

**OKLAHOMA STATE REGENTS
FOR HIGHER EDUCATION**

June 30, 2016

OKLAHOMA STATE REGENTS FOR HIGHER EDUCATION

June 30, 2016

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Independent Auditor's Report

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

Report on the Financial Statements

We have audited the accompanying financial statements of the governmental activities, the business-type activities and each major fund of the Oklahoma State Regents for Higher Education (the State Regents), a component unit of the State of Oklahoma, as of and for the year ended June 30, 2016, and the related notes to the financial statements, which collectively comprise the State Regents' basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

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

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

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business-type activities and each major

fund of the State Regents' as of June 30, 2016, and the respective changes in financial position and cash flows thereof for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis on pages 4 - 12 and the schedule of proportionate share of the net pension liability - OTRS, schedule of contributions - OTRS, schedule of changes in net pension liability and related ratios - supplemental plan, schedule of contributions - supplemental plan and schedule of funding progress for other post-employment insurance benefits on pages 72 - 76 be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Other Information

Our audit was conducted for the purpose of forming an opinion on the financial statements that collectively comprise the State Regents' basic financial statements. The Schedule of Expenditures of Federal Awards on page 86 is required by Office of Management and Budget under the Uniform Guidance. It and the cost center balance sheets and income statements on pages 77 - 78 are presented for purposes of additional analysis and are not a required part of the basic financial statements.

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

The cost center balance sheet and income statement are the responsibility of management and were derived from and relates directly to the underlying accounting and other records used to prepare the basic financial statements. The cost center balance sheet and income statement information has been subjected to the auditing procedures applied in the audit of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic financial statements or to the basic financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. The cost center balance sheet and income statement have been prepared on the modified accrual basis of accounting as described in the notes to supplemental information. These statements do not recognize pension and other post employment benefit liabilities. In our opinion, the cost center balance sheet and income statement are not fairly stated, in all material respects, in accordance

with accounting principles generally accepted in the United States of America. However, in our opinion, the cost center balance sheet and income statement are fairly stated, in all material respects with the basis of accounting described in the notes to supplemental information, in relation to the basic financial statements as a whole.

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated October 31, 2016 on our consideration of the State Regents' internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the State Regents' internal control over financial reporting and compliance.

Tulsa, Oklahoma
October 31, 2016

Stanfield & O'Dell P.C.

OKLAHOMA STATE REGENTS FOR HIGHER EDUCATION
Management's Discussion and Analysis
For the Year Ended June 30, 2016

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, 2016. 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 Regents determined 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 Regents determined that under GASB 34, the Regents' Endowment Trust Fund is properly classified as a permanent fund. In accordance with GASB 68, the Regents reported the Oklahoma State Regents for Higher Education Supplemental Retirement Plan (as amended and restated July 1, 2014) as a fiduciary fund. The Oklahoma State Regents for Higher Education Retiree Medical Plan (as approved June 25, 2015) is also reported as a fiduciary fund. The assets of these two plans are held in a trustee or agency capacity for the benefit of others. The Regents present the assets, liabilities, revenues, and expenses of the federal student loan reserve fund, pension funds, and the Endowment Trust Fund as separate fiduciary and governmental funds.

FINANCIAL HIGHLIGHTS

- At June 30, 2016, the Regents' business-type activities net position decreased to \$58,085,167 from \$72,551,195 at June 30, 2015.
- Total recognized operating and non-operating revenues in the Regents' business-type activities decreased by \$120,926,780 primarily due to a decrease in state appropriations of \$116,221,638 and a decrease in default loan collections of \$4,611,188.
- Total operating and non-operating expenses in the Regents' business-type activities decreased by \$122,895,411 primarily due to a decrease of \$111,630,547 in payments to public institutions as result of a significant decrease in state appropriations during fiscal year 2016.
- The Endowment Trust Fund experienced a positive return on investment of \$7,824,809 in 2016, compared to a negative return on investment of \$4,305,878 in 2015, an increase of \$12,130,687.

OKLAHOMA STATE REGENTS FOR HIGHER EDUCATION
Management's Discussion and Analysis
For the Year Ended June 30, 2016

USING THIS REPORT

This discussion and analysis is intended to serve as an introduction to the Regent's basic financial statements. The basic financial statements are comprised of three components:

1) government-wide financial statements, 2) fund financial statements, and 3) notes to the financial statements. A brief description of the basic financial statements follows.

GOVERNMENT-WIDE FINANCIAL STATEMENTS

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

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

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

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

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

OKLAHOMA STATE REGENTS FOR HIGHER EDUCATION
Management's Discussion and Analysis
For the Year Ended June 30, 2016

USING THIS REPORT (*continued*)

FUND FINANCIAL STATEMENTS

Proprietary funds: The Regents' business-type activities includes operations from the Oklahoma College Assistance Program ("OCAP"), OneNet, and other Regents' cost centers.

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 Regents' supplemental retirement fund and retiree medical plan are reported as fiduciary funds to account for assets held in a trustee or agency capacity for the benefit of agency employees.

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

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

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

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

OKLAHOMA STATE REGENTS FOR HIGHER EDUCATION
Management's Discussion and Analysis
For the Year Ended June 30, 2016

FINANCIAL ANALYSIS OF THE REGENTS' GOVERNMENT WIDE ACTIVITIES

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

Condensed Statement of Net Position

	Governmental Activities		Business-Type Activities		Total	
	2016	2015	2016	2015	2016	2015
Current assets	\$ 29,732,719	\$ 53,919,840	\$ 81,775,590	\$ 93,801,377	\$ 111,508,309	\$ 147,721,217
Capital assets	-	-	15,610,613	18,455,457	15,610,613	18,455,457
Other noncurrent assets	623,328,013	616,454,425	-	-	623,328,013	616,454,425
Total assets	653,060,733	670,374,265	97,386,203	112,256,834	750,446,936	782,631,099
Deferred outflow related to pension			4,629,781	3,190,584	4,629,781	3,190,584
Current liabilities	53,989,429	70,587,520	7,125,397	7,428,773	61,114,826	78,016,293
Noncurrent liabilities	105,265,000	110,965,000	28,662,640	28,987,139	133,927,640	139,952,139
Total liabilities	159,254,429	181,552,520	35,788,037	36,415,912	195,042,466	217,968,432
Deferred inflow related to pension	-	-	8,142,780	6,480,311	8,142,780	6,480,311
Net position						
Net Investment in						
Capital Assets	-	-	15,610,613	18,455,457	15,610,613	18,455,457
Restricted	493,806,304	488,821,745	56,182,936	58,303,177	549,989,239	547,124,922
Unrestricted	-	-	(13,708,382)	(4,207,440)	(13,708,382)	(4,207,440)
Total Net Position	<u>\$ 493,806,304</u>	<u>\$ 488,821,745</u>	<u>\$ 58,085,167</u>	<u>\$ 72,551,195</u>	<u>\$ 551,891,471</u>	<u>\$ 561,372,940</u>

OKLAHOMA STATE REGENTS FOR HIGHER EDUCATION
Management's Discussion and Analysis
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FINANCIAL ANALYSIS OF THE REGENTS' GOVERNMENT WIDE ACTIVITIES
(continued)

Condensed Statement of Activities

	Governmental Activities		Business-Type Activities		Total	
	2016	2015	2016	2015	2016	2015
Operating revenues						
Administrative fees	\$ -	\$ -	\$ 1,047,844	\$ 1,149,432	\$ 1,047,844	\$ 1,149,432
Default aversion fees	-	-	742,725	1,095,699	742,725	1,095,699
Default loan collections	-	-	15,682,102	20,293,290	15,682,102	20,293,290
Grants, contracts and gifts	-	-	10,938,773	12,311,250	10,938,773	12,311,250
OneNet service fee	-	-	18,021,479	17,011,773	18,021,479	17,011,773
Other	-	-	1,449,028	532,835	1,449,028	532,835
Nonoperating revenues						
State appropriations	-	-	933,588,793	1,049,810,432	933,588,793	1,049,810,432
Other state income	-	-	11,384,640	11,220,457	11,384,640	11,220,457
Fund released from OMES	-	2,623,987	-	-	-	2,623,987
On-behalf OTRS contributions	-	-	1,211,518	1,378,381	1,211,518	1,378,381
On-behalf payment OCIA	-	-	-	-	-	-
Return on investment	7,824,809	(4,305,878)	1,401,689	1,591,821	9,226,498	(2,714,057)
	<u>7,824,809</u>	<u>(1,681,891)</u>	<u>995,468,590</u>	<u>\$ 1,116,395,370</u>	<u>1,003,293,399</u>	<u>1,114,713,479</u>
Operating expenses						
Personnel and other operating costs	372,865	389,351	48,147,202	37,505,403	48,520,067	37,894,754
Communications	-	-	12,462,300	12,249,095	12,462,300	12,249,095
Scholarships, tuition and other incentives	-	-	12,593,940	12,788,674	12,593,940	12,788,674
Other	3,054,493	2,801,973	-	-	3,054,493	2,801,973
Nonoperating expenses						
Interagency payments	(0)	-	15,000	146,193	15,000	146,193
Payments to public institutions	5,115,695	23,718,732	873,520,216	985,150,763	878,635,911	1,008,869,495
OCIA on-behalf payments	-	-	50,807,344	50,091,757	50,807,344	50,091,757
Loss on disposal of capital assets	-	-	635	131,450	635	131,450
Other	(8,725)	-	-	22,325,741	(8,725)	22,325,741
Interest expense	5,900,670	6,056,244	22,495	75,468	5,923,165	6,131,712
	<u>14,434,997</u>	<u>32,966,300</u>	<u>997,569,133</u>	<u>1,120,464,544</u>	<u>1,012,004,130</u>	<u>1,153,430,844</u>
Net income (loss) before capital	(6,610,188)	(34,648,191)	(2,100,543)	(4,069,174)	(8,710,731)	(38,717,365)
Transfers	11,594,747	12,474,535	(11,594,747)	(12,474,535)	-	-
Change in net assets	4,984,559	(22,173,656)	(13,695,290)	(16,543,709)	(8,710,731)	(38,717,365)
Net position, beginning of year as restated	488,821,745	510,995,402	71,780,457	89,094,903	560,602,202	600,090,305
Net position, end of year	<u>\$ 493,806,304</u>	<u>\$ 488,821,745</u>	<u>\$ 58,085,167</u>	<u>\$ 72,551,195</u>	<u>\$ 551,891,471</u>	<u>\$ 561,372,940</u>

OKLAHOMA STATE REGENTS FOR HIGHER EDUCATION
Management's Discussion and Analysis
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CAPITAL ASSETS AND DEBT ADMINISTRATION

At June 30, 2016, the Regents business-type activities recorded a total of \$70,922,992 in capital assets and \$55,312,379 in accumulated depreciation. During the year ended June 30, 2016, the Regents acquired \$2,155,036 in capital assets of building improvements, equipment, and purchase of maintenance vehicles. These acquisitions were primarily associated with the expansion of OneNet data communication services.

Capital Assets, Net

	<u>2016</u>	<u>2015</u>
Buildings	\$ 8,696,249	\$ 8,160,032
Equipment	61,763,437	60,528,334
Motor vehicles	<u>463,306</u>	<u>463,306</u>
Total	70,922,992	69,151,672
Less accumulated depreciation	<u>(55,312,379)</u>	<u>(50,696,215)</u>
Capital assets, net	<u><u>\$ 15,610,613</u></u>	<u><u>\$ 18,455,457</u></u>

At June 30, 2016, the Regents business-type activities had long-term liabilities of \$29,524,760. The current portion due within one year is \$862,120.

Long-Term Liabilities

	<u>2016</u>	<u>2015</u>
Compensated absences	\$ 1,813,971	\$ 1,780,440
Accrued pension obligation/other post-employment benefits	27,710,789	28,379,941
Master equipment leases payable	-	573,333
Unamortized bond premium	-	16,755
Sub-Total long-term liabilities	<u>\$ 29,524,760</u>	<u>\$ 30,750,469</u>
Less: Due within one year	<u>\$ (862,120)</u>	<u>\$ (1,763,330)</u>
Total long-term liabilities	<u><u>\$ 28,662,640</u></u>	<u><u>\$ 28,987,139</u></u>

OKLAHOMA STATE REGENTS FOR HIGHER EDUCATION
Management's Discussion and Analysis
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FINANCIAL ANALYSIS OF THE REGENTS' ENDOWMENT TRUST FUND

The following schedules are prepared from the Regents' Endowment Trust 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, 2016, total expenses decreased by \$18,352,578 compared to June 30, 2015 as result of total distributions to the institutions decreasing by \$18,603,037. Total return on investments increased by \$12,130,687.

Regents' Endowment Trust Fund		
	<u>2016</u>	<u>2015</u>
Cash and investments	\$ 652,562,986	\$ 665,094,367
Receivables	\$ 497,747	\$ 5,279,898
Total assets	<u>\$ 653,060,733</u>	<u>\$ 670,374,265</u>
 Total liabilities	 <u>\$ 48,289,429</u>	 <u>\$ 65,092,520</u>
Total fund balance	<u><u>\$ 604,771,304</u></u>	<u><u>\$ 605,281,745</u></u>

Changes in Fund Balance		
	<u>2016</u>	<u>2015</u>
Return on investment	\$ 7,824,809	\$ (4,305,878)
Other Revenue	8,725	
Intergovernmental revenue	-	2,623,987
Total revenues	<u>7,833,534</u>	<u>(1,681,891)</u>
Contractual and other	3,427,357	3,191,324
Lease payments	11,395,670	11,381,244
Distributions to institutions	<u>5,115,695</u>	<u>23,718,732</u>
Total expenditures	19,938,722	38,291,300
Transfers in	<u>11,594,747</u>	<u>12,474,535</u>
Total other financing sources	11,594,747	12,474,535
Change in endowment fund balance	<u><u>\$ (510,441)</u></u>	<u><u>\$ (27,498,657)</u></u>

OKLAHOMA STATE REGENTS FOR HIGHER EDUCATION
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FINANCIAL ANALYSIS OF OCAP FIDUCIARY FUND ACTIVITIES

The following tables are prepared from OCAP's 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 and assets are capitalized and depreciated. During the year ended June 30, 2016, total additions decreased by \$32,829,006 from \$146,475,507 to \$113,646,501. Deductions decreased by \$33,413,070 from \$145,975,284 to \$112,562,214. The additions decrease was primarily due to decreased loan collections, federal reinsurance, fee revenues, and a reduction in the provision for default loans, offset by an increase in interest income. The decrease in deductions was primarily due to decreases in default loan purchases, default aversion fees, and default loan collections due to USDE as a result of the continued decline in the outstanding portfolio.

