University Center of Southern Oklahoma

Financial Statements With Independent Auditors' Report

June 30, 2018 and 2017

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 years ended June 30, 2018 and 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 years ended June 30, 2018 and 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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Opinions

In our opinion, 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, 2018 and 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, 2017, has been restated to reflect the implementation of Governmental Accounting Standards Board Statement No. 75, *Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions* (GASB 75). Accordingly, adjustments have been made to the beginning balance of net position as of July 1, 2017. Our opinion is not modified with respect to this matter.

Other Matters

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 schedules of the Center's pension and OPEB information as listed in the table of contents and on pages 39 through 44 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 31, 2018, 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 31, 2018

University Center of Southern Oklahoma
Management's Discussion and Analysis
For the Year Ended June 30, 2018

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, 2018. 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, 2018, with comparative totals at June 30, 2017 and 2016, respectively.

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, 2018
With Comparative Totals at June 30, 2017 and 2016
(in thousands)

	2018	2017*	2016*
Current assets	$ 1,068	$ 1,196	$ 2,147
Noncurrent assets			
Capital assets, net of depreciation	17,950	18,450	13,784
Other	6	-	894
Total assets	19,024	19,646	16,825
Deferred outflows	248	371	117
Current liabilities	607	1,029	468
Noncurrent liabilities	3,463	4,259	7,604
Total liabilities	4,070	5,288	8,072
Deferred inflows	424	225	256
Net position			
Net investment in capital assets	15,530	14,965	8,094
Restricted for capital projects	345	359	1,254
Restricted for OPEB	1	-	-
Unrestricted (deficit)	(1,098)	(820)	(734)
Total net position	$ 14,778	$ 14,504	$ 8,614

* prior years amount not restated for MD&A purpose.

At year ended June 30, 2018, total assets decreased by $622 from the year ended June 30, 2017 due primarily to the regular depreciation of capital assets. Total liabilities decreased by $1,218 due to an additional early payment on the ODFA master lease debt and an overall decrease in the total OTRS pension liability. Net investment in capital asset net position increased by $565 in 2018 due to the regular principal payment of outstanding capital debt.

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.

University Center of Southern Oklahoma
Management's Discussion and Analysis
For the Year Ended June 30, 2018

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, 2018, with comparative totals for the years ended June 30, 2017, and 2016, respectively.

Schedule B
Operating Results for the Year Ended June 30, 2018
With Comparative Totals for the Years Ended June 30, 2017 and 2016
(in thousands)

	2018	2017*	2016*
Operating revenues and expenses			
Tuition and fees	$ 724	$ 884	$ 919
Less operating expenses	(1,630)	(1,996)	(1,494)
Net operating expenses	(906)	(1,112)	(575)
Nonoperating revenues (expenses)			
State appropriations	493	528	563
On-behalf OTRS contributions	38	46	54
Gifts	69	52	68
Investment income	5	6	6
Interest expense	(66)	(99)	(110)
Net nonoperating revenues	539	533	581
(Loss) income before other revenues/expens	(367)	(579)	6
Other revenues	950	6,685	3,108
Increase in net position	$ 583	$ 6,106	$ 3,114

* prior years amounts not restated for MD&A purposes

Revenues

State appropriations decreased by $35, or 6.6%, from 2017 due to statewide revenue shortfalls. Other revenues also decreased by $5,735, or 85.8%, due to reduced capital contributions from the Foundation, since the new building was finished in 2017.

State appropriations decreased by $35, or 6.2%, over 2016 due to statewide revenue shortfalls.
No Assurance Provided

Financial Highlights (Continued)

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

Expenses

Operating expenses decreased by $366 in 2018 over the year ended June 30, 2017 primarily as a result of decreased compensation and decreased supplies costs for furniture bought for the new building back in 2017.

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.

Schedule C summarizes UCSO's operating expenses for the years ended June 30, 2018, 2017, and 2016, respectively.

Schedule C
Operating Expenses for the Year Ended June 30, 2018
With Comparative Totals for the Years Ended June 30, 2017 and 2016
(in thousands)

	2018	2017*	2016*
Compensation and benefits	$ 685	$ 846	$ 894
Contractual services	207	312	335
Supplies and materials	36	298	24
Utilities	103	106	52
Communications	15	23	20
Depreciation	522	325	70
Other	62	86	99
Total Operating Expenses	$ 1,630	$ 1,996	$ 1,494

* 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, 2018, with comparative totals for the years ended June 30, 2017 and 2016, respectively.

Financial Highlights (Continued)

Statement of Cash Flows (Continued)

Schedule D
Cash Flows for the Year Ended June 30, 2018
With Comparative Totals for the Years Ended June 30, 2017 and 2016
(in thousands)

	2018	2017	2016
Cash provided (used) by:			
Operating activities	$ (485)	$ (591)	$ (504)
Noncapital financing activities	562	580	632
Capital and related financing activities	(204)	(934)	200
Investing activities	5	6	6
Net increase in cash	(122)	(939)	334
Cash, beginning of year	1,168	2,107	1,773
Cash, end of year	$ 1,046	$ 1,168	$ 2,107

Capital Assets and Debt Administration

For 2018, UCSO recorded a total of approximately $20,247,000 in capital assets and approximately $2,297,000 in accumulated depreciation. During the year ended June 30, 2018, UCSO acquired approximately $23,000 in capital assets consisting library resources and office, institutional, and computer equipment.

For 2017, UCSO recorded a total of approximately $20,641,000 in capital assets and approximately $2,192,000 in accumulated depreciation. During the year ended June 30, 2017, UCSO acquired approximately $4,990,000 in capital assets consisting of construction in progress on the new building, library resources, office and institutional equipment, and computer equipment.

