partially offset by increased collection agency expenses as a result of increased collections.
- The endowment fund experienced a positive return on investment of \$46,765,074 in 2011, compared to a positive return on investment of \$29,624,767 in 2010, an increase of \$17,140,307.

USING THIS REPORT

This discussion and analysis is intended to serve as an introduction to the Regents' 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 Regents' 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, 2011

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 Regents' 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 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, 2011

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	
	2011	2010	2011	2010	2011	2010
Current assets	\$ 169,961,960	\$ 65,474,998	\$ 103,755,899	\$ 113,513,698	\$ 273,717,859	\$ 178,988,696
Capital assets	-	-	19,314,847	6,355,563	19,314,847	6,355,563
Other noncurrent assets	283,092,415	246,955,124	1,491,780	646,941	284,584,195	247,602,065
Total assets	<u>453,054,375</u>	<u>312,430,122</u>	<u>124,562,526</u>	<u>120,516,202</u>	<u>577,616,901</u>	<u>432,946,324</u>
Current liabilities	40,772,222	42,824,998	17,188,295	29,243,077	57,960,517	72,068,075
Noncurrent liabilities	132,075,000	22,650,000	12,248,769	11,799,734	144,323,769	34,449,734
Total liabilities	172,847,222	65,474,998	29,437,064	41,042,811	202,284,286	106,517,809
Net assets:						
Invested in capital assets net of related debt	-	-	15,044,076	6,355,563	15,044,076	6,355,563
Restricted	280,207,153	246,955,124	29,327,263	27,604,573	309,534,416	274,559,697
Unrestricted	-	-	50,754,123	45,513,255	50,754,123	45,513,255
Total Net Assets	<u>\$ 280,207,153</u>	<u>\$ 246,955,124</u>	<u>\$ 95,125,462</u>	<u>\$ 79,473,391</u>	<u>\$ 375,332,615</u>	<u>\$ 326,428,515</u>

OKLAHOMA STATE REGENTS FOR HIGHER EDUCATION
Management's Discussion and Analysis (Continued)
For the Year Ended June 30, 2011

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

Condensed Statement of Activities

	Governmental activities		Business-type activities		Total	
	2011	2010	2011	2010	2011	2010
Operating revenues						
Administrative fees	\$ -	\$ -	\$ 1,690,404	\$ 5,495,245	\$ 1,690,404	\$ 5,495,245
Default loan collections	-	-	15,992,037	13,636,301	15,992,037	13,636,301
Grants, contracts and gifts	-	-	13,454,468	13,246,320	13,454,468	13,246,320
OneNet service fee	-	-	11,812,890	11,353,699	11,812,890	11,353,699
Other	-	-	614,751	630,827	614,751	630,827
Nonoperating revenues						
State appropriations	-	-	1,011,536,780	1,020,477,089	1,011,536,780	1,020,477,089
Other state income	-	-	12,732,624	12,391,668	12,732,624	12,391,668
Private gifts	10,860	-	1,903,602	-	1,914,462	-
On-behalf TRS contributions	-	-	1,121,658	1,004,328	1,121,658	1,004,328
Gain on disposal of capital assets	-	-	7,497,752	1,995	7,497,752	1,995
Return on investment	46,765,074	29,624,767	2,523,713	3,277,398	49,288,787	32,902,165
Total operating and nonoperating revenues	46,775,934	29,624,767	1,080,880,679	1,081,514,870	1,127,656,613	1,111,139,637
Operating expenses						
Personnel and other operating costs	379,437	311,270	36,052,133	36,250,328	36,431,570	36,561,598
Communications	-	-	8,892,482	8,518,309	8,892,482	8,518,309
Scholarships, tuition and other incentives	16,200	40,100	15,603,403	14,717,353	15,619,603	14,757,453
Default prevention fees	-	-	320,439	1,394,651	320,439	1,394,651
Other	1,674,064	876,328	7,520,754	9,173,428	9,194,818	10,049,756
Nonoperating expenses						
Interagency payments	18,901,606	14,899,946	12,802,574	14,636,277	31,704,180	29,536,223
Payments to institutions	-	-	954,603,920	945,621,578	954,603,920	945,621,578
OCIA on-behalf payments	-	-	16,260,168	35,169,135	16,260,168	35,169,135
Interest expense	6,618,786	1,767,648	199,727	115,983	6,818,513	1,883,631
Total operating and nonoperating expenses	27,590,093	17,895,292	1,052,255,600	1,065,597,042	1,079,845,693	1,083,492,334
Net income (loss) before other revenues and expenses	19,185,841	11,729,475	28,625,079	15,917,828	47,810,920	27,647,303
Private gifts for capital assets	-	-	1,093,180	-	1,093,180	-
Transfers	14,066,188	14,178,580	(14,066,188)	(14,178,580)	-	-
Increase in net assets	33,252,029	25,908,055	15,652,071	1,739,248	48,904,100	27,647,303
Net assets, beginning of year	246,955,124	221,047,069	79,473,391	77,734,143	326,428,515	298,781,212
Net assets, end of year	\$ 280,207,153	\$ 246,955,124	\$ 95,125,462	\$ 79,473,391	\$ 375,332,615	\$ 326,428,515

OKLAHOMA STATE REGENTS FOR HIGHER EDUCATION
Management's Discussion and Analysis (Continued)
For the Year Ended June 30, 2011

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, 2011, total operating and non-operating revenues decreased by \$853,721 from June 30, 2010, with total operating and non-operating expenses decreasing by \$13,560,972 for the same period.

Condensed Statement of Net Assets

	Regents		OCAP		Total	
	2011	2010	2011	2010	2011	2010
Current assets						
Unrestricted	\$ 66,082,672	\$ 59,168,522	\$ -	\$ -	\$ 66,082,672	\$ 59,168,522
Restricted	19,828,083	36,959,726	17,845,144	17,385,450	37,673,227	54,345,176
Total current assets	85,910,755	96,128,248	17,845,144	17,385,450	103,755,899	113,513,698
Noncurrent assets						
Other assets	1,491,780	646,941	-	-	1,491,780	646,941
Capital assets, net of depreciation	18,845,305	5,742,163	469,542	613,400	19,314,847	6,355,563
Total assets	106,247,840	102,517,352	18,314,686	17,998,850	124,562,526	120,516,202
Current liabilities	16,076,169	28,109,400	1,112,126	1,133,677	17,188,295	29,243,077
Noncurrent liabilities	9,108,822	9,402,170	3,139,947	2,397,564	12,248,769	11,799,734
Total liabilities	25,184,991	37,511,570	4,252,073	3,531,241	29,437,064	41,042,811
Net assets						
Invested in capital assets, net of related debt	14,574,534	5,742,163	469,542	613,400	15,044,076	6,355,563
Restricted-expendable	15,734,192	13,750,364	13,593,071	13,854,209	29,327,263	27,604,573
Unrestricted	50,754,123	45,513,255	-	-	50,754,123	45,513,255
Total net assets	\$ 81,062,849	\$ 65,005,782	\$ 14,062,613	\$ 14,467,609	\$ 95,125,462	\$ 79,473,391

OKLAHOMA STATE REGENTS FOR HIGHER EDUCATION
Management's Discussion and Analysis (Continued)
For the Year Ended June 30, 2011

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

Condensed Statement of Revenues, Expenses and Changes in Net Assets

	Regents		OCAP		Total	
	2011	2010	2011	2010	2011	2010
Operating revenues						
Administrative and other fees	\$ -	\$ -	\$ 1,690,404	\$ 5,495,245	\$ 1,690,404	\$ 5,495,245
Default loan collections	-	-	15,992,037	13,636,301	15,992,037	13,636,301
Grants, contracts, and gifts	13,454,468	13,246,320	-	-	13,454,468	13,246,320
OneNet service fees	11,812,890	11,353,699	-	-	11,812,890	11,353,699
Other	3,666,442	3,943,841	57,626	14,399	3,724,068	3,958,240
Nonoperating revenues						
State appropriations	1,011,536,780	1,020,477,089	-	-	1,011,536,780	1,020,477,089
Other state income	12,732,624	12,391,668	-	-	12,732,624	12,391,668
Private gifts	1,903,602	-	-	-	1,903,602	-
Return on investment	2,072,519	2,694,951	451,194	582,447	2,523,713	3,277,398
Gain on disposal of capital assets	7,497,752	3,429	-	-	7,497,752	3,429
On-behalf TRS contributions	775,831	673,562	345,827	330,766	1,121,658	1,004,328
Total operating and nonoperating revenue	<u>1,065,452,908</u>	<u>1,064,784,559</u>	<u>18,537,088</u>	<u>20,059,158</u>	<u>1,083,989,996</u>	<u>1,084,843,717</u>
Operating expenses						
Personnel and other operating costs	23,632,073	22,472,199	12,420,060	13,778,129	36,052,133	36,250,328
Communications	8,667,723	8,243,326	224,759	274,983	8,892,482	8,518,309
Scholarships, tuition, and other incentives	15,603,403	14,717,353	-	-	15,603,403	14,717,353
Default prevention fees	-	-	320,439	1,394,651	320,439	1,394,651
Other	4,653,245	3,662,564	5,976,826	8,838,277	10,630,071	12,500,841
Nonoperating expenses						
Interagency payments	12,802,574	14,636,277	-	-	12,802,574	14,636,277
Payments to system institutions	954,603,920	945,621,578	-	-	954,603,920	945,621,578
OCIA on-behalf payments	16,260,168	35,169,135	-	-	16,260,168	35,169,135
Loss on disposal of capital assets	-	-	-	1,434	-	1,434
Interest expense	199,727	115,983	-	-	199,727	115,983
Total operating and nonoperating expense	<u>1,036,422,833</u>	<u>1,044,638,415</u>	<u>18,942,084</u>	<u>24,287,474</u>	<u>1,055,364,917</u>	<u>1,068,925,889</u>
Income (loss) before appropriations and other revenues and expenses	29,030,075	20,146,144	(404,996)	(4,228,316)	28,625,079	15,917,828
Private gifts for capital assets	1,093,180	-	-	-	1,093,180	-
Transfers Out	(14,066,188)	(14,178,580)	-	-	(14,066,188)	(14,178,580)
Increase in net assets	16,057,067	5,967,564	(404,996)	(4,228,316)	15,652,071	1,739,248
Net assets, beginning of year	65,005,782	59,038,218	14,467,609	18,695,925	79,473,391	77,734,143
Net assets, end of year	<u>\$ 81,062,849</u>	<u>\$ 65,005,782</u>	<u>\$ 14,062,613</u>	<u>\$ 14,467,609</u>	<u>\$ 95,125,462</u>	<u>\$ 79,473,391</u>

