

**OKLAHOMA STATE REGENTS  
FOR HIGHER EDUCATION**

ANNUAL FINANCIAL STATEMENTS  
AND INDEPENDENT AUDITOR'S  
REPORT AS OF AND FOR THE  
YEAR ENDED JUNE 30, 2017

# OKLAHOMA STATE REGENTS FOR HIGHER EDUCATION

June 30, 2017

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## INDEPENDENT AUDITOR'S REPORT

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

### **Report on the Financial Statements**

We have audited the accompanying financial statements of the governmental activities, the business-type activities, each major fund and the aggregate remaining fund information of the Oklahoma State Regents for Higher Education ("OSRHE"), as of and for the year ended June 30, 2017, and the related notes to the financial statements, which collectively comprise OSRHE'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 of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

### ***Auditor's Responsibility***

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

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

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

## ***Opinions***

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business-type activities, each major fund and the aggregate remaining fund information of OSRHE, as of June 30, 2017, and the respective changes in financial position, and, where applicable, cash flows thereof for the year then ended in accordance with accounting principles generally accepted in the United States of America.

## ***Change in Accounting Principle***

As discussed in Note B to the financial statements, in 2017 OSRHE adopted new accounting guidance, GASB Statement No. 75, *Accounting and Financial Reporting for Postemployment Benefit Plans Other Than Pensions*. Our opinion is not modified with respect to this matter.

## ***Other Matters***

### ***Required Supplementary Information***

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis, pension exhibits, and other post employment insurance benefits exhibits, as listed in the table of contents, be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

### ***Other Information***

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise OSRHE's basic financial statements. The cost center balance sheet and income statement is presented for purposes of additional analysis and is not a required part of the basic financial statements. The schedule of expenditures of federal awards is presented for purposes of additional analysis as required by Title 2 U.S. *Code of Federal Regulations* Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards*, and is also not a required part of the basic financial statements.

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

The cost center balance sheet and income statement are the responsibility of management and were derived from and relate directly to the underlying accounting and other records used to prepare the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic financial statements or to the basic financial statements themselves, and other additional procedures in accordance

with auditing standards generally accepted in the United States of America. In our opinion, the cost center balance sheet and income statement are fairly stated in all material respects in relation to the basic financial statements as a whole.

**Other Reporting Required by *Government Auditing Standards***

In accordance with *Government Auditing Standards*, we have also issued our report dated October 31, 2017, on our consideration of OSRHE's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering OSRHE's internal control over financial reporting and compliance.

*Wledge & Associates, P.C.*

October 31, 2017

## **OKLAHOMA STATE REGENTS FOR HIGHER EDUCATION MANAGEMENT'S DISCUSSION AND ANALYSIS**

### **For Year Ended June 30, 2017**

This discussion and analysis of the Oklahoma State Regents for Higher Education (the Regents) financial statements provides an overview of the Regents' financial performance during the year ended June 30, 2017. Since the Management's Discussion and Analysis (MD&A) is designed to focus on current activities, resulting changes, and current known facts, please read it in conjunction with the Regents' basic financial statements and the footnotes. Comparative analysis of financial data is presented along with an explanation of significant changes.

The Regents determined the federal student loan reserve fund meets the requirements of GASB 34 regarding assets held in a trustee or agency capacity for the benefit of others, and as such, should be presented as a fiduciary fund. Also, the Regents determined that under GASB 34, the Regents' Endowment Fund and William P. Willis Trust Fund are properly classified as permanent funds. The Regents reported the Oklahoma State Regents for Higher Education Supplemental Retirement Plan (as amended and restated July 1, 2014) as a fiduciary fund. The Oklahoma State Regents for Higher Education Retiree Medical Plan (as approved June 25, 2015) is also reported as a fiduciary fund. The assets of these two plans are held in a trustee or agency capacity for the benefit of others.

### **FINANCIAL HIGHLIGHTS**

- At June 30, 2017, the Regents' business-type activities net position decreased to \$44,265,813 from \$52,818,421 at June 30, 2016.
- Total recognized operating and non-operating revenues in the Regents' business-type activities decreased by \$48,548,138 primarily due to a decrease in state appropriations of \$45,874,448.
- Total operating and non-operating expenses in the Regents' business-type activities decreased by \$51,509,227 primarily due to a decrease of \$45,921,098 in payments to public institutions as result of a significant decrease in state appropriations during fiscal year 2017.
- The governmental activities experienced a positive return on investment of \$85,585,193 in 2017, compared to a positive return on investment of \$7,824,809 in 2016, an increase of \$77,760,384. The strong yield is mainly due to global equities posting modest returns, driven by strong returns from emerging markets.

# OKLAHOMA STATE REGENTS FOR HIGHER EDUCATION MANAGEMENT'S DISCUSSION AND ANALYSIS

**For Year Ended June 30, 2017**

## USING THIS REPORT

This discussion and analysis are intended to serve as an introduction to the Regents' basic financial statements. The basic financial statements are comprised of three components: 1) government-wide financial statements, 2) fund financial statements, and 3) notes to the financial statements. A brief description of the basic financial statements follows.

### GOVERNMENT-WIDE FINANCIAL STATEMENTS

The government-wide financial statements consist of a statement of net position and a statement of activities. The statement of net position presents information on the Regents' assets and liabilities with the difference being reported as net position. Increases or decreases in net position over time may serve as an indicator of whether the financial position of the Regents is improving or deteriorating. The statement of activities presents information on the Regents' activities as a whole to demonstrate the extent of changes in financial position as a result of the year's activities. When revenues exceed expenses, the result is an increase in net position, and when the reverse occurs, the result is a decrease in net position.

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

### FUND FINANCIAL STATEMENTS

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

Governmental Funds: The Regents' Endowment Trust Fund and William Willis Trust Fund are reported as major governmental funds. The Endowment Trust Fund is a permanent fund established to support the establishment of faculty chairs, professorships, lectureships at system institutions. William P. Willis Trust Fund is for the purpose of providing scholarships to low-income, full-time undergraduates attending institutions in The Oklahoma State System of Higher Education.

*Governmental Funds Financial Statements* – Governmental funds are essentially used to account for the same functions as governmental activities in the Government-Wide Financial



## OKLAHOMA STATE REGENTS FOR HIGHER EDUCATION MANAGEMENT'S DISCUSSION AND ANALYSIS

**For Year Ended June 30, 2017**

*Governmental Funds Financial Statements (Continued)* – Statements. However, unlike the Government-Wide Financial Statements, the Governmental Fund Financial Statements focus on near-term inflows and outflows of spendable resources. They also focus on the balances of spendable resources available at the end of the fiscal year. Such information may be useful in evaluating the government's near-term financing requirements. This is known as using the flow of current financial resources measurement focus approach and the modified accrual basis of accounting. These statements provide a detailed short-term view of the state's finances that assists in determining whether there will be adequate financial resources available to meet the current needs of the state.

Because the focus of governmental funds is narrower than that of the Government-Wide Financial Statements, it is useful to compare the information presented for governmental funds with similar information presented for governmental activities in the Government-Wide Financial Statements. By doing so, readers may better understand the long-term impact of the government's near-term financing decisions. The Governmental Fund Balance Sheet and the Governmental Fund Statement of Revenues, Expenditures, and Changes in Fund Balances both provide a reconciliation to facilitate this comparison between governmental funds and the governmental activities. These reconciliations are presented on the page immediately following Governmental Fund Financial Statement.

Proprietary Funds: The Regents' proprietary fund includes operations from the Oklahoma College Assistance Program ("OCAP"), OneNet, and other Regents' cost centers.

*Proprietary Funds Financial Statements* – These funds are used to show activities that operate more like those of commercial enterprises. Proprietary funds provide the same type of information as the Government-Wide Financial Statements, only in more detail. Like the Government-Wide Financial Statements, Proprietary Fund Financial Statements use the accrual basis of accounting. Proprietary fund financial statements consist of three reports: The Statement of Net Position, the Statement of Revenues, Expenses, and Changes in Net Position, and the Statement of Cash Flows. The purpose of the Statement of Net Position is to report the financial position of the fund at a point in time, the report date. The difference between assets and liabilities is a way to measure the Regents' financial health, or financial position. The Statement of Revenues, Expenses, and Changes in Net Position reports information on the Regents' activities as a whole to demonstrate the magnitude of changes in the Regents' financial position as a result of the year's activities. When revenues exceed expenses, the result is an

## OKLAHOMA STATE REGENTS FOR HIGHER EDUCATION MANAGEMENT'S DISCUSSION AND ANALYSIS

**For Year Ended June 30, 2017**

*Proprietary Funds Financial Statements (Continued)* – increase in net position, and when the reverse occurs, the result is a decrease in net position. The relationship between revenues and expenses may be thought of as the Regents' operating results.

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

Fiduciary Funds: These funds are used to account for resources held for the benefit of parties outside the state government. Fiduciary funds are not reflected in the Government-Wide Financial Statements because the resources of these funds are not available to support the state's own programs. The accounting used for fiduciary funds is much like that used for proprietary funds. They use the accrual basis of accounting. The OCAP federal student loan reserve fund is reported as a fiduciary fund. This fund is used to account for the assets, liabilities, revenues, and expenses administered on behalf of the Federal government. The Regents' supplemental retirement fund and retiree medical plan are reported as fiduciary funds to account for assets held in a trustee or agency capacity for the benefit of agency employees.