At June 30, 2018, UCSO had long-term liabilities of approximately $2,410,000, a decrease of approximately $1.1 million over 2017 long-term liabilities as a result of a $1 million early payment on the ODFA Series 2014H BAN capital lease.

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.

Financial Highlights (Continued)

Capital Assets and Debt Administration (Continued)

Schedule E
Capital Assets, Net
June 30, 2018
With Comparative Totals at June 30, 2017 and 2016
(in thousands)

	2018	2017	2016
Land	$ 1,036	$ 1,036	$ 1,036
Construction in progress	624	624	12,600
Leasehold improvements	-	-	1,849
Buildings and improvements	16,541	16,541	-
Equipment	1,646	1,659	1,279
Library materials	400	781	778
Total	20,247	20,641	17,542
Less accumulated depreciation	(2,297)	(2,192)	(3,758)
Capital assets, net	$ 17,950	$ 18,449	$ 13,784

Schedule F
Long-Term Liabilities
June 30, 2018
With Comparative Totals at June 30, 2017 and 2016
(in thousands)

	2018	2017	2016
OCIA capital lease payable	$ 364	$ 431	$ 495
ODFA capital lease payable	2,046	3,041	6,070
Total long-term liabilities	$ 2,410	$ 3,472	$ 6,565

Other Financial Information

Economic Outlook

While the FY19 budget is reduced [by 1.06% or $79,341] from the previous year, UCSO should still be able to continue operations without a deficit, at least in the short term. Expenses related to moving into a newly constructed facility have leveled off and are more predictable, which helps to plan expenses better.

Most revenue for UCSO comes from the state allocations and tuition/fees charged to participating institutions and partners per credit hour. State allocations were essentially unchanged this year but UCSO did get a boost from increased reimbursements for concurrent high school students' tuition from the State. This has helped to mitigate reduced enrollments. Enrollment for the fall semester is down a small amount, however, we do not expect that trend to continue.

While some reduced enrollment may be attributable to low unemployment and availability of online degree programs, most has to do with fewer degree and course offerings at UCSO, especially 4-yr and graduate degrees and courses. One of our participating institutions, East Central University, has withdrawn from the facility and has almost completed its' "teach out" while another institution, Southeastern University, is offering more degree programs completely online. We are working with Southeastern on innovative solutions to possibly bring and keep degree options at our facility. A new partner, Langston University, will begin a nursing program in the spring 2019 semester and other degree programs in the fall of 2019. UCSO also plans to begin a non-credit continuing education program before the end of the fiscal year.

New programs, a new facility, and increased promotions will hopefully result in increased enrollment and revenues in the near future.

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, 2018 and 2017

	2018		2017	
	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	$ 1,046,103	$ 76,347	$ 1,167,949	$ 130,237
Accounts receivable	21,300	-	28,040	-
Pledges receivable	-	325,000	-	480,000
Accrued interest receivable	471	-	442	-
Investments	-	238,280	-	220,242
Total current assets	1,067,874	639,627	1,196,431	830,479
Noncurrent assets				
Pledges receivable	-	550,000	-	346,535
Restricted net OPEB asset	6,128	-	-	-
Capital assets, net	17,950,313	-	18,449,569	-
Total noncurrent assets	17,956,441	550,000	18,449,569	346,535
Total Assets	19,024,315	1,189,627	19,646,000	1,177,014
DEFERRED OUTFLOWS				
Deferred outflows related to pensions	175,011	-	370,523	-
Deferred outflows related to OPEB	73,323	-	895	-
Total Deferred Outflows	248,334	-	371,418	-
LIABILITIES				
Current liabilities				
Accounts payable and accrued expenses	38,128	-	119,064	-
Current portion of noncurrent liabilities	569,024	-	909,923	-
Total current liabilities	607,152	-	1,028,987	-
Noncurrent liabilities				
Total OPEB liability	487,357	-	128,210	-
Net pension obligation	1,110,961	-	1,535,857	-
Accrued compensated absences	16,271	-	21,750	-
Lease obligation payable to OCIA	295,394	-	364,404	-
Lease obligation payable to ODFA	1,553,164	-	2,208,727	-
Total noncurrent liabilities	3,463,147	-	4,258,948	-
Total Liabilities	4,070,299	-	5,287,935	-
DEFERRED INFLOWS				
Deferred gain on OCIA lease restructuring	13,720	-	16,059	-
Deferred inflows related to pensions	369,267	-	209,066	-
Deferred inflows related to OPEB	41,370	-	-	-
Total Deferred Inflows	424,357	-	225,125	-
NET POSITION				
Net Investment in Capital Assets	15,529,859	-	14,964,951	-
Restricted:				
Capital projects	345,035	-	359,187	-
OPEB	1,122	-	-	-
Donor restrictions	-	1,149,697	-	1,100,148
Unrestricted (deficit)	(1,098,023)	39,930	(819,780)	76,866
Total Net Position	$ 14,777,993	$ 1,189,627	$ 14,504,358	$ 1,177,014