OKLAHOMA STATE REGENTS FOR HIGHER EDUCATION
Management's Discussion and Analysis (Continued)
For the Year Ended June 30, 2011

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

Analysis of Net Assets

	Regents		OCAP		Total	
	2011	2010	2011	2010	2011	2010
Net assets						
Invested in capital assets, net of related debt	\$ 14,574,534	\$ 5,742,163	\$ 469,542	\$ 613,400	\$ 15,044,076	\$ 6,355,563
Restricted						
Educational grants and scholarships	15,190,984	13,076,395	-	-	15,190,984	13,076,395
Oklahoma College Assistance Program	-	-	13,593,071	13,854,209	13,593,071	13,854,209
Capital projects	543,208	673,969	-	-	543,208	673,969
Unrestricted	50,754,123	45,513,255	-	-	50,754,123	45,513,255
Total net assets	<u>\$ 81,062,849</u>	<u>\$ 65,005,782</u>	<u>\$ 14,062,613</u>	<u>\$ 14,467,609</u>	<u>\$ 95,125,462</u>	<u>\$ 79,473,391</u>

CAPITAL ASSETS AND DEBT ADMINISTRATION

At June 30, 2011, the Regents business-type activities had recorded a total of \$55,829,137 in capital assets and \$36,514,290 in accumulated depreciation. During the year ended June 30, 2011, the Regents acquired \$16,170,113 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, 2011, the Regents business-type activities had long-term liabilities of \$14,621,231. The current portion due within one year is \$2,372,462

Capital Assets, Net

	Regents		OCAP		Total	
	2011	2010	2011	2010	2011	2010
Buildings	\$ 3,887,161	\$ 3,773,409	\$ -	\$ -	\$ 3,887,161	\$ 3,773,409
Equipment	48,494,397	41,016,716	3,154,516	3,106,005	51,648,913	44,122,721
Leasehold Improvements	-	-	35,932	35,932	35,932	35,932
Motor vehicles	237,224	237,224	19,907	19,907	257,131	257,131
Total	52,618,782	45,027,349	3,210,355	3,161,844	55,829,137	48,189,193
Less accumulated depreciation	(33,773,477)	(39,285,186)	(2,740,813)	(2,548,444)	(36,514,290)	(41,833,630)
Capital assets, net	<u>\$ 18,845,305</u>	<u>\$ 5,742,163</u>	<u>\$ 469,542</u>	<u>\$ 613,400</u>	<u>\$ 19,314,847</u>	<u>\$ 6,355,563</u>

OKLAHOMA STATE REGENTS FOR HIGHER EDUCATION
Management's Discussion and Analysis (Continued)
For the Year Ended June 30, 2011

CAPITAL ASSETS AND DEBT ADMINISTRATION (Continued)

Long-Term Liabilities

	Regents		OCAP		Total	
	2011	2010	2011	2010	2011	2010
Compensated absences	\$ 1,300,341	\$ 1,270,645	\$ 472,210	\$ 483,146	\$ 1,772,551	\$ 1,753,791
Accrued pension obligation	-	-	801,585	612,721	801,585	612,721
Accrued other post employment benefit	3,866,243	2,807,389	2,248,678	1,669,814	6,114,921	4,477,203
Master equipment leases payable	5,754,583	7,018,636	-	-	5,754,583	7,018,636
Unamortized bond premium	177,591	217,800	-	-	177,591	217,800
Leasehold payable	-	27,701	-	-	-	27,701
Total long-term liabilities	\$ 11,098,758	\$ 11,342,171	\$ 3,522,473	\$ 2,765,681	\$ 14,621,231	\$ 14,107,852

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, 2011 total expenses increased by \$4,256,918 compared to June 30, 2010 with total distributions to the institutions increasing by \$4,001,660 and lease payments decreasing due to principal retirement. Total return on investments increased by \$17,140,307.

Regents' Endowment Fund

	2011	2010
Cash and Investments	\$ 448,752,873	\$ 311,968,187
Receivables	598,371	287,513
Total Assets	449,351,244	312,255,700
Total Liabilities	40,772,222	36,804,998
Total Fund Balance	\$ 408,579,022	\$ 275,450,702

OKLAHOMA STATE REGENTS FOR HIGHER EDUCATION
Management's Discussion and Analysis (Continued)
For the Year Ended June 30, 2011

FINANCIAL ANALYSIS OF THE REGENTS' ENDOWMENT FUND (Continued)

Changes in Fund Balance

	2011	2010
Return on investment	\$ 46,765,074	\$ 29,624,767
Private gifts	10,860	-
Total revenues	46,775,934	29,624,767
Contractual and other	1,879,079	1,152,713
Scholarships	16,200	40,100
Lease payments	7,050,440	7,497,648
Distributions to institutions	18,901,606	14,899,946
Total expenditures	27,847,325	23,590,407
Net proceeds from OCIA lease restructuring	128,803,523	-
Repayment on OCIA lease refunding	(28,670,000)	-
Transfers in	14,066,188	14,178,580
Total other financing sources (uses)	114,199,711	14,178,580
Change in endowment fund balance	\$ 133,128,320	\$ 20,212,940

**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, 2011, total additions decreased by \$6,255,649 from \$176,325,001 to \$170,069,352. Deductions decreased by \$2,178,001 from \$174,596,633 to \$172,418,632. The additions decrease was primarily due to decreased reinsurance, and fee revenues, offset by increased loan collections and interest income. The decrease in expenses was primarily due to decreased default loan purchases and the provision for default claims as a result of decreased loans outstanding as of June 30, 2011, offset by an increase in the default loan collections due to USDE associated with increased loan collections income.

OKLAHOMA STATE REGENTS FOR HIGHER EDUCATION
Management's Discussion and Analysis (Continued)
For the Year Ended June 30, 2011

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

Federal Student Loan Reserve Fund Net Assets

	<u>2011</u>	<u>2010</u>
Capital assets	\$ -	\$ -
Other assets	<u>26,600,359</u>	<u>27,262,565</u>
Total Assets	<u>26,600,359</u>	<u>27,262,565</u>
Total Liabilities	<u>9,248,516</u>	<u>7,561,442</u>
Net assets invested in capital, net of debt	-	-
Restricted net assets	<u>17,351,843</u>	<u>19,701,123</u>
Total Net Assets	<u>\$ 17,351,843</u>	<u>\$ 19,701,123</u>

Changes in Federal Student Loan Reserve Fund Net Assets

	<u>2011</u>	<u>2010</u>
Federal reinsurance	\$ 126,404,582	\$ 133,189,712
Loan collections	43,261,005	38,590,231
Other additions	<u>403,765</u>	<u>4,545,058</u>
Total Additions	<u>170,069,352</u>	<u>176,325,001</u>
Purchase of defaulted loans	132,381,711	139,925,155
Loan collections due to USDE	40,236,199	34,991,758
Other deductions	<u>(199,278)</u>	<u>(320,280)</u>
Total Deductions	<u>172,418,632</u>	<u>174,596,633</u>
Change in Federal Fund Net Assets	<u>\$ (2,349,280)</u>	<u>\$ 1,728,368</u>

OKLAHOMA STATE REGENTS FOR HIGHER EDUCATION
Management's Discussion and Analysis (Continued)
For the Year Ended June 30, 2011

ECONOMIC FACTORS AND THE REGENTS' FUTURE

The economic position of the Regents is closely tied to that of the State of Oklahoma. During the 2011 legislative session, the Oklahoma Legislature appropriated \$1,008,460,277 to the Regents for fiscal year 2012, a decrease of \$62,000,739 compared to the fiscal year 2011 appropriations of \$1,060,461,016 and supplemental appropriations of \$10,000,000. Approximately 9.4% of the revenue for fiscal year 2012 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. Increases or decreases in loan volume or changes in legislation affecting student loan guarantee agencies at the federal level can have a material effect on the income and expenses of the OCAP.

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.

This page intentionally left blank.