Change in accounting principle: Effective July 1, 2016, the Regents applied the provisions of GASB Statement No. 75, *Accounting and Financial Reporting for Postemployment Benefits Other than Pensions*. This standard provides new requirements for measuring liabilities, deferred flows, and expense related to the Regent's retirement benefits. As a result of this new standard, the Regents have provided an additional \$5,266,746 in estimated liabilities to its opening balances related to this new standard. The fiscal 2016 amounts presented in this MD&A have not been restated because those amounts were not readily obtainable.

# OKLAHOMA STATE REGENTS FOR HIGHER EDUCATION MANAGEMENT'S DISCUSSION AND ANALYSIS

For Year Ended June 30, 2017

## FINANCIAL ANALYSIS OF THE REGENTS' GOVERNMENT WIDE ACTIVITIES

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

### Condensed Statements of Net Position As of June 30,

	Governmental Activities		Business-Type Activities		Total	
	2017	2016	2017	2016	2017	2016
Current assets	\$ 10,735,164	\$ 29,732,719	\$ 77,070,064	\$ 81,775,590	\$ 87,805,228	\$ 111,508,309
Capital assets	-	-	13,808,959	15,610,613	13,808,959	15,610,613
Other noncurrent assets	701,570,908	623,328,013	-	-	701,570,908	623,328,013
Total assets	712,306,072	653,060,732	90,879,023	97,386,203	803,185,095	750,446,935
Deferred outflow related to pension	-	-	13,189,499	4,629,781	12,075,877	4,629,781
Current liabilities	44,321,743	53,989,428	10,289,135	7,125,397	54,610,878	61,114,825
Noncurrent liabilities	99,335,000	105,265,000	43,547,568	28,662,640	142,882,568	133,927,640
Total liabilities	143,656,743	159,254,428	53,836,703	35,788,037	197,493,446	195,042,465
Deferred inflow related to pension	-	-	5,966,006	8,142,780	5,966,006	8,142,780
Net position						
Net Investment in						
Capital Assets	-	-	13,808,959	15,610,613	13,808,959	15,610,613
Restricted	568,649,329	493,806,304	56,169,775	56,182,936	624,819,104	549,989,240
Unrestricted	-	-	(25,712,921)	(13,708,382)	(25,712,921)	(13,708,382)
Total Net Position	\$ 568,649,329	\$ 493,806,304	\$ 44,265,813	\$ 58,085,167	\$ 612,915,142	\$ 551,891,471

OKLAHOMA STATE REGENTS FOR HIGHER EDUCATION  
MANAGEMENT'S DISCUSSION AND ANALYSIS

For Year Ended June 30, 2017

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

Condensed Statement of Activities  
For the year ended June 30,

	Governmental Activities		Business-Type Activities		Total	
	2017	2016	2017	2016	2017	2016
Operating revenues						
Administrative fees	\$ -	\$ -	\$ 936,584	\$ 1,047,843	\$ 936,584	\$ 1,047,843
Default aversion fees	-	-	498,539	742,725	498,539	742,725
Default loan collections	-	-	14,043,838	15,682,102	14,043,838	15,682,102
Grants, contracts and gifts	-	-	4,848,283	10,938,773	4,848,283	10,938,773
OneNet service fee	-	-	19,061,225	18,021,479	19,061,225	18,021,479
Other	-	-	5,790,833	1,449,028	5,790,833	1,449,028
Nonoperating revenues						
State appropriations	-	-	887,714,345	933,588,793	887,714,345	933,588,793
Other income/revenue	1,687	-	11,686,482	11,384,640	11,688,169	11,384,640
On-behalf OTRS contributions	-	-	1,059,254	1,211,518	1,059,254	1,211,518
Return on investment	85,585,193	7,824,809	1,281,069	1,401,689	86,866,262	9,226,498
	85,586,880	7,824,809	946,920,452	995,468,590	1,032,507,332	1,003,293,399
Operating expenses						
Personnel and other operating costs	386,196	372,865	43,213,733	48,147,203	43,599,929	48,520,068
Communications	-	-	12,536,609	12,462,300	12,536,609	12,462,300
Scholarships, tuition and other incentives	-	-	12,028,180	12,593,940	12,028,180	12,593,940
Other	820,933	3,054,492	-	-	820,933	3,054,492
Nonoperating expenses						
Interagency payments	-	-	-	15,000	-	15,000
Payments to public institutions	13,280,150	5,115,695	827,599,118	873,520,216	840,879,268	878,635,911
OCIA on-behalf payments	-	-	50,671,425	50,807,344	50,671,425	50,807,344
Loss on disposal of capital assets	-	-	10,841	635	10,841	742,725
Interest expense	5,669,730	5,891,945	-	22,495	5,669,730	5,914,440
	20,157,009	14,434,997	946,059,906	997,569,133	966,216,915	1,012,004,130
Net income (loss) before capital appropriations and other revenues	65,429,871	(6,610,188)	860,546	(2,100,543)	66,290,417	(8,710,731)
Transfers	9,413,154	11,594,747	(9,413,154)	(11,594,747)	-	-
Change in net assets	74,843,025	4,984,559	(8,552,608)	(13,695,290)	66,290,417	(8,710,731)
Net position, beginning as previously reported	493,806,304	488,821,745	58,085,167	71,780,457	551,891,471	560,602,202
Cummulative effect of implementing GASB No. 75	-	-	(5,266,746)	-	(5,266,746)	-
Net position, beginning of year, as restated	493,806,304	488,821,745	52,818,421	71,780,457	546,624,725	560,602,202
Net position, end of year	\$ 568,649,329	\$ 493,806,304	\$ 44,265,813	\$ 58,085,167	\$ 612,915,142	\$ 551,891,471

**OKLAHOMA STATE REGENTS FOR HIGHER EDUCATION  
MANAGEMENT'S DISCUSSION AND ANALYSIS**

**For Year Ended June 30, 2017**

**CAPITAL ASSETS AND DEBT ADMINISTRATION**

At June 30, 2017, the Regents business-type activities recorded a total of \$71,002,942 in capital assets and \$57,193,983 in accumulated depreciation. During the year ended June 30, 2017, the Regents acquired \$2,043,970 in capital assets of building improvements, equipment, and purchase of maintenance vehicles. These acquisitions were primarily associated with the expansion of OneNet data communication services.

**Capital Assets, Net**

	2017	2016
Buildings	\$ 8,801,936	\$ 8,696,249
Equipment	61,737,700	61,763,438
Motor vehicles	463,306	463,306
Total	71,002,942	70,922,993
Less accumulated depreciation	(57,193,983)	(55,312,380)
Capital assets, net	\$ 13,808,959	\$ 15,610,613

At June 30, 2017, the Regents business-type activities had long-term liabilities of \$44,381,710. The current portion due within one year is \$834,142.

**Long-Term Liabilities**

	2017	2016
Compensated absences	\$ 1,614,416	\$ 1,813,971
Net Pension Liabilities	42,767,294	27,710,789
Sub-Total long-term liabilities	44,381,710	29,524,760
Less: Due within one year	(834,142)	(862,120)
Total long-term liabilities	\$ 43,547,568	\$ 28,662,640

**OKLAHOMA STATE REGENTS FOR HIGHER EDUCATION  
MANAGEMENT'S DISCUSSION AND ANALYSIS**

**For Year Ended June 30, 2017**

**FINANCIAL ANALYSIS OF THE REGENTS' PERMANENT FUND**

The following schedules are prepared from the Regents' Permanent Fund basic financial statements. The statements are presented on a modified accrual basis of accounting whereby revenues are recognized when measurable and available and expenses are recorded when a liability is incurred. During the year ended June 30, 2017, total expenses increased by \$5,918,287 compared to June 30, 2016 as result of total distributions to the institutions increasing by \$8,164,455. Total return on investments increased by \$77,760,384.

**Regents' Permanent Fund**

	<u>2017</u>	<u>2016</u>
Cash and investments	\$ 711,962,327	\$ 652,562,986
Receivables	343,745	497,746
Total assets	<u>712,306,072</u>	<u>653,060,732</u>
 Total liabilities	 <u>38,391,743</u>	 <u>48,289,428</u>
Total fund balance	<u>\$ 673,914,329</u>	<u>\$ 604,771,304</u>

**OKLAHOMA STATE REGENTS FOR HIGHER EDUCATION  
MANAGEMENT'S DISCUSSION AND ANALYSIS**

**For Year Ended June 30, 2017**

**FINANCIAL ANALYSIS OF THE REGENTS' PERMANENT FUND  
(continued)**

**Changes in Fund Balance**

	2017	2016
	<u>2017</u>	<u>2016</u>
Return on investment	\$ 85,585,193	\$ 7,824,809
Other Revenue	1,687	8,725
Total revenues	<u>85,586,880</u>	<u>7,833,534</u>
Contractual and other	1,207,129	3,427,357
Lease payments	11,369,730	11,395,670
Distributions to institutions	13,280,150	5,115,695
Total expenditures	<u>25,857,009</u>	<u>19,938,722</u>
Transfers in	9,413,154	11,594,747
Total other financing sources	<u>9,413,154</u>	<u>11,594,747</u>
Change in permanent fund balance	<u><u>\$ 69,143,025</u></u>	<u><u>\$ (510,441)</u></u>

**FINANCIAL ANALYSIS OF OCAP FIDUCIARY FUND ACTIVITIES**

The following tables are prepared from OCAP's basic financial statements. The statements are presented on an accrual basis of accounting whereby revenues are recognized when earned and expenses are recorded when incurred and assets are capitalized and depreciated. During the year ended June 30, 2017, total additions increased by \$18,277,150 from \$113,646,501 to \$131,923,651. Deductions increased by \$17,657,168 from \$112,562,214 to \$130,219,382. The additions increase was primarily due to increased federal reinsurance and default aversion fee (rebate), offset by a decrease in loan collections. The increase in deductions was primarily due to an increase in default loan purchases and an increase in the provision for default loans, offset by a reduction in default loan collections and default aversion fees due to USDE as a result of the continued decline in the outstanding portfolio.