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, 2018 and 2017

	2018		2017	
	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	$ 724,133	$ -	$ 884,487	$ -
OPERATING EXPENSES				
Compensation and employee benefits	684,402	-	845,662	-
Contractual services	207,171	-	312,092	-
Supplies and materials	36,409	3,871	297,693	2,390
Utilities	102,600	-	106,061	-
Communications	14,840	-	23,406	-
Depreciation	522,293	-	324,844	-
Other operating expenses	62,332	-	86,019	-
Contributions to University Center	-	863,278	-	6,601,503
General and administrative	-	32,353	-	2,928
Scholarships awarded	-	86,266	-	87,927
Total operating expenses	1,630,047	985,768	1,995,777	6,694,748
Operating Loss	(905,914)	(985,768)	(1,111,290)	(6,694,748)
Nonoperating Revenues (Expenses)				
State appropriations	493,370	-	527,835	-
On-behalf OTRS contribution	38,312	-	46,004	-
Private gifts and other contributions	68,943	975,295	52,344	531,734
Investment income	5,234	5,048	5,577	7,422
Net realized and unrealized gain on investments	-	18,038	-	25,186
Interest expense	(66,876)	-	(99,332)	-
Net nonoperating revenues	538,983	998,381	532,428	564,342
(Loss) Income Before Other Revenues, Expenses, Gains, or Losses	(366,931)	12,613	(578,862)	(6,130,406)
Capital grants and gifts	863,278	-	6,598,973	-
OCIA on-behalf state appropriations	86,496	-	86,017	-
Net Change In Net Position	582,843	12,613	6,106,128	(6,130,406)
Net Position, Beginning, as previously reported	14,504,358	1,177,014	8,614,039	7,307,420
Restatement due to GASB 75	(309,208)	-	(215,809)	-
Net Position, beginning as restated	14,195,150	1,177,014	8,398,230	7,307,420
Net Position, End of Year	$ 14,777,993	$ 1,189,627	$ 14,504,358	$ 1,177,014

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

UNIVERSITY CENTER OF SOUTHERN OKLAHOMA
Statements of Cash Flows
For Years Ended June 30, 2018 and 2017

	2018		2017	
	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	$ 730,873	$ -	$ 895,701	$ -
Compensation and benefits	(715,264)	-	(752,598)	-
Cash paid to suppliers	(500,670)	(36,224)	(734,652)	(5,318)
Cash paid to University Center		(863,278)		(6,601,503)
Cash paid for scholarships	-	(86,266)	-	(87,927)
Net Cash Used In Operating Activities	(485,061)	(985,768)	(591,549)	(6,694,748)
Cash Flows From Noncapital Financing Activities				
State appropriations	493,370	-	527,835	-
Gifts and contributions	68,943	926,830	52,344	928,552
Net Cash Provided by Noncapital Financing Activities	562,313	926,830	580,179	928,552
Cash Flows From Capital and Related Financing Activities				
Purchases of capital assets	(23,037)	-	(5,314,334)	-
Capital contributions	863,278	-	6,598,973	-
Proceeds of capital debt and leases	-	-	890,484	-
Repayment of capital leases and debt	(995,417)	-	(3,029,167)	-
Interest expense	(49,127)	-	(79,544)	-
Net Cash Used In Capital and Related Financing Activities	(204,303)	-	(933,588)	-
Cash Flows From Investing Activities				
Purchases of investments	-	-	-	-
Proceeds from sales and maturities of investments	-	-	-	4,823,399
Interest income received	5,205	5,048	5,624	5,571
Net Cash Provided By Investing Activities	5,205	5,048	5,624	4,828,970
Net Decrease in Cash and Cash Equivalents	(121,846)	(53,890)	(939,334)	(937,226)
Cash and Cash Equivalents, Beginning of Year	1,167,949	130,237	2,107,283	1,067,463
Cash and Cash Equivalents, End of Year	$ 1,046,103	$ 76,347	$ 1,167,949	$ 130,237

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, 2018 and 2017

	2018		2017	
	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	$ (905,914)	$ (985,768)	$ (1,111,290)	$ (6,694,748)
Adjustments to reconcile operating loss to net cash used in operating activities				
Depreciation expense	522,293	-	324,844	-
On-behalf OTRS	38,312	-	46,004	-
Changes in assets and liabilities				
Accounts receivable	6,740	-	11,214	-
Deferred outflows related to pensions & OPEB	123,084	-	(253,861)	-
Accounts payable and accrued expenses	(80,936)	-	98,986	-
OPEB asset	(6,128)	-	-	-
OPEB obligation	49,939	-	45,248	-
Net pension obligation	(424,896)	-	276,324	-
Deferred inflows related to pensions & OPEB	201,571	-	(28,542)	-
Accrued compensated absences	(9,126)	-	(476)	-
Net Cash Used in Operating Activities	$ (485,061)	$ (985,768)	$ (591,549)	$ (6,694,748)
Noncash Investing, Noncapital Financing, and Capital and Related Financing Transactions				
Interest on capital debt paid by state agency on behalf of the Center	$ 19,818	$ -	$ 21,857	$ -
Principal on capital debt paid by state agency on behalf of the Center	$ 66,678	$ -	$ 64,160	$ -

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.

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 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.

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; net pension obligation 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.

Restricted for OPEB – This represents the amount of net OPEB asset that exceeds the associated amount of deferred inflows of resources that are related to the net OPEB asset.

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.

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

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*.

Deferred Outflows of Resources and Deferred Inflow of Resources

Deferred outflows are the consumption of net position by the Center that are applicable to a future reporting period. Deferred inflows are the acquisition of net position by the Center that are applicable to a future reporting period. At June 30, 2018, the Center's deferred outflows and deferred inflows of resources were related to pension and OPEB sources.

Pensions and OPEB

For purposes of measuring the net pension and net OPEB asset, deferred outflows of resources and deferred inflows of resources related to pensions and OPEB, and pension and OPEB 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.

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

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, accrued pension obligation, and OPEB asset and obligation. Estimation of the accrued pension obligation and OPEB asset and obligation involves the use of actuarial assumptions, including selection of a discount rate, projected salary increases, and projected annuity increases.

Restatement

Prior Period Adjustment

The July 1, 2017, beginning net position was restated as of June 30, 2018, to reflect the implementation of GASB 75. The effect of the restatement is as follows:

	Fiscal Year 2018
Beginning net position, as previously reported	$ 14,504,358
Implementation of GASB Statement 75	(309,208)
Beginning net position, restated	$ 14,195,150

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.