Fiduciary Net Position

	<u>2016</u>	<u>2015</u>
Other assets	\$ 18,761,571	\$ 17,226,593
Total Assets	18,761,571	17,226,593
Non-reinsured defaulted loans	<u>5,615,701</u>	<u>6,447,910</u>
Total Deferred Outflows of Resources	5,615,701	6,447,910
Total Liabilities	<u>5,647,863</u>	<u>5,950,595</u>
Allowance for default claims	<u>1,477,637</u>	<u>1,556,423</u>
Total Deferred Inflows of Resources	1,477,637	1,556,423
Restricted net assets	17,251,772	16,167,485
Total Net Position	<u>\$ 17,251,772</u>	<u>\$ 16,167,485</u>

OKLAHOMA STATE REGENTS FOR HIGHER EDUCATION
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FINANCIAL ANALYSIS OF THE OCAP FIDUCIARY FUND ACTIVITIES *(continued)*

Changes in Fiduciary Net Position

	<u>2016</u>	<u>2015</u>
Federal reinsurance	\$ 57,335,637	\$ 70,691,605
Loan collections	55,523,992	74,584,564
Other additions	<u>786,872</u>	<u>1,199,338</u>
Total Additions	113,646,501	146,475,507
 Purchase of defaulted loans	 57,089,673	 68,421,679
Loan collections due to USDE	54,706,793	76,457,906
Other deductions	<u>765,748</u>	<u>1,095,699</u>
Total Deductions	112,562,214	145,975,284
 Change in Federal Fund Net Position	 <u>\$ 1,084,287</u>	 <u>\$ 500,223</u>

ECONOMIC FACTORS AND THE REGENTS' FUTURE

The economic position of the Regents is closely tied to that of the State of Oklahoma. During the 2016 legislative session, the Oklahoma Legislature appropriated \$1,020,412,106 to the Regents for fiscal year 2016, a decrease of \$24,111,178 compared to the fiscal year 2015 appropriations of \$1,044,523,284. This represented a 2.3 percent reduction from fiscal year 2015. Subsequently, further cuts in appropriation disbursements were assessed through the 2016 fiscal year due to shortfall in state revenues in the last half of the fiscal year. As a result, actual appropriations received in fiscal year 2016 were \$933,684,996, an additional 8.5 percent reduction from fiscal year 2015. Approximately, 9.84 percent of the revenue dedicated to appropriations for fiscal year 2016 comes from gross production tax.

CONTACTING THE REGENTS' FINANCIAL MANAGEMENT

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

STATEMENT OF NET POSITION

OKLAHOMA STATE REGENTS FOR HIGHER EDUCATION

June 30, 2016

	Governmental Activities	Business-Type Activities	Total
ASSETS AND DEFERRED OUTFLOW			
CURRENT ASSETS			
Cash and cash equivalents	\$ -	\$ 20,310,175	\$ 20,310,175
Receivables			
Accounts receivable	-	7,024,701	7,024,701
Interest	-	17,761	17,761
Other assets	-	726,894	726,894
Restricted assets			
Cash and cash equivalents	29,234,973	51,904,389	81,139,362
Investments	-	562,472	562,472
Receivables			
Accounts receivable	477,545	5,681	483,226
Payable between funds	-	893,818	893,818
Administrative cost allowance	-	252,396	252,396
Interest	20,201	77,303	97,504
TOTAL CURRENT ASSETS	29,732,719	81,775,590	111,508,309
NONCURRENT ASSETS			
Investments	623,328,013	-	623,328,013
Capital assets, net	-	15,610,613	15,610,613
TOTAL NONCURRENT ASSETS	623,328,013	15,610,613	638,938,626
DEFERRED OUTFLOW OF RESOURCES			
Deferred outflow related to pension	-	4,629,781	4,629,781
TOTAL ASSETS AND DEFERRED OUTFLOW	\$ 653,060,732	\$ 102,015,984	\$ 755,076,716

(Continued)

See notes to financial statements.

STATEMENT OF NET POSITION--Continued

OKLAHOMA STATE REGENTS FOR HIGHER EDUCATION

June 30, 2016

	Governmental Activities	Business-Type Activities	Total
LIABILITIES AND DEFERRED INFLOW			
CURRENT LIABILITIES			
Accounts payable and accrued expenses	\$ -	\$ 5,763,718	\$ 5,763,718
Compensated absences	-	684,969	684,969
Liabilities payable from restricted assets			
Accounts payable and accrued expenses	92,498	499,559	592,057
Compensated absences	-	177,151	177,151
OCIA lease payable	5,700,000	-	5,700,000
Deposits held in trust for system institutions	3,301,555	-	3,301,555
Undistributed interest on deposits held in trust	44,895,375	-	44,895,375
TOTAL CURRENT LIABILITIES	<u>53,989,428</u>	<u>7,125,397</u>	<u>61,114,825</u>
NONCURRENT LIABILITIES			
Compensated absences	-	783,932	783,932
Accrued pension obligation	-	2,715,487	2,715,487
Net pension liability	-	24,995,302	24,995,302
Noncurrent liabilities payable from restricted assets			
Compensated absences	-	167,919	167,919
OCIA lease payable	105,265,000	-	105,265,000
TOTAL NONCURRENT LIABILITIES	<u>105,265,000</u>	<u>28,662,640</u>	<u>133,927,640</u>
DEFERRED INFLOW OF RESOURCES			
Deferred inflow related to pension	-	8,142,780	8,142,780
TOTAL LIABILITIES AND DEFERRED INFLOW	<u>159,254,428</u>	<u>43,930,817</u>	<u>203,185,245</u>
NET POSITION			
Net investment in capital assets	-	15,610,613	15,610,613
Restricted			
Educational grants and scholarships	-	16,000,013	16,000,013
Oklahoma College Assistance Program	-	36,851,417	36,851,417
Endowment - Nonexpendable	493,806,304	-	493,806,304
Capital Projects	-	3,331,506	3,331,506
Unrestricted	-	(13,708,382)	(13,708,382)
TOTAL NET POSITION	<u>\$ 493,806,304</u>	<u>\$ 58,085,167</u>	<u>\$ 551,891,471</u>
			(Concluded)

See notes to financial statements.

STATEMENT OF ACTIVITIES

OKLAHOMA STATE REGENTS FOR HIGHER EDUCATION

Year Ended June 30, 2016

	Governmental Activities	Business-Type Activities	Total
OPERATING REVENUES			
Administrative fees	\$ -	\$ 1,047,843	\$ 1,047,843
Default aversion fees	-	742,725	742,725
Default loan collections	-	15,682,102	15,682,102
Federal grants and contracts	-	10,938,773	10,938,773
OneNet service fees	-	18,021,479	18,021,479
Other	-	1,449,028	1,449,028
TOTAL OPERATING REVENUES	-	47,881,950	47,881,950
OPERATING EXPENSES			
Compensation	-	18,021,247	18,021,247
Pension expense	-	908,834	908,834
Contractual services	372,865	18,528,404	18,901,269
Communications	-	12,462,300	12,462,300
Scholarships, tuition, and other incentives	-	12,593,940	12,593,940
Supplies and materials	-	294,487	294,487
Utilities	-	55,455	55,455
Other	3,054,492	4,799,676	7,854,168
Depreciation and amortization	-	5,539,100	5,539,100
TOTAL OPERATING EXPENSES	3,427,357	73,203,443	76,630,800
OPERATING LOSS	(3,427,357)	(25,321,493)	(28,748,850)
NONOPERATING REVENUES (EXPENSES)			
State appropriations	-	933,588,793	933,588,793
Other state income	-	11,384,640	11,384,640
Payments to system institutions	(5,115,695)	(873,520,216)	(878,635,911)
OCIA on-behalf payments	-	(50,807,344)	(50,807,344)
Interagency payments	-	(15,000)	(15,000)
On-behalf Teachers' Retirement System contributions	-	1,211,518	1,211,518
Return on investment	7,824,809	1,401,689	9,226,498
Loss on disposal of capital assets	-	(635)	(635)
Other	8,725	-	8,725
Interest expense	(5,900,670)	(22,495)	(5,923,165)
NET NONOPERATING REVENUES	(3,182,831)	23,220,950	20,038,119
NET INCOME BEFORE CAPITAL APPROPRIATIONS AND OTHER REVENUES	(6,610,188)	(2,100,543)	(8,710,731)
Transfers	11,594,747	(11,594,747)	-
INCREASE (DECREASE) IN NET POSITION	4,984,559	(13,695,290)	(8,710,731)
NET POSITION AT BEGINNING OF YEAR	488,821,745	71,780,457	560,602,202
NET POSITION AT END OF YEAR	\$ 493,806,304	\$ 58,085,167	\$ 551,891,471

See notes to financial statements.

BALANCE SHEET--GOVERNMENTAL FUND

OKLAHOMA STATE REGENTS FOR HIGHER EDUCATION

June 30, 2016

	<u>Endowment Fund</u>
ASSETS	
Restricted assets	
Cash	\$ 29,234,973
Investments	623,328,013
Receivables:	
Interest	20,201
Other receivables	<u>477,545</u>
TOTAL ASSETS	<u><u>\$ 653,060,732</u></u>
 LIABILITIES	
Deposits held in trust for system institutions	\$ 3,301,555
Accounts payable	92,498
Undistributed interest on deposits held in trust	<u>44,895,375</u>
TOTAL LIABILITIES	<u>48,289,428</u>
 FUND BALANCE	
Endowment - Nonexpendable	<u>604,771,304</u>
TOTAL FUND BALANCE	<u>604,771,304</u>
TOTAL LIABILITIES AND FUND BALANCE	<u><u>\$ 653,060,732</u></u> (Continued)

See notes to financial statements.

BALANCE SHEET--GOVERNMENTAL FUND--Continued

OKLAHOMA STATE REGENTS FOR HIGHER EDUCATION

June 30, 2016

Reconciliation of the Governmental Fund

Balance Sheet to the Statement of Net Position:

Total fund balance - governmental fund	\$ 604,771,304
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Amounts reported for governmental activities in
the Statement of Net Position are different because:

Long-term liabilities, including bonds payable, are not due and payable in the current period and, therefore, are not reported in the funds.	<u>(110,965,000)</u>
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Net Position of governmental activities	<u>\$ 493,806,304</u> (Concluded)
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See notes to financial statements.

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

OKLAHOMA STATE REGENTS FOR HIGHER EDUCATION

Year Ended June 30, 2016

	<u>Endowment Fund</u>
REVENUES	
Investment return	\$ 7,833,534
EXPENDITURES	
Contractual services	372,865
Payments to system institutions	5,115,695
Other	3,054,492
Lease payments:	
Principal retirement	5,495,000
Interest and other financing	<u>5,900,670</u>
Total expenditures	<u>19,938,722</u>
Excess of revenues over expenditures	(12,105,188)
OTHER FINANCING SOURCES	
Transfers in	<u>11,594,747</u>
Net change in fund balance	(510,441)
FUND BALANCE, BEGINNING OF YEAR	<u>605,281,745</u>
FUND BALANCE, END OF YEAR	<u>\$ 604,771,304</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, 2016

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	\$ (510,441)
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Amounts reported for governmental activities in
the Statement of Activities are different because:

Capital lease principal payments expensed in fund financial statements are treated as a reduction of outstanding debt in government-wide statements	<u>5,495,000</u>
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Change in fund balance of governmental activities	<u>\$ 4,984,559</u> (Concluded)
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See notes to financial statements.

STATEMENT OF CASH FLOWS--BUSINESS-TYPE ACTIVITIES

OKLAHOMA STATE REGENTS FOR HIGHER EDUCATION

Year Ended June 30, 2016

CASH FLOWS FROM OPERATING ACTIVITIES

Receipts for collections	\$ 15,849,088
Receipts from Admin Fees	1,072,940
Receipts from Federal government	11,440,876
Receipts for OneNet services	18,370,922
Receipts from other sources	6,313,421
Payments to suppliers	(40,596,158)
Payments to employees	(18,819,087)
Payments for scholarships and fellowships	<u>(13,280,876)</u>

NET CASH USED IN OPERATING ACTIVITIES (19,648,874)

CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES

Receipt of state appropriations	921,994,048
Receipt of other state income	11,385,548
Payments for assistance grants	(50,807,344)
Payments to public institutions	<u>(872,365,521)</u>

NET CASH PROVIDED USED IN
NONCAPITAL FINANCING ACTIVITIES 10,206,731

CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES

Acquisition of capital assets	(2,139,776)
Principal payments on leases	(571,997)
Interest paid on leases	<u>(22,496)</u>

NET CASH USED IN CAPITAL AND
RELATED FINANCING ACTIVITIES (2,734,269)

CASH FLOWS FROM INVESTING ACTIVITIES

Proceeds from sales and maturities of investments	732,416
Interest received	<u>1,420,964</u>

NET CASH PROVIDED BY INVESTING ACTIVITIES 2,153,380

NET CHANGE IN CASH (10,023,032)

CASH AND CASH EQUIVALENTS AT BEGINNING OF YEAR

82,237,596

CASH AND CASH EQUIVALENTS AT END OF YEAR

\$ 72,214,564

See notes to financial statements.

STATEMENT OF CASH FLOWS--BUSINESS-TYPE ACTIVITIES--Continued

OKLAHOMA STATE REGENTS FOR HIGHER EDUCATION

Year Ended June 30, 2016

RECONCILIATION OF OPERATING INCOME (LOSS)	
TO NET CASH USED IN OPERATING ACTIVITIES	
Operating loss/income	\$ (25,321,493)
Adjustments to reconcile operating loss to	
net cash used in operating activities	
Depreciation and amortization	5,539,100
Pension Expense	908,835
Deferred cost related to pension	(1,062,563)
Changes in operating assets and liabilities	
Accounts receivable	(482,681)
Accounts payable and accrued expenses	<u>769,928</u>
Total adjustments	<u>5,672,619</u>
 NET CASH USED IN OPERATING ACTIVITIES	 <u><u>\$ (19,648,874)</u></u>
 NONCASH INVESTING, CAPITAL AND	
RELATED FINANCING ACTIVITIES	
Unrealized gain on investments	<u>\$ 3,689</u>
 Loss/gain on disposal of capital assets	 <u>\$ (635)</u>
 RECONCILIATION OF CASH AND CASH EQUIVALENTS	
TO STATEMENTS OF NET ASSETS	
Current Assets	
Cash and cash equivalents	\$ 20,310,175
Restricted cash and cash equivalents	<u>51,904,389</u>
 TOTAL CASH AND CASH EQUIVALENTS	 <u><u>\$ 72,214,564</u></u>
	(Concluded)

See notes to financial statements.

STATEMENT OF FIDUCIARY NET POSITION--FIDUCIARY FUND

OKLAHOMA STATE REGENTS FOR HIGHER EDUCATION

Other Post Employment Benefit Plan

June 30, 2016

ASSETS

CURRENT ASSETS

Investment	\$ 11,312,814
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TOTAL ASSETS	<u>\$ 11,312,814</u>
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LIABILITIES

TOTAL LIABILITIES	<u>\$ -</u>
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NET POSITION

Held in trust for Other Post Employment Benefit Plan	\$ 11,312,814
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TOTAL NET POSITION	<u>\$ 11,312,814</u>
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See notes to financial statements.

