University Center of Southern Oklahoma

Financial Statements With Independent Auditors' Report

June 30, 2017 and 2016

FINLEY & COOK
CERTIFIED PUBLIC ACCOUNTANTS

INDEPENDENT AUDITORS' REPORT

Board of Trustees
University Center of Southern Oklahoma
Ardmore, Oklahoma

Report on the Financial Statements

We have audited the accompanying financial statements of the business-type activities and discretely presented component unit of the University Center of Southern Oklahoma (the "Center"), collectively, a component unit of the State of Oklahoma, as of and for the year ended June 30, 2017, and the related notes to the financial statements, which collectively comprise the Center's basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States; 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.

Auditors' Responsibility

Our responsibility is to express opinions on these financial statements based on our audits. We have also audited the financial statements of the discretely presented component unit Southern Oklahoma Higher Education Foundation, Inc. (the "Foundation"), a not-for-profit Oklahoma corporation organized to support the Center, as of and for the year ended June 30, 2017. We conducted our audits of the Center in accordance with auditing standards generally accepted in the United States 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. The financial statements of the Foundation were not audited in accordance with *Government Auditing Standards*.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditors' 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 auditors consider internal control relevant to the Center'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 Center'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 opinion.

(Continued)

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INDEPENDENT AUDITORS' REPORT, CONTINUED

Opinions

In our opinion, based on our audits, the financial statements referred to above present fairly, in all material respects, the respective financial position of the Center and its discretely presented component unit, the Foundation, as of June 30, 2017, and the respective changes in financial position and, cash flows thereof, for the years then ended in accordance with accounting principles generally accepted in the United States.

Emphasis of Matter

Adoption of New Accounting Pronouncements and Restatement of Previously Reported Balances

As discussed in Note 1 to the financial statements, the beginning net position as of July 1, 2016, has been restated to reflect the implementation of Governmental Accounting Standards Board Statement No. 73, *Accounting and Financial Reporting for Pensions and Related Assets That Are Not within the Scope of GASB Statement 68, and Amendments to Certain Provisions of GASB Statements 67 and 68* (GASB 73). Accordingly, adjustments have been made to the beginning balance of net position as of July 1, 2016. Our opinion is not modified with respect to this matter.

Other Matters

Prior Period Financial Statements

The financial statements of the Center as of June 30, 2016, were audited by other auditors, whose report dated October 20, 2016, expressed an unmodified opinion on those financial statements.

Required Supplementary Information

Accounting principles generally accepted in the United States require that the management's discussion and analysis on pages i through viii, and the schedule of the Center's proportionate share of the net pension liability, the schedule of the Center's contributions and schedule of the Center's change in total pension liability on pages 35 through 37, respectively, 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 supplemental information in accordance with auditing standards generally accepted in the United States, 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.

INDEPENDENT AUDITORS' REPORT, CONTINUED

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated October 27, 2017, on our consideration of the Center's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the Center's internal control over financial reporting and compliance.

Finley + Cook, PLLC

Shawnee, Oklahoma
October 27, 2017

University Center of Southern Oklahoma
Management's Discussion and Analysis
For the Year Ended June 30, 2017

Management's Discussion and Analysis

The discussion and analysis of University Center of Southern Oklahoma (UCSO) financial statements provides an overview of UCSO's financial activities for the year ending June 30, 2017. Since this management's discussion and analysis is designed to focus on current activities, resulting changes and current known facts, please read it in conjunction with UCSO's financial statements and footnotes. A comparative analysis of prior two years financial data is provided.

Financial Highlights

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

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

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

Schedule A is prepared from UCSO's Statement of Net Position, and summarizes UCSO's assets, deferred outflows, liabilities, deferred inflows and net position at June 30, 2017, with comparative totals at June 30, 2016 and 2015, respectively.

University Center of Southern Oklahoma
Management's Discussion and Analysis
For the Year Ended June 30, 2017

Financial Highlights (Continued)

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

Schedule A
Net Position at June 30, 2017
With Comparative Totals at June 30, 2016 and 2015
(in thousands)

	2017	2016*	2015*
Current assets	$ 1,196	$ 2,147	$ 1,818
Noncurrent assets			
Capital assets, net of depreciation	18,450	13,784	6,527
Other	-	894	5,400
Total assets	19,646	16,825	13,745
Deferred outflows	371	117	80
Current liabilities	1,029	468	352
Noncurrent liabilities	4,259	7,604	7,680
Total liabilities	5,288	8,072	8,032
Deferred inflows	225	256	293
Net position			
Net investment in capital assets	14,965	8,094	5,292
Restricted for capital projects	359	1,254	909
Unrestricted (deficit)	(820)	(734)	(701)
Total net position	$ 14,504	$ 8,614	$ 5,500

* prior years amounts not restated for MD&A purposes

At year ended June 30, 2017, other assets decreased by $894 from the year ended June 30, 2016 due to the spending of proceeds from the issuance of the ODFA 2014BAN and 2014H capital debt on the construction of the new building. Capital assets increased by $4,666 due to the completion of the new building. Net investment in capital asset net position also increased significantly in 2017 due to the same reason.

At year ended June 30, 2016, other assets decreased by $4,506 and capital assets increased by $7,257 from the year ended June 30, 2015 due to the spending of proceeds from the issuance of the ODFA 2014BAN and 2014H capital debt on the construction of the new building. Net investment in capital asset net position also increased significantly in 2016 due to the same reason.

Financial Highlights (Continued)

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

Schedule B is prepared from UCSO's Statement of Revenues, Expenses, and Changes in Net Position for the year ended June 30, 2017, with comparative totals for the years ended June 30, 2016, and 2015, respectively.

Schedule B
Operating Results for the Year Ended June 30, 2017
With Comparative Totals for the Years Ended June 30, 2016 and 2015
(in thousands)

	2017	2016*	2015*
Operating revenues and expenses			
Tuition and fees	$ 884	$ 919	$ 935
Less operating expenses	(1,996)	(1,494)	(1,623)
Net operating expenses	(1,112)	(575)	(688)
Nonoperating revenues (expenses)			
State appropriations	528	563	647
On-behalf OTRS contributions	46	54	58
Gifts	52	68	56
Investment income	6	6	7
Interest expense/income	(99)	(110)	(136)
Net nonoperating revenues	533	581	632
(Loss) income before other revenues/expens	(579)	6	(56)
Other revenues	6,685	3,108	3,552
Increase in net position	$ 6,106	$ 3,114	$ 3,496

* prior years amounts not restated for MD&A purposes

Revenues

State appropriations decreased by $35, or 6.2%, over 2016 due to statewide revenue shortfalls.

State appropriations decreased by $84, or 13%, over 2015 due to statewide revenue shortfalls.

Financial Highlights (Continued)

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

Expenses

Operating expenses increased by $502 in 2017 over the year ended June 30, 2016 primarily as a result of increased depreciation on the new building placed into service during FY17 and increased supplies costs for furniture bought for the new building.

Operating expenses decreased by $129 in 2016 over the year ended June 30, 2015 primarily as a result of the change in compensation expense due statewide budget cuts.

Schedule C summarizes UCSO's operating expenses for the years ended June 30, 2017, 2016, and 2015, respectively.

Schedule C
Operating Expenses for the Year Ended June 30, 2017
With Comparative Totals for the Years Ended June 30, 2016 and 2015
(in thousands)

	2017	2016*	2015*
Compensation and benefits	$ 846	$ 894	$ 966
Contractual services	312	335	346
Supplies and materials	298	24	36
Utilities	106	52	55
Communications	23	20	18
Depreciation	325	70	115
Other	86	99	87
Total Operating Expenses	$ 1,996	$ 1,494	$ 1,623

* prior years amounts not restated for MD&A purposes

Statement of Cash Flows

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

Schedule D is prepared from UCSO's Statement of Cash Flows, and summarizes UCSO's cash flows for the year ended June 30, 2017, with comparative totals for the years ended June 30, 2016 and 2015, respectively.