STATEMENT OF NET ASSETS

OKLAHOMA STATE REGENTS FOR HIGHER EDUCATION

June 30, 2011

	<u>Governmental</u> <u>Activities</u>	<u>Business-Type</u> <u>Activities</u>	<u>Total</u>
ASSETS			
CURRENT ASSETS			
Cash and cash equivalents	\$ -	\$ 60,554,600	\$ 60,554,600
Investments	-	2,755,586	2,755,586
Receivables			
Accounts receivable	-	2,061,255	2,061,255
Interest	-	78,945	78,945
Other assets	-	632,286	632,286
Restricted assets			
Cash and cash equivalents	90,110,853	30,922,420	121,033,273
Investments	78,434,867	1,046,880	79,481,747
Receivables			
Accounts receivable	-	3,021,095	3,021,095
Bond proceeds receivable	-	2,168,988	2,168,988
Administrative cost allowance	-	410,841	410,841
Interest	194,309	67,380	261,689
Other	404,062	-	404,062
Other assets	817,869	35,623	853,492
TOTAL CURRENT ASSETS	<u>169,961,960</u>	<u>103,755,899</u>	<u>273,717,859</u>
NONCURRENT ASSETS			
Investments	280,207,153	-	280,207,153
Other assets	2,885,262	1,080,155	3,965,417
Prepaid pension asset	-	411,625	411,625
Capital assets, net	-	19,314,847	19,314,847
TOTAL ASSETS	<u>\$ 453,054,375</u>	<u>\$ 124,562,526</u>	<u>\$ 577,616,901</u>

(Continued)

	Governmental Activities	Business-Type Activities	Total
LIABILITIES			
CURRENT LIABILITIES			
Accounts payable and accrued expenses	\$ -	\$ 1,735,935	\$ 1,735,935
Deposits due to system institutions	-	521,041	521,041
Compensated absences	-	558,949	558,949
Other postemployment benefits	-	91,920	91,920
Undistributed fiscal year 2011 state appropriations	-	4,329,212	4,329,212
Liabilities payable from restricted assets			
Accounts payable and accrued expenses	-	2,546,624	2,546,624
Compensated absences	-	326,630	326,630
Accrued pension obligation	-	70,409	70,409
Other postemployment benefits	-	35,345	35,345
Master lease payable	-	1,249,000	1,249,000
Unamortized bond premium	-	40,209	40,209
Due to colleges	-	537,055	537,055
Deposits held in trust for system institutions	3,930,665	-	3,930,665
Undistributed interest on deposits held in trust	36,841,557	-	36,841,557
Undistributed fiscal year 2011 state appropriations	-	5,145,966	5,145,966
TOTAL CURRENT LIABILITIES	<u>40,772,222</u>	<u>17,188,295</u>	<u>57,960,517</u>
NONCURRENT LIABILITIES			
Compensated absences	-	662,983	662,983
Other postemployment benefits	-	3,774,323	3,774,323
Noncurrent liabilities payable from restricted assets			
Compensated absences	-	223,989	223,989
Accrued pension obligation	-	731,176	731,176
Other postemployment benefits	-	2,213,333	2,213,333
OCIA lease payable	132,075,000	-	132,075,000
Master lease payable	-	4,505,583	4,505,583
Unamortized bond premium	-	137,382	137,382
TOTAL NONCURRENT LIABILITIES	<u>132,075,000</u>	<u>12,248,769</u>	<u>144,323,769</u>
TOTAL LIABILITIES	<u>172,847,222</u>	<u>29,437,064</u>	<u>202,284,286</u>
NET ASSETS			
Invested in capital assets, net of related debt	-	15,044,076	15,044,076
Restricted			
Educational grants and scholarships	-	15,190,984	15,190,984
Oklahoma College Assistance Program	-	13,593,071	13,593,071
Endowment - Nonexpendable	280,207,153	-	280,207,153
Capital Projects	-	543,208	543,208
Unrestricted	-	50,754,123	50,754,123
TOTAL NET ASSETS	<u>\$ 280,207,153</u>	<u>\$ 95,125,462</u>	<u>\$ 375,332,615</u>

(Concluded)

See notes to financial statements.

STATEMENT OF ACTIVITIES

OKLAHOMA STATE REGENTS FOR HIGHER EDUCATION

Year Ended June 30, 2011

	<u>Governmental Activities</u>	<u>Business-Type Activities</u>	<u>Total</u>
OPERATING REVENUES			
Administrative fees	\$ -	\$ 1,690,404	\$ 1,690,404
Default loan collections	-	15,992,037	15,992,037
Federal grants and contracts	-	13,454,468	13,454,468
OneNet service fees	-	11,812,890	11,812,890
Other	-	614,751	614,751
TOTAL OPERATING REVENUES	<u>-</u>	<u>43,564,550</u>	<u>43,564,550</u>
OPERATING EXPENSES			
Compensation	-	24,403,925	24,403,925
Contractual services	379,437	11,648,208	12,027,645
Communications	-	8,892,482	8,892,482
Scholarships, tuition, and other incentives	16,200	15,603,403	15,619,603
Supplies and materials	-	468,385	468,385
Utilities	-	60,581	60,581
Other	1,674,064	3,915,829	5,589,893
Default prevention fees	-	320,439	320,439
Depreciation and amortization	-	3,075,959	3,075,959
TOTAL OPERATING EXPENSES	<u>2,069,701</u>	<u>68,389,211</u>	<u>70,458,912</u>
OPERATING LOSS	<u>(2,069,701)</u>	<u>(24,824,661)</u>	<u>(26,894,362)</u>
NONOPERATING REVENUES (EXPENSES)			
State appropriations	-	1,011,536,780	1,011,536,780
Other state income	-	12,732,624	12,732,624
Payments to system institutions	-	(954,603,920)	(954,603,920)
OClA on-behalf payments	-	(16,260,168)	(16,260,168)
Interagency payments	(18,901,606)	(12,802,574)	(31,704,180)
Private gifts	10,860	1,903,602	1,914,462
On-behalf Teachers' Retirement System contributions	-	1,121,658	1,121,658
Return on investment	46,765,074	2,523,713	49,288,787
Loss on disposal of capital assets	-	7,497,752	7,497,752
Interest expense	(6,618,786)	(199,727)	(6,818,513)
NET NONOPERATING REVENUES	<u>21,255,542</u>	<u>53,449,740</u>	<u>74,705,282</u>
NET INCOME BEFORE OTHER REVENUES AND EXPENSES	19,185,841	28,625,079	47,810,920
Private gifts for capital assets	-	1,093,180	1,093,180
Transfers	14,066,188	(14,066,188)	-
INCREASE IN NET ASSETS	<u>33,252,029</u>	<u>15,652,071</u>	<u>48,904,100</u>
NET ASSETS AT BEGINNING OF YEAR	<u>246,955,124</u>	<u>79,473,391</u>	<u>326,428,515</u>
NET ASSETS AT END OF YEAR	<u>\$ 280,207,153</u>	<u>\$ 95,125,462</u>	<u>\$ 375,332,615</u>

See notes to financial statements.

BALANCE SHEET--GOVERNMENTAL FUND

OKLAHOMA STATE REGENTS FOR HIGHER EDUCATION

June 30, 2011

	<u>Endowment Fund</u>
ASSETS	
Restricted assets	
Cash	\$ 90,110,853
Investments	358,642,020
Receivables:	
Interest	194,309
Other receivables	<u>404,062</u>
	TOTAL ASSETS <u>\$ 449,351,244</u>
LIABILITIES	
Deposits held in trust for system institutions	3,930,665
Undistributed interest on deposits held in trust	<u>36,841,557</u>
	TOTAL LIABILITIES <u>40,772,222</u>
FUND BALANCE	
Restricted Nonspendable - Endowment	<u>408,579,022</u>
	TOTAL FUND BALANCE <u>408,579,022</u>
	TOTAL LIABILITIES AND FUND BALANCE <u>\$ 449,351,244</u>
	(Continued)

See notes to financial statements.

BALANCE SHEET--GOVERNMENTAL FUND--Continued

OKLAHOMA STATE REGENTS FOR HIGHER EDUCATION

June 30, 2011

Reconciliation of the Governmental Fund

Balance Sheet to the Statement of Net Assets:

Total fund balance - governmental fund \$ 408,579,022

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

Deferred charge on restructured lease is not available to pay for
current-period expenditures and, therefore, is not recorded in the funds 2,453,608

Prepayment of principal and interest on restructured lease is not available
to pay for current-period expenditures and, therefore, is
not recorded in the funds 1,249,523

Long-term liabilities, including bonds payable, are not due and payable
in the current period and, therefore, are not reported in the funds: (132,075,000)

Net assets of governmental activities \$ 280,207,153
(Concluded)

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, 2011

	<u>Endowment Fund</u>
REVENUES	
Investment return	\$ 46,765,074
Private gifts	<u>10,860</u>
	<u>46,775,934</u>
EXPENDITURES	
Contractual services	379,437
Scholarships, tuition, and other incentives	16,200
Payments to system institutions	18,901,606
Other	1,499,642
Lease payments:	
Prepaid lease payments	1,249,523
Interest and other financing	<u>5,800,917</u>
Total expenditures	<u>27,847,325</u>
	18,928,609
	Excess of revenues over expenditures
OTHER FINANCING SOURCES (USES)	
Net proceeds from OCIA lease restructuring	128,803,523
Repayment on OCIA lease refunding	(28,670,000)
Transfers in	<u>14,066,188</u>
	133,128,320
	Net change in fund balance
FUND BALANCE, BEGINNING OF YEAR	<u>275,450,702</u>
FUND BALANCE, END OF YEAR	<u>\$ 408,579,022</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, 2011

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 \$ 133,128,320

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

Prepaid capital lease principal and interest payments expensed in fund
financial statements are treated as an addition to other assets
in government-wide statements 1,249,523

Net proceeds of capital lease restructuring recognized as other
financing sources in fund financial statements are treated
as additions and reductions to debt, and an addition to other assets

Issuance of capital lease	(132,075,000)
Refund of capital lease	28,670,000
Deferred charge on refunded lease	3,271,477

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 deferred charge on lease restructure	(817,869)
Write-off of refunded debt issue costs	<u>(174,422)</u>

Change in net assets of governmental activities \$ 33,252,029
(Concluded)

See notes to financial statements.