STATEMENT OF CHANGES IN FIDUCIARY NET POSITION--FIDUCIARY FUND

OKLAHOMA STATE REGENTS FOR HIGHER EDUCATION

Other Post Employment Benefit Plan

Year Ended June 30, 2016

ADDITIONS

Contributions	\$ 1,000,000
Investment return	<u>422,665</u>
TOTAL ADDITIONS	<u>1,422,665</u>

DEDUCTIONS

Administration fee - investment	<u>13,961</u>
TOTAL DEDUCTIONS	<u>13,961</u>

CHANGE IN NET POSITION 1,408,704

NET POSITION, BEGINNING OF YEAR 9,904,110

NET POSITION, END OF YEAR \$ 11,312,814

See notes to financial statements.

STATEMENT OF FIDUCIARY NET POSITION--FIDUCIARY FUND

OKLAHOMA STATE REGENTS FOR HIGHER EDUCATION
Supplemental Retirement Plan

June 30, 2016

ASSETS

Investment	\$ 13,134,480
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TOTAL ASSETS	<u>\$ 13,134,480</u>
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LIABILITIES

TOTAL LIABILITIES	<u>\$ -</u>
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NET POSITION

Held in trust for Supplemental Retirement Plan	\$ 13,134,480
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TOTAL NET POSITION	<u>\$ 13,134,480</u>
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See notes to financial statements.

STATEMENT OF CHANGES IN FIDUCIARY NET POSITION--FIDUCIARY FUND

OKLAHOMA STATE REGENTS FOR HIGHER EDUCATION

Supplemental Retirement Plan

Year Ended June 30, 2016

ADDITIONS

Contributions	\$ 1,291,647
Return on Investment	<u>630,259</u>

TOTAL ADDITIONS	<u>1,921,906</u>
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DEDUCTIONS

Retirement payment	<u>773,797</u>
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TOTAL DEDUCTIONS	<u>773,797</u>
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CHANGE IN NET POSITION	1,148,109
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NET POSITION, BEGINNING OF YEAR	<u>11,986,371</u>
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NET POSITION, END OF YEAR	<u><u>\$ 13,134,480</u></u>
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See notes to financial statements.

STATEMENT OF FIDUCIARY NET POSITION--FIDUCIARY FUND

OKLAHOMA STATE REGENTS FOR HIGHER EDUCATION

Federal Fund

June 30, 2016

ASSETS

CURRENT ASSETS

Cash	\$ 14,103,856
Receivables	
Federal reinsurance	4,593,404
Loan collections	20,851
Other	43,460
TOTAL CURRENT ASSETS	<u>18,761,571</u>

TOTAL ASSETS \$ 18,761,571

DEFERRED OUTFLOWS OF RESOURCES

Non-reinsured defaulted loans	\$ 5,615,701
TOTAL DEFERRED OUTFLOWS OF RESOURCES	<u>\$ 5,615,701</u>

LIABILITIES

CURRENT LIABILITIES

Accounts payable and accrued expenses	\$ 507,401
Payable between funds	893,818
Default loan collections due to USDE	4,246,644
TOTAL CURRENT LIABILITIES	<u>5,647,863</u>

TOTAL LIABILITIES \$ 5,647,863

DEFERRED INFLOWS OF RESOURCES

Allowance for default claims	\$ 1,477,637
TOTAL DEFERRED INFLOWS OF RESOURCES	<u>\$ 1,477,637</u>

NET POSITION

Held in trust for Federal government	\$ 17,251,772
TOTAL NET POSITION	<u>\$ 17,251,772</u>

See notes to financial statements.

STATEMENT OF CHANGES IN FIDUCIARY NET POSITION--FIDUCIARY FUND

OKLAHOMA STATE REGENTS FOR HIGHER EDUCATION

Federal Fund

Year Ended June 30, 2016

ADDITIONS

Federal reinsurance	\$ 57,335,637
Loan collections	55,523,992
Default aversion fees	506,866
Interest income	201,220
Provision for default loans	<u>78,786</u>

TOTAL ADDITIONS 113,646,501

DEDUCTIONS

Purchase of defaulted Loans	57,089,673
Default loan collections due to USDE	54,706,793
Default aversion fees	742,725
Other additions	<u>23,023</u>

TOTAL DEDUCTIONS 112,562,214

INCREASE IN NET POSITION 1,084,287

NET POSITION, BEGINNING OF YEAR 16,167,485

NET POSITION, END OF YEAR \$ 17,251,772

See notes to financial statements.

NOTES TO BASIC FINANCIAL STATEMENTS
OKLAHOMA STATE REGENTS FOR HIGHER EDUCATION
June 30, 2016

NOTE A--NATURE OF OPERATIONS

Nature of Operations: The Oklahoma State Regents for Higher Education (the Regents) is a component unit included in the financial statements of the State of Oklahoma. The Regents was created by Article XIII-A of the Oklahoma State Constitution in 1941. The 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 Regents, to each constituent institution based on its needs and functions from lump-sum appropriations made by the State Legislature to the Regents.

The Regents sponsor a variety of programs, some 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 Trust Fund program* involves state-appropriated and privately donated funds for the creation of an endowment program to support the establishment of faculty chairs,

NOTES TO BASIC FINANCIAL STATEMENTS
OKLAHOMA STATE REGENTS FOR HIGHER EDUCATION
June 30, 2016

NOTE A--NATURE OF OPERATIONS (*continued*)

- professorships, lectureships, and to provide scholarships for the Academic Scholar Program at constituent institutions.
- *Other assistance programs* involve providing certain two year colleges and regional universities with financial assistance. These programs are funded by state resources.

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

NOTE B--SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

These financial statements are prepared as required by generally accepted accounting principles promulgated by the Governmental Accounting Standards Board ("GASB"). The Regents have elected 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 Regents, including its principal offices and core operations, OneNet, and the Oklahoma College Assistance Program (OCAP), all located in Oklahoma City.

Basis of Presentation: The 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 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 proprietary fund financial statements, along with required supplementary information (RSI) that includes management's discussion and analysis (MD&A). The financial statement presentation required by GASB Statement No. 34 and as modified by GASB Statement No. 63 and 65 provides a comprehensive, entity-wide perspective of the Regents' assets, liabilities, net position, revenues, expenses, changes in net position and cash flows. The Regents' fiduciary funds include OCAP, the supplemental retirement plan (as required by GASB Statement 68) and the retiree medical plan.

Government-wide financial statements - The statement of business-type activities and statement of activities display information about the Regents as a whole. They include all funds of the

NOTES TO BASIC FINANCIAL STATEMENTS
OKLAHOMA STATE REGENTS FOR HIGHER EDUCATION
June 30, 2016

NOTE B--SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (*continued*)

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 Regents report the following major governmental fund:

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

The Regents report the following major proprietary funds:

Regents Business-type activities - an enterprise fund established to facilitate general operations of the Regents, including oversight of constituent institutions, allocation of funding, operation of the OneNet statewide network, operations of OCAP which provides default aversion and collection assistance to lenders for delinquent loans, and a variety of other agency cost center operations.

The Regents report the following fiduciary funds:

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

OSRHE Supplemental Retirement Fund - the purpose of this plan is to provide retirement benefits for the eligible employees who become participants in the plan, and to distribute the funds accumulated in the trust, in accordance with the plan, to the participants and their surviving spouse.

OSRHE Retiree Medical Plan - the purpose of this plan is to provide certain medical care benefits, as defined in the Code section 213, to participants in the plan who are eligible,

NOTES TO BASIC FINANCIAL STATEMENTS
OKLAHOMA STATE REGENTS FOR HIGHER EDUCATION
June 30, 2016

NOTE B--SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (*continued*)

OSRHE Retiree Medical Plan (*continued*)

retired employees and, to the extent permitted by the terms of the plan, their eligible spouse and dependents.

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 the 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. Estimation of the accrued pension obligation and other post-employment benefits obligation involves the use of actuarial assumptions, including selection of a discount rate, projected salary increases, and projected annuity increases are included in the Regents' report effective for year ended June 30, 2016. Actual results could differ from those estimates. Another significant estimate made by the Regents includes the depreciation of capital assets.

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 reports provided by independent sources as of June 30, 2016. The net change in fair value of

NOTES TO BASIC FINANCIAL STATEMENTS
OKLAHOMA STATE REGENTS FOR HIGHER EDUCATION
June 30, 2016

NOTE B--SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (*continued*)

Investments (*continued*)

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.

During the year the Regent's adopted the provisions of Governmental Accounting Standards Board Statement No. 72, *Fair Value Measurement and Application*. The adoption expanded footnote disclosures regarding investments; however it had no effect on the Regent's accounting for investments.

Receivables: Receivables consist primarily of funds that are due to the Regents in relation to the operation of the academic programs, OCAP, and OneNet. Major items include conference fees, 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 Regents), or at estimated fair market value at date of acquisition (when acquired other than by purchase) less accumulated depreciation. Capital assets are defined as long-lived assets with initial costs equal to or greater than \$500.

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

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

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

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

NOTES TO BASIC FINANCIAL STATEMENTS
OKLAHOMA STATE REGENTS FOR HIGHER EDUCATION
June 30, 2016

NOTE B--SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (*continued*)

Compensated Absences: Full time employees earn vacation at the rate of 10 hours per month for the first four years of employment, 12 hours per month during the fifth year to the ninth year, 13.33 hours per month during the tenth year to the nineteenth year, and 16.66 hours per month, thereafter. A maximum of 480 hours of vacation may be accrued. The obligation and expenditure incurred during the year are recorded as a liability and an expense as the benefits accrue to employees.

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

Non-reinsured Defaulted Loans: OCAP estimates collections on non-reinsured defaulted loans based upon historical recovery experience. The historical collection rate for June 30, 2016 is 62.20%. The non-reinsured defaulted loans are reported in the Federal fund as a deferred outflow of resources.

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

Cash Equivalents: For purposes of the Statement of Cash Flows, the Regents consider all highly liquid investments with an original maturity of three months or less to be cash equivalents.

Subsequent Events: The Regents has evaluated subsequent events through October 20, 2016, the date the financial statements were available to be issued.

NOTE C--DEPOSITS AND INVESTMENTS

Deposits: Custodial Credit Risk is the risk that in the event of the failure of a counter party, the Regents will be unable to recover the value of its investments. Deposits are exposed to custodial risk if they are uninsured and uncollateralized. The 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 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 requirement, and

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NOTE C--DEPOSITS AND INVESTMENTS *(continued)*

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.

Deposits:

At June 30, 2016, the carrying amount of the Regents' deposits with the State Treasurer was approximately \$115,553,393. Of the funds on deposit with OST, \$105,172,541 is invested in *OK INVEST*.

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

<i>OK INVEST</i> Portfolio	Cost	Market Value
U.S. Treasury	\$ 1,369,912	\$ 1,635,030
U.S. Agency Securities	43,347,975	43,381,407
Money Market Mutual Fund	11,602,882	11,602,882
Mortgage Backed Agency Securities	42,302,433	43,366,259
Municipal Bonds	1,825,728	1,933,297
Foreign Bonds	918,808	918,850
Certificates of Deposit	3,804,803	3,804,803
Totals	<u>\$ 105,172,541</u>	<u>\$ 106,642,528</u>

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

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NOTE C--DEPOSITS AND INVESTMENTS *(continued)*

maturity as well as in U.S. government securities with a maturity of up to ten years. Accordingly, *OK INVEST* maintains a variable net asset value that may fluctuate with changes in the market. *OK INVEST* maintains an overall weighted average maturity of less than 2 years. The main risks of investing in *OK INVEST* are interest rate risk, credit/default risk, liquidity risk, and U.S. Government securities risk. Interest rate risk is the risk that during periods of rising interest rates, the yield and market value of the securities will tend to be lower than prevailing market rates; in periods of falling interest rates, the yield will tend to be higher.

Credit/default risk is the risk that an issuer or guarantor of a security, or a bank or other financial institution that has entered into a repurchase agreement, may default on its payment obligations. Liquidity risk is the risk that *OK INVEST* will be unable to pay redemption proceeds within the stated time period because of unusual market conditions, an unusually high volume of redemption requests, or other reasons. U.S. Government securities risk is the risk that the U.S. government will not provide financial support to U.S. government agencies, instrumentalities or sponsored enterprises if it is not obligated to do so by law. Various investment restrictions and limitations are enumerated in the State Treasurer's Investment Policy to mitigate those risks; however, any interest in *OK INVEST* is not insured or guaranteed by the State of Oklahoma, the Federal Deposit Insurance Corporation or any other government agency.

Investments:

The Regents held the following investments as of June 30, 2016:

Type of Investment	Fair Value	Average Credit Quality/ Rating	Effective Duration (years)	Average Life (years)	Average Maturity (years)
<i>Governmental activities</i>					
Endowment Trust Fund					
Equity					
Common stock	\$ 48,510,412	N/A			
Equity index fund	127,936,468	N/A			
International index fund	44,246,929	N/A			
Commingled funds-equity	66,706,546	N/A			
Limited liability company	54,583,206	N/A			
Limited partnership	105,053,489	N/A			
Fixed Income					
Multi-strategy bond fund	28,586,685	A+	4.60	7.58	7.58
Global bond fund	13,988,220	AA-	6.49	8.37	8.37
Commingled funds-fixed	25,260,506	A	2.29	3.84	3.84
Hedge Funds	106,800,961	N/A			
Cash equivalent funds	1,654,592	N/A			
Total Endowment Trust Fund	<u>\$ 623,328,014</u>				
Governmental activities investments	<u>\$ 623,328,014</u>				

NOTES TO BASIC FINANCIAL STATEMENTS
OKLAHOMA STATE REGENTS FOR HIGHER EDUCATION
June 30, 2016

NOTE C--DEPOSITS AND INVESTMENTS (*continued*)

Investments (*continued*):

Type of Investment	Fair Value	Average Credit Quality/ Rating	Effective Duration (years)	Average Life (years)	Average Maturity (years)
<i>Business-type activities</i>					
Academic Scholars' Trust Fund					
Equity					
Multi-strategy fund	\$ 32,274	N/A			
Fixed income					
Multi strategy bond fund	530,198	A+	4.6	7.58	7.58
Total Academic Scholars' Trust Fund	<u>\$ 562,472</u>				
Business-type activities investments	<u>\$ 562,472</u>				

Type of Investment	Fair Value	Average Credit Quality/ Rating	Effective Duration (years)	Average Life (years)	Average Maturity (years)
<i>Fiduciary activities</i>					
OSRHE Supplemental Retirement Plan					
Money market					
CREF money market fund	\$ 58,819	N/A			
Equity					
CREF stock fund	356,564	N/A			
Fixed income					
CREF bond market fund	12,719,097	AA	5.39	7.48	7.48
Total OSRHE Supplemental Retirement Plan	<u>\$ 13,134,480</u>				
OSRHE Retiree Medical Plan					
Money Market Fund	\$ 104,576	N/A			
CREF money market fund					
Fixed Income/Debt					
TIAA-CREF Bond Plus Fund	11,208,238	A	5.16	7.77	7.77
Total OSRHE Retiree Medical Plan	<u>\$ 11,312,814</u>				
Fiduciary activities investments	<u>\$ 24,447,294</u>				

Investments: *Governmental Activities – Endowment Trust Fund*

In accordance with 70 O.S. § 3951, the Oklahoma State Regents for Higher Education (the “State Regents”) are designated as Trustees of the Oklahoma State Regents' Endowment Trust Fund (the “Fund”), a permanent fund used to establish and maintain in perpetuity endowed chairs and professorships at State System institutions, and for any other related activities approved by the State Regents to improve the quality of higher education instruction.