**OKLAHOMA STATE REGENTS FOR HIGHER EDUCATION  
MANAGEMENT'S DISCUSSION AND ANALYSIS**

**For Year Ended June 30, 2017**

**Fiduciary Net Position**

	<u>2017</u>	<u>2016</u>
Other assets	\$ 20,880,665	\$ 18,761,571
Total Assets	20,880,665	18,761,571
Non-reinsured defaulted loans	<u>3,861,507</u>	<u>5,615,701</u>
Total Deferred Outflows of Resources	3,861,507	5,615,701
Current liabilities	<u>4,102,156</u>	<u>5,647,863</u>
Total Liabilities	4,102,156	5,647,863
Allowance for default claims	<u>1,683,975</u>	<u>1,477,637</u>
Total Deferred Inflows of Resources	1,683,975	1,477,637
Restricted net assets	18,956,041	17,251,772
Total Net Position	<u>\$ 18,956,041</u>	<u>\$ 17,251,772</u>

**Changes in Fiduciary Net Position**

	<u>2017</u>	<u>2016</u>
Federal reinsurance	\$ 88,216,676	\$ 57,335,637
Loan collections	42,713,632	55,523,992
Other additions	<u>993,343</u>	<u>786,872</u>
Total Additions	131,923,651	113,646,501
Purchase of defaulted loans	80,954,824	57,089,673
Loan collections due to USDE	48,559,681	54,706,793
Other deductions	<u>704,877</u>	<u>765,748</u>
Total Deductions	130,219,382	112,562,214
Change in Federal Fund Net Position	<u>\$ 1,704,269</u>	<u>\$ 1,084,287</u>



## **OKLAHOMA STATE REGENTS FOR HIGHER EDUCATION MANAGEMENT'S DISCUSSION AND ANALYSIS**

**For Year Ended June 30, 2017**

### **ECONOMIC FACTORS AND THE REGENTS' FUTURE**

The economic position of the Regents is closely tied to that of the State of Oklahoma. During the 2017 legislative session, the Oklahoma Legislature appropriated \$877,822,108 to the Regents for fiscal year 2017, a decrease of \$142,589,998 compared to the fiscal year 2016 appropriations of \$1,020,412,106. This represented a 14 percent reduction from fiscal year 2016. Subsequently, further cuts in appropriation disbursements were assessed through the 2017 fiscal year due to shortfall in state revenues. As a result, actual appropriations received in fiscal year 2017 were \$862,773,950, an additional 1.4 percent reduction from fiscal year 2016. Approximately, 8.81 percent of the revenue dedicated to appropriations for fiscal year 2017 comes from gross production tax.

On September 8, 2016, the Governor's office announced that the amount of actual, general revenue received in excess of the declared shortfall estimates would be returned to state agencies as originally appropriated by the legislature. The State System of Higher Education received \$20,713,079, to be returned to the institutions and programs. The final amount received for fiscal year 2016 then became \$954,398,077.

### **CONTACTING THE REGENTS' FINANCIAL MANAGEMENT**

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

STATEMENT OF NET POSITION  
 OKLAHOMA STATE REGENTS FOR HIGHER EDUCATION  
 June 30, 2017

	Governmental Activities	Business-Type Activities	Total
ASSETS			
Current Assets			
Cash and cash equivalents	\$ -	\$ 12,311,153	\$ 12,311,153
Receivables			
Accounts receivable	-	10,855,195	10,855,195
Interest	-	14,193	14,193
Other assets	-	167,627	167,627
Restricted assets			
Cash and cash equivalents	10,391,419	51,980,515	62,371,934
Investments	-	577,174	577,174
Receivables			
Accounts receivable	339,318	162,331	501,649
Payable between funds	-	704,988	704,988
Administrative cost allowance	-	222,844	222,844
Interest	4,427	74,044	78,471
Total current assets	10,735,164	77,070,064	87,805,228
Noncurrent Assets			
Restricted investments	701,570,908	-	701,570,908
Capital assets, net	-	13,808,959	13,808,959
TOTAL ASSETS	712,306,072	90,879,023	803,185,095
DEFERRED OUTFLOW OF RESOURCES			
Deferred outflow related to pension - OTRS	-	9,100,386	9,100,386
Deferred outflow related to pension - Supplemental	-	1,593,493	1,593,493
Deferred outflow related to OPEB	-	2,495,620	2,495,620
TOTAL DEFERRED OUTFLOW OF RESOURCES	-	13,189,499	13,189,499

(Continued)

STATEMENT OF NET POSITION  
OKLAHOMA STATE REGENTS FOR HIGHER EDUCATION  
June 30, 2017

	Governmental Activities	Business-Type Activities	Total
<b>LIABILITIES</b>			
Current Liabilities			
Accounts payable and accrued expenses	-	8,825,314	8,825,314
Compensated absences	-	666,572	666,572
Undistributed state appropriations	-	170,958	170,958
Liabilities payable from restricted assets			
Accounts payable and accrued expenses	99,210	458,721	557,931
Compensated absences	-	167,570	167,570
OCIA lease payable	5,930,000	-	5,930,000
Deposits held in trust for system institutions	3,489,781	-	3,489,781
Undistributed interest on deposits held in trust	34,802,752	-	34,802,752
Total current liabilities	44,321,743	10,289,135	54,610,878
Noncurrent			
Compensated absences	-	721,266	721,266
Noncurrent liabilities payable from restricted assets			
Compensated absences	-	59,008	59,008
Net liability - OPEB	-	10,318,015	10,318,015
Net pension liability - OTRS	-	31,935,538	31,935,538
Net pension liability - Supplemental	-	513,741	513,741
OCIA lease payable	99,335,000	-	99,335,000
Total noncurrent liabilities	99,335,000	43,547,568	142,882,568
TOTAL LIABILITIES	143,656,743	53,836,703	197,493,446
<b>DEFERRED INFLOW OF RESOURCES</b>			
Deferred inflow related to pension - OTRS	-	4,807,278	4,807,278
Deferred inflow related to pension -Supplemental	-	877,576	877,576
Deferred inflow related to OPEB	-	281,152	281,152
TOTAL DEFERRED INFLOW OF RESOURCES	-	5,966,006	5,966,006
<b>NET POSITION</b>			
Net Investment in Capital Assets	-	13,808,959	13,808,959
Restricted			
Educational grants and scholarships	-	15,769,769	15,769,769
Oklahoma College Assistance Program	-	37,068,500	37,068,500
Endowment - Nonexpendable	568,649,329	-	568,649,329
Capital Projects	-	3,331,506	3,331,506
Unrestricted	-	(25,712,921)	(25,712,921)
TOTAL NET POSITION	\$ 568,649,329	\$ 44,265,813	\$ 612,915,142

See notes to financial statements

STATEMENT OF ACTIVITIES  
OKLAHOMA STATE REGENTS FOR HIGHER EDUCATION  
Year Ended June 30, 2017

	Governmental Activities	Business-Type Activities	Total
<b>OPERATING REVENUES</b>			
Administrative fees	\$ -	\$ 936,584	\$ 936,584
Default aversion fee	-	498,539	498,539
Default loan collections	-	14,043,838	14,043,838
Federal grants and contracts	-	4,848,283	4,848,283
OneNet service fees	-	19,061,225	19,061,225
Other	-	5,790,833	5,790,833
<b>TOTAL OPERATING REVENUES</b>	<b>-</b>	<b>45,179,302</b>	<b>45,179,302</b>
<b>OPERATING EXPENSES</b>			
Compensation	-	15,433,664	15,433,664
Pension expense	-	3,931,035	3,931,035
Contractual services	386,196	14,521,169	14,907,365
Communications	-	12,536,609	12,536,609
Scholarships, tuition, and other incentives	-	12,028,180	12,028,180
Supplies and materials	-	395,206	395,206
Other	820,933	5,106,754	5,927,687
Depreciation and amortization	-	3,825,905	3,825,905
<b>TOTAL OPERATING EXPENSES</b>	<b>1,207,129</b>	<b>67,778,522</b>	<b>68,985,651</b>
<b>OPERATING INCOME (LOSS)</b>	<b>(1,207,129)</b>	<b>(22,599,220)</b>	<b>(23,806,349)</b>
<b>NONOPERATING REVENUES (EXPENSES)</b>			
State appropriations	-	887,714,345	887,714,345
Other state income	-	11,686,482	11,686,482
Payments to system institutions	(13,280,150)	(827,599,118)	(840,879,268)
OCIA on-behalf payments	-	(50,671,425)	(50,671,425)
On-behalf TRS contributions	-	1,059,254	1,059,254
Return on investment	85,585,193	1,281,069	86,866,262
Loss on disposal of capital assets	-	(10,841)	(10,841)
Other	1,687	-	1,687
Interest expense	(5,669,730)	-	(5,669,730)
<b>NET NONOPERATING REVENUES</b>	<b>66,637,000</b>	<b>23,459,766</b>	<b>90,096,766</b>
<b>NET INCOME (LOSS) BEFORE CAPITAL APPROPRIATIONS AND OTHER REVENUES</b>	<b>65,429,871</b>	<b>860,546</b>	<b>66,290,417</b>
Transfers - appropriations to permanent endowment	9,413,154	(9,413,154)	-
<b>INCREASE (DECREASE) IN NET POSITION</b>	<b>74,843,025</b>	<b>(8,552,608)</b>	<b>66,290,417</b>
Net position, beginning of year, as restated	493,806,304	52,818,421	546,624,725
Net position, end of year	<u>\$ 568,649,329</u>	<u>\$ 44,265,813</u>	<u>\$ 612,915,142</u>