This page intentionally left blank.

STATEMENT OF NET ASSETS--PROPRIETARY FUNDS

OKLAHOMA STATE REGENTS FOR HIGHER EDUCATION

June 30, 2011

	Regents <u>Operating Fund</u>	OCAP <u>Operating Fund</u>	<u>Total</u>
ASSETS			
CURRENT ASSETS			
Cash and cash equivalents	\$ 60,554,600	\$ -	\$ 60,554,600
Investments	2,755,586	-	2,755,586
Receivables			
Accounts receivable	2,061,255	-	2,061,255
Interest	78,945	-	78,945
Other assets	632,286		632,286
Restricted assets			
Cash and cash equivalents	14,996,148	15,926,272	30,922,420
Investments	1,046,880	-	1,046,880
Receivables			
Accounts receivable	1,548,615	1,472,480	3,021,095
Bond proceeds receivable	2,168,988	-	2,168,988
Administrative cost allowance	-	410,841	410,841
Interest	31,829	35,551	67,380
Other Assets	35,623	-	35,623
TOTAL CURRENT ASSETS	<u>85,910,755</u>	<u>17,845,144</u>	<u>103,755,899</u>
NONCURRENT ASSETS			
Prepaid pension asset	411,625	-	411,625
Other assets	1,080,155	-	1,080,155
Capital assets, net	18,845,305	469,542	19,314,847
TOTAL ASSETS	<u>106,247,840</u>	<u>18,314,686</u>	<u>124,562,526</u>

(Continued)

	Regents <u>Operating Fund</u>	OCAP <u>Operating Fund</u>	<u>Total</u>
LIABILITIES			
CURRENT LIABILITIES			
Accounts payable and accrued expenses	\$ 1,735,935	\$ -	\$ 1,735,935
Deposits due to system institutions	521,041	-	521,041
Compensated absences	558,949	-	558,949
Other postemployment benefits	91,920	-	91,920
Undistributed fiscal year 2011 state appropriations	4,329,212	-	4,329,212
Liabilities payable from restricted assets:			
Accounts payable and accrued expenses	1,817,024	729,600	2,546,624
Compensated absences	49,858	276,772	326,630
Accrued pension obligation	-	70,409	70,409
Other postemployment benefits	-	35,345	35,345
Master lease payable	1,249,000	-	1,249,000
Unamortized bond premium	40,209	-	40,209
Due to colleges	537,055	-	537,055
Undistributed fiscal year 2011 state appropriations	5,145,966	-	5,145,966
TOTAL CURRENT LIABILITIES	<u>16,076,169</u>	<u>1,112,126</u>	<u>17,188,295</u>
LONG-TERM LIABILITIES			
Compensated absences	662,983	-	662,983
Other postemployment benefits	3,774,323	-	3,774,323
Long-term liabilities payable from restricted assets:			
Compensated absences	28,551	195,438	223,989
Accrued pension obligation	-	731,176	731,176
Other postemployment benefits	-	2,213,333	2,213,333
Master lease payable	4,505,583	-	4,505,583
Unamortized bond premium	137,382	-	137,382
TOTAL LONG-TERM LIABILITIES	<u>9,108,822</u>	<u>3,139,947</u>	<u>12,248,769</u>
TOTAL LIABILITIES	<u>25,184,991</u>	<u>4,252,073</u>	<u>29,437,064</u>
NET ASSETS			
Invested in capital assets, net of related debt	14,574,534	469,542	15,044,076
Restricted			
Educational grants and scholarships	15,190,984	-	15,190,984
Oklahoma College Assistance Program	-	13,593,071	13,593,071
Capital projects	543,208	-	543,208
Unrestricted	50,754,123	-	50,754,123
TOTAL NET ASSETS	<u>\$ 81,062,849</u>	<u>\$ 14,062,613</u>	<u>\$ 95,125,462</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, 2011

	Regents <u>Operating Fund</u>	OCAP <u>Operating Fund</u>	<u>Total</u>
OPERATING REVENUES			
Administrative fees	\$ -	\$ 1,690,404	\$ 1,690,404
Default loan collections	-	15,992,037	15,992,037
Federal grants and contracts	13,454,468	-	13,454,468
OneNet service fees	11,812,890	-	11,812,890
Other	<u>3,666,442</u>	<u>57,626</u>	<u>3,724,068</u>
TOTAL OPERATING REVENUES	<u>28,933,800</u>	<u>17,740,067</u>	<u>46,673,867</u>
OPERATING EXPENSES			
Compensation	16,888,064	7,515,861	24,403,925
Contractual services	6,744,009	4,904,199	11,648,208
Communications	8,667,723	224,759	8,892,482
Scholarships, tuition, and other incentives	15,603,403	-	15,603,403
Supplies and materials	387,962	80,423	468,385
Utilities	60,581	-	60,581
Other	1,321,112	5,704,034	7,025,146
Default prevention fees	-	320,439	320,439
Depreciation and amortization	<u>2,883,590</u>	<u>192,369</u>	<u>3,075,959</u>
TOTAL OPERATING EXPENSES	<u>52,556,444</u>	<u>18,942,084</u>	<u>71,498,528</u>
OPERATING LOSS	<u>(23,622,644)</u>	<u>(1,202,017)</u>	<u>(24,824,661)</u>
NONOPERATING REVENUES (EXPENSES)			
State appropriations	1,011,536,780	-	1,011,536,780
Other state income	12,732,624	-	12,732,624
Payments to system institutions	(954,603,920)	-	(954,603,920)
OCIA on-behalf payments	(16,260,168)	-	(16,260,168)
Interagency payments	(12,802,574)	-	(12,802,574)
Private gifts	1,903,602	-	1,903,602
On-behalf Teachers' Retirement System contributions	775,831	345,827	1,121,658
Return on investment	2,072,519	451,194	2,523,713
Gain on disposal of capital assets	7,497,752	-	7,497,752
Interest expense	<u>(199,727)</u>	<u>-</u>	<u>(199,727)</u>
NET NONOPERATING REVENUES	<u>52,652,719</u>	<u>797,021</u>	<u>53,449,740</u>
LOSS BEFORE OTHER REVENUES AND EXPENSES	29,030,075	(404,996)	28,625,079
Private gifts for capital assets	1,093,180	-	1,093,180
Transfers out	<u>(14,066,188)</u>	<u>-</u>	<u>(14,066,188)</u>
INCREASE (DECREASE) IN NET ASSETS	16,057,067	(404,996)	15,652,071
NET ASSETS AT BEGINNING OF YEAR	<u>65,005,782</u>	<u>14,467,609</u>	<u>79,473,391</u>
NET ASSETS AT END OF YEAR	<u>\$ 81,062,849</u>	<u>\$ 14,062,613</u>	<u>\$ 95,125,462</u>

See notes to financial statements.

STATEMENT OF CASH FLOWS--PROPRIETARY FUNDS

OKLAHOMA STATE REGENTS FOR HIGHER EDUCATION

Year Ended June 30, 2011

	Regents Operating Fund	OCAP Operating Fund	Total
CASH FLOWS FROM OPERATING ACTIVITIES			
Receipts for guarantee service	\$ -	\$ 16,777,194	\$ 16,777,194
Receipts from Federal government	13,316,519	-	13,316,519
Receipts for OneNet services	11,791,906	-	11,791,906
Receipts from other sources	3,780,547	57,906	3,838,453
Payments to suppliers	(16,781,614)	(11,270,832)	(28,052,446)
Payments to employees	(14,817,365)	(6,410,069)	(21,227,434)
Payments for scholarships and fellowships	(15,892,059)	-	(15,892,059)
NET CASH USED IN OPERATING ACTIVITIES	<u>(18,602,066)</u>	<u>(845,801)</u>	<u>(19,447,867)</u>
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES			
Receipt of state appropriations	1,007,947,379	-	1,007,947,379
Receipt of other state income	12,732,624	-	12,732,624
Private gifts	6,744	-	6,744
Payments for assistance grants	(16,260,168)	-	(16,260,168)
Payments to system institutions	(974,666,480)	-	(974,666,480)
Transfers to other funds	(14,066,188)	-	(14,066,188)
NET CASH PROVIDED BY NONCAPITAL FINANCING ACTIVITIES	<u>15,693,911</u>	<u>-</u>	<u>15,693,911</u>
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES			
Acquisition of capital assets	(7,999,879)	(100,290)	(8,100,169)
Proceeds from capital leases	5,697,728	-	5,697,728
Principal payments on leases	(1,291,754)	-	(1,291,754)
Interest paid on leases	(199,727)	-	(199,727)
NET CASH USED IN CAPITAL AND RELATED FINANCING ACTIVITIES	<u>(3,793,632)</u>	<u>(100,290)</u>	<u>(3,893,922)</u>
CASH FLOWS FROM INVESTING ACTIVITIES			
Proceeds from sales and maturities of investments	744,366	-	744,366
Purchases of investments	(57,028)	-	(57,028)
Earnings reinvested	(176,754)	-	(176,754)
Interest received	2,020,057	457,775	2,477,832
NET CASH PROVIDED BY INVESTING ACTIVITIES	<u>2,530,641</u>	<u>457,775</u>	<u>2,988,416</u>
NET CHANGE IN CASH	(4,171,146)	(488,316)	(4,659,462)
CASH AND CASH EQUIVALENTS AT BEGINNING OF YEAR	<u>79,721,894</u>	<u>16,414,588</u>	<u>96,136,482</u>
CASH AND CASH EQUIVALENTS AT END OF YEAR	<u>\$ 75,550,748</u>	<u>\$ 15,926,272</u>	<u>\$ 91,477,020</u>

(Continued)

See notes to financial statements.