Note 2: Cash and Cash Equivalents (Continued)

Of the $1,046,103 and $1,167,949 in cash and cash equivalents on deposit with the State Treasurer as of June 30, 2018 and June 30, 2017, respectively, $275,395 and $306,140, 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 $76,347 and $130,237 as of June 30, 2018 and 2017, respectively.

Note 3: Investments

As of June 30, 2018 and 2017, the Center had no investments. The Foundation's investments consisted of the following:

Type of Investment	Fair Value Hierarchy	2018	2017
Short-term investment fund with Vanguard	Level 1	$ 60,327	61,596
Index investment funds with Vanguard	Level 2	177,953	158,646
Total investments		$ 238,280	220,242

See Independent Auditors' Report.

Note 4: Pledges Receivable

The following is a summary of the pledges receivable as June 30, 2018 and 2017:

	2018	2017
Pledges receivable in:		
Less than one year	$ 325,000	480,000
One year to five years	550,000	346,535
	$ 875,000	826,535

The Foundation has raised substantial contribution pledges for the purpose of funding the construction of a new building for the Center and to help cover the start-up costs of the new nursing program with Langston University. The funds are to be provided by various businesses and foundations in the Ardmore area. The pledges have been recognized as contribution revenue.

Note 5: Capital Assets

The following is a summary of the changes in capital assets for the year ended June 30, 2018:

	2018			
	Balance June 30, 2017	Additions	Retirements	Balance June 30, 2018
Capital assets not being depreciated				
Land	$ 1,036,385	-	-	1,036,385
Construction in progress	624,234	-	-	624,234
Total capital assets, not being depreciated	1,660,619	-	-	1,660,619
Other capital assets				
Buildings and improvements	16,540,766	-	-	16,540,766
Equipment	1,659,493	18,846	(31,838)	1,646,501
Library materials	781,057	4,191	(385,419)	399,829
Total capital assets	18,981,316	23,037	(417,257)	18,587,096
Less accumulated depreciation				
Buildings and improvements	(241,220)	(413,519)	-	(654,739)
Equipment	(1,205,494)	(98,640)	31,838	(1,272,296)
Library materials	(745,652)	(10,134)	385,419	(370,367)
Total accumulated depreciation	(2,192,366)	(522,293)	417,257	(2,297,402)
Other capital assets, net	16,788,950	(499,256)	-	16,289,694
Total cost of capital assets	20,641,935	23,037	(417,257)	20,247,715
Less accumulated depreciation	(2,192,366)	(522,293)	417,257	(2,297,402)
Capital assets, net	$ 18,449,569	(499,256)	-	17,950,313

See Independent Auditors' Report.

Note 5: Capital Assets (Continued)

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

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

	2018	2017
Buildings	$ 6,580,896	6,580,896
Less accumulated depreciation	(164,522)	(95,971)
	$ 6,416,374	6,484,925

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, 2018 and 2017:

	2018				
	Balance June 30, 2017	Additions	Deductions	Balance June 30, 2018	Current Portion June 30, 2018
OCIA capital lease obligation	$ 431,082	-	(66,678)	364,404	69,010
ODFA master lease payable	3,040,833	-	(995,417)	2,045,416	489,166
Accrued compensated absences	36,245	22,657	(31,783)	27,119	10,848
	$ 3,508,160	22,657	(1,093,878)	2,436,939	569,024

	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

See notes 9 and 10 for noncurrent liability for net pension obligation and total OPEB liability.

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, 2018 and 2017, OCIA made lease principal and interest payments totaling $86,496 and $86,017, 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, 2018, 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 $13,720. 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, 2018:

Year Ending June 30,	Principal	Interest	Total
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	26,194	13,384	39,578
2024-2028	148,341	47,360	195,701
2029-2031	106,468	10,574	117,042
Total future minimum lease payments	$ 364,404	128,705	493,109

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.

See Independent Auditors' Report.

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, 2018:

Year Ending June 30,	Principal	Interest	Total
2019	$ 489,166	41,006	530,172
2020	135,000	35,119	170,119
2021	137,917	32,419	170,336
2022	140,000	29,660	169,660
2023	142,917	26,860	169,777
2024-2028	768,750	87,546	856,296
2029-2030	231,666	8,179	239,845
Total future minimum lease payments	$ 2,045,416	260,789	2,306,205

Note 9: Employee Retirement Benefits

Summary of Net Pension Obligation

	2018			
	Net Pension Obligation	Deferred Outflows	Deferred Inflows	Pension Expense
Supplemental Retirement Obligation	$ 201,486	-	-	12,050
OTRS Pension Obligation	909,475	175,011	369,267	33,142
Total	$ 1,110,961	175,011	369,267	45,192

	2017			
	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

Note 9: Employee Retirement Benefits (Continued)

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.

The Center's total payroll for the years ended June 30, 2018 and 2017 was approximately $464,000 and $521,000 respectively. Total covered payroll, which refers to all compensation paid by the Center to active employees covered by American Fidelity, amounted to $143,000 in 2018 and $187,000 in 2017. The Center contributed approximately $11,600 in 2018 and $15,000 in 2017, which represents 8.00% of covered payroll for each year. As of June 30, 2018, 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, 2018 and 2017, the Center made benefit payments of $22,000 for each year.

Note 9: Employee Retirement Benefits (Continued)

Defined Benefit Plan (Continued)

Pension Liabilities, Pension Expense, and Deferred Outflows of Resources and Deferred Inflows of Resources Related to Pensions – At June 30, 2018 and 2017, the Center reported a liability of $201,486 and $211,436, respectively for its net pension liability. The net pension liability was measured as of June 30, 2018 and 2017, respectively, and the total pension liability used to calculate the net pension liability was determined by an actuarial valuation as of June 30, 2018 and 2017.