See notes to financial statements

OKLAHOMA STATE REGENTS FOR HIGHER EDUCATION  
Governmental Fund  
Balance Sheet  
June 30, 2017

	Endowment Fund	Trust Fund	Total Governmental Funds
<b>ASSETS</b>			
Restricted Assets			
Cash and cash equivalents	\$ 9,561,015	\$ 830,404	\$ 10,391,419
Investments	701,570,908	-	701,570,908
Other receivables	339,318	-	339,318
Interest receivable	4,427	-	4,427
<b>TOTAL ASSETS</b>	<b>\$ 711,475,668</b>	<b>\$ 830,404</b>	<b>\$ 712,306,072</b>
<b>LIABILITIES</b>			
Deposits held in trust for system institutions	\$ 3,489,781	\$ -	\$ 3,489,781
Accounts payable	99,210	-	99,210
Undistributed interest on deposits held in trust	34,802,752	-	34,802,752
<b>TOTAL LIABILITIES</b>	<b>38,391,743</b>	<b>-</b>	<b>38,391,743</b>
<b>FUND BALANCE</b>			
Nonexpendable	673,083,925	830,404	673,914,329
<b>TOTAL FUND BALANCE</b>	<b>673,083,925</b>	<b>830,404</b>	<b>673,914,329</b>
<b>TOTAL LIABILITIES AND FUND BALANCE</b>	<b>\$ 711,475,668</b>	<b>\$ 830,404</b>	<b>\$ 712,306,072</b>

Reconciliation of the Governmental Fund Balance Sheet to the  
Statement of Net Assets:

Total fund balance - governmental fund	\$ 673,914,329
Amounts reported for governmental activities in the statement of net assets are different because:	
Long-term liabilities, including bonds payable, are not due and payable in the current period and, therefore, are not reported in the funds	(105,265,000)
Net assets of governmental activities	<u>\$ 568,649,329</u>

See notes to the financial statements

OKLAHOMA STATE REGENTS FOR HIGHER EDUCATION  
Governmental Fund  
Statement of Revenues, Expenditures, and Changes in Fund Balance  
Year Ended June 30, 2017

	Endowment Fund	Trust Fund	Total Governmental Funds
REVENUES			
Investment return	\$ 85,570,567	\$ 14,626	\$ 85,585,193
Other revenue	1,687	-	1,687
Total revenues	85,572,254	14,626	85,586,880
EXPENDITURES			
Contractual services	386,196	-	386,196
Payments to system institutions	13,235,150	45,000	13,280,150
Other	820,933	-	820,933
Principal retirement	5,700,000	-	5,700,000
Interest and other financing	5,669,730	-	5,669,730
Total expenditures	25,812,009	45,000	25,857,009
Excess of revenues over expenditures	59,760,245	(30,374)	59,729,871
OTHER FINANCING SOURCES			
Transfers in	9,413,154	-	9,413,154
Net change in fund balance	69,173,399	(30,374)	69,143,025
FUND BALANCE, BEGINNING OF YEAR	603,910,526	860,778	604,771,304
FUND BALANCE, END OF YEAR	\$ 673,083,925	\$ 830,404	\$ 673,914,329

Reconciliation of the Statement of Revenues, Expenditures and Changes in Fund  
Balances of Governmental Funds to the Statement of Activities:

Net change in fund balance - total governmental funds \$ 69,143,025

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

Capital lease principal payments expensed in fund financial statements are  
treated as a reduction of outstanding debt in government-wide statements 5,700,000

Change in net assets of governmental activities \$ 74,843,025

See notes to the financial statements

OKLAHOMA STATE REGENTS FOR HIGHER EDUCATION  
Proprietary Fund  
Statement of Cash Flows  
Year Ended June 30, 2017

CASH FLOWS FROM OPERATING ACTIVITIES

Receipts for collections	\$ 16,577,353
Receipts from administration fees	936,584
Receipts from federal government	5,921,836
Receipts for OneNet services	18,818,153
Payments to suppliers	(33,572,432)
Payments to employees	(19,545,552)
Payments for scholarships and fellowships	<u>(12,021,899)</u>
NET CASH USED IN OPERATING ACTIVITIES	<u>(22,885,957)</u>

CASH FLOWS FROM NONCAPITAL

FINANCING ACTIVITIES

Transfers to other funds	(9,413,154)
Receipt of state appropriations	887,543,387
Receipt of other state income	11,529,832
Payments for assistance grants	(50,671,425)
Payments to system institutions	<u>(823,257,290)</u>

NET CASH PROVIDED BY  
NONCAPITAL FINANCING ACTIVITIES

15,731,350

CASH FLOWS FROM CAPITAL AND

RELATED FINANCING ACTIVITIES

Acquisition of capital assets	<u>(2,035,082)</u>
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NET CASH USED IN CAPITAL AND  
RELATED FINANCING ACTIVITIES

(2,035,082)

CASH FLOWS FROM INVESTING ACTIVITIES

Purchases of investments	(8,780)
Unrealized gain on fair value of investments	(5,922)
Interest received	<u>1,281,495</u>

NET CASH PROVIDED BY INVESTING ACTIVITIES

1,266,793

NET CHANGE IN CASH

(7,922,896)

CASH AND CASH EQUIVALENTS

AT BEGINNING OF YEAR

72,214,564

CASH AND CASH EQUIVALENTS AT END OF YEAR

\$ 64,291,668

(Continued)

OKLAHOMA STATE REGENTS FOR HIGHER EDUCATION  
Proprietary Fund  
Statement of Cash Flows--Continued  
Year Ended June 30, 2017

RECONCILIATION OF OPERATING LOSS TO  
NET CASH USED IN OPERATING ACTIVITIES

Operating loss	\$ (22,599,220)
Adjustments to reconcile operating loss to net cash used in operating activities	
Depreciation and amortization	3,825,905
On-behalf TRS contribution	1,059,254
Changes in operating assets and liabilities	
Accounts receivable	(3,125,506)
Other assets	72,661
Deferred outflow related to pensions	(8,559,718)
Accounts payable and accrued expenses	(972,763)
Compensated absences	(199,555)
Net pension liabilities	9,789,759
Deferred inflow related to pensions	(2,176,774)
Total adjustments	(286,737)
NET CASH USED IN OPERATING ACTIVITIES	<u><u>\$ (22,885,957)</u></u>

RECONCILIATION OF CASH AND CASH EQUIVALENTS  
TO STATEMENTS OF NET ASSETS

Current Assets	
Cash and cash equivalents	\$ 12,311,153
Restricted cash and cash equivalents	<u>51,980,515</u>
TOTAL CASH AND CASH EQUIVALENTS	<u><u>\$ 64,291,668</u></u>

See notes to financial statements.



STATEMENT OF FIDUCIARY NET POSITION--FIDUCIARY FUND

OKLAHOMA STATE REGENTS FOR HIGHER EDUCATION

Other Post Employment Benefit Plan

June 30, 2017

ASSETS

Cash and cash equivalents	\$ 144,226
Investments	<u>12,116,928</u>
TOTAL ASSETS	<u>\$ 12,261,154</u>

NET POSITION

Held in trust for Other Post Employment Benefit Plan	<u>\$ 12,261,154</u>
TOTAL NET POSITION	<u>\$ 12,261,154</u>

See notes to financial statements.

STATEMENT OF CHANGES IN FIDUCIARY NET POSITION--FIDUCIARY FUND

OKLAHOMA STATE REGENTS FOR HIGHER EDUCATION

Other Post Employment Benefit Plan

Year Ended June 30, 2017

ADDITIONS

Transferred from OSRHE	\$ 1,000,000
Investment income	<u>469,912</u>
TOTAL ADDITIONS	<u>1,469,912</u>

DEDUCTIONS

Administration fee - investment	299,971
Unrealized loss on investment	<u>221,601</u>
TOTAL DEDUCTIONS	<u>521,572</u>

CHANGE IN NET POSITION 948,340

NET POSITION, BEGINNING OF YEAR 11,312,814

NET POSITION, END OF YEAR \$ 12,261,154

See notes to financial statements.

STATEMENT OF FIDUCIARY NET POSITION--FIDUCIARY FUND

OKLAHOMA STATE REGENTS FOR HIGHER EDUCATION  
Supplemental Retirement Plan

June 30, 2017

ASSETS

Investments	\$ 12,929,560
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TOTAL ASSETS	<u>\$ 12,929,560</u>
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NET POSITION

Held in trust for Supplemental Retirement Plan	\$ 12,929,560
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TOTAL NET POSITION	<u>\$ 12,929,560</u>
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See notes to financial statements.