STATEMENT OF CASH FLOWS--PROPRIETARY FUNDS--Continued

OKLAHOMA STATE REGENTS FOR HIGHER EDUCATION

Year Ended June 30, 2011

	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	\$ (23,622,644)	\$ (1,202,017)	\$ (24,824,661)
Adjustments to reconcile operating loss to net cash used in operating activities			
Depreciation and amortization	2,883,590	192,369	3,075,959
On-behalf TRS contributions	775,831	345,827	1,121,658
Changes in operating assets and liabilities			
Accounts receivable and other assets	699,134	(954,591)	(255,457)
Accounts payable and accrued expenses	662,033	772,611	1,434,644
Total adjustments	<u>5,020,588</u>	<u>356,216</u>	<u>5,376,804</u>
NET CASH USED IN OPERATING ACTIVITIES	<u>\$ (18,602,056)</u>	<u>\$ (845,801)</u>	<u>\$ (19,447,857)</u>
NONCASH INVESTING, CAPITAL AND RELATED FINANCING ACTIVITIES			
Unrealized gain on investments	<u>\$ 85,227</u>	<u>\$ -</u>	<u>\$ 85,227</u>
Noncash private gifts	<u>\$ 2,990,038</u>	<u>\$ -</u>	<u>\$ 2,990,038</u>
Gain on exchange of capital assets	<u>\$ 7,489,998</u>	<u>\$ -</u>	<u>\$ 7,489,998</u>
RECONCILIATION OF CASH AND CASH EQUIVALENTS TO STATEMENTS OF NET ASSETS			
Current assets			
Cash and cash equivalents	\$ 60,554,600	\$ -	\$ 60,554,600
Restricted cash and cash equivalents	<u>14,996,148</u>	<u>15,926,272</u>	<u>30,922,420</u>
TOTAL CASH AND CASH EQUIVALENTS	<u>\$ 75,550,748</u>	<u>\$ 15,926,272</u>	<u>\$ 91,477,020</u>

(Concluded)

See notes to financial statements.

STATEMENT OF FIDUCIARY NET ASSETS--FIDUCIARY FUND

OKLAHOMA STATE REGENTS FOR HIGHER EDUCATION

June 30, 2011

	<u>OCAP Federal Fund</u>
ASSETS	
CURRENT ASSETS	
Cash	\$ 12,206,293
Receivables	
Federal reinsurance	6,543,701
Non-reinsured defaulted loans	7,787,105
Default fees	37
Other	<u>63,223</u>
TOTAL CURRENT ASSETS	<u>26,600,359</u>
TOTAL ASSETS	<u>26,600,359</u>
LIABILITIES	
CURRENT LIABILITIES	
Accounts payable and accrued expenses	1,470,173
Default loan collections due to USDE	<u>3,634,191</u>
TOTAL CURRENT LIABILITIES	5,104,364
Long-term liabilities	
Allowance for default claims	<u>4,144,152</u>
TOTAL LIABILITIES	9,248,516
NET ASSETS	
Held in trust for Federal government	<u>17,351,843</u>
TOTAL NET ASSETS	<u>17,351,843</u>
TOTAL LIABILITIES AND NET ASSETS	<u>\$ 26,600,359</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, 2011

	<u>OCAP Federal Fund</u>
ADDITIONS	
Federal reinsurance	\$ 126,404,582
Loan collections	43,261,005
Fee revenues	45,257
Interest income	236,701
Other additions	121,807
TOTAL ADDITIONS	<u>170,069,352</u>
DEDUCTIONS	
Purchase of defaulted Loans	132,381,711
Default loan collections due to USDE	40,236,199
Provision for default loans	(199,278)
TOTAL DEDUCTIONS	<u>172,418,632</u>
DECREASE IN NET ASSETS	(2,349,280)
NET ASSETS, BEGINNING OF YEAR	<u>19,701,123</u>
NET ASSETS, END OF YEAR	<u>\$ 17,351,843</u>

See notes to financial statements.

NOTES TO BASIC FINANCIAL STATEMENTS

OKLAHOMA STATE REGENTS FOR HIGHER EDUCATION

June 30, 2011

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, 2011

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"). In the government-wide financial statements and the fund financial statements for the proprietary funds, Financial Accounting Standards Board ("FASB") pronouncements and Accounting Principles Board (APB) opinions issued on or before November 30, 1989, have been applied unless those pronouncements conflict with or contradict GASB pronouncements, in which case, GASB prevails. For business-type activities and enterprise funds, GASB Statement Nos. 20 and 34 provide the State Regents the option of electing to apply FASB pronouncements issued after November 30, 1989. 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).

NOTES TO BASIC FINANCIAL STATEMENTS--Continued

OKLAHOMA STATE REGENTS FOR HIGHER EDUCATION

June 30, 2011

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

Basis of Presentation--Continued:

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.

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, 2011

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 valuation of investments, 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, 2011

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, 2011. 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 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 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, 2011

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.

New Accounting Pronouncements: In 2011, State Regents adopted GASB Statement No. 54, *Fund Balance Reporting and Governmental Fund Type Definitions*. GASB No. 54 establishes fund balance classifications that comprise a hierarchy based primarily on the extent to which a government is bound to observe constraints imposed upon the use of the resources reported in governmental funds.

NOTES TO BASIC FINANCIAL STATEMENTS--Continued

OKLAHOMA STATE REGENTS FOR HIGHER EDUCATION

June 30, 2011

NOTE C--DEPOSITS AND INVESTMENTS

Deposits: Custodial Credit Risk is the risk that in the event of the failure of a counter party, the State 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, 2011, the carrying amount of the State Regents' deposits with the State Treasurer was approximately \$193,794,166. Of the funds on deposit with OST, \$168,256,819 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	\$61,453,269	\$61,945,962
Money Market Mutual Fund	18,498,920	18,498,920
Tri-Party Repurchase Agreements	11,354,143	11,354,143
Mortgage Backed Agency Securities	61,035,301	63,730,910
Municipal Bonds	3,353,698	3,631,721
Foreign Bonds	625,573	625,573
U.S. Treasury Obligations	2,427,534	2,876,353
Commercial Paper/Certificates of Deposit	9,508,381	9,508,529
Totals	<u>\$ 168,256,819</u>	<u>\$ 172,172,111</u>

NOTES TO BASIC FINANCIAL STATEMENTS--Continued

OKLAHOMA STATE REGENTS FOR HIGHER EDUCATION

June 30, 2011

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 no more than four 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, 2011

NOTE C--DEPOSITS AND INVESTMENTS--Continued

Investments:

The State Regents had the following investments as of June 30, 2011:

<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	\$19,621,386	N/A			
Equity index fund	55,895,795	N/A			
International equity fund	29,879,589	N/A			
Limited liability company	4,102,453	N/A			
Limited partnership	30,704,398	N/A			
Fixed income					
Multi-strategy bond fund	35,468,262	AA	4.0 yrs	7.42 yrs	
Global bond fund	22,118,461	AA	5.8 yrs		7.94 yrs
Commingled funds-fixed	60,774,724	AA	4.52 yrs	7.33 yrs	7.34 yrs
Hedge funds	99,231,842	N/A			
Cash equivalent funds	845,110				
Total Endowment Fund	<u>358,642,020</u>				
Governmental activities investments	<u>\$ 358,642,020</u>				
<i>Business-type Activities</i>					
Academic Scholars' Trust Fund					
Equity					
Multi-strategy fund	\$149,106	N/A			
Fixed income					
Multi-strategy bond fund	893,397	AA	4.0 yrs	7.42 yrs	
Total Academic Scholars' Trust Fund	<u>\$ 1,042,503</u>				
Retirement Fund					
Equity					
CREF stock fund	223,028	N/A			
Fixed income					
CREF bond market fund	2,473,740	N/A	5.09 yrs		6.85 yrs
Money market					
CREF money market fund	58,818	N/A			
Total Retirement Fund	<u>2,755,586</u>				
Money Market					
Ready assets	4,377	N/A			
Total money market	<u>4,377</u>				
Business-type activities investments	<u>\$ 3,802,466</u>				

NOTES TO BASIC FINANCIAL STATEMENTS--Continued

OKLAHOMA STATE REGENTS FOR HIGHER EDUCATION

June 30, 2011

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, 2011, is \$448,157,351, 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 \$33,541,502. 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, 2011

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/her investment objective.