NOTES TO BASIC FINANCIAL STATEMENTS
OKLAHOMA STATE REGENTS FOR HIGHER EDUCATION
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NOTE C – DEPOSITS AND INVESTMENTS (*continued*)

Investments: Governmental Activities – Endowment Trust Fund (*continued*):

The Fund principal consists of monies the Oklahoma Legislature appropriates or transfers to the State Regents for the Fund, the proceeds of any obligations issued pursuant to 70 O.S. § 4019 and any monies or assets contributed to the Fund from any other source, public or private. The principal held in the Fund is allocated to established individual public institutions of higher education endowment accounts within the Fund.

The State Regents retain a qualified investment consultant to provide advice in selecting investment managers with whom to invest monies of the Fund. An *investment* is a security or other asset that is held primarily for the purpose of income or profit and has a present service capacity based solely on its ability to generate cash or to be sold to generate cash. The investment goal of the Fund is to invest its assets in a manner that will achieve a *total rate of return* sufficient to maintain support of endowed chairs and professorships at State System institutions. To achieve this goal, some investment risk must be taken. In accordance with 70 O.S. § 3954, the State Regents minimize such risk through diversification of Fund investments among various financial instruments and asset categories, and uses multiple investment strategies and investment managers. Key decisions in this regard are made by the Fund's investment committee, subject to State Regents approval, which has oversight responsibility for the Fund's investment program. The committee identifies appropriate asset categories for investments, determines the allocation of assets to each category and approves the investment strategies employed. In making their investment decisions, the State Regents exercise the judgment and care, under circumstances then prevailing, which persons of prudence, discretion and intelligence exercise in the management of their own affairs, not for speculation, but with regard to the permanent disposition of their funds, considering the probable safety of their capital as well as the probable income to be derived.

Investment managers' and consultant fees are paid from the investment proceeds and the net investment return is allocated to each of the respectively designated accounts constituting the principal of the Fund. Expenses incurred by the State Regents in the administration of the Fund and the endowment program are paid from monies appropriated to the State Regents' coordinating board for their general operating budget. Total fees are approximately one percent (1%) of the Fund's investment portfolio as of June 30, 2016.

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NOTE C – DEPOSITS AND INVESTMENTS (*continued*)

Investments: Governmental Activities – Endowment Trust Fund (*continued*):

At the end of each fiscal year, the State Regents approve distributions from the Fund to individual public institutions of higher education with established endowment accounts. The distribution rate approximates four and one-half percent (4 ½%) of the Fund investments' fair values based on a three-year moving average. *Fair value* is defined as the price that the Fund would receive to sell an asset or pay to transfer a liability in an orderly transaction between independent market participants in the principal market at the measurement date. Any amount not designated for institution distribution becomes part of the principal of the Fund.

As of June 30, 2016 the Oklahoma State Regents' Endowment Trust Fund ("the Fund") held investments of \$623,328,014 as measured by fair value.

NOTES TO BASIC FINANCIAL STATEMENTS
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NOTE C – DEPOSITS AND INVESTMENTS (*continued*)

Investments: Governmental Activities – Endowment Trust Fund (*continued*):

<i>Governmental activities</i> Endowment Trust Fund		FAIR VALUE MEASUREMENTS USING		
		Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
	June 30, 2016			
Investments by fair value level				
Cash/Cash Equivalents	\$ 1,654,592	\$ 1,654,592		
Equity				
Domestic Equity	156,727,783	156,727,783		
International Equity	63,966,026	63,966,026		
Total equity securities	220,693,809	220,693,809		
Fixed Income/Debt	25,260,506	25,260,506		
Liquid Real Assets	28,848,109	28,848,109		
Total investments measured by fair value level	276,457,015	\$ 276,457,015		
Investments measured at the net asset value (NAV)				
Equity				
International Equity	88,645,831			
Global Equity	37,858,438			
Total equity securities	126,504,269			
Fixed Income/Debt	42,574,905			
Real Assets				
Liquid Real Assets	25,246,979			
Illiquid - Real Estate	7,539,610			
Illiquid - Natural Resources	21,940,380			
Total real assets	54,726,969			
Private Equity Funds				
Venture Capital	4,629,449			
Special Situations	5,823,316			
Buyout	5,811,130			
Total private equity funds	16,263,895			
Hedge Funds				
Long/Short Equity	23,012,494			
Event-Driven	18,387,102			
Global Macro	9,056,963			
Long/Short Credit	26,196,650			
Multi Strategy	30,147,753			
Total hedge funds	106,800,961			
Total investments measured at the NAV	346,870,999			
Total investments measured at fair value	\$ 623,328,014			

NOTES TO BASIC FINANCIAL STATEMENTS
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NOTE C--DEPOSITS AND INVESTMENTS *(continued)*

Investments: Governmental Activities - Endowment Trust Fund *(continued)*:

The Fund categorizes its fair value measurements within the fair value hierarchy established by generally accepted accounting principles. The fair value hierarchy is based on inputs or methodologies used to value securities are not necessarily an indication of the risk associated with investing in those securities. Rather the distinction between the three levels denotes the reliability of the measurement of an investments fair value; level 1 inputs are more reliable than Level 2 inputs, which in turn are more reliable than Level 3 inputs.

- Level 1—Quoted prices in active markets for identical securities.
- Level 2—Other significant observable inputs (including quoted prices for similar securities, interest rates, prepayment speeds, credit risk, etc.).
- Level 3—Significant unobservable inputs (including the investee's own assumptions used to determine the fair value of investments).

The inputs used to measure the fair value of the Fund's \$276,457,015 in investments at June 30, 2016 are classified in Level 1 of the fair value hierarchy using prices quoted in active markets for those securities.

The Fund also holds investments of \$346,870,999 in limited partnerships, limited liability companies, and investment trusts that are measured at the NAV per share, or its equivalent such as member units or an ownership interest in partners' capital. Because NAV is communicated to the Fund and not publicly available, NAV is being used as a practical expedient for fair value. NAV is established by applying the investee's calculated NAV (or its equivalent) to the Fund's proportionate share of the investee's net assets. This method of determining fair value is permitted by Statement 72 of the Governmental Accounting Standards Board (GASB) - *Fair Value Measurement and Application* if the NAV per share (or its equivalent) of the investment is calculated as of the government's measurement date in a manner generally consistent with the Financial Accounting Standards Board (FASB) Topic 946, *Financial Services—Investment Companies*. OSRHE has determined that the NAV per share (or its equivalent) provided by the investees is determined in that manner.

The Fund's Investment Committee, State Regent's staff, and Investment Consultant evaluate the investment values provided to the Fund based on a number of factors which include: acquiring an understanding of the investee's underlying investments, strategy, positions, and valuation

NOTES TO BASIC FINANCIAL STATEMENTS
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June 30, 2016

NOTE C--DEPOSITS AND INVESTMENTS *(continued)*

Investments: Governmental Activities - Endowment Trust Fund *(continued)*:

methodologies; obtaining audited financial statements, third-party valuation reports, and investment administrator transparency reports; and comparing information provided by the fund administrator or Investment Management to other available information such as sector data and indexes.

The following table summarizes the Fund's investments of \$346,870,999 measured at fair value based on the NAV as of June 30, 2016.

<i>Governmental activities</i>		INVESTMENTS MEASURED AT THE NET ASSET VALUE (NAV)		
Endowment Trust Fund	Fair Value	Unfunded Commitments	Redemption Frequency	Redemption Notice Period
Investments measured at the net asset value (NAV)				
Equity				
International Equity ⁽¹⁾	\$ 88,645,831		Monthly	6-30 Days
Global Equity ⁽²⁾	37,858,438		Monthly	10 Days
Total equity	126,504,269			
Fixed Income/Debt ⁽³⁾	42,574,905		Monthly	5-6 Bus. Days
Real Assets				
Liquid Real Assets ⁽⁴⁾	25,246,979		Daily	1 Day
Illiquid - Real Estate ⁽⁵⁾	7,539,610	\$ 14,960,831	Illiquid	N/A
Illiquid - Natural Resources ⁽⁶⁾	21,940,380	23,547,430	Illiquid	N/A
Total real assets	54,726,969			
Private Equity Funds				
Venture Capital ⁽⁷⁾	4,629,449	11,056,623	Illiquid	N/A
Special Situations ⁽⁸⁾	5,823,316	714,158	Illiquid	N/A
Buyout ⁽⁹⁾	5,811,130	\$ 14,768,661	Illiquid	N/A
Total private equity funds	16,263,895			
Hedge Funds				
Long/Short Equity ⁽¹⁰⁾	23,012,494		Quarterly-3 Years	45-90 Days
Event-Driven ⁽¹¹⁾	18,387,102		Quarterly-6 Months	65-90 Days
Global Macro ⁽¹²⁾	9,056,963		Quarterly	90 Days
Long/Short Credit ⁽¹³⁾	26,196,650		1 - 2 Years	45-60 Days
Multi Strategy ⁽¹⁴⁾	30,147,753		Quarterly	45-65 Days
Total hedge funds	106,800,962			
Total investments measured at the NAV	\$ 346,870,999			

NOTES TO BASIC FINANCIAL STATEMENTS
OKLAHOMA STATE REGENTS FOR HIGHER EDUCATION
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NOTE C--DEPOSITS AND INVESTMENTS (*continued*)

Investments: Governmental Activities - Endowment Trust Fund (*continued*):

1. *International Equity.* This strategy includes investment trust interests in five funds whose objective is capital appreciation through investing in a diversified portfolio consisting primarily of large and/or small cap equity securities of issuers that are located outside the U.S., or which derive a significant portion of their business or profits outside of the U.S. The primarily of large and/or small cap equity securities of issuers that are located outside the U.S., or which derive a significant portion of their business or profits outside of the U.S. The major investment categories include - Common Stock, Preferred Stock and Mutual Funds which are valued based on quoted prices from the applicable primary market exchange.
2. *Global Equity.* This investment strategy is composed of a limited liability company interest through 1 fund that buys and holds publicly traded equity securities of companies within the United States and throughout the world. Equity Securities are valued based on quoted prices from the applicable primary market exchange.
3. *Bonds.* This strategy includes investment trust interests in two funds that invest primarily in global debt or debt-like securities. Fixed income securities are valued on the basis of quotations (*provided by pricing vendors*) from the primary market in which they are traded.
4. *Real Assets – Liquid.* This investment type includes a limited partnership interest through 1 fund that invests principally in equity securities of issuers who are primarily engaged in natural resource industries throughout the world. The method used to estimate the fair value of the portfolio of investments include this partnership is the market approach. Equities and other securities for which exchange quotations are readily available and that are listed on a national securities exchange or quoted on NASDAQ are valued on the basis of the last reported sales price quoted in its principal market. Alternatively, if no last sale information is available; such securities are valued at the mean of their closing “bid” and “asked” price.
5. *Real Assets – Illiquid Natural Resources.* This type includes limited partnership interests in nine funds that invest in the energy industry including; oil, natural gas, midstream, oil field services, coal, power and renewable/alternative energy. Generally, fair market value reports are prepared for each of fund’s portfolio investments annually which usually occurs at December 31st. This information together with engineering economics based on a third party reserve report are used to calculate discount rates for reserves and other cash flows. Where appropriate, market comparisons and transaction comparisons are used to value certain assets. These investments can never be redeemed with the investee; rather distributions from each fund are received as the underlying investments of the funds are

NOTES TO BASIC FINANCIAL STATEMENTS
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NOTE C--DEPOSITS AND INVESTMENTS (*continued*)

Investments: Governmental activities - Endowment Trust Fund (*continued*):

6. liquidated. It is expected that the underlying assets of the funds will be liquidated over the next 7 to 10 years.
7. *Real Assets – Illiquid Real Estate.* This type includes limited partnership interests in six funds that invest in real estate, real estate-related assets and interests in entities that own or operate real property, either directly or through one or more entities holding equity and/or debt interests in real estate. The valuation techniques used to measure the fair value of investments in real estate will vary depending on the type of investment. Due to the fact that a quoted market exchange generally does not exist, investments in real estate are generally valued using a discounted projected cash flow methodology using estimates which are considered Level 3 inputs, including (1) the amount of expected future cash flows, (2) the timing of receipt of those cash flows and (3) the discount rate. These investments can never be redeemed with the investee; rather distributions from each fund are received as the underlying investments of the funds are liquidated. It is expected that the underlying assets of the funds will be liquidated over the next 9 to 12 years.
8. *Private Equity Funds – Venture Capital.* This type includes limited partnership interests in four funds that seek capital appreciation by making, managing, supervising, and disposing of privately equity and related securities, principally in venture capital and growth private equity funds. The methods used to estimate the fair value of private investments include the market approach and the income approach, each of which involve a significant degree of judgment. The indications of value derived from the methods used are evaluated and weighted, as appropriate, considering the reasonableness of the range of value indicated by the methods. The fair value of an investment is the point within the range that each of the investment funds' General Partner believes is most representative of fair value. These investments can never be redeemed with the investee; rather distributions from each fund are received as the underlying investments of the funds are liquidated. It is expected that the underlying assets of these funds will be liquidated over the next 2 to 8 years.
9. *Private Equity Funds – Special Situations.* This type includes limited partnership interests in four funds that invest primarily in the securities of entities that, or are owned by persons that, are undergoing, are considered likely to undergo or have undergone (i) reorganization under the federal bankruptcy law or similar laws in other countries or (ii) other extraordinary transactions, such as debt restructurings, reorganizations and liquidations outside of bankruptcy.

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10. NOTE C--DEPOSITS AND INVESTMENTS (*continued*)

Investments: Governmental activities - Endowment Trust Fund (*continued*):

Fund investments may also include other instruments that the General Partner believes are undervalued, focusing primarily on debt and equity securities in special event-driven situations (e.g. non-distressed investments). The fair values of non-publicly traded private equity investments are determined by using a market approach or income approach. A *market approach* utilizes valuations of comparable public companies or transactions in order to establish the enterprise value of the portfolio company. This approach takes into account a specific financial measure (such as EBITDA, adjusted EBITDA, free cash flow, net operating income, net income, book value or net asset value) believed to be most relevant for the given company. Consideration may also be given to such factors as acquisition price of the security, historical and projected operational and financial results for the portfolio company, the strengths and weaknesses of the portfolio company relative to its comparable companies, industry trends, general economic and market conditions and other factors deemed relevant. The *income approach* is typically a discounted cash flow method that incorporates expected timing and level of cash flows. It incorporates assumptions in determining growth rates, income and expense projections, discount rates, capital structure, terminal values and other factors.

The applicability and weight assigned to market and income approaches are determined based on the availability of reliable projections and comparable companies and transactions. The funds can never be redeemed with the investee; rather distributions from each fund are received as the underlying investments of the funds are liquidated. It is expected that the underlying assets of these funds will be liquidated over the next 1 to 7 years.