University Center of Southern Oklahoma
Management's Discussion and Analysis
For the Year Ended June 30, 2017

Financial Highlights (Continued)

Statement of Cash Flows (Continued)

Schedule D
Cash Flows for the Year Ended June 30, 2017
With Comparative Totals for the Years Ended June 30, 2016 and 2015
(in thousands)

	2017	2016	2015
Cash provided (used) by:			
Operating activities	$ (592)	$ (504)	$ (521)
Noncapital financing activities	580	632	703
Capital and related financing activities	(934)	200	777
Investing activities	6	6	7
Net increase in cash	(940)	334	966
Cash, beginning of year	2,107	1,773	807
Cash, end of year	$ 1,167	$ 2,107	$ 1,773

Capital Assets and Debt Administration

For 2017, UCSO recorded a total of $20,641 in capital assets and $2,192 in accumulated depreciation. During the year ended June 30, 2017, UCSO acquired $4,990 in capital assets consisting of construction in progress on the new building, library resources, office and institutional equipment, and computer equipment.

For 2016, UCSO recorded a total of $17,542 in capital assets and $3,758 in accumulated depreciation. During the year ended June 30, 2016 UCSO acquired $7,327 in capital assets consisting of construction in progress on the new building, library resources, office and institutional equipment, and computer equipment.

At June 30, 2017, UCSO had long-term liabilities of approximately $3,472,000, a decrease of approximately $3.1 million over 2016 long-term liabilities as a result of a $3 million early payment on the ODFA Series 2014H BAN capital lease.

At June 30, 2016, UCSO had long-term liabilities of approximately $6,565,000, a decrease of approximately $54 thousand over 2015 long-term liabilities as a result of regular retirement of debt.

Financial Highlights (Continued)

Capital Assets and Debt Administration (Continued)

Schedule E
Capital Assets, Net
June 30, 2017
With Comparative Totals at June 30, 2016 and 2015
(in thousands)

	2017	2016	2015
Land	$ 1,036	$ 1,036	$ 1,036
Construction in progress	624	12,600	5,317
Leasehold improvements	-	1,849	1,849
Buildings and improvements	16,541	-	-
Equipment	1,659	1,279	1,242
Library materials	781	778	769
Total	20,641	17,542	10,213
Less accumulated depreciation	(2,192)	(3,758)	(3,686)
Capital assets, net	$ 18,449	$ 13,784	$ 6,527

Schedule F
Long-Term Liabilities
June 30, 2017
With Comparative Totals at June 30, 2016 and 2015
(in thousands)

	2017	2016	2015
OCIA capital lease payable	$ 431	$ 495	$ 549
ODFA capital lease payable	3,041	6,070	6,070
Total long-term liabilities	$ 3,472	$ 6,565	$ 6,619

Other Financial Information

Economic Outlook

For FY18 UCSO had a 6.08% reduction in state allocation from the previous year. Additionally, the reimbursed portion of concurrent student waivers has been reduced to 27%, which substantially impacts UCSO due to the high number of concurrently enrolled students. It is anticipated state allocations will continue at near current levels (slight increases or decreases). The outlook for future substantive increases in the state allocation are not hopeful, which will result in future tuition increases to offset declining state revenues and increased operating costs. State allocations now comprise about 1/3 of the UCSO operations budget and tuition and fee revenues comprise the other 2/3.

UCSO has also experienced declining enrollments over the last several years. It is anticipated that enrollments will eventually level off and slowly increase. Some of the declining enrollments may be attributed to population demographics and numbers of students graduating from high school, which is expected to increase over the next decade. Some of the decline can be attributed to the increased availability of online degree programs from institutional partners and some of the decline can be attributed the withdrawal of East Central University from the UCSO consortium as of June 30, 2017. ECU offers several degree programs at UCSO including a bachelor of science in nursing program that is an anchor program for the new facility recently constructed. ECU will "teach-out" its program over the next two years while UCSO looks for a replacement for the nursing program and other ECU program offerings.

UCSO has completed construction of its new 49,000 sq. ft. Health, Science and Math Center and began utilizing the facility in January, 2017. Formerly, UCSO operated from a facility on the campus of Ardmore City Schools. With the completion of the new Health, Science and Math Center, Ardmore City Schools requested UCSO to vacate a substantial portion of the old facility so it could move its administration offices into the building. As a result UCSO had to move additional personnel and other academic programs into the new facility than was originally planned.

The utility costs of the new facility are substantially higher for the new facility. UCSO has had to assume operations and maintenance of the new facility and grounds with less state funding, less tuition and less staff due to substantial budget cuts. Some of the increased operation and maintenance costs have been offset by vacating the previous facilities.

Funding to construct the Health, Science and Math Center was provided through a combination of gifts and grants, UCSO direct support, and public financing through the Oklahoma State Regent's Real Property Master Lease program. The University Center entered into a Master Lease agreement for the issuance of $6.5 million in tax-free bonds for this project. The underwriters customized the bond program into short-term and long-term components. It was necessary to finance the cash flow for the construction project in the form of a short-term bond to account for the variance between the receipts of pledge payments (2-5 years) with the construction schedule (27 months). The short-term note for cash flow for construction purposes was for $4.3 million. The remaining $1.7 million is a long-term bond with a 15-year term.

Servicing of both obligations began in March, 2015. University Center revenues are used to pay accrued interest on the obligations and donor pledge payments are applied only on the principal. Payments on the long-term note were interest-only until December, 2016 at which time UCSO began paying on the principal with a reduced payment. Full payments will begin in December, 2018 will total approximately $170,000 annually. UCSO will need to continue to allocate $5-$7of its tuition/fee rate for debt service.

A prepayment of $3 million was applied to the short-term note in May, 2017. The note matures a few months prior to the final date for payment of all pledges, which could place a demand on a substantial portion of reserve funds if these pledges are not prepaid. Donors with pledge balances have been requested to prepay all or a portion of the remaining pledge balance. UCSO can also negotiate with the note holder to refinance any remaining balance into a long-term bond with a short-term maturity (one year or less).

It is anticipated that the state allocation will remain at current levels or be slightly reduced or increased for the foreseeable future. Any future budget growth will be dependent primarily on tuition receipts from increased enrollment from enhanced programming at the University Center. Currently, the Board of Trustees and management are conducting interviews with several colleges and universities about the possibility of bringing additional degree programs to the University Center. Additionally, the Board of Trustees could request the city or county to conduct an election to levy a property or sales tax to support the further development and maintenance of the University Center campus.

UCSO management is not aware of any other matters that could significantly affect its financial position at this time.

Contacting the Program's Financial Management

This financial report is designed to provide our citizens, taxpayers, investors, and creditors with a general overview of UCSO's finances and to show UCSO's accountability for the money it receives. If you have any questions about this report or need additional financial information, contact the University Center of Southern Oklahoma, 2901 Mt. Washington Rd., Ardmore, Oklahoma 73401.

UNIVERSITY CENTER OF SOUTHERN OKLAHOMA
Statements of Net Position
June 30, 2017 and 2016

	2017		2016	
	University Center of Southern Oklahoma	Southern Oklahoma Higher Education Foundation Inc.	University Center of Southern Oklahoma	Southern Oklahoma Higher Education Foundation Inc.
ASSETS				
Current assets				
Cash and cash equivalents	$ 1,167,949	$ 130,237	$ 2,107,283	$ 1,067,463
Accounts receivable	28,040	-	39,254	-
Pledges receivable	-	480,000	-	405,000
Accrued interest receivable	442	-	489	516
Investments	-	220,242	-	5,016,088
Total current assets	1,196,431	830,479	2,147,026	6,489,067
Noncurrent assets				
Pledges receivable	-	346,535	-	818,353
Receivable from ODFA	-	-	890,484	-
Prepaid pension asset	-	-	3,290	-
Capital assets, net	18,449,569	-	13,783,986	-
Total noncurrent assets	18,449,569	346,535	14,677,760	818,353
Total Assets	19,646,000	1,177,014	16,824,786	7,307,420
DEFERRED OUTFLOWS				
Deferred outflows related to pensions	371,418	-	117,557	-
Total Deferred Outflows	371,418	-	117,557	-
LIABILITIES				
Current liabilities				
Accounts payable and accrued expenses	119,064	-	343,986	-
Current portion of noncurrent liabilities	909,923	-	124,122	-
Total current liabilities	1,028,987	-	468,108	-
Noncurrent liabilities				
Other post employment benefit obligation	128,210	-	82,961	-
Net pension obligation	1,535,857	-	1,047,014	-
Accrued compensated absences	21,750	-	5,926	-
Lease obligation payable to OCIA	364,404	-	431,082	-
Lease obligation payable to ODFA	2,208,727	-	6,037,207	-
Total noncurrent liabilities	4,258,948	-	7,604,190	-
Total Liabilities	5,287,935	-	8,072,298	-
DEFERRED INFLOWS				
Deferred gain on OCIA lease restructuring	16,059	-	18,398	-
Deferred inflows related to pensions	209,066	-	237,608	-
Total Deferred Inflows	225,125	-	256,006	-
NET POSITION				
Net Investment in Capital Assets	14,964,951	-	8,094,456	-
Restricted:				
Capital projects	359,187	-	1,254,082	-
Donor restrictions	-	1,100,148	-	7,250,958
Unrestricted (deficit)	(819,780)	76,866	(734,499)	56,462
Total Net Position	$ 14,504,358	$ 1,177,014	$ 8,614,039	$ 7,307,420

See Independent Auditors' Report.
See accompanying notes to financial statements.