NOTES TO BASIC FINANCIAL STATEMENTS--Continued

OKLAHOMA STATE REGENTS FOR HIGHER EDUCATION

June 30, 2011

NOTE C--DEPOSITS AND INVESTMENTS--Continued

Investments--Continued:

Academic Scholars Trust Fund

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

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

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

Retirement Funds

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

Investment of All Other Funds

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

Foreign Currency Risk

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

NOTES TO BASIC FINANCIAL STATEMENTS--Continued

OKLAHOMA STATE REGENTS FOR HIGHER EDUCATION

June 30, 2011

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, 2011.

NOTES TO BASIC FINANCIAL STATEMENTS--Continued

OKLAHOMA STATE REGENTS FOR HIGHER EDUCATION

June 30, 2011

NOTE D--CAPITAL ASSETS

A summary of the changes in capital assets is as follows for the year ended June 30, 2011:

	Balance <u>June 30, 2010</u>	Additions	Retirements	Balance <u>June 30, 2011</u>
<i>Business-type activities</i>				
Regents Operating Fund:				
Capital assets				
Buildings	\$ 3,773,409	\$ 113,752	\$ -	\$ 3,887,161
Equipment	41,016,716	16,056,361	(8,578,680)	48,494,397
Motor vehicles	237,224	-	-	237,224
Total capital assets	<u>45,027,349</u>	<u>16,170,113</u>	<u>(8,578,680)</u>	<u>52,618,782</u>
Less accumulated depreciation				
Buildings	(2,541,299)	(120,552)	-	(2,661,851)
Equipment	(36,602,981)	(2,756,358)	8,427,442	(30,931,897)
Motor vehicles	(140,906)	(38,823)	-	(179,729)
Total accumulated depreciation	<u>(39,285,186)</u>	<u>(2,915,733)</u>	<u>8,427,442</u>	<u>(33,773,477)</u>
Capital assets, net	<u>5,742,163</u>	<u>13,254,380</u>	<u>(151,238)</u>	<u>18,845,305</u>
OACAP Operating Fund:				
Capital assets				
Equipment	3,106,005	48,511	-	3,154,516
Leasehold improvements	35,932	-	-	35,932
Motor vehicles	19,907	-	-	19,907
Total capital assets	<u>3,161,844</u>	<u>48,511</u>	<u>-</u>	<u>3,210,355</u>
Less accumulated depreciation				
Equipment	(2,521,351)	(185,183)	-	(2,706,534)
Leasehold improvements	(7,186)	(7,186)	-	(14,372)
Motor vehicles	(19,907)	-	-	(19,907)
Total accumulated depreciation	<u>(2,548,444)</u>	<u>(192,369)</u>	<u>-</u>	<u>(2,740,813)</u>
Capital assets, net	<u>613,400</u>	<u>(143,858)</u>	<u>-</u>	<u>469,542</u>
Business-type activities capital assets	48,189,193	16,218,624	(8,578,680)	55,829,137
Business-type activities accumulated depreciation	<u>(41,833,630)</u>	<u>(3,108,102)</u>	<u>8,427,442</u>	<u>(36,514,290)</u>
Business-type activities capital assets, net	<u>\$ 6,355,563</u>	<u>\$ 13,110,522</u>	<u>\$ (151,238)</u>	<u>\$ 19,314,847</u>

NOTES TO BASIC FINANCIAL STATEMENTS--Continued

OKLAHOMA STATE REGENTS FOR HIGHER EDUCATION

June 30, 2011

NOTE D--CAPITAL ASSETS--Continued

A summary of the changes in capital assets is as follows for the year ended June 30, 2011:

	Balance <u>June 30, 2010</u>	<u>Additions</u>	<u>Retirements</u>	Balance <u>June 30, 2011</u>
<i>Fiduciary Fund</i>				
Capital assets				
Equipment	\$ 846,428	\$ -	\$ -	\$ 846,428
Motor vehicles	17,049	-	-	17,049
Total capital assets	<u>863,477</u>	<u>-</u>	<u>-</u>	<u>863,477</u>
Less accumulated depreciation				
Equipment	(846,428)	-	-	(846,428)
Motor vehicles	(17,049)	-	-	(17,049)
Total accumulated depreciation	<u>(863,477)</u>	<u>-</u>	<u>-</u>	<u>(863,477)</u>
Fiduciary fund capital assets, net	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>

At June 30, 2011, the cost and related accumulated depreciation of assets held under capital lease obligations and included in the above amounts for the Regents Operating Fund were \$5,697,728 and \$410,204, respectively.

NOTES TO BASIC FINANCIAL STATEMENTS--Continued

OKLAHOMA STATE REGENTS FOR HIGHER EDUCATION

June 30, 2011

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, 2011, 9.0% from January 1, 2009 through December 31, 2009, and 8.50% from July 1, 2008 through December 31, 2008. The contribution rate for OTRS members is 7% of total compensation. The employee's share of the contribution is paid directly by the Regents. As provided by state statute, contributions of 5.0% of the State's annual sales, use and income tax revenues shall be paid to OTRS, which is considered an on-behalf payment made by the State of Oklahoma for the State Regents' employees. The amount of tax benefiting the State Regents' employees is estimated at \$1,121,658 for the year ended June 30, 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, 2011, 2010 and 2009 were approximately \$2,897,600, \$2,908,700, and \$2,922,600, respectively. These contributions included the Regent's statutory contribution and the share of the employee's contribution paid directly by the Regents.

NOTES TO BASIC FINANCIAL STATEMENTS--Continued

OKLAHOMA STATE REGENTS FOR HIGHER EDUCATION

June 30, 2011

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 \$156,251 for the year ended June 30, 2011. Employees are not required to contribute to TIAA/CREF. Contributions vest as they are made.

3. *Supplemental Benefit Plan*

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

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

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

NOTES TO BASIC FINANCIAL STATEMENTS--Continued

OKLAHOMA STATE REGENTS FOR HIGHER EDUCATION

June 30, 2011

NOTE E--EMPLOYEE RETIREMENT BENEFITS--Continued

3. *Supplemental Benefit Plan--Continued*

Annual Pension Cost and Net Pension Obligation (Asset)

The Regent's annual pension cost and net pension asset of the Plan for the year ended June 30, 2011 were as follows:

	2011		
	Regents	OCAP	Total
Annual required contribution	\$ 829,589	\$ 277,889	\$ 1,107,478
Interest on net pension obligation (asset)	(48,521)	45,954	(2,567)
Adjustment to annual required contribution	68,177	(64,570)	3,607
Annual pension cost	849,245	259,273	1,108,518
Contributions made	(613,929)	(70,409)	(684,338)
Change in net pension obligation (asset)	235,316	188,864	424,180
Net pension obligation (asset)			
at beginning of year	(646,941)	612,721	(34,220)
Net pension obligation (asset) at end of year	<u>\$ (411,625)</u>	<u>\$ 801,585</u>	<u>\$ 389,960</u>

At June 30, 2011 the 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, 2011, 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, 2011

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 (Asset)
2011	\$ 1,108,518	61.7%	\$ 389,960
2010	\$ 931,191	65.3%	\$ (34,220)
2009	\$ 1,000,865	43.3%	\$ (357,297)

Funded Status

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

	2011
Actuarial accrued liability (AAL)	\$ 9,682,439
Actuarial value of plan assets	101
Unfunded actuarial accrued liability (UAAL)	\$ 9,682,338
Funded ratio (actuarial value of plan assets/AAL)	0.00%
Covered payroll (active plan members)	\$ 6,309,856
UAAL as a percentage of covered payroll	153.45%

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, 2011

NOTE E--EMPLOYEE RETIREMENT BENEFITS--Continued

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

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

Annual OPEB cost and net OPEB obligation

The Regents' annual other post employment benefit ("OPEB") cost and net OPEB obligations of the OPEB health and dental insurance plan for 2011 are as follows:

	2011		
	Regents	OCAP	Total
Annual required contribution	\$1,234,050	\$655,693	\$ 1,889,743
Interest on net OPEB obligation	147,388	87,665	235,053
Adjustment to annual required contribution	(225,680)	(133,963)	(359,643)
Annual OPEB cost (expense)	1,155,758	609,395	1,765,153
Contributions made	(96,904)	(30,531)	(127,435)
Increase in net OPEB obligation	1,058,854	578,864	1,637,718
Net OPEB obligation at beginning of year	2,807,389	1,669,814	4,477,203
Net OPEB obligation at end of year	<u>\$ 3,866,243</u>	<u>\$ 2,248,678</u>	<u>\$ 6,114,921</u>

The net pension obligation at June 30, 2011 for both the Regents' 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, 2011

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 2011 was determined as part of an actuarial valuation on June 30, 2011, using the projected unit credit actuarial cost method. The actuarial assumptions included (a) discount rate of 5.25% per year compounded annually, (b) retirement at the earlier of (1) attainment of age 62 and completion of 10 years of OTRS service, or (2) when age plus OTRS service total at least 80 (90 for members joining OTRS after June 30, 1992), and (c) medical, dental, and vision rates increasing 3 - 7.25% 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
2011	\$ 1,765,153	7.2%	\$ 6,114,921
2010	\$ 1,439,976	6.8%	\$ 4,477,203
2009	\$ 1,218,401	4.2%	\$ 3,135,096

Funded Status

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

	2011
Actuarial accrued liability (AAL)	\$ 10,903,694
Actuarial value of plan assets	-
Unfunded actuarial accrued liability (UAAL)	\$ 10,903,694
Funded ratio (actuarial value of plan assets/AAL)	0.00%
Covered payroll (active plan members)	\$ 13,814,383
UAAL as a percentage of covered payroll	78.93%

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, 2011

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, 2011, outstanding loans totaled \$2,573,978,126.