11. *Private Equity Funds – Buyout.* This type includes limited partnership interests in 7 funds that seek capital appreciation by acquiring, holding, and disposing of primarily equity and equity-related securities in companies. The fair values of non-publicly traded private equity investments are determined by using a market approach or income approach. A *market approach* utilizes valuations of comparable public companies or transactions and generally seeks to establish the enterprise value of the portfolio company using a market multiple approach. This approach takes into account a specific financial measure (such as EBITDA, adjusted EBITDA, free cash flow, net operating income, net income, book value or net asset value) believed to be most relevant for the given company. Consideration may also be given to such factors as acquisition price of the security, historical and projected operational and financial results for the portfolio company, the strengths and weaknesses of the portfolio company relative to its comparable companies, industry trends, general economic and market conditions and other factors deemed relevant. The *income approach* is typically a discounted cash flow method that incorporates expected timing and level of cash flows.

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NOTE C--DEPOSITS AND INVESTMENTS *(continued)*

Investments: Governmental activities - Endowment Trust Fund *(continued)*:

It incorporates assumptions in determining growth rates, income and expense projections, discount rates, capital structure, terminal values and other factors. The applicability and weight assigned to market and income approaches are determined based on the availability

of reliable projections and comparable companies and transactions. These investments can never be redeemed with the investee; rather distributions from each fund are received as the underlying investments of the funds are liquidated. It is expected that the underlying assets of these funds will be liquidated over the next 2 to 10 years.

12. *Hedge Funds – Long / Short Equity.* This investment strategy includes limited partnership interests in three hedge funds that invest both long and short in equity securities of global companies that operate in a wide range of industries through a multi-class Feeder Fund investing in an associated Master Fund. Shares in these Master Fund which are held in accordance with the Funds' investment objectives and policies, the performance of the Feeder Funds are directly affected by the performance of the Master Funds. The methods used to estimate the fair value of hedge funds include the market approach and the income approach, each of which involve a significant degree of judgment. The indications of value derived from the methods used are evaluated and weighted, as appropriate, considering the reasonableness of the range of value indicated by the methods. The fair value of an investment is the point within the range that each of the investment funds' General Partner believes is most representative of fair value.
13. *Hedge Funds – Event Driven.* This investment type includes limited partnership interests in three hedge funds that invest in companies through distressed credit and event-driven strategies. These limited partnerships invest substantially all of their assets through a multi-class Feeder Fund which in turn invests exclusively in an associated Master Fund. Shares in these Master Funds which are held in accordance with the Funds' investment objectives and policies, the performance of the Feeder Funds are directly affected by the performance of the Master Funds. The methods used to estimate the fair value of hedge funds include the market approach and the income approach, each of which involve a significant degree of judgment. The indications of value derived from the methods used are evaluated and weighted, as appropriate, considering the reasonableness of the range of value indicated by the methods. The fair value of an investment is the point within the range that each of the investment funds' General Partner believes is most representative of fair value.
14. *Hedge Funds – Global Macro.* This investment strategy includes limited partnership interests in three hedge funds that analyze macroeconomic trends in order to arrive at an investment

NOTES TO BASIC FINANCIAL STATEMENTS
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NOTE C--DEPOSITS AND INVESTMENTS *(continued)*

Investments: Governmental activities - Endowment Trust Fund *(continued)*:

strategy that includes; taking positions on the fixed-income, currency and equity markets through either direct investments or futures and other derivative products. These limited partnerships invest substantially all of their assets through a multi-class Feeder Fund which in turn invests exclusively in an associated Master Fund. Shares in these Master Funds which are held in accordance with the Funds' investment objectives and policies, the

performance of the Feeder Funds are directly affected by the performance of the Master Funds. The methods used to estimate the fair value of hedge funds include the market approach and the income approach, each of which involve a significant degree of judgment. The indications of value derived from the methods used are evaluated and weighted, as appropriate, considering the reasonableness of the range of value indicated by the methods. The fair value of an investment is the point within the range that each of the investment funds' General Partner believes is most representative of fair value.

15. *Hedge Funds – Long / Short Credit.* This investment is composed of limited partnership interests in three hedge funds that utilize both hedged and directional investment strategies primarily in the leveraged issuer, distressed debt and reorganized equity markets. These limited partnerships invest substantially all of their assets through a multi-class Feeder Fund which in turn invests exclusively in an associated Master Fund. Shares in these Master Funds which are held in accordance with the Funds' investment objectives and policies, the performance of the Feeder Funds are directly affected by the performance of the Master Funds. The methods used to estimate the fair value of hedge funds include the market approach and the income approach, each of which involve a significant degree of judgment. The indications of value derived from the methods used are evaluated and weighted, as appropriate, considering the reasonableness of the range of value indicated by the methods. The fair value of an investment is the point within the range that each of the investment funds' General Partner believes is most representative of fair value. One Fund has instituted a 25% investor-level gate, and if elected full redemptions would be filled over four quarterly periods. The investment represents 13.5% of the Fund's total Hedge Fund portfolio.
16. *Hedge Funds – Multi-Strategy.* This investment strategy includes limited partnership interests in six hedge funds that pursue multiple strategies to diversify risks and reduce volatility. These limited partnerships invest substantially all of their assets through a multi-class Feeder Fund which in turn invests exclusively in an associated Master Fund. Shares in these Master Funds which are held in accordance with the Funds' investment objectives and policies, the performance of the Feeder Funds are directly affected by the performance of the Master Funds. The methods used to estimate the fair value of hedge funds include the

NOTES TO BASIC FINANCIAL STATEMENTS
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NOTE C--DEPOSITS AND INVESTMENTS *(continued)*

Investments: Governmental activities - Endowment Trust Fund *(continued)*:

market approach and the income approach, each of which involve a significant degree of judgment. The indications of value derived from the methods used are evaluated and weighted, as appropriate, considering the reasonableness of the range of value indicated by the methods. The fair value of an investment is the point within the range that each of the investment funds' General Partner believes is most representative of fair value.

The pooled Endowment Trust balance as of June 30, 2016 is \$652,187,429 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 \$ 38,647,061. These funds have also been presented in the financial statements for Langston University as an asset of the University.

Investments: Business Type activities - Academic Scholar's Trust Fund

As of June 30, 2016, the Oklahoma State Regents' Academic Scholars Trust Fund held investments with a fair value of \$562,472.

The State Regents are Trustees of the Oklahoma State Regents' Academic Scholar's Trust Fund, a permanent fund established to provide scholarships to academically outstanding students who attend an Oklahoma college or university. The scholarship covers the cost of room, board, tuition, books and incidental fees for up to eight semesters. The actual value of the scholarship varies based on the institution the scholar chooses to attend and contingent upon maintaining scholarship eligibility.

The investments of the Academic Scholar's Trust Fund reside in commingled external investment pools which are measured at the net asset value (NAV) per share. Because NAV is communicated to the Fund and not publicly available, NAV is being used as a practical expedient for fair value. NAV is established by applying the investee's calculated NAV (or its equivalent) to the Fund's proportionate share of the investee's net assets.

Statement 72 of the Governmental Accounting Standards Board - *Fair Value Measurement and Application* permits this method of determining fair value if the NAV per share (or its equivalent) of the investment is calculated as of the government's measurement date in a manner generally consistent with the Financial Accounting Standards Board (FASB) Topic 946, *Financial Services – Investment Companies*. OSRHE has determined that the NAV per share (or its equivalent) provided by the investees is determined in that manner.

NOTES TO BASIC FINANCIAL STATEMENTS
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NOTE C--DEPOSITS AND INVESTMENTS (*continued*)

Investments: Business Type Activities – Academic Scholar’s Trust Fund (*continued*)

The following table summarizes the Fund’s investments of \$562,472 measured at the NAV as of June 30, 2016.

<i>Business-type activities</i> Academic Scholar's Trust Fund	Fair Value 6/30/2016	INVESTMENTS MEASURED AT THE NET ASSET VALUE (NAV)		
		Unfunded Commitments	Redemption Frequency	Redemption Notice Period
Investments measured at the net asset value (NAV)				
Multi-Strategy Equity	\$ 32,274		Monthly	5 business days prior to month-end
Multi-Strategy Bond	<u>530,198</u>		Monthly	5 business days prior to month-end
Total investments measured at the NAV	<u>\$ 562,472</u>			

Multi-Strategy Equity. This investment strategy includes 1 fund that is an actively managed, multi-manager investment program providing broad exposure to global equity markets and invests primarily in common stocks, securities convertible into common stocks and other exchange traded securities in a broad range of business sectors. Equity Securities are valued based on quoted prices from the applicable primary market exchange.

Multi-Strategy Bond. This investment strategy includes o fund that is an actively managed, multi-manager investment program providing broad exposure to global debt markets and invests primarily in investment grade bond and other fixed income securities. Fixed income securities are valued on the basis of quotations (provided by pricing vendors) from the primary market in which they are traded.

Investments: Fiduciary Type activities – OSRHE Supplemental Retirement Plan

As of June 30, 2016 the OSRHE Supplemental Retirement Plan Trust held investments with a fair value of \$13,134,480.

The purpose of the OSRHE Supplemental Retirement Plan Trust is to provide retirement benefits for the eligible employees and to distribute the funds accumulated in the trust, in accordance with the plan, to the participants and their designated beneficiaries. Employees are eligible to participate in the Supplemental Plan, if they: (1) have been a member of the

NOTES TO BASIC FINANCIAL STATEMENTS
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NOTE C--DEPOSITS AND INVESTMENTS *(continued)*

Investments: Fiduciary Type activities – OSRHE Supplemental Retirement Plan *(continued)*

Oklahoma Teachers Retirement System (OTRS) for a minimum of 10 years, (2) have been a full-time regular State Regents employee for at least 10 years, and (3) have been employed by the State Regents prior to March 12, 1999.

The following inputs were used to determine the fair value level of the Supplemental Plan's \$13,134,480 in investments at June 30, 2016.

<i>Fiduciary activities</i> OSRHE Supplemental Retirement Plan	FAIR VALUE MEASUREMENTS USING			
	Fair value at 6/30/2016	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
Investments by fair value level				
Cash/Cash Equivalents	\$ 58,819		\$ 58,819	
Equity	356,564	\$ 356,564		
Fixed Income/Debt	12,719,097	12,719,097		
Total investments by fair value level	<u>\$ 13,134,480</u>	<u>\$ 13,075,661</u>	<u>\$ 58,819</u>	

These inputs are summarized in three broad levels (*fair value hierarchy*) for financial statement reporting purposes. The inputs or methodologies used to value securities are not necessarily an indication of the risk associated with investing in those securities. Rather the distinction between the three levels denotes the reliability of the measurement of an investments fair value; Level 1 inputs are more reliable than Level 2 inputs, which in turn are more reliable than Level 3 inputs.

- Level 1—Quoted prices in active markets for identical securities.
- Level 2—Other significant observable inputs (including quoted prices for similar securities, interest rates, prepayment speeds, credit risk, etc.).
- Level 3—Significant unobservable inputs (including the investee's own assumptions used to determine the fair value of investments).

Investments categorized in Level 1 of the fair value hierarchy are based upon prices quoted in active markets for those securities. Investments categorized in Level 2 of the fair value hierarchy are recorded at amortized cost, which approximates fair value. The amortized cost of an instrument is determined by valuing it at its original cost and thereafter accreting or amortizing any discount or premium to its face value at a constant rate until maturity.

NOTES TO BASIC FINANCIAL STATEMENTS
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NOTE C--DEPOSITS AND INVESTMENTS *(continued)*

Investments: Fiduciary Type Activities – OSRHE Retiree Medical Plan

As of June 30, 2016 the OSRHE Retiree Medical Plan held investments of \$11,312,814 as measured by fair value.

The OSRHE Retiree Medical Plan Trust provides funding for payment of eligible State Regents retirees' group health insurance, including dental and vision, less any amount paid by Oklahoma Teachers' Retirement System (OTRS) for that purpose, through the month in which the retiree attains 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 cost, less any amount paid by OTRS for that purpose, for the remaining life of the retiree. Eligible employees are those retiring after March 12, 1999, who have: (1) been a full-time OSRHE employee for not less than ten (10) years immediately preceding the date of retirement from the OSRHE, and (2) has been a member of the OTRS during that time and has elected to receive a monthly life annuity under the provisions of the OTRS regulations immediately upon retirement.

The following inputs were used to determine the fair value of the OSRHE Retiree Medical Plan Trust's investments at June 30, 2016. These inputs are summarized in three broad levels (*fair value hierarchy*) for financial statement reporting purposes. The inputs or methodologies used to value securities are not necessarily an indication of the risk associated with investing in those securities. Rather the distinction between the three levels denotes the reliability of the measurement of an investments fair value; Level 1 inputs are more reliable than Level 2 inputs, which in turn are more reliable than Level 3 inputs.

- Level 1—Quoted prices in active markets for identical securities.
- Level 2—Other significant observable inputs (including quoted prices for similar securities, interest rates, prepayment speeds, credit risk, etc.).
- Level 3—Significant unobservable inputs (including the investee's own assumptions used to determine the fair value of investments).

The following table sets forth the OSRHE Retiree Medical Plan's \$11,312,814 in investments measured by fair value level as of June 30, 2016.

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NOTE C--DEPOSITS AND INVESTMENTS *(continued)*

Investments: Fiduciary Type Activities – OSRHE Retiree Medical Plan *(continued)*

<i>Fiduciary activities</i> OSRHE Retiree Medical Plan	Fair Value 6/30/2016	FAIR VALUE MEASUREMENTS USING		
		Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
Investments by fair value level				
Cash/Cash Equivalents	\$ 104,576		\$ 104,576	
Fixed Income/Debt	11,208,238	\$ 11,208,238		
Total investments measured by fair value level	\$ 11,312,814	\$ 11,208,238	\$ 104,576	

Investments categorized in Level 1 of the fair value hierarchy are based upon prices quoted in active markets for those securities. Investments categorized in Level 2 of the fair value hierarchy are recorded at amortized cost, which approximates fair value. The amortized cost of an instrument is determined by valuing it at its original cost and thereafter accreting or amortizing any discount or premium to its face value at a constant rate until maturity.

Investments: 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. 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 Trust 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
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NOTE C--DEPOSITS AND 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 approved by the State Regents for the Endowment Trust Fund are as follows:

TARGET POLICY ASSET ALLOCATION AND ALLOWABLE RANGES			
Asset Class	Target Allocation	Minimum Target Allocation	Maximum Target Allocation
<i>GROWTH ASSETS:</i>			
Domestic Equity	12	12	45
International Equity	16	5	25
Global Equity	5	0	10
Growth Fixed Income	5	0	10
Private Equity	15	0	15
<i>Total, Growth Assets</i>	53	20	85
<i>RISK REDUCTION ASSETS:</i>			
Domestic/Fixed Income	7	5	30
International Fixed Income	3	0	10
Absolute Return (Hedge Funds)	20	0	25
Cash	2	0	15
<i>Total, Risk Reduction Assets</i>	32	5	60
<i>INFLATION PROTECTION ASSETS:</i>			
Domestic Inflation Protected Fixed	0	0	10
REITS/Real Assets	15	0	15
<i>Total, Inflation Protected Assets</i>	15	0	25

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 Regents may exempt any fixed income manager from this restriction and allow the manager to invest in securities rated BBB or better by Moody's or by S&P if they consider it necessary for that manager to accomplish his investment objective.