UNIVERSITY CENTER OF SOUTHERN OKLAHOMA
Statements of Revenues, Expenses and Changes in Net Position
For Years Ended June 30, 2017 and 2016

	2017		2016	
	University Center of Southern Oklahoma	Southern Oklahoma Higher Education Foundation Inc.	University Center of Southern Oklahoma	Southern Oklahoma Higher Education Foundation Inc.
OPERATING REVENUES				
Student tuition and fees	$ 884,487	$ -	$ 918,874	$ -
OPERATING EXPENSES				
Compensation and employee benefits	845,662	-	894,011	-
Contractual services	312,092	-	334,702	-
Supplies and materials	297,693	2,390	24,283	730
Utilities	106,061	-	51,851	-
Communications	23,406	-	20,104	-
Depreciation	324,844	-	69,975	-
Other operating expenses	86,019	-	99,073	-
Contributions to University Center	-	6,601,503	-	1,017,884
General and administrative	-	2,928	-	2,901
Scholarships awarded	-	87,927	-	46,848
Total operating expenses	1,995,777	6,694,748	1,493,999	1,068,363
Operating Loss	(1,111,290)	(6,694,748)	(575,125)	(1,068,363)
Nonoperating Revenues (Expenses)				
State appropriations	527,835	-	563,243	-
On-behalf OTRS	46,004	-	53,783	-
Private gifts and other contributions	52,344	531,734	68,390	130,479
Investment income	5,577	7,422	6,345	22,316
Net realized and unrealized gain on investments	-	25,186	-	2,974
Interest expense	(99,332)	-	(109,666)	-
Net nonoperating revenues	532,428	564,342	582,095	155,769
(Loss) Income Before Other Revenues, Expenses, Gains, or Losses	(578,862)	(6,130,406)	6,970	(912,594)
Capital grants and gifts	6,598,973	-	3,032,124	-
OCIA on-behalf state appropriations	86,017	-	75,251	-
Net Change In Net Position	6,106,128	(6,130,406)	3,114,345	(912,594)
Net Position, Beginning, as previously reported	8,614,039	7,307,420	5,499,694	8,220,014
Restatement due to GASB 73	(215,809)	-	-	-
Net Position, beginning as restated	8,398,230	7,307,420	5,499,694	8,220,014
Net Position, End of Year	$ 14,504,358	$ 1,177,014	$ 8,614,039	$ 7,307,420

NO ASSURANCE PROVIDED

See Independent Auditors' Report.
See accompanying notes to financial statements.

UNIVERSITY CENTER OF SOUTHERN OKLAHOMA
Statements of Cash Flows
For Years Ended June 30, 2017 and 2016

	2017		2016	
	University Center of Southern Oklahoma	Southern Oklahoma Higher Education Foundation Inc.	University Center of Southern Oklahoma	Southern Oklahoma Higher Education Foundation Inc.
Cash Flows From Operating Activities				
Tuition and fees	$ 895,701	$ -	$ 923,882	$ -
Compensation and benefits	(752,598)	-	(903,045)	-
Cash paid to suppliers	(734,652)	(5,318)	(524,328)	(3,631)
Cash paid to University Center		(6,601,503)		(1,017,884)
Cash paid for scholarships	-	(87,927)	-	(46,848)
Net Cash Used In Operating Activities	(591,549)	(6,694,748)	(503,491)	(1,068,363)
Cash Flows From Noncapital Financing Activities				
State appropriations	527,835	-	563,243	-
Gifts and contributions	52,344	928,552	68,390	1,759,970
Net Cash Provided by Noncapital Financing Activities	580,179	928,552	631,633	1,759,970
Cash Flows From Capital and Related Financing Activities				
Purchases of capital assets	(5,314,334)	-	(7,243,765)	-
Capital contributions	6,598,973	-	3,032,124	-
Proceeds of capital debt and leases	890,484	-	4,493,677	-
Repayment of capital leases and debt	(3,029,167)	-	-	-
Interest expense	(79,544)	-	(82,044)	-
Net Cash (Used In) Provided by Capital and Related Financing Activities	(933,588)	-	199,992	-
Cash Flows From Investing Activities				
Purchases of investments	-	-	-	(4,350,000)
Proceeds from sales and maturities of investments	-	4,823,399	-	501,481
Interest income received	5,624	5,571	6,377	5,317
Net Cash Provided By (Used In) Investing Activities	5,624	4,828,970	6,377	(3,843,202)
Net (Decrease) Increase in Cash and Cash Equivalents	(939,334)	(937,226)	334,511	(3,151,595)
Cash and Cash Equivalents, Beginning of Year	2,107,283	1,067,463	1,772,772	4,219,058
Cash and Cash Equivalents, End of Year	$ 1,167,949	$ 130,237	$ 2,107,283	$ 1,067,463

See Independent Auditors' Report.
See accompanying notes to financial statements.

UNIVERSITY CENTER OF SOUTHERN OKLAHOMA
Statements of Cash Flows, Continued
For Years Ended June 30, 2017 and 2016

	2017		2016	
	University Center of Southern Oklahoma	Southern Oklahoma Higher Education Foundation Inc.	University Center of Southern Oklahoma	Southern Oklahoma Higher Education Foundation Inc.
Reconciliation of Operating Loss to Cash Used in Operating Activities				
Operating loss	$ (1,111,290)	$ (6,694,748)	$ (575,125)	$ (1,068,363)
Adjustments to reconcile operating loss to net cash used in operating activities				
Depreciation expense	324,844	-	69,975	-
On-behalf OTRS	46,004	-	53,783	-
Changes in assets and liabilities				
Accounts receivable	11,214	-	5,008	-
Deferred outflows related to pensions	(253,861)	-	(45,630)	-
Accounts payable and accrued expenses	98,986	-	(5,063)	-
Prepaid pension asset	-	-	11,502	-
Other post employment benefit obligation	45,248	-	16,161	-
Net pension obligation	276,324	-	(4,586)	-
Deferred inflows related to pensions	(28,542)	-	(34,230)	-
Accrued compensated absences	(476)	-	4,714	-
Net Cash Used in Operating Activities	$ (591,549)	$ (6,694,748)	$ (503,491)	$ (1,068,363)
Noncash Investing, Noncapital Financing, and Capital and Related Financing Transactions				
Interest on capital debt paid by state agency on behalf of the Center	$ 21,857	$ -	$ 21,496	$ -
Principal on capital debt paid by state agency on behalf of the Center	$ 64,160	$ -	$ 53,755	$ -

See Independent Auditors' Report.
See accompanying notes to financial statements.

Note 1: Nature of Operations and Summary of Significant Accounting Policies

Nature of Operations

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

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

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

Financial Statement Presentation

The Governmental Accounting Standards Board (GASB) is the recognized standard-setting body for accounting principles generally accepted in the United States of America (U.S. GAAP) applicable to public sector institutions of higher education. The Center applies all applicable GASB pronouncements.

Reporting Entity

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

Note 1: Nature of Operations and Summary of Significant Accounting Policies (Continued)

Reporting Entity (Continued)

The accompanying financial statements include the accounts and funds of the Center. The Center is a state agency and a non-institution member of the State of Oklahoma Higher Education System, which is under the governance of the Oklahoma State Regents for Higher Education (the "State Regents"). The Center is a component unit of the State of Oklahoma and is included in the general-purpose financial statements of the State as part of the higher education component unit.