STATEMENT OF CHANGES IN FIDUCIARY NET POSITION--FIDUCIARY FUND

OKLAHOMA STATE REGENTS FOR HIGHER EDUCATION

Supplemental Retirement Plan

Year Ended June 30, 2017

ADDITIONS

Investment income	\$ 94,436
Transferred from OSRHE	<u>513,741</u>
TOTAL ADDITIONS	<u>608,177</u>

DEDUCTIONS

Retirement payment	<u>813,097</u>
TOTAL DEDUCTIONS	<u>813,097</u>

CHANGE IN NET POSITION (204,920)

NET POSITION, BEGINNING OF YEAR 13,134,480

NET POSITION, END OF YEAR \$ 12,929,560

See notes to financial statements.

STATEMENT OF FIDUCIARY NET POSITION--FIDUCIARY FUND

OKLAHOMA STATE REGENTS FOR HIGHER EDUCATION  
Federal Fund

June 30, 2017

ASSETS

CURRENT ASSETS

Cash	\$ 12,984,666
Receivables	
Federal reinsurance	7,726,283
Loan collections	128,123
Other	41,593

TOTAL CURRENT ASSETS 20,880,665

TOTAL ASSETS \$ 20,880,665

DEFERRED OUTFLOWS OF RESOURCES

Non-reinsured defaulted loans	\$ 3,861,507
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TOTAL DEFERRED OUTFLOWS OF RESOURCES \$ 3,861,507

LIABILITIES

CURRENT LIABILITIES

Accounts payable and accrued expenses	\$ 45,682
Payable between funds	704,988
Default loan collections due to USDE	3,351,486

TOTAL CURRENT LIABILITIES 4,102,156

TOTAL LIABILITIES \$ 4,102,156

DEFERRED INFLOWS OF RESOURCES

Allowance for default claims	\$ 1,683,975
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TOTAL DEFERRED INFLOWS OF RESOURCES \$ 1,683,975

NET POSITION

Held in trust for Federal government	\$ 18,956,041
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TOTAL NET POSITION \$ 18,956,041

See notes to financial statements.

STATEMENT OF CHANGES IN FIDUCIARY NET POSITION--FIDUCIARY FUND

OKLAHOMA STATE REGENTS FOR HIGHER EDUCATION

Federal Fund

Year Ended June 30, 2017

ADDITIONS

Federal reinsurance	\$ 88,216,676
Loan collections	42,713,632
Default aversion fees	720,242
Interest income	188,035
Other additions	<u>85,066</u>

TOTAL ADDITIONS 131,923,651

DEDUCTIONS

Purchase of defaulted loans	80,954,824
Default loan collections due to USDE	48,559,681
Default aversion fees	498,539
Provision for default loans	<u>206,338</u>

TOTAL DEDUCTIONS 130,219,382

INCREASE IN NET POSITION 1,704,269

NET POSITION, BEGINNING OF YEAR 17,251,772

NET POSITION, END OF YEAR \$ 18,956,041

See notes to financial statements.

## OKLAHOMA STATE REGENTS FOR HIGHER EDUCATION NOTES TO BASIC FINANCIAL STATEMENTS

For the Year Ended June 30, 2017

### NOTE A--NATURE OF OPERATIONS

Nature of Operations: The Oklahoma State Regents for Higher Education (the Regents) is a component unit included in the financial statements of the State of Oklahoma. The Regents was created by Article XIII-A of the Oklahoma State Constitution in 1941. The Regents serves as the coordinating board of control for The Oklahoma State System of Higher Education (the State System) and in this capacity has responsibilities which include the following:

- To prescribe standards of higher education applicable to each constituent institution;
- To determine the functions and courses of study at each of the constituent institutions and ensure that such functions and courses of study conform to the standards prescribed;
- To grant degrees and other forms of academic recognition for completion of the prescribed courses of study in constituent institutions;
- To recommend to the State Legislature budget allocations for each constituent institution;
- To recommend to the State Legislature proposed fees for educational courses at constituent institutions; and,
- To allocate funds, through official resolutions of the Regents, to each constituent institution based on its needs and functions from lump-sum appropriations made by the State Legislature to the Regents.

The Regents sponsors a variety of programs, some of which are as follows:

- *Educational Programs* are established to make higher education available to those persons who cannot otherwise attend an institution of higher education. The funds for these programs are provided from state resources.
- *Student Assistance Programs* are established to aid students in higher education through the use of scholarships, grants, guaranteed loans and contract programs. These programs are funded from both state and federal resources.
- *Complete College American Initiative*, Complete College America (CCA) a comprehensive and ambitious higher education initiative undertaken by the state of Oklahoma. The goal is to increase the number of degrees and certificates earned in Oklahoma by 67 percent by 2023 to meet our state's workforce needs and keep Oklahoma competitive in a global economy.

## OKLAHOMA STATE REGENTS FOR HIGHER EDUCATION NOTES TO BASIC FINANCIAL STATEMENTS

For the Year Ended June 30, 2017

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

- *The Endowment Trust Fund Program* involves state-appropriated and privately donated funds for the creation of an endowment program to support the establishment of faculty chairs, professorships, lectureships, and to provide scholarships for the Academic Scholar Program at constituent institutions.
- *Other Assistance Programs* involve providing certain two year colleges and regional universities with financial assistance. These programs are funded by state resources.

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

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

These financial statements are prepared as required by generally accepted accounting principles promulgated by the Governmental Accounting Standards Board ("GASB"). The accounting and reporting framework and the more significant accounting policies are discussed in subsequent sections of this note.

Reporting Entity: The accompanying financial statements include only the accounts for operations and activities directly supervised by the Regents, including its principal offices and core operations, OneNet, and the Oklahoma College Assistance Program (OCAP), all located in Oklahoma City.

Basis of Presentation: The Regents follows GASB Statement No. 34 "*Basic Financial Statements and Management's Discussion and Analysis – for State and Local Governments*" and related pronouncements in the preparation of its financial statements. Under the provisions of the standard, the Regents is considered a special-purpose government engaged in governmental and business-type activities and are thereby required to provide both government-wide statements and fund financial statements, along with required supplementary information (RSI) that includes management's discussion and analysis (MD&A). The financial statement presentation required by GASB Statement No. 34 and as modified by GASB Statement No. 63 and 65 provides a comprehensive, entity-wide perspective of the Regents' assets, deferred outflows, liabilities, deferred inflows, net position, revenues, expenses, changes in net position



## OKLAHOMA STATE REGENTS FOR HIGHER EDUCATION NOTES TO BASIC FINANCIAL STATEMENTS

For the Year Ended June 30, 2017

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

and cash flows. The Regents' fiduciary funds include OCAP Federal Fund, the supplemental retirement plan and the retiree medical plan.

*Government-wide financial statements* - The statement of net position and statement of activities display information about the Regents as a whole. They include all funds of the reporting entity except for fiduciary funds. The statements distinguish between governmental and business-type activities. Governmental activities generally are financed through taxes, intergovernmental revenues, and other non-exchange revenues. Business-type activities are financed in whole or in part by fees charged to external parties for goods or services.

*Fund financial statements* - Fund financial statements of the reporting entity are organized into funds, each of which is considered to be separate accounting entities. Separate financial statements are provided for governmental funds, proprietary funds, and fiduciary funds, even though the latter are excluded from the government-wide financial statements. Each fund is accounted for by providing a separate set of self-balancing accounts which constitute its assets, deferred outflows, liabilities, deferred inflows, fund equity, revenues, and expenditures/expenses.

The Regents reports the following major governmental funds:

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

*William P. Willis Trust Fund* - a permanent fund established for the purpose of providing scholarships to low-income, full-time undergraduates attending institutions in the Oklahoma State System of Higher Education.

The Regents reports the following major proprietary fund:

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

**OKLAHOMA STATE REGENTS FOR HIGHER EDUCATION  
NOTES TO BASIC FINANCIAL STATEMENTS**

**For the Year Ended June 30, 2017**

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

The Regents report the following fiduciary funds:

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

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

*OSRHE Retiree Medical Plan* – the purpose of this plan is to provide certain medical care benefits, as defined in the Code section 213, to participants in the plan who are eligible retired employees and, to the extent permitted by the terms of the plan, their eligible spouse and dependents.

Measurement Focus and Basis of Accounting: The government-wide financial statements are reported using the *economic resources measurement focus* and the *accrual basis of accounting*, as are the proprietary fund and fiduciary fund financial statements. Revenues are recorded when earned and expenses are recorded when incurred, regardless of the timing of related cash flows.

Governmental fund financial statements are reported using the *current financial resources measurement focus* and the *modified accrual basis of accounting*. Revenues are recognized as soon as they are both measurable and available. Measurable means knowing or being able to reasonably estimate the amount. Available means collectible within the current period or soon enough thereafter to pay current liabilities. Expenditures are recorded when a liability is incurred, except for long-term debt principal and interest and accrued compensated absences, which are recorded to the extent they have matured. Proceeds of general long-term debt and capital leases are reported as other financing sources.

# OKLAHOMA STATE REGENTS FOR HIGHER EDUCATION

## NOTES TO BASIC FINANCIAL STATEMENTS

**For the Year Ended June 30, 2017**

Prior Period Adjustment: Beginning net position for fiscal year 2017 was restated as follows:

	Business-Type Activities
Beginning net position, as previously reported	\$ 58,085,167
Implementation of GASB Statement No. 75	(5,266,746)
Beginning net position, restated	\$ 52,818,421

GASB Statement No. 75 *Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions*, established standards for recognizing and measuring liabilities, deferred flows, and expenses. As a result of the application of GASB 75, OSRHE provided an additional \$5,266,746 of liabilities related to its net OPEB liability as of June 30, 2016.