For the year ended June 30, 2018 and 2017 the Center recognized pension expense of $12,050 and $20,917, respectively.

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

	2018	2017
Beginning net pension liability	$ 211,436	212,519
Interest	6,449	7,608
Change of assumptions	(9,951)	6,456
Difference between actual and expected experience	15,552	6,853
Benefit payments	(22,000)	(22,000)
Ending net pension liability	$ 201,486	211,436

Actuarial Assumptions – The total pension liability as of June 30, 2018 and 2017, was determined based on an actuarial valuation prepared as of June 30, 2018 and 2017 using the following actuarial assumptions:

- Actuarial Cost Method - Entry Age
- Amortization Method - Level Percentage of Payroll
- Discount Rate - 3.88% (2018) and 3.05% (2017) (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:

Note 9: Employee Retirement Benefits (Continued)

Defined Benefit Plan (Continued)

June 30, 2018		1% Decrease (2.88%)	Current Discount Rate (3.88%)	1% Increase (4.88%)
Employers' net pension liability	$	213,587	201,486	190,605

June 30, 2017		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.

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.

Note 9: Employee Retirement Benefits (Continued)

Oklahoma Teachers Retirement System (Continued)

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).

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. A portion of the contributions received by OTRS are allocated to the Supplemental Health Insurance Program; see further information in Note 10. Contributions to the pension plan from the Center were $54,063 and $57,331 for the years ended June 30, 2018 and 2017, respectively. The State of Oklahoma also made on-behalf contributions to OTRS, of which $38,312 and $46,004, during 2018 and 2017 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, 2018 and 2017, the Center reported a liability of $909,475 and $1,324,421, respectively, for its proportionate share of the net pension liability. The net pension liability was measured as of June 30, 2017 and 2016, and the total pension liability used to calculate the net pension liability was determined by an actuarial valuation as of June 30, 2017 and 2016. 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, 2017 and 2016. Based upon this information, the Center's proportion was 0.0137% and 0.0159% for June 30, 2018 and 2017, respectively.

For the years ended June 30, 2018 and 2017, the Center recognized pension expense of $33,142 and $98,339, respectively.

Note 9: Employee Retirement Benefits (Continued)

Oklahoma Teachers Retirement System (Continued)

At June 30, 2018, 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	$ -	62,092
Changes of assumptions	107,930	54,367
Net difference between projected and actual earnings on pension plan investments	12,928	-
Changes in proportion and differences between Center contributions and proportionate share of contributions	90	252,808
Center contributions subsequent to the measurement date	54,063	-
Total	$ 175,011	369,267

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	-
differences between Center contributions and proportionate share of contributions	-	178,318
Center contributions subsequent to the measurement date	56,436	-
Total	$ 370,523	209,066

Note 9: Employee Retirement Benefits (Continued)

Oklahoma Teachers Retirement System (Continued)

The $54,063 and $56,436 reported as deferred outflows of resources related to pensions resulting from Center contributions subsequent to the measurement date for June 30, 2018 and 2017, respectively will be recognized as a reduction of the net pension liability in the year ended June 30, 2019 and 2018, 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, 2018:		Year ended June 30, 2017:	
2019	$ (73,411)	2018	$ 4,998
2020	(28,701)	2019	4,998
2021	(46,530)	2020	56,655
2022	(72,501)	2021	36,056
2023	(27,176)	2022	2,314
	$ (248,319)		$ 105,021

Actuarial Assumptions – The total pension liability as of June 30, 2018, was determined based on an actuarial valuation prepared as if June 30, 2017 using the following actuarial assumptions:

- Actuarial Cost Method - Entry Age Normal
- 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 8.00% 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 Healthy 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%.

Note 9: Employee Retirement Benefits (Continued)

Oklahoma Teachers Retirement System (Continued)

The target asset allocation and best estimates of arithmetic expected real rates of return for each major asset class as of June 30, 2017, are summarized in the following table:

Asset Class	Target Asset Allocation	Long-Term Expected Real Rate of Return
Domestic Equity	38.5%	7.5%
International Equity	19.0%	8.5%
Fixed Income	23.5%	2.5%
Real Estate**	9.0%	4.5%
Alternative Assets	10.0%	6.1%
Total	100.0%	

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

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 Normal
- 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 8.00% 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%.

Note 9: Employee Retirement Benefits (Continued)

Oklahoma Teachers' Retirement System (Continued)

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 (unleveraged) and US Value added Real Estate (unleveraged)

Discount Rate – A single discount rate of 7.50% was used to measure the total pension liability as of June 30, 2017 and June 30, 2016, 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.

Note 9: Employee Retirement Benefits (Continued)

Oklahoma Teachers' Retirement System (Continued)

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, 2018	1% Decrease (6.5%)	Current Discount Rate (7.5%)	1% Increase (8.5%)
Center's net pension liability	$ 1,293,876	909,475	622,213

For June 30, 2017	1% Decrease (6.5%)	Current Discount Rate (7.5%)	1% Increase (8.5%)
Center's net pension liability	$ 1,733,875	1,324,421	981,715

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 obtained at www.ok.gov/OTRS.

Note 10: Other Post-employment Benefits

	2018			
	Net OPEB Obligation (Asset)	Deferred Outflows	Deferred Inflows	OPEB Expense (Income)
Health Insurance Program	$ 487,357	72,465	36,364	34,523
OTRS Supplemental Health Program	(6,128)	858	5,006	(227)
Total	$ 481,229	73,323	41,370	34,296

Health Insurance Program:

Plan Description – The Center's defined benefit OPEB plan, Retiree Health Insurance Program, provides OPEB to eligible retirees and their dependents. The Center's Board of Trustees has the authority to establish and amend benefit provisions. No assets are accumulated in a trust that meets the criteria in paragraph 4 of Statement 75.