NOTES TO BASIC FINANCIAL STATEMENTS
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NOTE C--DEPOSITS AND 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.

Investment - Foreign Currency Risk

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

NOTES TO BASIC FINANCIAL STATEMENTS
OKLAHOMA STATE REGENTS FOR HIGHER EDUCATION
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NOTE C--DEPOSITS AND INVESTMENTS *(continued)*

Endowment Trust 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, Regents was subject to various subscription agreements and other funding commitments as of June 30, 2016.

NOTES TO BASIC FINANCIAL STATEMENTS
OKLAHOMA STATE REGENTS FOR HIGHER EDUCATION
June 30, 2016

NOTE D--CAPITAL ASSETS

A summary of the changes in capital assets is as follows for the year ended June 30, 2016:

	Balance June 30, 2015	Additions	Retirements	Balance June 30, 2016
<i>Business-type activities</i>				
Capital assets				
Buildings	\$ 8,160,032	\$ 561,217	\$ (25,000)	\$ 8,696,249
Equipment	60,528,334	2,291,855	(1,056,752)	61,763,437
Motor vehicles	463,306	-	-	463,306
Total capital assets	69,151,672	2,853,072	(1,081,752)	70,922,992
Less accumulated depreciation				
Buildings	(6,743,363)	(154,524)	25,000	(6,872,887)
Equipment	(43,708,520)	(5,476,276)	1,054,781	(48,130,015)
Motor vehicles	(244,333)	(65,145)	-	(309,478)
Total accumulated depreciation	(50,696,215)	(5,695,945)	1,079,781	(55,312,379)
Capital assets, net	18,455,457	(2,842,873)	(1,971)	15,610,613

A summary of the changes in OCAP fiduciary capital assets is as follows for the years ended June 30, 2016:

	Balance June 30, 2015	Additions	Retirements	Balance June 30, 2016
<i>Fiduciary Fund</i>				
Capital assets				
Equipment	\$ 292,920	\$ -	\$ (3,566)	\$ 289,354
Motor vehicles	17,049	-	-	17,049
Total capital assets	309,969	-	(3,566)	306,403
Less accumulated depreciation				
Equipment	(292,920)		3,566	(289,354)
Motor vehicles	(17,049)	-	-	(17,049)
Total accumulated depreciation	(309,969)	-	3,566	(306,403)
Capital assets, net	\$ -	\$ -	\$ -	\$ -

NOTES TO BASIC FINANCIAL STATEMENTS
OKLAHOMA STATE REGENTS FOR HIGHER EDUCATION
June 30, 2016

NOTE E – EMPLOYEE RETIREMENT BENEFITS

In June 2012, the Governmental Account Standards Board issued Statement No. 68, Accounting and Financial Reporting for Pensions. The statement, as amended by Statement No. 71, was effective for fiscal years beginning after June 15, 2014. The Regents adopted a measurement date at the beginning of the fiscal year (July 1) for its OTRS and Supplemental Pension Plans. The adoption of the standard adds deferred outflows for pension payments from the measurement date to the Regents' year-end of June 30, 2016 for payments made to the plan which were not used by the plan in determining the pension obligations; deferred inflows primarily related to delayed recognition of investment return; and the recognition of the Regents' share of net pension liabilities as of the measurement date.

The following table summarizes the effect of this change as it relates to the two plans maintained by the Regents:

Net pension liability, beginning of year	\$26,360,548
Deferred inflows, contributions	<u>(2,901,675)</u>
Net position adjustment	<u>\$23,458,873</u>

The following schedule summarizes the activity and net pension liabilities for the two plans below:

Net pension liability, beginning of year	\$26,360,548
Pension expense	908,834
Contributions	(2,901,675)
On-behalf pension payments	(1,211,518)
Deferred inflows and outflows	
Difference in expected and actual return on investment	(1,662,469)
Change in assumptions	<u>3,501,583</u>
Net pension liability, end of year	<u>\$24,995,302</u>

NOTES TO BASIC FINANCIAL STATEMENTS
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NOTE E – EMPLOYEE RETIREMENT BENEFITS (*continued*)

Oklahoma Teachers' Retirement System

Plan description - The Regents as the employer, participates in the Oklahoma Teachers Retirement Plan—a cost-sharing multiple-employer defined benefit pension plan administered by the Oklahoma Teachers Retirement System (OTRS). Title 70 O. S. Sec. 17-101 through 121, as amended, defines all retirement benefits. The authority to establish and amend benefit provisions rests with the State Legislature. OTRS issues a publicly available financial report that can be obtained at www.ok.gov/OTRS. Benefits provided - OTRS provides retirement, disability, and death benefits to members of the plan. Benefit provisions include:

- Members become 100% vested in retirement benefits earned to date after five years of credited Oklahoma service. Members who joined the System on June 30, 1992 or prior are eligible to retire at maximum benefits when age and years of creditable service total 80. Members joining the System after June 30, 1992 are eligible for maximum benefits when their age and years of creditable service total 90. Members whose age and service do not equal the eligible limit may receive reduced benefits as early as age 55, and at age 62 receive unreduced benefits based on their years of service. The maximum retirement benefit is equal to 2% of final compensation for each year of credited service.
- Final compensation for members who joined the System prior to July 1, 1992 is defined as the average salary for the three highest years of compensation. Final compensation for members joining the System after June 30, 1992 is defined as the average of the highest five consecutive years of credited service.
- Annual compensation in which contributions have been made. The final average compensation is limited for service credit accumulated prior to July 1, 1995 to \$40,000 or \$25,000, depending on the member's election. Monthly benefits are 1/12 of this amount. Service credits accumulated after June 30, 1995 are calculated based on each member's final average compensation, except for certain employees of the two comprehensive universities. Upon the death of a member who has not yet retired, the designated beneficiary shall receive the member's total contributions plus 100% of interest earned through the end of the fiscal year, with interest rates varying based on time of service. A surviving spouse of a qualified member may elect to receive, in lieu of the aforementioned benefits, the retirement benefit the member was entitled to at the time of death as provided under the Joint Survivor Benefit Option.
- Upon the death of a retired member, the System will pay \$5,000 to the designated beneficiary, in addition to the benefits provided for the retirement option selected by the member.

NOTES TO BASIC FINANCIAL STATEMENTS
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NOTE E--EMPLOYEE RETIREMENT BENEFITS *(continued)*

Oklahoma Teachers' Retirement System (continued)

- A member is eligible for disability benefits after ten years of credited Oklahoma service. The disability benefit is equal to 2% of final average compensation for the applicable years of credited service.
- Upon separation from the System, members' contributions are refundable with interest based on certain restrictions provided in the plan, or by the IRC.
- Members may elect to make additional contributions to a tax-sheltered annuity program up to the exclusion allowance provided under the IRC under Code Section 403(b).

At the election of each eligible member initiating receipt of retirement benefits, the System remits between \$100 and \$105 per month per eligible retiree to the Employees Group Insurance Division ("EGID"), depending on the members' years of service during 2016.

Contributions - The contribution requirements of the Plan are at an established rate determined by Oklahoma Statute, amended by the Oklahoma Legislature, and are not based on actuarial calculations. Employees are required to contribute 7% percent of their annual pay. Participating employers are required to contribute 9.5% of the employees' annual pay and an additional 8.25% for any employees' salaries covered by federal funds. OTRS' allocation of contributions to the pension plan from the Regents was \$1,610,028. The State of Oklahoma also made on-behalf contributions to OTRS, of which \$1,211,518 was recognized by the Regents; these on-behalf payments did not meet the criteria of a special funding situation.

Pension Liabilities, Pension Expense, and Deferred Outflows of Resources and Deferred Inflows of Resources Related to Pensions - At June 30, 2016, the Regents reported a liability of \$23,585,081 for its proportionate share of the net pension liability. The net pension liability was measured as of June 30, 2015, and the total pension liability used to calculate the net pension liability was determined by an actuarial valuation as of June 30, 2015. The Regents' proportion of the net pension liability was based on the Regents' contributions received by the pension plan relative to the total contributions received by pension plan for all participating employers as of June 30, 2015. Based upon this information, the Regents' proportion was 0.3883751 percent.

In March 2016, GASB Statement No. 82 Pension Issues, an amendment of GASB Statements No. 67, 68, and 73 was adopted. The Regents have elected to apply this Statement to the audit period ending June 30, 2016, retroactively restating beginning net position. The beginning net

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NOTE E--EMPLOYEE RETIREMENT BENEFITS *(continued)*

Oklahoma Teachers' Retirement System (continued)

position has been reduced by \$770,738 to eliminate employer contribution payments on behalf of employee contributions. The Regents will recognize these on-behalf payments in the current period and classify the payments as salaries and wages or fringe benefits.

For the year ended June 30, 2016, the Regents recognized pension expense of \$548,699. At June 30, 2016, the Regents reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

	Deferred Outflows of Resources	Deferred Inflows of Resources
Net difference between projected and actual earnings on pension plan investments	\$ -	\$ 1,599,982
Net difference between expected and actual experience	-	801,093
Change in assumptions	1,129,329	-
Change in proportion	-	4,409,336
Regent's contributions subsequent to the measurement date	1,610,028	-
	<u>\$ 2,739,357</u>	<u>\$ 6,810,411</u>

\$1,610,028 reported as deferred outflows of resources related to pensions resulting from College contributions subsequent to the measurement date will be recognized as a reduction of the net pension liability in the year ended June 30, 2017. Amortization periods are five years for net difference between projected and actual earnings on pension plan investments and six years for net differences between expected and actual experience. Other amounts reported as deferred outflows of resources and deferred inflows of resources related to pensions will be:

Year ended June 30:

2017	(1,509,021)
2018	(1,509,021)
2019	(1,509,021)
2020	(244,842)
2021	(748,960)
Thereafter	<u>(160,216)</u>
	<u>(5,681,082)</u>

NOTES TO BASIC FINANCIAL STATEMENTS
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NOTE E--EMPLOYEE RETIREMENT BENEFITS *(continued)*

Oklahoma Teachers' Retirement System (continued)

The components of the net pension liability at June 30, 2016 were as follows:

Total pension liability	\$ 79,815,481
Plan fiduciary net position	<u>(56,118,285)</u>
Change in deferred outflows of resources	23,697,196
Change in deferred inflows of resources	<u>(112,115)</u>
Defined benefit plan employer contributions	<u>\$ 23,585,081</u>

Plan fiduciary net position as a percentage of the total pension liability	70.31%
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Actuarial Assumptions - The total pension liability as of June 30, 2016 was determined based on an actuarial valuation prepared as of June 30, 2015 using the following actuarial assumptions:

- Actuarial Cost Method - Entry Age Normal
- Amortization Method - Level Percentage of Payroll
- Inflation – 3.00%
- Salary Increases – Composed of 3.75 percent wage inflation, including 3.00 percent price inflation, plus a service-related component ranging from 0.00 percent to 8.00 percent based on years of service
- Investment Rate of Return - 8.00%
- Retirement Age - Experience-based table of rates based on age, service, and gender. Adopted by the Board in May 2015 in conjunction with the five year experience study for the period ending June 30, 2014.

NOTES TO BASIC FINANCIAL STATEMENTS
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June 30, 2016

NOTE E--EMPLOYEE RETIREMENT BENEFITS (*continued*)

Oklahoma Teachers' Retirement System (*continued*)

- Mortality - Males: RP-2000 Combined Healthy mortality table for males with White Collar Adjustments. Generational mortality improvements in accordance with Scale BB from the table's base year of 2000. Females: GRS Southwest Region Teacher Mortality Table, scaled at 105%. Generational mortality improvements in accordance with Scale BB from the table's base.
- Mortality Rates for Active Members – RP-2000 Employee Mortality tables, with male rates multiplied by 60% and female rates multiplied by 50%.

Pension plan fiduciary net position - Detailed information about the pension plan's fiduciary net position is available in the separately issued financial report of the OTRS; which can be located at www.ok.gov/OTRS.

Oklahoma State Regents for Higher Education Supplemental Retirement Plan

Plan Description - The Supplemental Retirement Plan was established by the Oklahoma State Regents to provide supplemental retirement benefits to employees who: (a) were hired prior to March 12, 1999, (b) have been a member of the Oklahoma Teachers' Retirement System (OTRS) for a minimum of 10 years, and (c) have been a full-time permanent employee for at least 10 years. The benefits payable under this plan are supplemental to the benefits that the participants receive under OTRS, TIAA, and Social Security. 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.

The information in this report was prepared in order to provide the Oklahoma State Regents with financial reporting information in accordance with Statement No's 67 and 68 of GASB.

NOTES TO BASIC FINANCIAL STATEMENTS
OKLAHOMA STATE REGENTS FOR HIGHER EDUCATION
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NOTE E--EMPLOYEE RETIREMENT BENEFITS *(continued)*

Oklahoma State Regents for Higher Education Supplemental Retirement Plan (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. 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. Contributions required to fund the cost of pension and other benefits provided by the Plan shall be made solely by the Regents. The Regents shall contribute to the Plan from time to time such sums as are required by the actuary to pay benefits from the Plan, in accordance with actuarial practices acceptable to the Internal Revenue Service. Actual payment of a contribution may be made at any time permitted by law and regulations. Contributions by the participant are neither permitted nor required under this Plan. All payments made and increments thereon pursuant to this Plan shall be held and disbursed in accordance with the provisions of the Plan. No person shall have any interest in, or right to, any part of the funds so held in the Plan, except as expressly provided in the Plan.

Plan Provisions: The primary components of the Supplemental Retirement Plan consist of (1) the calculation of the guaranteed retirement benefit, and (2) the calculation of the sources that will fund the guaranteed retirement benefit (Oklahoma Teachers’ Retirement System, Social security, TIAA-CREF Annuity and, if necessary, the Regents’ supplement. Specific calculation methods can be found in the Plan on file with the Oklahoma State Regents for Higher Education.

The information in this report was prepared by an actuary in order to provide financial reporting information in accordance with Statement No’s 67 and 68 of GASB. The information provided by the actuary based on assumptions used, including standard assumptions prescribed by and set by the Oklahoma State Regents for Higher Education.

Pension Liabilities, Pension Expense, and Deferred Outflows of Resources and Deferred Inflows of Resources Related to Pensions - At June 30, 2016, the Regents reported a liability of \$1,410,221. The net pension liability was measured as of June 30, 2015, and the total pension liability used to calculate the net pension liability was determined by an actuarial valuation as of July 1, 2015.