Restricted Assets: Certain assets of the Regents are classified as restricted assets because their use is completely restricted by grant agreements or donor-imposed stipulations. Management has adopted the policy to spend restricted funds before the use of unrestricted resources when grant requirements have been met.

Use of Estimates in the Preparation of Financial Statements: The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenditures during the reporting period. Estimation of the accrued pension obligation and other post-employment benefits obligation involves the use of actuarial assumptions, including selection of a discount rate, projected salary increases, and projected annuity increases are included in the Regents' report effective for year ended June 30, 2017. Actual results could differ from those estimates.

# OKLAHOMA STATE REGENTS FOR HIGHER EDUCATION

## NOTES TO BASIC FINANCIAL STATEMENTS

For the Year Ended June 30, 2017

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

Investments: Investments are under control of the State Treasurer, the Teachers' Insurance Annuity Association - College Retirement Equities Fund ("TIAA/CREF"), and other various outside investment managers and are recorded at fair value based on reports provided by independent sources as of June 30, 2017. The net change in fair value of investments is recorded as investment return on the statement of revenues, expenses, and changes in net assets and includes the unrealized and realized gains and losses on investments.

During the year the Regent's adopted the applicable provisions of Governmental Accounting Standards Board Statement No. 79, *Certain External Investment Pools and Pool Participant*. This statement establishes criteria for an external investment pool to qualify for making the election to measure all of its investments at amortized cost for financial reporting purposes. The adoption had no measurable effect on the Regent's accounting for investments.

Receivables: Receivables consist primarily of funds that are due to the Regents in relation to the operation of the academic programs, OCAP, and OneNet. Major items include conference fees, federal reinsurance on defaulted claims, administrative allowances from the U.S. Department of Education ("USDE"), estimated collectible non-reinsured defaulted loans, and charges by OneNet for internet and other telecommunication services. The estimate of collectible non-reinsured defaulted loans is based on historical recovery experience.

Capital Assets: Capital assets consist of buildings, equipment and motor vehicles, recorded at cost (when purchased by the Regents), or at estimated fair market value at date of acquisition (when acquired other than by purchase) less accumulated depreciation. Capital assets are defined as long-lived assets with initial costs equal to or greater than \$500.

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

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

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

## OKLAHOMA STATE REGENTS FOR HIGHER EDUCATION NOTES TO BASIC FINANCIAL STATEMENTS

**For the Year Ended June 30, 2017**

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

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

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

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

Non-Reinsured Defaulted Loans: OCAP estimates collections on non-reinsured defaulted loans based upon historical recovery experience. The historical collection rate for June 30, 2017 is 62.86%. The non-reinsured defaulted loans are reported in the Federal fund as a deferred outflow of resources.

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

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

Subsequent Events: The Regents has evaluated subsequent events through October 20, 2017, the date the financial statements were available to be issued.

### NOTE C--DEPOSITS AND INVESTMENTS

Deposits: Custodial credit risk is the risk that in the event of the failure of a counter party, the Regents will be unable to recover the value of its investments. Deposits are exposed to custodial risk if they are uninsured and uncollateralized. The Regents deposits its funds with the Office of the State Treasurer ("OST") and those funds are pooled with funds of other state

## OKLAHOMA STATE REGENTS FOR HIGHER EDUCATION NOTES TO BASIC FINANCIAL STATEMENTS

For the Year Ended June 30, 2017

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

agencies and then, in accordance with statutory limitations, are placed in financial institutions or invested as the OST may determine, in the state's name. By Oklahoma Statute, the State)

Treasurer is required to ensure that all state funds are either insured by Federal Deposit Insurance, collateralized by securities held by the Federal Reserve Bank, or invested in United States government obligations. The OST's responsibilities include receiving and collateralizing the deposit of State Funds, investing State funds in compliance with statutory requirement, and maintaining adequate liquidity to meet the cash flow needs of the State and all its funds and agencies. Some deposits with the OST are placed in the OST's internal investment pool *OK INVEST*. *OK INVEST* pools the resources of all state funds and agencies that are considered part of the State of Oklahoma and invests them in (a) U.S. treasury securities; (b) U.S. agency securities; (c) money market mutual funds; and (d) investments related to tri-party repurchase agreements and other various investments, as allowed by law.

At June 30, 2017, the carrying amount of the Regents' deposits with OST was \$82,244,283. Of the funds on deposit with OST, \$78,137,044 is invested in *OK INVEST*.

Agencies that are considered to be part of the State's reporting entity in the State's Comprehensive Annual Financial Report and who have funds deposited with the OST may participate in *OK INVEST*. Oklahoma statutes and the OST establish the primary objectives and guidelines governing the investment of funds in *OK INVEST*. Safety, liquidity, and return on investment are the objectives which establish the framework for the day to day *OK INVEST* management with an emphasis on safety of the capital and the probable income to be derived and meeting the State and its funds and agencies' daily cash flow requirements. Guidelines in the Investment Policy address credit quality requirements, diversification percentages and specify the types and maturities of allowable investments.

The State Treasurer, at his discretion, may further limit or restrict such investments on a day to day basis. *OK INVEST* includes a substantial investment in securities with an overnight maturity as well as in U.S. government securities with a maturity of up to ten years. Accordingly, *OK INVEST* maintains a variable net asset value that may fluctuate with changes in the market. *OK INVEST* maintains an overall weighted average maturity of less than 2 years. The main risks of investing in *OK INVEST* are interest rate risk, credit/default risk, liquidity risk, and U.S. Government securities risk. Interest rate risk is the risk that during periods of rising interest rates, the yield and market value of the securities will tend to be lower than prevailing market rates; in periods of falling interest rates, the yield will tend to be higher.

# OKLAHOMA STATE REGENTS FOR HIGHER EDUCATION

## NOTES TO BASIC FINANCIAL STATEMENTS

For the Year Ended June 30, 2017

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

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

#### Investments:

As of June 30, 2017 the Regents held the following investments by fund type as measured by fair value:

#### **Investment by fund type as measured at fair value**

Governmental fund- <i>William P. Willis Trust Fund</i>	\$	830,404
Governmental fund- <i>Endowment Trust Fund</i>	\$	711,131,923
Proprietary fund - <i>Academic Scholars Trust Fund</i>	\$	577,174
Fiduciary fund - <i>OSRHE Supplemental Retirement Plan</i>	\$	12,929,560
Fiduciary fund - <i>OSRHE Retiree Medical Plan</i>	\$	12,261,154

Fair value measurements are categorized within the fair value hierarchy established by generally accepted accounting principles. The hierarchy is based on the valuation inputs used to measure the fair value of the asset and give the highest priority to unadjusted quoted prices in active markets for identical assets or liabilities (level 1 measurements) and the lowest priority to unobservable inputs (level 3 measurements) as follows:

- Level 1 Unadjusted quoted prices for identical instruments in active markets.
- Level 2 Quoted prices for similar instruments in active markets; quoted prices for identical or similar instruments in markets that are not active; and model-derived valuations in which all significant inputs are observable.
- Level 3 Valuations derived from valuation techniques in which significant inputs are unobservable.

## OKLAHOMA STATE REGENTS FOR HIGHER EDUCATION NOTES TO BASIC FINANCIAL STATEMENTS

For the Year Ended June 30, 2017

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

#### Investments: Governmental Activities – William P. Willis Trust Fund:

The State Regents are designated as Trustees of the William P. Willis Trust Fund [70 O.S., § 2292] which is used to establish and maintain the William P. Willis Scholarship Program for the purpose of providing scholarships to low-income, full-time undergraduates attending institutions within the State System. As of June 30, 2017 this fund's investments of \$830,404 were held in the OST's internal investment pool *OK INVEST*.

#### Investments: Governmental Activities – Endowment Trust Fund:

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

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

The State Regents retain a qualified investment consultant to provide advice in selecting investment managers with whom to invest monies of the Fund. An *investment* is a security or other asset that is held primarily for the purpose of income or profit and has a present service capacity based solely on its ability to generate cash or to be sold to generate cash.

The investment goal of the Fund is to invest its assets in a manner that will achieve a *total rate of return* sufficient to maintain support of endowed chairs and professorships at State System institutions. To achieve this goal, some investment risk must be taken. In accordance with 70 O.S. § 3954, the State Regents minimize such risk through diversification of Fund investments among various financial instruments and asset categories, and uses multiple investment



**OKLAHOMA STATE REGENTS FOR HIGHER EDUCATION  
NOTES TO BASIC FINANCIAL STATEMENTS**

**For the Year Ended June 30, 2017**

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

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

strategies and investment managers. Key decisions in this regard are made by the Fund's investment committee, subject to State Regents approval, which has oversight responsibility for the Fund's investment program. The committee identifies appropriate asset categories for investments, determines the allocation of assets to each category and approves the investment strategies employed. In making their investment decisions, the State Regents exercise the judgment and care, under circumstances then prevailing, which persons of prudence, discretion and intelligence exercise in the management of their own affairs, not for speculation, but with regard to the permanent disposition of their funds, considering the probable safety of their capital as well as the probable income to be derived.

Investment managers' and consultant fees are paid from the investment proceeds and the net investment return is allocated to each of the respectively designated accounts constituting the principal of the Fund. Expenses incurred by the State Regents in the administration of the Fund and the endowment program are paid from monies appropriated for their general operating budget. Total fees are approximately one percent (1.28%) of the Fund's investment portfolio as of June 30, 2017.