Note 10: Other Post-employment Benefits (Continued)

Health Insurance Program (Continued)

Benefits provided – The Center provides medical, dental, and vision benefits to eligible retirees and their dependents through the State of Oklahoma Employee Insurance Group Division. The Center pays the full contribution rate for the three current retiree's coverages and have one current employee eligible for the plan. This plan is no longer available to new employees. The medical rates for pre-65 retirees are the same as the rates for active employees so the benefit being provided is an implicit rate subsidy. Retirees not eligible for the previous direct subsidy plan may still stay on the insurance plan, but must pay the full contribution rate for the retiree's coverages and for any other elected dependent dental and vision coverages on their own. The medical rates for pre-65 retirees are the same as the rates for active employees so the benefit being provided is an implicit rate subsidy. Retirees and dependents age 65 or older are provided a Medicare supplement that is not subsidized by the Center.

Employees covered by benefit terms:

At June 30, 2018 the following employees were covered by the benefit terms:

Active Employees	8
Inactives or beneficiaries currently receiving benefit payments	3
Total	11

Total OPEB Liability – The Center's total OPEB liability of $487,357 was measured as of June 30, 2018, and was determined by an actuarial valuation as of that date.

Actuarial Assumptions – The total OPEB liability as of June 30, 2018 was determined based on an actuarial valuation prepared as of June 30, 2018 using the following actuarial assumptions:

- Actuarial Cost Method - Entry Age Normal
- Discount Rate – 3.88%, based on June 30, 2018 published Bond Pay Go-20 bond index
- Retirement Age: 63
- Healthcare cost trend rates - Level 5.00% per year
- Mortality Rates - RPA-2000 Mortality Table projected to 2020
- Pre-Retirement Termination – Table T-3 of the Actuary's Pension Handbook.

Note 10: Other Post-employment Benefits (Continued)

Health Insurance Program (Continued)

Age	Annual Termination Rate
25	5.3%
30	4.8%
35	4.5%
40	3.8%
45	3.2%
50	1.5%
55	0.3%
60	0.0%

Changes in Total OPEB Liability – The following table reports the components of changes in total OPEB liability:

	2018
Beginning total OPEB liability, as restated pursuant to GASB 75	$ 437,419
Service cost	14,735
Interest	13,341
Change of assumptions	(42,857)
Difference between actual and expected experience	85,405
Benefit payments	(20,686)
Ending total OPEB liability	$ 487,357

Sensitivity of the Total OPEB Liability to Changes in the Discount Rate – The following presents the total OPEB liability of the Center calculated using the discount rate of 3.88%, as well as what the Center's total OPEB liability would be if it were calculated using a discount rate that is 1-percentage point lower (2.88%) or 1-percentage-point higher (4.88%) than the current rate:

	1% Decrease 2.88%	Current Discount Rate 3.88%	1% Increase 4.88%
Center' total OPEB liability	$ 518,388	$ 487,357	$ 442,727

Sensitivity of the Total OPEB Liability to Changes in the Healthcare Cost Trend Rate – The following presents the total OPEB liability of the Center calculated using the healthcare cost trend rate of 5.00%, as well as what the Center's total OPEB liability would be if it were calculated using a healthcare cost trend rate that is 1-percentage point lower (4.00%) or 1-percentage-point higher (6.00%) than the current rate:

Note 10: Other Post-employment Benefits (Continued)

Health Insurance Program (Continued)

	1% Decrease 4.00%	Current Discount Rate 5.00%	1% Increase 6.00%
Center' total OPEB liability	$ 403,936	$ 487,357	$ 543,917

OPEB Expense – For the year ended June 30, 2018, the Center recognized OPEB expense of $34,523. The Center also reported deferred inflows of resources related to OPEB from the following sources:

	Deferred Outflows of Resources	Deferred Inflows of Resources
Differences between expected and actual experience	$ 72,465	$ -
Changes in assumptions	-	36,364
Total	$ 72,465	$ 36,364

Amounts reported as deferred inflows of resources related to OPEB will be recognized in OPEB expense as follows:

Year ended June 30:	
2019	$ 6,447
2020	6,447
2021	6,447
2022	6,447
2023	6,447
Thereafter	3,866
Total	$ 36,101

Note 10: Other Post-employment Benefits (Continued)

OTRS Supplemental Health Program

Plan Description – The Center as the employer, participates in the Supplemental Health Insurance Program—a cost-sharing multiple-employer defined benefit OPEB plan administered by OTRS. Title 74 O. S. Sec. 1316.3 defines the health insurance benefits. The authority to establish and amend benefit provisions rests with the State Legislature. OTRS issues a publicly available financial report that can be obtained at www.ok.gov/OTRS

Benefits Provided – OTRS pays a medical insurance supplement to eligible members who elect to continue their employer provided health insurance. The supplement payment is between $100 and $105 per month, remitted to the Employee Group Insurance Division of the State of Oklahoma, provided the member has ten (10) years of Oklahoma service prior to retirement.

Contributions – Employer and employee contributions are made based upon the OTRS Plan provisions contained in Title 70, as amended. However the statutes do not specify or identify any particular contribution source to pay the health insurance subsidy. Based on the contribution requirements of Title 70 employers and employees contribute a single amount based on a single contribution rate as described in Note 9; from this amount OTRS allocates a portion of the contributions to the supplemental health insurance program. The cost of the supplemental health insurance program averages 1.56% of normal cost, as determined by an actuarial valuation. Contributions allocated to the OPEB plan from the Center were $858.