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

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

Basis of Accounting

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

Cash Equivalents

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

University Center of Southern Oklahoma
Notes to Financial Statements
Years Ended June 30, 2017 and 2016

Note 1: Nature of Operations and Summary of Significant Accounting Policies (Continued)

Investments

The Center accounts for its investments at fair value in accordance with GASB Statement No. 72, Fair Value Measurement and Application. Changes in unrealized gain (loss) on the carrying value of investments are reported as a component of return on investments in the statements of revenues, expenses, and changes in net position.

Accounts Receivable

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

Capital Assets

Capital assets, with an individual cost of $500 or more, are capitalized at cost at the date of acquisition when purchased by the Center or at estimated value when acquired other than by purchase. Depreciation is computed on the straight-line method over the estimated useful lives of the capital assets, generally 5 to 10 years for library materials and equipment and 3 years for software. Leasehold improvements are amortized over the life of the lease. Beginning July 1, 2008, the Center was on a year-to-year lease.

Noncurrent Liabilities

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

Compensated Absences

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

Note 1: Nature of Operations and Summary of Significant Accounting Policies (Continued)

Net Position

The Center's net position is classified as follows:

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

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

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

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

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

Classifications of Revenues

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

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

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

Note 1: Nature of Operations and Summary of Significant Accounting Policies
(Continued)

Deferred Outflows

Deferred outflows are the consumption of net position by the Center that are applicable to a future reporting period. At June 30 2017, the Center's deferred outflows of resources were comprised of pension contributions.

Deferred Inflows

Deferred inflows are the acquisition of net position by the Center that are applicable to a future reporting period. At June 30, 2017, the Center's inflows related to deferred gains on an OCIA lease restructure, and pension experience and investment earnings.

Pensions

For purposes of measuring the net pension liability, deferred outflows of resources and deferred inflows of resources related to pensions, and pension expense, information about the fiduciary net position of the Oklahoma Teachers Retirement System (OTRS) and additions to/deductions from OTRS's fiduciary net position have been determined on the same basis as they are reported by OTRS. For this purpose, benefit payments (including refunds of employee contributions) are recognized when due and payable in accordance with the benefit terms. Investments are reported at fair value.

Tax Status

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

Estimates

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

Note 1: Nature of Operations and Summary of Significant Accounting Policies
(Continued)

Restatement

Prior Period Adjustment

The July 1, 2016, beginning net position was restated as of June 30, 2017, to reflect the implementation of GASB 73. The effect of the restatement is as follows:

	Fiscal Year 2017
Beginning net position, as previously reported	$ 8,614,039
Implementation of GASB Statement 73	(215,809)
Beginning net position, restated	$ 8,398,230

See Independent Auditors' Report.

Note 2: Cash and Cash Equivalents

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

Of the $1,167,949 and $2,107,283 in cash and cash equivalents on deposit with the State Treasurer as of June 30, 2017 and June 30, 2016, respectively, $306,140 and $335,235, respectively, represent amounts held within OK INVEST an internal investment pool. Agencies and funds that are considered to be part of the State's reporting entity in the State's Comprehensive Annual Financial Report are allowed to participate in OK INVEST. Oklahoma statutes and the State Treasurer establish the primary objectives and guidelines governing the investment of funds in OK INVEST. Safety, liquidity, and return on investment are the objectives that 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's daily cash flow requirements. Guidelines in the State Treasurer's Investment Policy address credit quality requirements, diversification percentages and the types and maturities of allowable investments. The specifics regarding these policies can be found on the State Treasurer's website at http://www.ok.gov/treasurer/. An evaluation of the use and purpose of the Center's participation in the internal investment pool the amount on deposit with OK INVEST are treated as demand accounts and reported as cash equivalents.

The Foundation had deposits at a financial institution with carrying amounts of $130,237 and $1,067,463 as of June 30, 2017 and 2016, respectively.

Note 3: Investments

As of June 30, 2017 and 2016, the Center had no investments. The Foundation's investments consisted of the following:

Type of Investment	Fair Value Hierarchy	2017	2016
Short-term investment fund with Vanguard	Level 1	$ 61,596	$ 62,115
Index investment funds with Vanguard	Level 2	158,646	137,311
CD's and repurchase agreements	N/A	-	4,816,662
Total investments		$ 220,242	$ 5,016,088

See Independent Auditors' Report.

Note 4: Pledges Receivable

The following is a summary of the pledges receivable as June 30, 2017 and 2016:

	2017	2016
Pledges receivable in:		
Less than one year	$ 480,000	$ 405,000
One year to five years	346,535	818,353
	$ 826,535	$ 1,223,353

The Foundation has raised substantial contribution pledges for the purpose of funding the construction of a new building for the Center. The funds are to be provided by various businesses and foundations in the Ardmore area. The pledges have been recognized as contribution revenue net of a discount to present value.

Note 5: Capital Assets

The following is a summary of the changes in capital assets for the year ended June 30, 2017:

	2017				
	Balance June 30, 2016	Additions	Transfers	Retirements	Balance June 30, 2017
Capital assets not being depreciated					
Land	$ 1,036,385	$ -	$ -	$ -	$ 1,036,385
Construction in progress	12,599,184	4,565,816	(16,540,766)	-	624,234
Total capital assets, not being depreciated	13,635,569	4,565,816	(16,540,766)	-	1,660,619
Other capital assets					
Leasehold improvements	$ 1,849,260	$ -	$ -	$ (1,849,260)	$ -
Buildings and improvements	-	-	16,540,766	-	16,540,766
Equipment	1,277,665	421,210	-	(39,382)	1,659,493
Library materials	777,656	3,401	-	-	781,057
Total capital assets	3,904,581	424,611	16,540,766	(1,888,642)	18,981,316
Less accumulated depreciation					
Leasehold improvements	(1,849,260)	-	-	1,849,260	-
Buildings and improvements	-	(241,220)	-	-	(241,220)
Equipment	(1,172,004)	(72,872)	-	39,382	(1,205,494)
Library materials	(734,900)	(10,752)	-	-	(745,652)
Total accumulated depreciation	(3,756,164)	(324,844)	-	1,888,642	(2,192,366)
Other capital assets, net	$ 148,417	$ 99,767	$ 16,540,766	$ -	$ 16,788,950
Total cost of capital assets	$ 17,540,150	$ 4,990,427	$ -	$ (1,888,642)	$ 20,641,935
Less accumulated depreciation	(3,756,164)	(324,844)	-	1,888,642	(2,192,366)
Capital assets, net	$ 13,783,986	$ 4,665,583	$ -	$ -	$ 18,449,569

See Independent Auditors' Report.

University Center of Southern Oklahoma
Notes to Financial Statements
Years Ended June 30, 2017 and 2016

Note 5: Capital Assets (Continued)

The following is a summary of the changes in capital assets for the year ended June 30, 2016:

	2016			
	Balance June 30, 2015	Additions	Retirements	Balance June 30, 2016
Capital assets not being depreciated				
Land	$ 1,036,385	$ -	$ -	$ 1,036,385
Construction in progress	5,317,066	7,282,118	-	12,599,184
Total capital assets, not being depreciated	$ 6,353,451	$ 7,282,118	$ -	$ 13,635,569
Other capital assets				
Leasehold improvements	$ 1,849,260	$ -	$ -	$ 1,849,260
Equipment	1,241,665	36,000	-	1,277,665
Library materials	768,848	8,808	-	777,656
Total capital assets	3,859,773	44,808	-	3,904,581
Less accumulated depreciation				
Leasehold improvements	(1,849,260)	-	-	(1,849,260)
Equipment	(1,111,524)	(60,480)	-	(1,172,004)
Library materials	(725,405)	(9,495)		(734,900)
Total accumulated depreciation	(3,686,189)	(69,975)	-	(3,756,164)
Other capital assets, net	$ 173,584	$ (25,167)	$ -	$ 148,417
Total cost of capital assets	$ 10,213,224	$ 7,326,926	$ -	$ 17,540,150
Less accumulated depreciation	(3,686,189)	(69,975)	-	(3,756,164)
Capital assets, net	$ 6,527,035	$ 7,256,951	$ -	$ 13,783,986

The cost and related accumulated depreciation of assets held under lease obligations was as follows as of June 30:

	2017	2016
Construction in progress	$ -	$ 1,196,484
Leasehold improvements	6,580,896	200,000
Less accumulated depreciation	(95,971)	(200,000)
	$ 6,484,925	$ 1,196,484

See Independent Auditors' Report.