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

As of June 30, 2017 the Fund held investments of \$711,131,923 as measured by fair value: Of this amount \$706,994,378 is invested with various fund managers and the remaining \$4,137,545 is deposited in the OST's internal investment pool *OK INVEST*.

OKLAHOMA STATE REGENTS FOR HIGHER EDUCATION  
NOTES TO BASIC FINANCIAL STATEMENTS

For the Year Ended June 30, 2017

NOTE C--DEPOSITS AND INVESTMENTS (continued)

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

<i>Governmental activities</i> <b>Endowment Trust Fund</b>		FAIR VALUE MEASUREMENTS USING		
		Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
	Fair Value 6/30/2017			
<b>Investments by fair value level</b>				
Cash/Cash Equivalents				
<i>Cash/Cash Equivalents</i>	\$ 5,423,470	\$ 5,423,470		
Fixed Income Securities				
<i>Bonds Funds</i>	51,354,247	51,354,247		
Equity Securities				
<i>Domestic Equity</i>	176,528,426	176,528,426		
<i>International Equity</i>	63,280,992	63,280,992		
<b>Total Equity Securities</b>	<u>239,809,418</u>	<u>239,809,418</u>		
Real Assets				
<i>Liquid Real Assets</i>	32,381,536	32,381,536		
<b>Total investments by fair value level</b>	<u><u>\$ 328,968,671</u></u>	<u><u>\$ 328,968,671</u></u>		
<i>Governmental activities</i> <b>Endowment Trust Fund</b>		<b>Fair Value 6/30/2017</b>		
<b>Investments measured at the net asset value (NAV)</b>				
Fixed Income	\$ 34,298,192			
Equity	148,211,115			
Real Assets	51,730,976			
Private Equity Funds	29,807,953			
Hedge Funds	113,977,472			
<b>Total investments measured at the NAV</b>	<u>378,025,707</u>			
<b>Internal Investment Pool - OK INVEST</b>	<u>4,137,545</u>			
<b>Total investments</b>	<u><u>\$ 711,131,923</u></u>			

# OKLAHOMA STATE REGENTS FOR HIGHER EDUCATION

## NOTES TO BASIC FINANCIAL STATEMENTS

**For the Year Ended June 30, 2017**

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

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

The inputs used to measure the fair value of the Fund's certificates of deposit at June 30, 2017 are classified in Level 2 of the fair value hierarchy using non-proprietary information readily available from the OST and supplied to the Regents. Cash and cash equivalents categorized in Level 2 of the fair value hierarchy consist of a money-market fund which seeks to maintain a share value of \$1.00 per share. This investment is recorded at amortized cost, which approximates fair value.

The Fund also holds investments of \$378,025,707 in limited partnerships, limited liability companies, and investment trusts that are measured at the net asset value (NAV) per share, or its equivalent such as member units or an ownership interest in partners' capital. Because NAV is communicated to the Fund and not publicly available, NAV is being used as a practical expedient for fair value. NAV is established by applying the investee's calculated NAV (or its equivalent) to the Fund's proportionate share of the investee's net assets. This method of determining fair value is permitted by Statement 72 of the Governmental Accounting Standards Board - *Fair Value Measurement and Application* if the NAV per share (or its equivalent) of the investment is calculated as of the government's measurement date in a manner generally consistent with the Financial Accounting Standards Board Topic 946, *Financial Services – Investment Companies*. OSRHE has determined that the NAV per share (or its equivalent) provided by the investees is determined in that manner.

The Fund's Investment Committee, State Regents' staff, and Investment Consultant evaluate the investment values provided to the Fund based on a number of factors which include: acquiring an understanding of the investee's underlying investments, strategy, positions, and valuation methodologies; obtaining audited financial statements, third-party valuation reports, and investment administrator transparency reports; and comparing information provided by the fund administrator or Investment Management to other available information such as sector data and indexes. The following table summarizes the Fund's investments of \$378,025,707 measured at the NAV as of June 30, 2017.

OKLAHOMA STATE REGENTS FOR HIGHER EDUCATION  
NOTES TO BASIC FINANCIAL STATEMENTS

For the Year Ended June 30, 2017

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

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

<i>Governmental activities</i> <b>Endowment Trust Fund</b>	<b>Fair Value 6/30/2017</b>	<b>Unfunded Commitments</b>	<b>Redemption Frequency</b>	<b>Redemption Notice Period</b>
<b>Investments measured at the net asset value (NAV)</b>				
Fixed Income/Debt <sup>(1)</sup>	\$ 34,298,192		Monthly	Days
Equity				
International Equity <sup>(2)</sup>	105,020,419		Monthly	6-30 Days
Global Equity <sup>(3)</sup>	43,190,696		Monthly	10 Days
Total equity	148,211,115			
Liquid Real Assets <sup>(4)</sup>	12,230,813		Daily	1 Day
Illiquid - Real Estate <sup>(5)</sup>	14,187,481	22,198,546	Illiquid	N/A
Illiquid - Natural Resources <sup>(6)</sup>	25,312,682	20,288,087	Illiquid	N/A
Total real assets	51,730,976			
Private Equity Funds				
Venture Capital <sup>(7)</sup>	8,126,744	14,409,206	Illiquid	N/A
Special Situations <sup>(8)</sup>	5,441,554	10,414,158	Illiquid	N/A
Buyout <sup>(9)</sup>	16,239,655	27,976,862	Illiquid	N/A
Total private equity funds	29,807,953			
Hedge Funds				
Long/Short Equity <sup>(10)</sup>	25,897,111		Quarterly-3 Years	45-90 Days
Event-Driven <sup>(11)</sup>	17,184,203		Quarterly-6 Months	65-90 Days
Global Macro <sup>(12)</sup>	10,581,606		Quarterly	90 Days
Long/Short Credit <sup>(13)</sup>	27,977,773		1 - 2 Years	45-60 Days
Multi Strategy <sup>(14)</sup>	32,336,779		Quarterly	45-65 Days
Total hedge funds	113,977,472			
<b>Total investments measured at the NAV</b>	<b>\$ 378,025,707</b>			

## OKLAHOMA STATE REGENTS FOR HIGHER EDUCATION NOTES TO BASIC FINANCIAL STATEMENTS

For the Year Ended June 30, 2017

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

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

1. *Fixed Income/Debt.* This strategy includes investment trust interests in two (2) funds that invest primarily in global debt or debt-like securities. Fixed income securities are valued on the basis of quotations (*provided by pricing vendors*) from the primary market in which they are traded.
2. *International Equity.* This strategy includes investment interests in five (5) funds whose objective is capital appreciation through investing in a diversified portfolio consisting primarily of large and/or small cap equity securities of issuers that are located outside the U.S., or which derive a significant portion of their business or profits outside of the U.S. The major investment categories include - common stock, preferred stock and mutual funds which are valued based on quoted prices from the applicable primary market exchange.
3. *Global Equity.* This investment strategy is composed of a limited liability company interest through a single fund that buys and holds publicly traded equity securities of companies within the United States and throughout the world. Equity securities are valued based on quoted prices from the applicable primary market exchange.
4. *Real Assets – Liquid.* This investment type includes a limited partnership interest through a single fund that invests principally in equity securities of issuers who are primarily engaged in natural resource industries throughout the world. The method used to estimate the fair value of the portfolio of investments include this partnership is the market approach. Equities and other securities for which exchange quotations are readily available and that are listed on a national securities exchange or quoted on NASDAQ are valued on the basis of the last reported sales price quoted in its principal market. Alternatively, if no last sale information is available; such securities are valued at the mean of their closing “bid” and “asked” price.
5. *Real Assets – Illiquid Natural Resources.* This type includes limited partnership interests in ten (10) funds that invest in the energy industry including; oil, natural gas, midstream, oil field services, coal, power and renewable/alternative energy. Generally, fair value reports are prepared for each of fund’s portfolio investments annually which usually occurs at December 31<sup>st</sup>. This information together with engineering economics based on a third party reserve report is used to calculate discount rates for reserves and other cash flows. Where appropriate, market comparisons and transaction comparisons are used to value certain assets. These investments can never be redeemed with the investee; rather distributions

**OKLAHOMA STATE REGENTS FOR HIGHER EDUCATION  
NOTES TO BASIC FINANCIAL STATEMENTS**

**For the Year Ended June 30, 2017**

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

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

from each fund are received as the underlying investments of the funds are liquidated. It is expected that the underlying assets of the funds will be liquidated over the next 7 to 10 years. Commitments of \$20,288,087 remain unfunded.