Net OPEB Asset, OPEB Expense, and Deferred Outflows of Resources and Deferred Inflows of Resources Related to OPEB - At June 30, 2018, the Center reported an asset of $6,128 for its proportionate share of the net OPEB asset. The net OPEB asset was measured as of June 30, 2017, and the total OPEB asset used to calculate the net OPEB asset was determined by an actuarial valuation as of June 30, 2017. The Center's proportion of the net OPEB asset was based on the Center's contributions received by the OPEB plan relative to the total contributions received by the OPEB plan for all participating employers as of June 30, 2017. Based upon this information, the Center's proportion was 0.0137%.

Note 10: Other Post-employment Benefits (Continued)

OTRS Supplemental Health Program (Continued)

For the year ended June 30, 2018, the Center recognized OPEB income of $227. At June 30, 2018, the Center reported deferred outflows of resources and deferred inflows of resources related to OPEB from the following sources:

	Deferred Outflows of Resources	Deferred Inflows of Resources
Differences between expected and actual experience	$ -	1,645
Net difference between projected and actual earnings on OPEB plan investments	-	3,361
Center contributions subsequent to the measurement date	858	-
Total	$ 858	5,006

There was $858 reported as deferred outflows of resources related to OPEB resulting from Center contributions subsequent to the measurement date will be recognized as a reduction of the net OPEB asset in the year ended June 30, 2019. Other amounts reported as deferred outflows of resources and deferred inflows of resources related to OPEB will be recognized in OPEB expense as follows:

Year ended June 30:	
2019	$ (1,145)
2020	(1,145)
2021	(1,145)
2022	(1,145)
2023	(305)
Thereafter	(121)
Total	$ (5,006)

Note 10: Other Post-employment Benefits (Continued)

OTRS Supplemental Health Program (Continued)

Actuarial Assumptions- The net OPEB asset as of June 30, 2017, was determined based on an actuarial valuation prepared as if June 30, 2017 using the following actuarial assumptions:

- Actuarial Cost Method - Entry Age Normal
- Inflation - 2.50%
- Future Ad Hoc Cost-of-living Increases - None
- Salary Increases - Composed of 3.25% inflation, including 2.50% price inflation, plus a service-related component ranging from 0.00% to 8.00% 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 Healthy 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%.
- Healthcare Cost Trend Rate – not applicable as the benefits provided is a set dollar amount not impacted by healthcare costs.

The target asset allocation and best estimates of arithmetic expected real rates of return for each major asset class as of June 30, 2017, are summarized in the following table:

Asset Class	Target Asset Allocation	Long-Term Expected Real Rate of Return
Domestic Equity	38.5%	7.5%
International Equity	19.0%	8.5%
Fixed Income	23.5%	2.5%
Real Estate**	9.0%	4.5%
Alternative Assets	10.0%	6.1%
Total	100.0%	

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

See Independent Auditors' Report.

Note 10: Other Post-employment Benefits (Continued)

OTRS Supplemental Health Program (Continued)

Discount Rate- A single discount rate of 7.5% was used to measure the net OPEB asset as of June 30, 2017. This single discount rate was based solely on the expected rate of return on OPEB plan investments of 7.5%. Based on the stated assumptions and the projection of cash flows, the OPEB 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 OPEB plan investments was applied to all periods of projected benefit payments to determine the net OPEB asset.

The projection of cash flows used to determine this single discount rate assumed that plan member and the Center 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 OPEB Asset to Changes in the Discount Rate-The following presents the net OPEB asset of the Center calculated using the discount rate of 7.5%, as well as what the Center's net OPEB asset would be if it were calculated using a discount rate that is 1-percentage point lower (6.5%) or 1-percentage-point higher (8.5%) than the current rate:

	1% Decrease (6.5%)	Current Discount Rate (7.5%)	1% Increase (8.5%)
Center's net OPEB asset	$ (257)	(6,128)	(11,148)

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

Note 11: 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, 2018 and 2017, the Foundation awarded scholarships totaling approximately $86,000 and $88,000, respectively, to students. Also, the Foundation contributed approximately $863,000 and $6,602,000 to the Center's new building during the years ended June 30, 2018 and 2017, respectively.

Note 12: 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 13: 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 was paid to the School District during the year ended June 30, 2017. As of July 1, 2017, the Center no longer leases the aforementioned space.

Note 14: 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, 2018 and 2017 is approximately $980,000 and $926,000, respectively, and is not reflected in the accompanying financial statements. The Center received from Community Activities, Inc. capital contributions of $180,000 in 2017, and supplies and other items of $33,000 and $2,500 in 2018 and 2017, respectively.

Note 15: Accounting Standards Adopted in Fiscal Year 2018

In June 2015, GASB issued Statement No. 75, Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions (GASB 75). GASB 75 addresses employer and governmental non-employer contributing entities' accounting and financial reporting when participating in an other postemployment benefit (OPEB) plan. This statement requires proper recognition of OPEB liabilities by employers and requires a more comprehensive measure of OPEB expense. More robust disclosures will also improve transparency and accountability. GASB 75 is effective for financial statements for the periods beginning after June 15, 2017. The Center adopted GASB 75 effective July 1, 2017, for the June 30, 2018, reporting year. The adoption had significant impact on the financial statements.

Note 16: Accounting Standards Issued Not Yet Adopted

In November 2016, GASB issued Statement No. 83, Certain Asset Retirement Obligations (GASB 83). GASB 83 provides accounting and reporting requirements for certain asset retirement obligations (ARO) that arise from legally enforceable liabilities associated with the retirement of certain tangible capital assets. ARO's require an internal and external obligating event and the costs to be reasonable estimable for the incurrence of such a liability. The Center will adopt GASB 83 effective July 1, 2018, for the June 30, 2019, reporting year. The Center does not expect GASB 83 to have a significant impact on the financial statements.