Note 6 : Noncurrent Liabilities

The following is a summary of noncurrent liability transactions of the Center for the years ended June 30, 2017 and 2016:

2017	Balance June 30, 2016	Additions	Deductions	Balance June 30, 2017	Current Portion June 30, 2017
OCIA capital lease obligation	$ 495,242	$ -	$ (64,160)	$ 431,082	$ 66,678
ODFA master lease payable	6,070,000	-	(3,029,167)	3,040,833	828,750
Accrued compensated absences	36,721	30,319	(30,795)	36,245	14,495
	$ 6,601,963	$ 30,319	$ (3,124,122)	$ 3,508,160	$ 909,923

2016	Balance June 30, 2015	Additions	Deductions	Balance June 30, 2016	Current Portion June 30, 2016
OCIA capital lease obligation	$ 548,997	$ -	$ (53,755)	$ 495,242	$ 64,160
ODFA master lease payable	6,070,000	-	-	6,070,000	29,167
Accrued compensated absences	32,007	36,721	(32,007)	36,721	30,795
	$ 6,651,004	$ 36,721	$ (85,762)	$ 6,601,963	$ 124,122

Note 7: Oklahoma Capital Improvement Authority Leases

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

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

Note 7: Oklahoma Capital Improvement Authority Leases (Continued)

In 2014, the OCIA issued bond series 2014A that refunded a significant portion of the 2005F bonds. Consequently, the amortization of the 2005F bond issue ended in 2016. The lease agreement will no longer secure the 2005F bond issue but will now act as security for the 2014A bond issue over the term of the lease through the year 2031. This restructuring resulted in an aggregate debt service difference for principal and interest between the original lease agreement and the restructured lease agreement of $502,345, which also approximates the economic gain of the lease restructuring.

In 2015, the OCIA issued bond series 2014B that refunded the 2004A bonds. The lease agreement will no longer secure the 2004A bond issue but will now act as security for the 2014B bond issue over the term of the lease through the year 2020. This restructuring resulted in an aggregate debt service difference for principal and interest between the original lease agreement and the restructured lease agreement of $10,402, which also approximates the economic gain of the lease restructuring.

During the years ended June 30, 2017 and 2016, OCIA made lease principal and interest payments totaling $86,017 and $75,251, respectively, on behalf of the Center. These on-behalf payments have been recorded as restricted state appropriations in the Center's statements of revenues, expenses, and changes in net position.

During the year ended June 30, 2017, the Center recognized $2,339 of amortization on the deferred gain on lease restructuring on the OCIA Series 2014A and 2014B lease obligation, leaving a balance of the unamortized deferred gain of $16,059. The unamortized deferred gain is included in the deferred inflows in the accompanying financial statements.

Future minimum lease payments under the Center's obligation to OCIA are as follows as of June 30, 2017:

Year Ending June 30,	Principal	Interest	Total
2018	$ 66,678	$ 19,818	$ 86,496
2019	69,010	16,903	85,913
2020	14,391	13,716	28,107
2021	-	13,384	13,384
2022	-	13,384	13,384
2023-2027	142,255	54,015	196,270
2028-2031	138,748	17,303	156,051
Total future minimum lease payments	$ 431,082	$ 148,523	$ 579,605

Note 8: Oklahoma Development Finance Authority Leases

In 2015, the Center entered into a capital lease obligation for the ODFA Master Lease Revenue Bonds, Series 2014 BAN in the amount of $4,335,000. Total lease payments over the term of the agreement, beginning March 15, 2015 through November 15, 2018, will be $4,499,008. Payments will be made monthly ranging from approximately $3,600 to $365,000. Proceeds from the obligation are being used to construct the new Classroom building.

Note 8: Oklahoma Development Finance Authority Leases (Continued)

In 2015, the Center entered into a capital lease obligation for the ODFA Master Lease Revenue Bonds, Series 2014H in the amount of $1,735,000. Total lease payments over the term of the agreement, beginning March 15, 2015 through November 15, 2029, will be $2,121,579. Payments will be made monthly ranging from approximately $3,200 to $14,400. Proceeds from the obligation are being used to construct the new Classroom building. A bond issuance discount of $4,009 is being amortized over the term of the agreement.

Future minimum lease payments under the Center's obligation to ODFA are as follows as of June 30, 2017:

Year Ending June 30,	Principal	Interest	Total
2018	$ 828,750	$ 51,460	$ 880,210
2019	655,833	42,673	698,506
2020	135,000	35,119	170,119
2021	137,917	32,419	170,336
2022	140,000	29,660	169,660
2023-2027	751,667	104,002	855,669
2028-2030	391,666	18,583	410,249
Total future minimum lease payments	$ 3,040,833	$ 313,916	$ 3,354,749

Note 9: Employee Retirement Benefits

Summary of Net Pension Obligation

	Net Pension Obligation	Deferred Outflows	Deferred Inflows	Pension Expense
Supplemental Retirement Obligation	$ 211,436	$ -	$ -	$ 20,917
OTRS Pension Obligation	1,324,421	371,418	209,066	98,339
Total	$ 1,535,857	$ 371,418	$ 209,066	$ 119,256

Defined Contribution Plan

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

Note 9: Employee Retirement Benefits (Continued)

Defined Contribution Plan, (Continued)

The Center's total payroll for the years ended June 30, 2017 and 2016 was approximately $521,000 and $573,000 respectively. Total covered payroll, which refers to all compensation paid by the Center to active employees covered by American Fidelity, amounted to $187,000 in 2017 and $268,000 in 2016. The Center contributed approximately $15,000 in 2017 and $21,000 in 2016, which represents 8.00% of covered payroll for each year. As of June 30, 2017, there were no related party investments between American Fidelity and the Center.

Defined Benefit Plan

Plan Description – The Center contributes to a single-employer public employee retirement system through the Supplemental Retirement Plan (the Plan), sponsored by the State Regents. The Plan was adopted on July 1, 1985, and was substantially replaced by the funded TIAA/CREF plan adopted in July 1991. The Plan provides employees who retire from the Oklahoma Teacher's Retirement System (OTRS) a guarantee-based monthly retirement allowance. This guaranteed allowance is determined by the average of the highest three years of salary times 2% for each of the first 25 years of service in Oklahoma's system of public education, plus an additional 0.5% for each year of service prior to July 1, 1985, and 1% for each of year of service after July 1, 1985, up to a maximum of 60% of final salary entitlement. The Plan pays the difference, if any, between the guaranteed retirement allowance and the combined benefits under OTRS, TIAA/CREF and social security. Benefits vest upon retirement. There is currently 1 retired employee receiving benefits and no active employees, as the Plan is closed to any new entrants. The annual benefit amount may be amended by the Board of Trustees.

Funding Policy – Benefits are funded on a "pay as you go" basis, so there are no assets accumulated to pay these benefits. During the fiscal year ended June 30, 2017, the Center made benefit payments of $22,000.

Pension Liabilities, Pension Expense, and Deferred Outflows of Resources and Deferred Inflows of Resources Related to Pensions – At June 30, 2017, the Center reported a liability of $211,436 for its net pension liability. The net pension liability was measured as of June 30, 2017, and the total pension liability used to calculate the net pension liability was determined by an actuarial valuation as of June 30, 2017.

For the year ended June 30, 2017 the Center recognized pension expense of $20,917.

Note 9: Employee Retirement Benefits (Continued)

Schedule of Changes in Total Pension Liability– The Center's changes in total pension liability are as follows for the year ended June 30, 2017.

		2017
Beginning net pension liability, restated	$	212,519
Interest		7,608
Change of assumptions		6,456
Difference between actual and expected experience		6,853
Benefit payments		(22,000)
Ending net pension liability	$	211,436

Actuarial Assumptions – The total pension liability as of June 30, 2017, was determined based on an actuarial valuation prepared as of June 30, 2017 using the following actuarial assumptions:

- Actuarial Cost Method - Entry Age
- Amortization Method - Level Percentage of Payroll
- Discount Rate - 3.05% (Based on Bond Buyers General Obligation Municipal Bond Index)
- Mortality Rates after Retirement – RPA-2000 Mortality Table projected to 2020.

Sensitivity of the Net Pension Liability to Change in the Discount Rate – The following presents the net pension liability of the employers calculated using the discount rate each year, as well as what the Plan's net pension liability would be if it were calculated using a discount rate that is 1-percentage point lower or 1-percentage-point higher than the current rate:

		1% Decrease (2.05%)		Current Discount Rate (3.05%)		1% Increase (4.05%)
Employers' net pension liability	$	224,689	$	211,436	$	199,554

Oklahoma Teachers' Retirement System

Plan Description – The Center 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. 17-105 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.