NOTES TO BASIC FINANCIAL STATEMENTS
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NOTE E--EMPLOYEE RETIREMENT BENEFITS *(continued)*

Oklahoma State Regents for Higher Education Supplemental Retirement Plan (continued)

For the year ended June 30, 2016, the Regents recognized pension expense of \$360,134. At June 30, 2016, the Regents reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

	Deferred Outflows of Resources	Deferred Inflows of Resources
Differences between expected and actual experience gain	\$ 213,056	\$ 1,332,369
Net difference between projected and actual earnings on pension plan investments	1,039,214	-
Change in assumptions	638,104	-
	<u>\$ 1,890,374</u>	<u>\$ 1,332,369</u>

Other amounts reported as deferred outflows of resources and deferred inflows of resources related to pensions will be recognized in pension expense as follows:

Year ended June 30:

2017	\$ 76,779
2018	76,779
2019	45,567
2020	226,778
2021	132,150
	<u>\$ 558,053</u>

NOTES TO BASIC FINANCIAL STATEMENTS
OKLAHOMA STATE REGENTS FOR HIGHER EDUCATION
June 30, 2016

NOTE E--EMPLOYEE RETIREMENT BENEFITS *(continued)*

Oklahoma State Regents for Higher Education Supplemental Retirement Plan (continued)

Actuarial Assumptions - The total pension liability as of June 30, 2015 was determined based on an actuarial valuation prepared as of June 30, 2015 using the following actuarial assumptions:

- Actuarial Cost Method – Individual Entry Age Normal Cost Method
- Amortization Method - Level Percentage of Payroll
- Inflation - 3.00%
- Salary Increases – 2.50%
- Investment Rate of Return – 6.50%
- Retirement Age – Earlier of: (a) attainment of age 62 and completion of 10 years of OTRS service, or (b) when age plus OTRS service total at least 80 (90 for members joining OTRS after June 30, 1992).
- Mortality – Retirement Plan 2000 Mortality Table (RP_2000) with projected mortality improvements:

Pre-Retirement

RP-2000 for non-annuitants	Projected to 2029 as of 6/30/14
	Projected to 2030 as of 6/30/15

Post-Retirement

RP-2000 for annuitants	Projected to 2021 as of 6/30/14
	Projected to 2022 as of 6/30/15

There is no provision for future mortality improvements beyond the respective years shown above.

Discount Rate - A single discount rate of 6.50% was used.

Sensitivity of the Net Pension Liability to Changes in the Discount Rate - The following shows how the Net Pension Liability would be affected by changes to the blended discount rate.

NOTES TO BASIC FINANCIAL STATEMENTS
OKLAHOMA STATE REGENTS FOR HIGHER EDUCATION
June 30, 2016

NOTE E--EMPLOYEE RETIREMENT BENEFITS *(continued)*

Oklahoma State Regents for Higher Education Supplemental Retirement Plan (continued)

Results are shown assuming a 1% reduction in the blended discount rate (to 4.97%) and a 1% increase in the blended discount rate (to 6.97%).

	1% Decrease Rate (4.97%)	Current Discount Rate (5.97%)	1% Increase Rate (6.97%)
Employers' net pension liability	\$2,698,284	\$1,410,221	\$308,718

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

As authorized by Title 70, Section 3205, of the Oklahoma State Statutes, the 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 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.

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.

NOTES TO BASIC FINANCIAL STATEMENTS
OKLAHOMA STATE REGENTS FOR HIGHER EDUCATION
June 30, 2016

NOTE E--EMPLOYEE RETIREMENT BENEFITS *(continued)*

Other Post-employment Insurance Benefits - Health and Dental Insurance Program (continued)

The Regents' annual other post-employment benefit ("OPEB") cost and net OPEB obligations of the OPEB health and dental insurance plan for 2016 are as follows:

Annual required contribution	\$ 1,780,193
Interest on net OPEB obligation	68,319
Adjustment to annual required contribution	<u>(142,418)</u>
Annual OPEB cost (expense)	1,706,095
Contributions made	<u>1,000,000</u>
Increase (Decrease) in net OPEB obligation	706,095
Net OPEB obligation at beginning of year	<u>2,009,393</u>
Net OPEB obligation at end of year	<u>\$ 2,715,487</u>

The net pension obligation at June 30, 2016 for both the Regent's activities is included in current and non-current liabilities.

The annual required contribution for 2016 was determined as part of an actuarial valuation on June 30, 2016, using the projected unit credit actuarial cost method with proration base on service. The actuarial assumptions included (a) discount rate of 3.4% per year compounded annually, (b) retirement at the earlier of (1) attainment of age 63 or attained age if greater, and completion of 10 years of OTRS service, or (2) when age plus OTRS service total at least 80 (90 for members joining OTRS after June 30, 1992), and (c) medical, dental, and vision rates increasing 3-6.5% annually.

Calculations for the Plan are based on the benefits provided under the terms of the substantive plan in effect at the time of each valuation and on the pattern of sharing of costs between 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.

NOTES TO BASIC FINANCIAL STATEMENTS
OKLAHOMA STATE REGENTS FOR HIGHER EDUCATION
June 30, 2016

NOTE E--EMPLOYEE RETIREMENT BENEFITS *(continued)*

Other Post-employment Insurance Benefits - Health and Dental Insurance Program (continued)

Trend Information

<u>Year Ended June 30</u>	<u>Annual Pension Cost</u>	<u>% of APC Contributed</u>	<u>Net Pension Obligation</u>
2016	\$ 1,706,095	58.6%	\$ 2,009,393
2015	\$ 626,899	1621.8%	\$ 1,919,097
2014	\$ 1,552,136	8.2%	\$ 11,453,044
2013	\$ 2,219,637	5.7%	\$ 9,576,675
2012	\$ 1,544,850	8.2%	\$ 7,532,337

Funded Status

The funded status of the plan as of June 30, 2016 was as follows:

	<u>2016</u>
Actuarial accrued liability (AAL)	\$ 17,289,462
Actuarial value of plan assets	<u>11,312,814</u>
Unfunded actuarial accrued liability (UAAL)	<u>\$ 5,976,648</u>
Funded ratio (actuarial value of plan assets/AAL)	65.43%
Covered payroll (active plan members)	\$ 12,630,188
UAAL as a percentage of covered payroll	47.32%

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

NOTES TO BASIC FINANCIAL STATEMENTS
OKLAHOMA STATE REGENTS FOR HIGHER EDUCATION
June 30, 2016

NOTE F- 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 Regents.

NOTE G--RELATED PARTY TRANSACTIONS

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

NOTE H--LEASE COMMITMENTS

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

The proceeds from the sale of the Series 2010 Bonds were issued (i) to fund a portion of the State of Oklahoma matching contribution to the Oklahoma Regents' Endowment Trust Fund established pursuant to Title 70, Oklahoma Statutes 2001, Sections 3951 *et seq.*, (ii) to advance refund \$28,670,000 principal amount of the Series 2006 Bonds maturing July 1, 2011-2016, inclusive, and (iii) to pay costs of issuance of the Series 2010 Bonds.

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

NOTES TO BASIC FINANCIAL STATEMENTS
OKLAHOMA STATE REGENTS FOR HIGHER EDUCATION
June 30, 2016

NOTE H - LEASE COMMITMENTS *(continued)*

The following is a schedule of annual future minimum payments as of June 30, 2016:

<u>Year Ending June 30,</u>	<u>Principal</u>	<u>Interest</u>
2017	5,700,000	5,788,363
2018	5,930,000	5,555,233
2019-2021	19,515,000	14,944,748
2022-2026	39,660,000	17,773,917
2027-2031	40,160,000	5,786,154
Total	<u>\$ 110,965,000</u>	<u>\$ 49,848,415</u>

NOTE I - OPERATING LEASE COMMITMENTS

The Regents are engaged in various operating lease agreements.

The Regents lease office space for its core operations from the University of Oklahoma Health Science OSRHE (OUHSC), formerly Presbyterian Health Foundation (PHF). Rental expense of approximately \$1,020,336 was paid to the OUHSC for the Regents' operating facilities for the year ended June 30, 2016.

Rental expense of \$12,950 was paid for storage facilities for the year ended June 30, 2016. Rental expense of \$81,829 was paid for parking facilities for the year ended June 30, 2016.

NOTES TO BASIC FINANCIAL STATEMENTS
OKLAHOMA STATE REGENTS FOR HIGHER EDUCATION
June 30, 2016

NOTE J--LONG-TERM LIABILITIES

Long-term liability activity was as follows for the year ended June 30, 2016:

	Balance June 30, 2015	Additions	Deletions	Balance June 30, 2016	Due Within One Year
<i>Business-type activities</i>					
Compensated absences	\$ 1,780,440	\$ 33,531		\$ 1,813,971	\$ 862,120
OTRS pension liabilities	25,068,901		(1,483,820)	23,585,081	
Accrued post-employment benefits	2,019,392	696,095		2,715,487	
Net pension liability - Supplemental	1,291,647	118,574	-	1,410,221	-
Master equipment leases payable	573,333		(573,333)	-	
Unamortized bond premium	16,755	-	(16,755)	-	-
Business-type activities total	<u>\$ 30,750,468</u>	<u>\$ 848,200</u>	<u>\$ (2,073,908)</u>	<u>\$ 29,524,760</u>	<u>\$ 862,120</u>
<i>Governmental Activities</i>					
OCIA lease payable	<u>\$ 116,460,000</u>	<u>\$ -</u>	<u>\$ (5,495,000)</u>	<u>\$ 110,965,000</u>	<u>\$ 5,700,000</u>
<i>Fiduciary Fund</i>					
Allowance for default claims	<u>\$ 1,556,423</u>	<u>\$ -</u>	<u>\$ (78,786)</u>	<u>\$ 1,477,637</u>	<u>\$ -</u>

NOTE K--RISK MANAGEMENT

The 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 Regents pay an annual premium to the Risk Management Division of the State of Oklahoma Department of Central Services for its tort liability, vehicle liability, property loss, and general liability insurance coverage. The Regents purchase commercial employee life insurance. The 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 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 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.

NOTES TO BASIC FINANCIAL STATEMENTS
OKLAHOMA STATE REGENTS FOR HIGHER EDUCATION
June 30, 2016

NOTE L--COMMITMENTS AND CONTINGENCIES

The 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 Regents' management believes that disallowances, if any, would not be material.

NOTE M--ACCOUNTING STANDARDS ISSUED NOT YET ADOPTED

In June 2015, the Governmental Accounting Standards Board (GASB) issued Statement No. 74, *Financial Reporting for Postemployment Benefit Plans Other Than Pension Plans*, which improves the usefulness of information about postemployment benefits other than pensions (other postemployment benefits or OPEB) by providing guidance on all postemployment benefits with regard to decision-useful information, supporting assessments of accountability and interperiod equity with additional transparency. This Statement replaces Statements No. 43, *Financial Reporting for Postemployment Benefit Plans Other Than Pension Plans*, as amended, and No. 57, *OPEB Measurements by Agent Employers and Agent Multiple-Employer Plans*. It also includes requirements for defined contribution OPEB plans that replace the requirements for those OPEB plans in Statement No. 25, *Financial Reporting for Defined Benefit Pension Plans and Note Disclosures for Defined Contribution Plans*, as amended, Statement 43, and Statement No. 50, *Pension Disclosures*. This statement is effective for fiscal years beginning after June 15, 2016. Earlier application is encouraged.

In June 2015, the Governmental Accounting Standards Board (GASB) issued Statement No. 75, *Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions*. This Statement addresses accounting and financial reporting for OPEB that is provided to the employees of state and local governmental employers. It establishes standards for recognizing and measuring liabilities, deferred outflows of resources, deferred inflows of resources, and expense/expenditures. Note disclosure and RSI are also addressed. The Statement replaces Statements No. 45, *Accounting and Financial Reporting by Employers for Postemployment Benefits Other Than Pensions*, as amended, and No. 57, *OPEB Measurements by Agent Employers and Agent Multiple-Employer Plans, for OPEB*. This Statement is effective for fiscal years beginning after June 15, 2017. Earlier application is encouraged.

SCHEDULE OF PROPORTIONATE SHARE OF THE NET PENSION LIABILITY - LAST 10 YEARS* - UNAUDITED

OKLAHOMA STATE REGENTS FOR HIGHER EDUCATION

OKLAHOMA TEACHER'S RETIREMENT SYSTEM

As of plan year-end of June 30,	2016	2015
OSRHE percentage of the net pension liability	0.3883751%	0.4660000%
OSRHE proportionate share of the net pension liability	\$ 23,585,081	\$ 25,068,901
OSRHE's covered-employee payroll	\$ 12,630,188	\$ 12,691,019
OSRHE's proportionate share of the net pension liability as a percentage of its covered-employee payroll	186.7358%	197.5326%
Plan fiduciary net position as a percentage of the total pension liability	70.31%	72.43%

* Note - Only two fiscal years are presented because 10-year data is not available.

SCHEDULE OF CONTRIBUTIONS - LAST 10 FISCAL YEARS* - UNAUDITED

OKLAHOMA STATE REGENTS FOR HIGHER EDUCATION

OKLAHOMA TEACHER'S RETIREMENT SYSTEM

As of plan year-end of June 30,

	2016	2015
Contractually required contribution	\$ 1,393,400	\$ 1,467,928
Contributions in relation to the contractually required contribution	1,610,028	1,467,928
Contribution deficiency (excess)	\$ (216,628)	\$ -
OSRHE covered-employee payroll	\$ 12,630,188	\$ 12,691,019
Contributions as a percentage of covered-employee payroll	12.7475%	11.5667%

* Note - Only two fiscal years are presented because 10-year data is not available.

SCHEDULE OF CHANGES IN NET PENSION LIABILITY AND RELATED RATIOS - LAST 10 FISCAL YEARS* - UNAUDITED

OKLAHOMA STATE REGENTS FOR HIGHER EDUCATION

SUPPLEMENTAL RETIREMENT PLAN

	2016	2015
<u>Total pension liability</u>		
Service cost	\$ 79,527	\$ 71,268
Interest	877,209	913,757
Differences between expected and actual experience	(1,332,369)	309,899
Changes of assumptions	626,712	16,570
Benefit payments including refunds of employee contributions	(754,715)	(753,553)
Net change in total pension liability	(503,636)	557,941
Total pension liability - beginning	13,900,228	13,342,287
Total pension liability - ending (a)	\$ 13,396,592	\$ 13,900,228
<u>Plan fiduciary net position</u>		
Contributions - employer	\$ -	\$ 13,076,131
Contributions - employee	-	-
Net investment income	132,505	286,003
Benefit payments, including refunds of employee contributions	(754,715)	(753,553)
Net change in plan fiduciary net position	(622,210)	12,608,581
Plan fiduciary net position - beginning	12,608,581	-
Plan fiduciary net position - ending (b)	\$ 11,986,371	\$ 12,608,581
OSRHE net pension liability - ending (a) - (b)	\$ 1,410,221	\$ 1,291,647
Plan fiduciary net position as a percentage of the total pension liability	89.5%	90.7%
Covered-employee payroll	\$ 5,645,441	\$ 5,660,742
OSRHE net position liability as a percentage of covered-employee payroll	25.0%	22.8%

*Note - Only two fiscal years are presented because 10-year data is not available.