In January 2017, GASB issued Statement No. 84, Fiduciary Activities (GASB 84). GASB 84 improves guidance regarding the recognition and reporting of fiduciary activities. GASB 84 identifies four types of reportable fiduciary fund types, including 1) pension (and other employee benefit) trust funds, 2) investment trust funds, 3) private-purpose trust funds, and 4) custodial funds. GASB 84 outlines the accounting and disclosure requirements for operating structures that qualify as a fiduciary activity. The Center will adopt GASB 84 effective July 1, 2019, for the June 30, 2020, reporting year. The Center does not expect GASB 84 to have a significant impact on the financial statements.

In June 2017, GASB issued Statement No. 87, Leases (GASB 87). 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.

Note 16: Accounting Standards Issued Not Yet Adopted (Continued)

In March 2018, GASB issued Statement No. 88, Certain Disclosures Related to Debt, including Direct Borrowings and Direct Placements (GASB 88). GASB 88 provides certain clarifications regarding debt as a liability and identifies additional required disclosures related to debt, including direct borrowings and direct placements of debt. The Center will adopt GASB 88 on July 1, 2019, for the June 30, 2020, reporting year. The Center does not expect GASB 88 to have a significant impact on the financial statements.

In June 2018, GASB issued Statement No. 89, Accounting for Interest Cost Incurred before the End of a Construction Period (GASB 89). GASB 89 directs that interest costs incurred during the construction period of an asset be expensed in the period incurred. GASB 89 changes previous guidance regarding capitalized construction costs where such costs were typically included in the capitalized cost of the asset constructed and depreciated over time. The Center will adopt GASB 89 on July 1, 2020, for the June 30, 2021, reporting year. The Center does not expect GASB 89 to significantly impact the financial statements.

Note 17: Subsequent Events

Management performed an evaluation of the Center's activities through October 31, 2018, the audit report date, and has concluded that there are no significant subsequent events requiring disclosure through that date.

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 4 Fiscal Years*

	2015	2016	2017	2018
Center's proportion of the net pension liability	0.0195%	0.0172%	0.0159%	0.0137%
Center's proportionate share of the net pension liability	$ 1,051,600	1,047,014	1,324,421	909,475
Center's covered employee payroll	$ 754,983	688,693	573,272	477,747
Center's proportionate share of the net pension liability as a percentage of its covered employee payroll	139%	152%	231%	190%
Plan fiduciary net position as a percentage of the total pension liability	72.43%	70.31%	62.24%	69.32%

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

Notes to Schedule:

Only the last 4 fiscal years are presented because the 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 4 Fiscal Years

	2015	2016	2017	2018
Contractually required contribution	$ 71,927	67,422	57,331	54,063
Contributions in relation to the contractually required contribution	71,927	67,422	57,331	54,063
Contribution deficiency (excess)	$ -	-	-	-
Center's covered employee payroll	$ 688,693	573,272	477,747	464,323
Contributions as a percentage of covered employee payroll	10.44%	11.76%	12.00%	11.64% *

* The fund implemented GASB 75 for OPEB effective July 1, 2017; therefore, this amount represents the net percentage for the GASB 68 contribution to OTRS. When combined with the supplemental health insurance plan percentage for OPEB contributions to OTRS the total amount contributed to OTRS is 11.82%.

Notes to Schedule:

Only the last 4 fiscal years are presented because the 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
Last 2 Fiscal Years

	2017	2018
Beginning net pension liability, restated	$ 212,519	211,436
Interest	7,608	6,449
Change of assumptions	6,456	(9,951)
Difference between actual and expected experience	6,853	15,552
Benefit payments	(22,000)	(22,000)
Ending net pension liability	$ 211,436	201,486

Notes to Schedule:

Only the last 2 fiscal years are presented because the 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 PROPORTIONATE SHARE OF THE NET OPEB ASSET
SUPPLEMENTAL HEALTH INSURANCE PROGRAM
Current Fiscal Year*

	2018
Center's proportion of the net OPEB asset	0.0137%
Center's proportionate share of the net OPEB asset	$ (6,128)
Center's covered payroll	$ 477,747
Center's proportionate share of the net OPEB asset as a percentage of its covered-employee payroll	1.28%
Plan fiduciary net position as a percentage of the total OPEB liability (asset)	110.40%

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

Notes to Schedule:

Only the current and prior fiscal year is 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
SUPPLEMENTAL HEALTH INSURANCE PROGRAM
Current Fiscal Year

	2018
Contractually required contribution	$ 858
Contributions in relation to the contractually required contribution	858
Contribution deficiency (excess)	$ -
Center's covered employee payroll	$ 464,323
Contributions as a percentage of covered employee payroll	0.18%

Notes to Schedule:

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

See Independent Auditors' Report.

University Center of Southern Oklahoma

Schedule of Changes in Total OPEB Liability and Related Ratios
Health Insurance Program
Current Fiscal Year

	2018
Total OPEB liability	
Service cost	$ 14,735
Interest	13,341
Change in assumptions	(42,857)
Differences between expected and actual experience	85,405
Benefit payments, including refunds of member contributions	(20,686)
Net change in total OPEB liability	49,938
Total OPEB liability - beginning, restated	437,419
Total OPEB liability - ending	$ 487,357
Covered employee payroll	$ 464,323
Total OPEB liability as a percentage of covered-employee payroll	104.96%

Notes to Schedule:

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

The discount rate used for 2018 is 3.88%.

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 AUDIT OF FINANCIAL STATEMENTS PERFORMED IN ACCORDANCE WITH *GOVERNMENT AUDITING STANDARDS*

Board of Trustees
University Center of Southern Oklahoma
Ardmore, Oklahoma

We have audited, 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, 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, 2018, 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 31, 2018. 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 31, 2018