On March 30, 2010, the Health Care and Education Reconciliation Act (H.R. 4872) was signed into law. 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, 2011, \$6,543,701 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, 2011, \$3,634,191 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, 2011

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. As of June 30, 2011, the State Regents have drawn down \$5,697,728 for expenditures incurred in connection with specified projects. The remaining balance of \$2,168,988 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, 2011:

<u>Year Ending June 30,</u>	<u>Principal</u>	<u>Interest</u>
2012	\$ 1,249,000	\$ 181,254
2013	1,271,250	158,766
2014	1,306,250	123,892
2015	1,354,750	75,468
2016	573,333	22,495
	<u>\$ 5,754,583</u>	<u>\$ 561,875</u>

NOTES TO BASIC FINANCIAL STATEMENTS--Continued

OKLAHOMA STATE REGENTS FOR HIGHER EDUCATION

June 30, 2011

NOTE I--LEASE COMMITMENTS--Continued

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

In February 2006, the Oklahoma Capital Improvement Authority (“OCIA”) issued \$50,000,000 Oklahoma State Regents for Higher Education Endowed Chairs Funding Program Bonds, Federally Taxable Series 2006 (“Series 2006 Bonds”), pursuant to a Resolution adopted by OCIA on September 29, 2004. The State Regents received the proceeds to fund the State’s share of private gifts to create endowed chairs, professorships, lectureships and position artists in residence at various institutions in the Oklahoma State System for Higher Education. Security was provided by payments from the State Regents to OCIA under an Agreement for Use of Bond Proceeds (“Agreement”) for a term of ten years. Payment by the State Regents under the Agreement was subject to the annual appropriation of funds by the Oklahoma State Legislature and allocation of funds for such purpose by the Regents.

In July 2010, OCIA issued \$132,075,000 Oklahoma State Regents for Higher Education Endowed Chairs Funding and Refunding Program Bonds, Federally Taxable Series 2010 (“Series 2010 Bonds”). The Series 2010 Bonds were issued pursuant to the Resolution adopted by OCIA on September 29, 2004, as supplemented by a 2010 Supplemental Resolution adopted by the Authority on April 21, 2010. The proceeds from the sale of the Series 2010 Bonds were used to fund a portion of the State of Oklahoma matching contribution to the Oklahoma State Regents’ Endowment Trust Fund and to advance refund \$28,670,000 principal amount of the Series 2006 Bonds maturing July 1, 2011-2015.

In connection with the issue of the Series 2010 Bonds, the State Regents entered into an Amended Agreement for Use of Bond Proceeds (“Amended Agreement”), which provides security for the Series 2010 Bonds. Payment by the State Regents under the Amended Agreement is subject to the annual appropriation of funds by the Oklahoma State Legislature and allocation of funds for such purpose by the Regents.

The refunding of the Series 2006 Bonds that occurred in connection with the issuance of the Series 2010 Bonds effectively deferred principal payments into the future, resulting in a cost on restructuring. Accordingly, the State Regents have recorded a deferred charge in the amount of \$3,271,477 that will be amortized over a period of four years.

NOTES TO BASIC FINANCIAL STATEMENTS--Continued

OKLAHOMA STATE REGENTS FOR HIGHER EDUCATION

June 30, 2011

NOTE I--LEASE COMMITMENTS--Continued

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

The following is a schedule of annual future minimum payments as of June 30, 2011:

<u>Year Ending June 30,</u>	<u>Principal</u>	<u>Interest</u>
2012	\$ -	\$ 6,386,331
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
2017-2021	31,145,000	26,288,343
2022-2026	39,660,000	17,773,917
2027-2031	<u>40,160,000</u>	<u>5,786,154</u>
Total	<u>\$ 132,075,000</u>	<u>\$ 81,073,691</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. Rental expense of approximately \$889,600 was paid to the Presbyterian Health Foundation for the State Regents' operating facilities for the year ended June 30, 2011. Although the lease is on a year-to-year basis, it is expected that the State Regents will continue to lease these facilities for another year.

The State Regents lease office space for OCAP from the Oklahoma Law Enforcement Retirement System. Rental expense of approximately \$429,000 was paid by OCAP for the year ended June 30, 2011. OCAP's current lease agreement, effective February 2009, with yearly renewal options, will expire January 31, 2015.

OCAP has entered into an agreement with Sallie Mae for a student loan guaranty servicing system. Processing charges were approximately \$1,623,000 for the year ended June 30, 2011. 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 \$1,350,000 to \$1,500,000.

Rental expense of \$27,700 was paid for storage facilities for the year ended June 30, 2011. Rental expense of \$59,000 was paid for parking facilities for the year ended June 30, 2011.

NOTES TO BASIC FINANCIAL STATEMENTS--Continued

OKLAHOMA STATE REGENTS FOR HIGHER EDUCATION

June 30, 2011

NOTE J--LONG-TERM LIABILITIES

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

	2011				
	Balance June 30, 2010	Additions	Deletions	Balance June 30, 2011	Due Within One Year
<i>Business-type activities</i>					
Regents Operating Fund:					
Compensated absences	\$ 1,270,645	\$ 827,373	\$ (797,677)	\$ 1,300,341	\$ 608,807
Accrued post-employment benefits	2,807,389	1,155,758	(96,904)	3,866,243	91,920
Master equipment leases payable	7,018,636	-	(1,264,053)	5,754,583	1,249,000
Unamortized bond premium	217,800	-	(40,209)	177,591	40,209
Leasehold payable	27,701	-	(27,701)	-	-
	<u>11,342,171</u>	<u>1,983,131</u>	<u>(2,226,544)</u>	<u>11,098,758</u>	<u>1,989,936</u>
OCAP Operating Fund:					
Compensated absences	483,146	341,563	(352,499)	472,210	276,772
Accrued pension obligation	612,721	259,273	(70,409)	801,585	70,409
Accrued post-employment benefits	<u>1,669,814</u>	<u>609,395</u>	<u>(30,531)</u>	<u>2,248,678</u>	<u>35,345</u>
	<u>2,765,681</u>	<u>1,210,231</u>	<u>(453,439)</u>	<u>3,522,473</u>	<u>382,526</u>
Business-type Activities Total	<u>\$ 14,107,852</u>	<u>\$ 3,193,362</u>	<u>\$ (2,679,983)</u>	<u>\$ 14,621,231</u>	<u>\$ 2,372,462</u>
<i>Governmental Activities</i>					
OCIA lease payable	<u>\$ 28,670,000</u>	<u>\$ 132,075,000</u>	<u>\$ (28,670,000)</u>	<u>\$ 132,075,000</u>	<u>\$ -</u>
<i>Fiduciary Fund</i>					
Allowance for default claims	\$ 4,343,430	\$ -	\$ (199,278)	\$ 4,144,152	\$ -
	<u>\$ 4,343,430</u>	<u>\$ -</u>	<u>\$ (199,278)</u>	<u>\$ 4,144,152</u>	<u>\$ -</u>

NOTES TO BASIC FINANCIAL STATEMENTS--Continued

OKLAHOMA STATE REGENTS FOR HIGHER EDUCATION

June 30, 2011

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

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

NOTES TO BASIC FINANCIAL STATEMENTS--Continued

OKLAHOMA STATE REGENTS FOR HIGHER EDUCATION

June 30, 2011

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

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

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

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

REQUIRED SUPPLEMENTARY
INFORMATION

REQUIRED SUPPLEMENTARY INFORMATION--UNAUDITED

OKLAHOMA STATE REGENTS FOR HIGHER EDUCATION

June 30, 2011

SCHEDULE OF FUNDING PROGRESS FOR SUPPLEMENTAL BENEFIT PLAN

Actuarial Valuation Date	Actuarial Value of Assets (a)	Actuarial Liability (AAL) (b)	Unfunded AAL (UAAL) (b-a)	Funded Ratio (a/b)	Covered Payroll (c)	UAAL as a percentage of Covered Payroll (b-a)/(c)
6/30/2009	\$ 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%	\$ 6,309,856	153.4%

SCHEDULE OF FUNDING PROGRESS FOR OTHER POST EMPLOYMENT INSURANCE BENEFITS

Actuarial Valuation Date	Actuarial Value of Assets (a)	Actuarial Liability (AAL) (b)	Unfunded AAL (UAAL) (b-a)	Funded Ratio (a/b)	Covered Payroll (c)	UAAL as a percentage of Covered Payroll (b-a)/(c)
6/30/2009	\$ -	\$ 6,679,869	\$ 6,679,869	0.0%	\$ 14,741,883	45.3%
6/30/2010	\$ -	\$ 8,561,656	\$ 8,561,656	0.0%	\$ 14,094,938	60.7%
6/30/2011	\$ -	\$ 10,903,694	\$ 10,903,694	0.0%	\$ 13,814,383	78.9%

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

This page intentionally left blank.