OKLAHOMA STATE REGENTS FOR HIGHER EDUCATION

SCHEDULE OF CONTRIBUTIONS - LAST 10 FISCAL YEARS* - UNAUDITED

SUPPLEMENTAL RETIREMENT PLAN

As of plan year-end of June 30,

	2016	2015
Contractually required contribution	\$ 1,291,647	\$ 2,599,880
Contributions in relation to the contractually required contribution	1,291,647	12,120,025
Contribution deficiency (excess)	\$ -	\$ 14,719,905
OSRHE covered-employee payroll	\$ 5,645,441	\$ 5,660,742
Contributions as a percentage of covered-employee payroll	22.88%	214.11%

*Note - Only two fiscal years are presented because 10-year data is not available.

Actual Cost Method: Individual Entry Age Normal Cost Method (allocation of cost as a level percentage of pay)

Long-Term Rate of Return on Plan Assets: 6.50% as of 6/30/14
6.00% as of 6/30/15

Tax-Exempt, High Quality Municipal Bond Rate: N/A as of 6/30/14
3.75% as of 6/30/15

Single Equivalent (Blended) Discount Rate: 6.50% as of 6/30/14
5.97% as of 6/30/15

Salary Increase Rate: 2.50%

Mortality: Retirement Plan 2000 Mortality Table (RP-2000) with projected mortality improvements:

Pre-Retirement

RP-2000 for non-annuitants Projected to 2029 as of 6/30/14
Projected to 2030 as of 6/30/15

Post-Retirement

RP-2000 for annuitants Projected to 2012 as of 6/30/14
Projected to 2022 as of 6/30/15

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

OKLAHOMA STATE REGENTS FOR HIGHER EDUCATION

OTHER POST EMPLOYMENT BENEFITS

June 30, 2016

Actuarial Valuation Date	Actuarial Value of Assets (a)	Actuarial Accrued Liability (AAL) (b)	Unfunded AAL (UAAL) (b-a)	Funded Ratio (a/b)	Covered Payroll (c)	UAAL as a percentage of Covered Payroll (b-a)/(c)
6/30/2010	\$ -	\$ 8,561,656	\$ 8,561,656	0.0%	\$ 17,608,309	48.6%
6/30/2011	-	10,903,694	10,903,694	0.0%	13,814,383	78.9%
6/30/2012	-	10,398,801	10,398,801	0.0%	13,377,852	77.7%
6/30/2013	-	11,580,942	11,580,942	0.0%	13,285,896	87.2%
6/30/2014	-	12,490,141	12,490,141	0.0%	13,629,677	91.6%
6/30/2015	9,912,657	13,584,173	3,671,516	73.0%	15,902,562	23.1%
6/30/2016	11,312,814	17,289,462	5,976,648	65.4%	12,630,188	47.3%

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

BALANCE SHEET - OCAP Cost Center
(Prepared on the modified accrual basis)

OKLAHOMA STATE REGENTS FOR HIGHER EDUCATION

June 30, 2016

ASSETS

Restricted Assets

Current Assets

Cash and cash equivalents	\$ 36,355,905
Receivables	
Accounts Recievables	313
Payable between funds	893,818
Administrative cost allowance	252,396
Interest	53,329
Total Current Assets	<u>37,555,761</u>

Noncurrent Assets

Capital assets, net	<u>129,728</u>
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TOTAL ASSETS 37,685,489

LIABILITIES

Liabilities payable from restricted assets

Current liabilities

Accounts payable and accrued expenses	\$ 484,583
Compensated absences	117,331
Total current liabilities	<u>601,914</u>

Long-term liabilities

Copmensated absences	<u>102,430</u>
Total long-term liabilities	<u>102,430</u>

TOTAL LIABILITIES 704,344

NET POSITION

Net investment in capital assets	129,728
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Restricted

Oklahoma College Assistance Program	<u>36,851,417</u>
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TOTAL NET POSITION \$ 36,981,145

See notes to supplemental information.

INCOME STATEMENT - OCAP Cost Center
(Prepared on the modified accrual basis)

OKLAHOMA STATE REGENTS FOR HIGHER EDUCATION

Year Ended June 30, 2016

OPERATING REVENUES

Defaulted loan collections	\$ 15,682,102
Administrative fees	1,047,844
Default aversion fees	742,725
Other	100,113

TOTAL OPERATING REVENUES \$ 17,572,784

OPERATING EXPENSES

Compensation	2,423,412
Rent	178,648
Processing charges	792,443
Postage	13,027
Collection agency expenses	5,333,226
Default prevention fees	1,337,704
Default aversion fees	506,866
Other	8,074,378
Depreciation and amortization	69,673

TOTAL OPERATING EXPENSES 18,729,377

OPERATING INCOME (1,156,593)

NONOPERATING REVENUES (EXPENSES)

On-behalf Teachers' Retirement System contributions	-
Interest income	669,123
Loss on disposal of capital assets	-
Intra-agency transfer OPEB and Supplemental Benefit Plan	-
Other	-

NET NONOPERATING REVENUES 669,123

INCREASE IN NET POSITION (487,470)

NET POSITION AT BEGINNING OF YEAR 37,468,615

NET POSITION AT END OF YEAR \$ 36,981,145

See notes to supplemental information

NOTES TO SUPPLEMENTAL INFORMATION
(Prepared on the modified accrual basis)

OKLAHOMA STATE REGENTS FOR HIGHER EDUCATION

June 30, 2016

NOTE A – BASIS OF PRESENTATION

The supplemental balance sheet and income statement of the Oklahoma College Assistance Program (OCAP) cost center are presented on the accrual basis of accounting; however, these schedules do not recognize pension and other post employee benefit obligations. The statements are not intended to present financial position or results of operations in accordance with generally accepted accounting standards.

Nature of Operations: the Oklahoma College Assistance Program, a cost center of the Oklahoma State Regents for Higher Education (the State Regents), is responsible for the guarantee of federal student loans by certain lending institutions to students attending post-secondary schools, in compliance with operating agreements (the Agreements) with the U.S. Department of Education (the USDE) pursuant to Section 428 of the Higher Education Act of 1965 (HEA), as periodically amended.

The FFELP under which OCAP operates was established by Congress as a means of making loans available to students attending colleges, universities, and post-secondary educational and vocational schools. The FFELP provides for OCAP to guarantee the repayment of principal and accrued interest to lenders for each eligible loan. OCAP had been responsible for processing loans submitted for guarantee, issuing loan guarantees, providing financial literacy and college access activities, informing lenders and schools of FFELP regulations, providing default aversion assistance to lenders for delinquent loans, paying lender claims for loans in default and collecting loans on which default claims have been paid.

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

Effective July 1, 2012, OCAP expanded its student loan guaranty servicing system agreement with Sallie Mae, Inc., now known as Navient Solutions Inc., to handle transaction services for lender claims review processing and post-default collection activities. This expansion continues to provide the most robust and cost-effective servicing solution to allow OCAP to continue to provide student support services as part of our business model.

In October 2013, OCAP contracted with Student Outreach Solutions, Inc. to provide student grace period and cohort management services for participating state system schools. Effective April 2015, USA Funds began performing the work on our behalf through a contract assignment with SOSI and the Student Assistance Corporation as part of the same contract assignment, which provides default aversion services on behalf of OCAP's FFELP portfolio to provide further cost-effective servicing solutions.

The OCAP Cost Center and a Federal Reserve Fund (Federal Fund) are used to account for the Federal Family Education Loan Program (FFELP) activities. The assets and earnings of the Cost Center may be used generally for guarantee agency related activities and other student financial aid related activities. The Federal Fund is considered property of the Federal Government, and its assets and earnings are restricted in use.

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

- At June 30, 2016, the Cost Center's net assets decreased to \$36,981,145 from \$37,468,615 in 2015.
- Total operating and non-operating revenues decreased by \$4,726,049 from \$22,967,956 to \$18,241,907 primarily due to decreased default loan collections income, default aversion fee income and administrative fees as a result of the continued decline in the outstanding portfolio.
- Total operating and non-operating expenses decreased by \$1,205,071 from \$19,934,448 to \$18,729,377. This decrease was primarily due to decreases in portfolio management, default prevention and aversion fees, and processing charges, offset by increases to benefits and other operating expenses..
- At June 30, 2016, the Cost Center recorded net capital assets of \$129,728 with a total of \$1,500,049 in capital assets and \$1,370,322 in accumulated depreciation.
- At June 30, 2016, the Cost Center had long-term liabilities of \$219,761. The current portion due within one year is \$117,331.



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

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

We have audited, in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of the governmental activities, the business-type activities and each major fund of the Oklahoma State Regents for Higher Education (the "State Regents"), a component unit of the State of Oklahoma, as of and for the year ended June 30, 2016, and the related notes to the financial statements, which collectively comprise the State Regent's basic financial statements, and have issued our report thereon dated October 31, 2016.

Internal Control over Financial Reporting

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

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

Our consideration of internal control over financial reporting was for the limited purpose described in the preceding paragraph and was not designed to identify all deficiencies in internal control over financial reporting that might be material weaknesses or significant deficiencies. Given these limitations, during our audit we did not identify any deficiencies in internal control over financial reporting that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the State Regents' financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements, noncompliance with which could have a direct and material

effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

Purpose of this Report

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

Tulsa, Oklahoma
October 31, 2016

Stanfield & O'Sell P.C.



**Independent Auditor's Report on Compliance for Each
Major Federal Program and Report on Internal Control over Compliance
in Accordance with the Uniform Guidance**

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

Report on Compliance for Each Major Federal Program

We have audited the Oklahoma State Regents for Higher Education's (the "State Regents"), a component unit of the State of Oklahoma, compliance with the types of compliance requirements described in the U.S. Office of Management and Budget (OMB) *Compliance Supplement* that could have a direct and material effect on each of the State Regents' major federal programs for the year ended June 30, 2016. The State Regents' major federal programs are identified in the summary of auditor's results section of the accompanying schedule of findings and questioned costs.

Management's Responsibility

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

Auditor's Responsibility

Our responsibility is to express an opinion on compliance for each of the State Regents' major federal programs based on our audit of the types of compliance requirements referred to above. We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and the audit requirements of Title 2 U.S. Code of Federal Regulations (CFR) Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (Uniform Guidance). Those standards and the Uniform Guidance require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about the State Regents' compliance with those requirements and performing such other procedures as we considered necessary in the circumstances.

We believe that our audit provides a reasonable basis for our opinion on compliance for each major federal program. However, our audit does not provide a legal determination of the State Regents' compliance.

Opinion on Each Major Federal Program

In our opinion, the State Regents complied, in all material respects, with the types of compliance requirements referred to above that could have a direct and material effect on each of its major federal programs for the year ended June 30, 2016.

Report on Internal Control over Compliance

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

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

Our consideration of internal control over compliance was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over compliance that might be material weaknesses or significant deficiencies. We did not identify any deficiencies in internal control over compliance that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

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

Stanfield & O'Sell P.C.

Tulsa, Oklahoma
October 31, 2016

SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS

OKLAHOMA STATE REGENTS FOR HIGHER EDUCATION

For the Year Ended June 30, 2016

Agency	Program	Federal	Pass-Through	Entity Identifying	% de minimis	Pass-Through to	Expenditures
		CFDA Number	Rate	Number	Election	Subrecipients	
STUDENT FINANCIAL ASSISTANCE CLUSTER							
DE	Federal Family Education Loan Program	84.032		NA	N		<u>116,714,787</u> A/
TANF CLUSTER							
HHS	Temporary Assistance for Needy Families (TANF) State Program	93.558	✔	0310559	N	<u>2,667,341</u>	<u>2,772,386</u>
CCDF CLUSTER							
HHS	Child Care and Development Block Grant	93.575	✔	01936002309	N	<u>1,665,863</u>	<u>2,148,786</u>
STUDENT FINANCIAL AID CLUSTER							
DE	Gaining Early Awareness and Readiness for Undergraduate Programs	84.334		NA	N	2,138,511	4,882,836
DE	Teacher and Principal Training & Recruiting	84.367		NA	N	584,265	688,734
DE	College Access Challenge Grant Program	84.378		NA	N		430,026
TOTAL						<u>2,722,776</u>	<u>6,001,596</u>
TOTAL EXPENDITURES OF FEDERAL AWARD						<u>7,055,980</u>	<u>127,637,555</u>

A/ Total Portfolio balance for 6/30/2016 Student Financial Assistance Cluster is \$1,701,777,961.

Cluster DE - U.S. Department of Education

Cluster HHS - U.S. Department of Health and Human Services

NOTES TO SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS

OKLAHOMA STATE REGENTS FOR HIGHER EDUCATION

For the Year Ended June 30, 2016

NOTE A--SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

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

SCHEDULE OF FINDINGS AND QUESTIONED COSTS

OKLAHOMA STATE REGENTS FOR HIGHER EDUCATION

For the Year Ended June 30, 2016

Section I--Summary of Auditors' Results

Financial statements

Type of auditor's report issued:

Unmodified

Internal control over financial reporting:

- Material weakness(es) identified? ___yes **_X_no**
- Significant deficiency(ies) identified that are not considered to be material weakness(es)? ___yes **_X_none**
reported

Noncompliance material to financial statements noted

___yes **_X_no**

Federal Awards

Internal control over major programs:

- Material weakness(es) identified? ___yes **_X_no**
- Significant deficiency(ies) identified that are not considered to be material weakness(es)? ___yes **_X_none**
reported

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

Unmodified

Any audit findings disclosed that are required to be reported in Accordance with the Uniform Guidance?

___yes **_X_no**

Identification of major programs:

Federal Family Education Loan Program CFDA #84.032

Teacher and Principal Training & Recruiting NCLB CFDA #84.367

Dollar threshold used to distinguish between type A and type B programs: \$750,000

Auditee Qualified as a low-risk auditee?

___yes **_X_no**

SCHEDULE OF FINDINGS AND QUESTIONED COSTS - continued

OKLAHOMA STATE REGENTS FOR HIGHER EDUCATION

For the Year Ended June 30, 2016

Section II—Deficiency Required to be Reported in Accordance with *Government Auditing Standards*:

None to report for the June 30, 2016 period.

Section III – Finding Required to be reported in Accordance with the Uniform Guidance:

None to report for the June 30, 2016 period.

STATUS OF PRIOR YEAR FINDINGS

OKLAHOMA STATE REGENTS FOR HIGHER EDUCATION

For the Year Ended June 30, 2016

Section IV – Financial Statement Findings Applicable to Prior Year Report

Item 2015-001 –

During the year the Regents adopted Governmental Standards Board Statement No. 68, Accounting and Financial Reporting for Pensions. In the process of recording the standard, we note that current deferred outflows were not initially reported in the statement of net position and assets transferred to trusts were not initially reported as fiduciary funds. The initial accounting for these new standards was not reviewed by someone independent of the reporting process. We recommend management have an independent review of new standards by personnel or a firm familiar with the new standard prior to submission of the data for audit.

Corrective action was taken during the current year.

Section V – Federal Award Findings and Questioned Costs Applicable to Prior Year Report

None to report for the June 30, 2015 period.