Note 9: Employee Retirement Benefits (Continued)

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 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.

- 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.

See Independent Auditors' Report.

Note 9: Employee Retirement Benefits (Continued)

Contributions – The contributions requirements of the Plan are at an established rate determine 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 9.50% of the employees' annual pay and an additional 7.70% for any employees' salaries covered by federal funds. Contributions to the pension plan from the Center were $57,331 and $67,422 for the years ended June 30, 2017 and 2016, respectively. The State of Oklahoma also made on-behalf contributions to OTRS, of which $46,004 and $53,783, during 2017 and 2016 respectively, was recognized by the Center; 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, 2017 and 2016, the Center reported a liability of $1,324,421 and $1,047,014, respectively, for its proportionate share of the net pension liability. The net pension liability was measured as of June 30, 2016 and 2015, and the total pension liability used to calculate the net pension liability was determined by an actuarial valuation as of June 30, 2016 and 2015. The Center's proportion of the net pension liability was based on the Center's contributions received by the pension plan relative to the total contributions received by pension plan for all participating employers as of June 30, 2016 and 2054. Based upon this information, the Center's proportion was 0.01587% and 0.01724% for June 30, 2017 and 2016, respectively.

For the years ended June 30, 2017 and 2016, the Center recognized pension expense of $98,339 and $36,758, respectively.

At June 30, 2017, the Center 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	$ -	$ 30,748
Changes of assumptions	159,479	-
Net difference between projected and actual earnings on pension plan investments	154,608	-
Changes in proportion and differences between Center contributions and proportionate share of contributions	-	178,318
Center contributions subsequent to the measurement date	57,331	-
Total	$ 371,418	$ 209,066

See Independent Auditors' Report.

University Center of Southern Oklahoma
Notes to Financial Statements
Years Ended June 30, 2017 and 2016

Note 9: Employee Retirement Benefits (Continued)

At June 30, 2016, the Center 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	$ -	$ 35,563
Changes of assumptions	50,134	-
Net difference between projected and actual earnings on pension plan investments	-	71,028
Changes in proportion and differences between City contributions and proportionate share of contributions	-	131,017
College contributions subsequent to the measurement date	67,422	-
Total	$ 117,556	$ 237,608

The $57,331 and $67,422 reported as deferred outflows of resources related to pensions resulting from Center contributions subsequent to the measurement date for June 30, 2017 and 2016, respectively will be recognized as a reduction of the net pension liability in the year ended June 30, 2017 and 2016, respectively. 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:		Year ended June 30, 2016:	
2018	$ 4,998	2017	$ (54,590)
2019	4,998	2018	(54,590)
2020	56,655	2019	(54,590)
2021	36,056	2020	1,531
2022	2,314	2021	(20,849)
	$ 105,021	Thereafter	(4,385)
			$ (187,473)

See Independent Auditors' Report.

Note 9: Employee Retirement Benefits (Continued)

Actuarial Assumptions – The total pension liability as of June 30, 2017, was determined based on an actuarial valuation prepared as if June 30, 2016 using the following actuarial assumptions:

- Actuarial Cost Method - Entry Age
- Amortization Method - Level Percentage of Payroll
- Inflation – 2.50%
- Salary Increases - Composed of 3.25% inflation, including 2.50% price inflation, plus a service-related component ranging from 0.00% to 8% based on years of service.
- Investment Rate of Return - 7.50%
- 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.
- Mortality Rates after Retirement – Males: RP-2000 Combined Mortality Table for males with White Collar Adjustments. Generational mortality improvements in accordance with Scale BB from 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 year of 2012.
- Mortality Rates for Active Members–RP–2000 Employer Mortality tables, with male rates multiplied by 60% and female rates multiplied by 50%.

The target asset allocation and best estimates of arithmetic expected real rates of return for each major asset class as of June 30, 2016, are summarized in the following table:

Asset Class	Target Asset Allocation	Long-Term Expected Real Rate of Return
Domestic All Cap Equity*	7.0%	6.2%
Domestic Large Cap Equity	10.0%	5.8%
Domestic Mid Cap Equity	13.0%	6.3%
Domestic Small Cap Equity	10.0%	7.0%
International Large Cap Equity	11.5%	6.6%
International Small Cap Equity	6.0%	6.6%
Core Plus Fixed Income	17.5%	1.6%
High-yield Fixed Income	6.0%	4.9%
Private Equity	5.0%	8.3%
Real Estate**	7.0%	4.5%
Master Limited Partnerships	7.0%	7.7%
Total	100.0%	

* The Domestic All Cap Equity total expected return is a combination of 3 rates - US Large cap, US Mid Cap and US Small cap

** The Real Estate total expected return is a combination of US Direct Real Estate (unlevered) and US Value added Real Estate (unlevered)

Note 9: Employee Retirement Benefits (Continued)

The total pension liability as of June 30, 2016, was determined based on an actuarial valuation prepared as if June 30, 2015 using the following actuarial assumptions:

- Actuarial Cost Method - Entry Age
- Amortization Method - Level Percentage of Payroll
- Inflation - 3.00%
- Salary Increases - Composed of 3.75% inflation, including 3.00% price inflation, plus a service-related component ranging from 0.00% to 8% 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.
- Mortality Rates after Retirement – Males: RP-2000 Combined Mortality Table for males with White Collar Adjustments. Generational mortality improvements in accordance with Scale BB from 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 year of 2012.
- Mortality Rates for Active Members – RP – 2000 Employer Mortality tables, with male rates multiplied by 60% and female rates multiplied by 50%.

The target asset allocation and best estimates of arithmetic expected real rates of return for each major asset class as of June 30, 2015, are summarized in the following table:

Asset Class	Target Asset Allocation	Long-Term Expected Real Rate of Return
Domestic All Cap Equity*	7.0%	6.0%
Domestic Large Cap Equity	10.0%	5.3%
Domestic Mid Cap Equity	13.0%	6.1%
Domestic Small Cap Equity	10.0%	6.6%
International Large Cap Equity	11.5%	5.8%
International Small Cap Equity	6.0%	5.8%
Core Plus Fixed Income	17.5%	1.8%
High-yield Fixed Income	6.0%	4.1%
Private Equity	5.0%	7.6%
Real Estate**	7.0%	5.5%
Master Limited Partnerships	7.0%	7.6%
Total	100.0%	

* The Domestic All Cap Equity total expected return is a combination of 3 rates - US Large cap, US Mid Cap and US Small cap

** The Real Estate total expected return is a combination of US Direct Real Estate (unlevered) and US Value added Real Estate (unlevered)

See Independent Auditors' Report.

Note 9: Employee Retirement Benefits (Continued)

Discount Rate – A single discount rate of 7.50% and 8.00% was used to measure the total pension liability as of June 30, 2016 and June 30, 2015, respectively. This single discount rate was based solely on the expected rate of return on pension plan investments of 7.50%. Based on the stated assumptions and the projection of cash flows, the pension plan's fiduciary net position and future contributions were projected to be available to finance all projected future benefit payments of current plan members. Therefore, the long-term expected rate of return on pension plan investments was applied to all periods of projected benefit payments to determine the total pension liability. The projection of cash flows used to determine this single discount rate assumed that plan member and employer contributions will be made at the current statutory levels and remain a level percentage of payrolls. The projection of cash flows also assumed that the State's contribution plus the matching contributions will remain a constant percent of projected member payroll based on the past five years of actual contributions.

Sensitivity of the Net Pension Liability to Change in the Discount Rate – The following presents the net pension liability of the employers calculated using the discount rate each year, as well as what the Plan's net pension liability would be if it were calculated using a discount rate that is 1-percentage point lower or 1-percentage-point higher than the current rate:

For June 30, 2016	1% Decrease (6.5%)	Current Discount Rate (7.5%)	1% Increase (8.5%)
Employers' net pension liability	$ 1,733,875	$ 1,324,421	$ 981,715

For June 30, 2016	1% Decrease (7%)	Current Discount Rate (8%)	1% Increase (9%)
Employers' net pension liability	$ 1,447,388	$ 1,047,014	$ 710,481

The net pension liability of the OTRS has been determined based on current guidelines and reporting standards. With the implementation of GASB 75 as of July 1, 2017, the net pension liability is expected to change as well as a possible increase in an OPEB net liability for the OTRS. The total impact of the implementation of GASB 75 on the OTRS and the further impact on the Center had not been determined as of the report date.