REPORT REQUIRED BY
GOVERNMENT AUDITING STANDARDS

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

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

We have audited 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, 2011, which collectively comprise the State Regents' basic financial statements and have issued our report thereon dated November 9, 2011. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

In planning and performing our 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 State Regents' 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 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.

Cole & Reed P.C.

Oklahoma City, Oklahoma
November 9, 2011

REPORTS REQUIRED BY
OMB CIRCULAR A-133

Independent Auditors' Report on Compliance with Requirements That
Could Have a Direct and Material Effect on Each Major Program and on
Internal Control Over Compliance in Accordance With OMB Circular
A-133 and on the Schedule of Expenditures of Federal Awards

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

Compliance

We have audited the compliance of Oklahoma State Regents for Higher Education (the "State Regents") with the types of compliance requirements described in the U.S. Office of Management and Budget (OMB) *Circular A-133 Compliance Supplement* that could have a direct and material effect on each of its major federal programs for the year ended June 30, 2011. The State Regents' major federal programs are identified in the summary of auditors' results section of the accompanying schedule of findings and questioned costs. Compliance with the requirements of laws, regulations, contracts and grants applicable to each of its major federal programs is the responsibility of the 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 OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. Those standards and OMB Circular A-133 require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about the State Regents' compliance with those requirements and performing such other procedures as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion. Our audit does not provide a legal determination of 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 could have a direct and material effect on each of its major federal programs for the year ended June 30, 2011.

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 the requirements that could have a direct and material effect on a major federal program to determine 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 was not designed to 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, 2011, and have issued our report thereon dated November 9, 2011. Our audit was performed for the purpose of forming an opinion on the basic financial statements taken as a whole. The accompanying schedule of expenditures of federal awards is presented for purposes of additional analysis as required by OMB Circular A-133 and is not a required part of the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, is fairly stated, in all material respects, in relation to the basic financial statements taken as a whole.

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.

Cole & Reed P.C.

Oklahoma City, Oklahoma
November 9, 2011

This page intentionally left blank.

SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS

OKLAHOMA STATE REGENTS FOR HIGHER EDUCATION

June 30, 2011

<u>Federal Grantor/Program Title</u>	<u>Federal CFDA Number</u>	<u>Expenditures</u>
<u>U.S. Department of Education</u>		
Federal Family Education Loan Program	84.032	\$ 172,575,414
Gaining Early Awareness and Readiness for Undergraduate Programs	84.334	3,406,765
Teacher and Principal Training and Recruiting	84.367	1,017,739
College Access Challenge Grant Program	84.378A	1,562,350
State Student Incentive Grants	84.069	911,061
Total U.S. Department of Education		<u>179,473,329</u>
<u>U.S. Department of Health and Human Services</u>		
Pass-through program from Oklahoma Department of Human Services		
Temporary Assistance to Needy Families	93.558	3,375,849
Child Care and Development Block Grant	93.575	2,427,275
Total U.S. Department of Health and Human Services		<u>5,803,124</u>
<u>Corporation for National and Community Service</u>		
Volunteer in Service to America	94.013	56,642
TOTAL EXPENDITURES OF FEDERAL AWARDS		<u>\$ 185,333,095</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, 2011

NOTE A--SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

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

NOTE B--SUB-RECIPIENTS

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

<u>Program Title</u>	<u>Federal CFDA Number</u>	<u>Amount Provided to Subrecipients</u>
Teacher and Principal Training and Recruiting	84.367	\$ 975,003
College Access Challenge Grant Program	84.378A	734,505
State Student Incentive Grants	84.069	911,061
Temporary Assistance to Needy Families	93.558	3,275,849
Child Care and Development Block Grant	93.575	2,310,848

SCHEDULE OF FINDINGS AND QUESTIONED COSTS

OKLAHOMA STATE REGENTS FOR HIGHER EDUCATION

June 30, 2011

Section I--Summary of Auditors' Results

Financial statements

Type of auditors' report issued:

Unqualified

Internal control over financial reporting:

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

Noncompliance material to financial statements noted?

yes no

Federal Awards

Internal control over major programs:

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

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

Unqualified

Any audit findings disclosed that are required to be reported in accordance with section 510(a) of Circular A-133?

yes no

Identification of major programs:

<u>Program</u>	<u>CFDA Number</u>
Federal Family Education Loan Program	84.032
Gaining Early Awareness and Readiness for Undergraduate Programs	84.334
College Access Challenge Grant Program	84.378A
State Student Incentive Grants	84.069
Child Care and Development Block Grant	93.575

Dollar threshold used to distinguish between type A and type B programs: \$382,730

Auditee qualified as low-risk auditee? yes no

SCHEDULE OF FINDINGS AND QUESTIONED COSTS--Continued

OKLAHOMA STATE REGENTS FOR HIGHER EDUCATION

For the Year Ended June 30, 2011

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.

SUMMARY SCHEDULE OF PRIOR AUDIT FINDINGS

OKLAHOMA STATE REGENTS FOR HIGHER EDUCATION

For the Year Ended June 30, 2011

Finding 2010-01

Program CFDA No:

84.069, 84.334, and 84.378

CFDA Program Title:

Leveraging Educational Assistance Partnership (LEAP)

Gaining Early Awareness and Readiness for Undergraduate Programs (Gear Up), and College Access Challenge Grant Program (College Access)

Federal Award Year:

June 30, 2010

Compliance Requirement:

Cash Management

Finding:

State Regents was unable to provide information to enable adequate testing of cash management compliance requirements for both Gear Up and College Access programs. Also, during testing of the LEAP program, we noted three instances where funds drawn down by State Regents were not disbursed within the 3 business day limitation.

We did note, however, that at the end of the fiscal year, total draw downs did not exceed total expenditures for any of the three programs.

Cause:

State Regents does not have effective internal controls in place to ensure compliance with cash management requirements. Adequate supporting documentation is not maintained to show that the time elapsed between receipt of funds and disbursement to vendors and subrecipients has been minimized. There are also no procedures in place to prevent processing delays which in turn cause delays in disbursing funds within the 3 business day limitation.

Criteria:

OMB Circular A-110 and Treasury regulations at 31 CFR part 205 require recipients of Federal funds to minimize the time elapsing between the transfer of funds from the US Treasury and the issuance or redemption of checks, warrants, or payment by other means by the recipients. Furthermore, funds withdrawn through the Department of Education's G5 system must be disbursed within three business days of receipt.

SUMMARY SCHEDULE OF PRIOR AUDIT FINDINGS--Continued

OKLAHOMA STATE REGENTS FOR HIGHER EDUCATION

For the Year Ended June 30, 2011

Finding 2010-01--Continued

Effect:

Due to the lack of proper supporting documentation, State Regents could draw down more funds than are actually spent, which can lead to inaccurate reporting and questioned costs. Additionally, delays in disbursements to subrecipient institutions could result in delays in the operations of those institutions.

Context:

Per our review of the Gear Up and College Access expenditures detail and a detail of funds drawn down from the G5 system, we noted that the expenditures detail could not be reconciled to the draw downs without a more detailed supporting schedule. State Regents personnel reconciled several of the expenditures to the specific draw downs, but were unable to reconcile all expenditures. As such, we were unable to determine if funds drawn down were disbursed in a timely manner.

Per review of general ledger details printed from PeopleSoft and Office of State Finance transfer forms, we noted that three of the seven total draws tested for LEAP exceeded the limitation of three business day between receipt and disbursement of funds. This is in conflict with the certification required by the Department of Education's G5 system before an institution may complete a draw of funds.

Recommendation:

Internal controls should be in place to ensure that draw downs are properly supported by documentation indicating their timely expenditure. State Regents should maintain a separate schedule for each grant that details each draw down, including date and amount, and the specific expenditures for which the draw down was utilized. State Regents should also implement controls to ensure that no processing delays occur subsequent to draw-down of funds.

Institution Response and Corrective Action Plan:

Management agrees that there were some instances that funds for payment of expenditures were not disbursed within the three business day limitation. During FY-2010, the State Regents experienced personnel transition issues that effected day-to-day operations. These personnel issues were addressed and new procedures have been put into place that ensures effective monitoring of cash management.

SUMMARY SCHEDULE OF PRIOR AUDIT FINDINGS--Continued

OKLAHOMA STATE REGENTS FOR HIGHER EDUCATION

For the Year Ended June 30, 2011

Finding 2010-01--Continued

Institution Response and Corrective Action Plan--Continued:

Management recognizes the importance of monitoring cash expenditures and following guidelines in relation to the three business day limitation. Management has revised and updated procedures for daily cash monitoring. Cash reports and federal expenditure reports are now reviewed daily with strict oversight of the timing of cash draws against federal grants and the expenditure process. Supporting documentation for each draw down is maintained. Cash schedules for each of the grants are updated daily to ensure that compliance with the three business day limitation has been met.

Auditor Follow-Up:

The corrective action plan was implemented. No similar finding was noted in the current year.