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.

Note 9: Employee Retirement Benefits (Continued)

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

The Center covers the cost of health and dental insurance for two retired employees. The Center has no policy for providing health and dental insurance for any current employees upon retirement. In 2004, GASB Issued Statement No. 45, *Accounting and Financial Reporting by Employers for Postemployment Benefits Other Than Pensions*. GASB Statement No. 45 establishes standards for the measurement, recognition and display of OPEB expense/expenditures and related liabilities (assets), note disclosures and, if applicable, required supplementary information ("RSI") in the financial reports of state and local governmental employers. The provisions of this Statement are effective for fiscal periods beginning after December 15, 2006, with earlier application encouraged. The Center implemented the requirements of GASB Statement No. 45 during fiscal year 2008.

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

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

	2017	2016
Annual required contribution	$ 62,345	$ 27,328
Interest on net OPEB obligation	2,530	2,338
Adjustment to annual required contribution	(6,768)	(5,604)
Annual OPEB cost (expense)	58,107	24,062
Contributions made	(12,858)	(7,902)
Increase in net OPEB obligation	45,249	16,160
Net OPEB obligation, beginning of year	82,961	66,801
Net OPEB obligation, end of year	$ 128,210	$ 82,961

This obligation is currently unfunded. The annual required contribution for 2017 was determined as part of an actuarial valuation on June 30, 2017, using the entry age normal actuarial cost method. The actuarial assumptions included (a) discount rate of 3.05% per year compounded annually, (b) retirement at the earlier of (1) attainment of age 63 and completion of 10 years of OTRS service, or (2) when age plus OTRS service total at least 80 (90 for members joining OTRS after June 30, 1992), and (c) medical, dental, and vision rates increasing 3-8% annually.

Note 9: Employee Retirement Benefits (Continued)

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

Annual OPEB cost and net OPEB obligation (Continued):

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

Trend Information

Year Ended June 30	Annual Pension Cost	% of APC Contributed	Net Pension Obligation
2015	24,688	48.16%	66,801
2016	24,062	32.84%	82,961
2017	58,107	22.13%	128,210

Funded Status and Funding Progress

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

	2017	2016
Actuarial accrued liability (AAL)	$ 583,584	$ 238,443
Actuarial value of plan assets	-	-
Unfunded actuarial accrued liability (UAAL)	$ 583,584	$ 238,443
Funded ratio (actuarial value of plan assets/AAL)	0.0%	0.0%
Covered payroll (active plan members)	-	-
UAAL as a percentage of covered payroll	0.0%	0.0%

See Independent Auditors' Report.

Note 10: Related-Party Transactions

The Center and Foundation have an agreement for providing the Foundation with services including office space and part-time service of Center staff. In exchange, the Foundation provides the Center with program support that includes, but is not limited to, administration of scholarships and other academic and program enhancements. During the years ended June 30, 2017 and 2016, the Foundation awarded scholarships totaling approximately $88,000 and $47,000, respectively, to students. Also, the Foundation contributed approximately $6,602,000 and $11,108,000 to the Center's new building during the years ended June 30, 2017 and 2016, respectively.

Note 11: Risk Management

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

Note 12: Lease Commitments

The Center, as lessor, leases an educational facility from the Board of Education, Independent School District No. 19, Carter County, Oklahoma. The lease is on a year-to-year basis. Rental expense of approximately $111,000 and $147,000, respectively, per year, was paid to the School District during the years ended June 30, 2017 and 2016.

Note 13: Contingencies

Community Activities, Inc. of Ardmore, Oklahoma holds an endowment fund for the benefit of the Center. The current value of the endowment at June 30, 2017 is approximately $926,000 and is not reflected in the accompanying financial statements. The Center received from Community Activities, Inc. capital contributions of $180,000 and $0 and supplies and other items of $2,500 and $18,000 in 2017 and 2016, respectively.

Note 14: Accounting Standards Adopted in Fiscal Year 2017

Statement No. 73, *Accounting and Financial Reporting for Pensions and Related Assets That Are Not within the Scope of GASB Statement 68, and Amendments to Certain Provisions of GASB Statements 67 and 68* – GASB No. 73 was issued in June 2015 and establishes requirements for defined benefit pensions that are not within the scope of Statement No. 68, *Accounting and Financial Reporting for Pensions*, as well as for the assets accumulated for purposes of providing those pensions. In addition, it establishes requirements for defined contribution pensions that are not within the scope of Statement 68. It also amends certain provisions of Statement No. 67, Financial Reporting for Pension Plans, and Statement 68 for pension plans and pensions that are within their respective scopes. The requirements of this Statement that address accounting and financial reporting by employers and governmental nonemployer contributing entities for pensions that are not within the scope of Statement 68 are effective for financial statements for fiscal years beginning after June 15, 2016, and the requirements of this Statement that address financial reporting for assets accumulated for purposes of providing those pensions are effective for fiscal years beginning after June 15, 2015. The requirements of this Statement is for pension plans that are within the scope of Statement 67 or for pensions that are within the scope of Statement 68 are effective for fiscal years beginning after June 15, 2015.

Statement No. 74***,*** *Financial Reporting for Postemployment Benefit Plans Other Than Pension Plans* - GASB No. 74 was issued in June 2015, and 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 financial statements for fiscal years beginning after June 15, 2016.

GASB Statement No. 77, *Tax Abatement Disclosures* - GASB 77 was issued in August 2015, and establishes financial reporting standards for tax abatement agreements entered into by state and local governments. The disclosures required by this Statement encompass tax abatements resulting from both (a) agreements that are entered into by the reporting government and (b) agreements that are entered into by other governments and that reduce the reporting government's tax revenues. The requirements of this Statement are effective for financial statements for periods beginning after December 15, 2015.

Note 14: Accounting Standards Adopted in Fiscal Year 2017 (Continued)

GASB Statement No. 78, *Pensions Provided Through Certain Multiple-Employer Defined Benefit Pension Plans*- GASB 78 was issued in December 2015, and amends the scope and applicability of Statement 68 to exclude pensions provided to employees of state or local governmental employers through a cost-sharing multiple employer defined benefit pension plan that (1) is not a state or local governmental pension plan, (2) is used to provide defined benefit pensions both to employees of state or local governmental employers and to employees of employers that are not state or local governmental employers, and (3) has no predominant state or local governmental employer (either individually or collectively with other state or local governmental employers that provide pensions through the pension plan). This Statement establishes requirements for recognition and measurement of pension expense, expenditures, and liabilities; note disclosures; and required supplementary information for pensions that have the characteristics described above. The requirements of this Statement are effective for reporting periods beginning after December 15, 2015.

GASB Statement No. 79, *Certain External Investment Pools and Pool Participants* – GASB 79 was issued in December 2015, and addresses accounting and financial reporting for certain external investment pools and pool participants. Specifically, it establishes criteria for an external investment pool to qualify for making the election to measure all of its investments at amortized cost for financial reporting purposes. An external investment pool qualifies for that reporting if it meets all of the applicable criteria established in this Statement. The specific criteria address (1) how the external investment pool transacts with participants; (2) requirements for portfolio maturity, quality, diversification, and liquidity; and (3) calculation and requirements of a shadow price. Significant noncompliance prevents the external investment pool from measuring all of its investments at amortized cost for financial reporting purposes. Professional judgment is required to determine if instances of noncompliance with the criteria established by this Statement during the reporting period, individually or in the aggregate, were significant. The requirements of this Statement are effective for reporting periods beginning after June 15, 2015, except for certain provisions on portfolio quality, custodial credit risk, and shadow pricing. Those provisions are effective for reporting periods beginning after December 15, 2015.

GASB Statement No. 80, *Blending Requirements for Certain Component Units* – An Amendment of GASB Statement No. 14 – GASB 80 was issued in January 2016, and amends the blending requirements for the financial statement presentation of component units of all state and local governments. The additional criterion requires blending of a component unit incorporated as a not-for-profit corporation in which the primary government is the sole corporate member. The additional criterion does not apply to component units included in the financial reporting entity pursuant to the provisions of Statement No. 39, Determining Whether Certain Organizations Are Component Units. The requirements of this Statement are effective for reporting periods beginning after June 15, 2016.

Note 15: Accounting Standards Issued Not Yet Adopted

Statement No. 75, *Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions* – GASB No. 75 was issued in June 2015, and addresses accounting and financial reporting for OPEB that is provided to the employees of state and local governmental employers. This Statement establishes standards for recognizing and measuring liabilities, deferred outflows of resources, deferred inflows of resources, and expense/expenditures. For a defined benefit OPEB, this Statement identifies the methods and assumptions that are required to be used to project benefit payments, discount projected benefit payments to their actuarial present value, and attribute that present value to periods of employee service. Note disclosure and required supplementary information requirements about defined benefit OPEB also are addressed. This Statement is effective for fiscal years beginning after June 15, 2017. The Center has not yet determined the impact that implementation of GASB 75 will have on its net position.

GASB Statement No. 81, *Irrevocable Split-Interest Agreements* – GASB 81 was issued in March 2016, to improve accounting and financial reporting for irrevocable split-interest agreements by providing recognition and measurement guidance for situations in which a government is a beneficiary of the agreement. The requirements of this Statement are effective for financial statements for periods beginning after December 15, 2016. The Center does not believe that GASB No. 81 will have significant impact on its financial statements.

Statement No. 83, *Certain Asset Retirement Obligations* – GASB No. 83 was issued in November 2016, and addresses accounting and financial reporting for certain asset retirement obligations (AROs). An ARO is a legally enforceable liability associated with the retirement of a tangible capital asset. A government that has legal obligations to perform future asset retirement activities related to its tangible capital assets should recognize a liability based on the guidance in this Statement. This Statement is effective for fiscal years beginning after June 15, 2018. The Center has not yet determined the impact that implementation of GASB 83 will have on its net position.

Statement No. 84, *Fiduciary Activities* – GASB No. 84 was issued in January 2017, and is to improve guidance regarding the identification of fiduciary activities for accounting and financial reporting purposes and how those activities should be reported. This Statement is effective for fiscal years beginning after December 15, 2018. The Center has not yet determined the impact that implementation of GASB 78 will have on its net position.

Statement No. 85, *Omnibus 2017* – GASB No. 85 was issued in March 2017, and is to address practice issues that have been identified during implementation and application of certain GASB Statements. This Statement addresses a variety of topics including issues related to blending component units, goodwill, fair value measurement and application, and postemployment benefits (pensions and other postemployment benefits [OPEB]). This Statement is effective for fiscal years beginning after June 15, 2017. The Center has not yet determined the impact that implementation of GASB 78 will have on its net position.

Note 15: Accounting Standards Issued Not Yet Adopted (Continued)

Statement No. 86, *Certain Debt Extinguishment Issues* – GASB 86 was issued in May 2017. GASB 86 provides guidance regarding the in-substance defeasance of debt. Normally, a government will issue new debt at favorable rates and place the proceeds in trust to eliminate the liability of an existing debt. GASB 86 provides accounting and reporting guidance for situations where a government irrevocably sets aside cash and other assets to defease an existing debt. Guidance also addresses prepaid insurance related to extinguished debt and the financial valuation and disclosure of other assets used to defease debt. The Center will adopt GASB 86 effective July 1, 2017, for the June 30, 2018, reporting year. The Center does not expect GASB 86 to have a significant impact on the financial statements.

Statement No. 87, *Leases* – GASB No. 87 was issued in June 2017. GASB 87 defines a lease as a contract that conveys control of the right to use another entity's nonfinancial asset (the underlying asset) as specified in the contract for a period of time in an exchange or exchange-like transaction. GASB 87 improves accounting and financial reporting for leases by governments by requiring recognition of certain lease assets and liabilities for leases that previously were classified as operating leases and recognized as inflows of resources or outflows of resources based on the payment provisions of the contract. It establishes a single model for lease accounting based on the foundational principle that leases are financings of the right to use an underlying asset. Under GASB 87, a lessee is required to recognize a lease liability and an intangible right-to-use lease asset, and a lessor is required to recognize a lease receivable and a deferred inflow of resources, thereby enhancing the relevance and consistency of information about governments' leasing activities. The requirements of this Statement are effective for reporting periods beginning after December 15, 2019. Earlier application is encouraged. The Center has not determined the impact of GASB 87 on the financial statements.

REQUIRED SUPPLEMENTARY INFORMATION

University Center of Southern Oklahoma

Schedules of Required Supplementary Information

SCHEDULE OF THE CENTER'S PROPORTIONATE SHARE OF THE NET PENSION LIABILITY
OKLAHOMA TEACHERS RETIREMENT SYSTEM
Last 3 Fiscal Years*

	2015	2016	2017
Center's proportion of the net pension liability	0.0195%	0.0172%	0.0159%
Center's proportionate share of the net pension liability	$ 1,051,600	$ 1,047,014	$ 1,324,421
Center's covered payroll	$ 754,983	$ 688,693	$ 573,272
Center's proportionate share of the net pension liability as a percentage of its covered payroll	139%	152%	231%
Plan fiduciary net position as a percentage of the total pension liability	72.43%	70.31%	62.24%

*The amounts present for each fiscal year were determined as of June 30.

Notes to Schedule:

Only the last three fiscal years are presented because 10-year data is not yet available.

See Independent Auditors' Report.

University Center of Southern Oklahoma

Schedules of Required Supplementary Information

SCHEDULE OF THE CENTER'S CONTRIBUTIONS
OKLAHOMA TEACHERS RETIREMENT SYSTEM
Last 3 Fiscal Years*

	2015	2016	2017
Contractually required contribution	$ 71,927	$ 67,422	$ 57,331
Contributions in relation to the contractually required contribution	71,927	67,422	57,331
Contribution deficiency (excess)	$ -	$ -	$ -
Center's covered payroll	$ 688,693	$ 573,272	$ 477,747
Contributions as a percentage of covered payroll	10%	12%	12%

Notes to Schedule:

Only the last three fiscal years are presented because 10-year data is not yet available.

See Independent Auditors' Report.

University Center of Southern Oklahoma

Schedules of Required Supplementary Information

SCHEDULE OF THE CENTER'S CHANGE IN TOTAL PENSION LIABILITY
SUPPLEMENTAL RETIREMENT ANNUITY
Current Fiscal Year

	2017
Beginning net pension liability, restated	$ 212,519
Interest	7,608
Change of assumptions	6,456
Difference between actual and expected experience	6,853
Benefit payments	(22,000)
Ending net pension liability	$ 211,436

Notes to Schedule:

Only the current fiscal year is presented because 10-year data is not yet available.

See Independent Auditors' Report.

UNIVERSITY CENTER OF SOUTHERN OKLAHOMA

INFORMATION REQUIRED BY
GOVERNMENT AUDITING STANDARDS

INDEPENDENT AUDITORS' REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND ON COMPLIANCE AND OTHER MATTERS BASED ON AN AN AUDIT OF FINANCIAL STATEMENTS PERFORMED IN ACCORDANCE WITH *GOVERNMENT AUDITING STANDARDS*

Board of Trustees
University Center of Southern Oklahoma
Ardmore, Oklahoma

We have audited the financial statements of University Center of Southern Oklahoma (the "Center"), a component unit of the State of Oklahoma, which comprise the statement of net position as of June 30, 2017, and the related statements of revenues, expenses, and changes in net position and cash flows for the year then ended, and the related notes to the financial statements, and have issued our report thereon dated October 27, 2017. We conducted our audit in accordance with the auditing standards generally accepted in the United States and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Our report includes a reference to the financial statements of Southern Oklahoma Higher Education Foundation, Inc. (the "Foundation"), the Center's discretely presented component unit, as described in our report on the Center's financial statements. The financial statements of the Foundation were not audited in accordance with *Government Auditing Standards,* and accordingly, this report does not include reporting on internal control over financial reporting or instances of reportable noncompliance associated with the Foundation. Our report includes a paragraph disclaiming an opinion on required supplementary information.

Internal Control Over Financial Reporting

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

(Continued)

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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*, CONTINUED

Internal Control Over Financial Reporting, Continued

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies. Given these limitations, during our audit we did not identify any deficiencies in internal control 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 Center's financial statements are free from 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 Center'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 Center's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

Finley + Cook, PLLC

Shawnee, Oklahoma
October 27, 2017