6. *Real Assets – Illiquid Real Estate.* This type includes limited partnership interests in seven (7) funds that invest in real estate, real estate-related assets and interests in entities that own or operate real property, either directly or through one or more entities holding equity and/or debt interests in real estate. The valuation techniques used to measure the fair value of investments in real estate will vary depending on the type of investment. Due to the fact that a quoted market exchange generally does not exist, investments in real estate are generally valued using a discounted projected cash flow methodology using estimates which are considered Level 3 inputs, including (1) the amount of expected future cash flows, (2) the timing of receipt of those cash flows and (3) the discount rate. These investments can never be redeemed with the investee; rather distributions from each fund are received as the underlying investments of the funds are liquidated. It is expected that the underlying assets of the funds will be liquidated over the next 9 to 12 years. Commitments of \$22,198,546 remain unfunded.
7. *Private Equity Funds – Venture Capital.* This type includes limited partnership interests in five (5) funds that seek capital appreciation by making, managing, supervising, and disposing of privately equity and related securities, principally in venture capital and growth private equity funds. The methods used to estimate the fair value of private investments include the market approach and the income approach, each of which involve a significant degree of judgment. The indications of value derived from the methods used are evaluated and weighted, as appropriate, considering the reasonableness of the range of value indicated by the methods. The fair value of an investment is the point within the range that each of the investment funds' General Partner believes is most representative of fair value. These investments can never be redeemed with the investee; rather distributions from each fund are received as the underlying investments of the funds are liquidated. It is expected that the underlying assets of these funds will be liquidated over the next 2 to 8 years. Commitments of \$14,409,206 remain unfunded.
8. *Private Equity Funds – Special Situations.* This type includes limited partnership interests in four funds that invest primarily in the securities of entities that, or are owned by persons that, are undergoing, are considered likely to undergo or have undergone (i) reorganization under the federal bankruptcy law or similar laws in other countries or (ii) other extraordinary transactions, such as debt restructurings, reorganizations and liquidations

OKLAHOMA STATE REGENTS FOR HIGHER EDUCATION  
NOTES TO BASIC FINANCIAL STATEMENTS

For the Year Ended June 30, 2017

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

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

outside of bankruptcy. Fund investments may also include other instruments that the General Partner believes are undervalued, focusing primarily on debt and equity securities in special event-driven situations (e.g. non-distressed investments). The fair values of non-publicly traded private equity investments are determined by using a market approach or income approach. A market approach utilizes valuations of comparable public companies or transactions in order to establish the enterprise value of the portfolio company. This approach takes into account a specific financial measure (such as EBITDA, adjusted EBITDA, free cash flow, net operating income, net income, book value or net asset value) believed to be most relevant for the given company. Consideration may also be given to such factors as acquisition price of the security, historical and projected operational and financial results for the portfolio company, the strengths and weaknesses of the portfolio company relative to its comparable companies, industry trends, general economic and market conditions and other factors deemed relevant. The income approach is typically a discounted cash flow method that incorporates expected timing and level of cash flows. It incorporates assumptions in determining growth rates, income and expense projections, discount rates, capital structure, terminal values and other factors. The applicability and weight assigned to market and income approaches are determined based on the availability of reliable projections and comparable companies and transactions. The funds can never be redeemed with the investee; rather distributions from each fund are received as the underlying investments of the funds are liquidated. It is expected that the underlying assets of these funds will be liquidated over the next 4 to 10 years. Commitments of \$10,414,158 remain unfunded.

9. *Private Equity Funds – Buyout.* This type includes limited partnership interests in nine (9) funds that seek capital appreciation by acquiring, holding, and disposing of primarily equity and equity-related securities in companies. The fair values of non-publicly traded private equity investments are determined by using a market approach or income approach. A *market approach* utilizes valuations of comparable public companies or transactions and generally seeks to establish the enterprise value of the portfolio company using a market multiple approach. This approach takes into account a specific financial measure (such as EBITDA, adjusted EBITDA, free cash flow, net operating income, net income, book value or net asset value) believed to be most relevant for the given company. Consideration may also be given to such factors as acquisition price of the security, historical and projected operational and financial results for the portfolio company, the strengths and weaknesses of the portfolio company relative to its comparable companies, industry trends, general economic and market conditions and other factors deemed relevant. The *income approach* is

**OKLAHOMA STATE REGENTS FOR HIGHER EDUCATION  
NOTES TO BASIC FINANCIAL STATEMENTS**

**For the Year Ended June 30, 2017**

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

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

typically a discounted cash flow method that incorporates expected timing and level of cash flows. It incorporates assumptions in determining growth rates, income and expense projections, discount rates, capital structure, terminal values and other factors. The applicability and weight assigned to market and income approaches are determined based on the availability of reliable projections and comparable companies and transactions. These investments can never be redeemed with the investee; rather distributions from each fund are received as the underlying investments of the funds are liquidated. It is expected that the underlying assets of these funds will be liquidated over the next 2 to 10 years. Commitments of \$27,976,862 remain unfunded.

10. *Hedge Funds – Long / Short Equity.* This investment strategy includes limited partnership interests in three (3) hedge funds that invest both long and short in equity securities of global companies that operate in a wide range of industries. The methods used to estimate the fair value of hedge funds include the market approach and the income approach, each of which involve a significant degree of judgment. The indications of value derived from the methods used are evaluated and weighted, as appropriate, considering the reasonableness of the range of value indicated by the methods. The fair value of an investment is the point within the range that each of the investment funds' General Partner believes is most representative of fair value.

11. *Hedge Funds – Event Driven.* This investment type includes limited partnership interests in two (2) hedge funds that invest in companies through distressed credit and event-driven strategies. The methods used to estimate the fair value of hedge funds include the market approach and the income approach, each of which involve a significant degree of judgment.

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

12. *Hedge Funds – Global Macro.* This investment strategy includes limited partnership interests in one (1) hedge fund that analyze macroeconomic trends in order to arrive at an investment strategy that includes; taking positions on the fixed-income, currency and equity markets through either direct investments or futures and other derivative products. The methods used to estimate the fair value of hedge funds include the market approach and the income approach, each of which involve a significant degree of judgment. The indications of value



**OKLAHOMA STATE REGENTS FOR HIGHER EDUCATION  
NOTES TO BASIC FINANCIAL STATEMENTS**

**For the Year Ended June 30, 2017**

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

Investments: Governmental activities – Endowment Trust Fund (continued):

derived from the methods used are evaluated and weighted, as appropriate, considering the reasonableness of the range of value indicated by the methods. The fair value of an investment is the point within the range that each of the investment funds' General Partner believes is most representative of fair value.

13. *Hedge Funds – Long / Short Credit.* This investment strategy is composed of limited partnership interests in two (2) hedge funds that utilize both hedged and directional investment strategies primarily in the leveraged issuer, distressed debt and reorganized equity markets. The methods used to estimate the fair value of hedge funds include the market approach and the income approach, each of which involve a significant degree of judgment. The indications of value derived from the methods used are evaluated and weighted, as appropriate, considering the reasonableness of the range of value indicated by the methods. The fair value of an investment is the point within the range that each of the investment funds' General Partner believes is most representative of fair value. One Fund has instituted a 25% investor-level gate, and if elected full redemptions would be filled over four quarterly periods. The investment represents 13.52% of the Fund's total Hedge Fund portfolio.

14. *Hedge Funds – Multi-Strategy.* This investment strategy includes limited partnership interests in three (3) hedge funds that pursue multiple strategies to diversify risks and reduce volatility. The methods used to estimate the fair value of hedge funds include the market approach and the income approach, each of which involve a significant degree of judgment. The indications of value derived from the methods used are evaluated and weighted, as appropriate, considering the reasonableness of the range of value indicated by the methods. The fair value of an investment is the point within the range that each of the investment funds' General Partner believes is most representative of fair value.

The pooled Endowment Trust balance as of June 30, 2017 is \$711,131,923 which includes investments, cash deposited with OST, and other investment receivables. A portion of these assets are held on behalf of Langston University in the amount of \$38,683,311. These funds have also been presented in the financial statements for Langston University as an asset of the University.

# OKLAHOMA STATE REGENTS FOR HIGHER EDUCATION

## NOTES TO BASIC FINANCIAL STATEMENTS

**For the Year Ended June 30, 2017**

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

#### Investments: Business Type activities – Academic Scholar’s Trust Fund

As of June 30, 2017, the Oklahoma State Regents' Academic Scholars Trust Fund held investments with a fair value of \$577,174.

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

This fund did not hold any investments which require fair value measurements within the fair value hierarchy. All of the investments that comprise the Academic Scholar’s Trust Fund reside in commingled external investment pools which are measured at the net asset value (NAV) per share. Because NAV is communicated to the Fund and not publicly available, NAV is being used as a practical expedient for fair value. NAV is established by applying the investee’s calculated NAV (or its equivalent) to the Fund’s proportionate share of the investee’s net assets. Statement 72 of the Governmental Accounting Standards Board - *Fair Value Measurement and Application* permits this method of determining fair value if the NAV per share (or its equivalent) of the investment is calculated as of the government’s measurement date in a manner generally consistent with the Financial Accounting Standards Board Topic 946, *Financial Services – Investment Companies*. OSRHE has determined that the NAV per share (or its equivalent) provided by the investees is determined in that manner.

The following table summarizes the Fund’s investments of \$577,174 measured at the NAV as of June 30, 2017.

OKLAHOMA STATE REGENTS FOR HIGHER EDUCATION  
NOTES TO BASIC FINANCIAL STATEMENTS

For the Year Ended June 30, 2017

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

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

<i>Business-type activities</i>				
<b>Academic Scholar's Trust Fund</b>				
	<b>Fair Value</b>	<b>Unfunded</b>	<b>Redemption</b>	<b>Redemption Notice</b>
	<b>6/30/2017</b>	<b>Commitments</b>	<b>Frequency</b>	<b>Period</b>
<b>Investments measured at the net asset value (NAV)</b>				
Equity	\$ 38,392		Monthly	5 days business days prior to month end
Fixed Income/Debt	<u>538,782</u>		Monthly	5 days business days prior to month end
<b>Total investments measured at the NAV</b>	<u><b>577,174</b></u>			
<b>Total business-type activities investments at fair value</b>	<u><b>\$ 577,174</b></u>			

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

*Fixed Income/Debt.* This investment is a bond multi-strategy which includes one (1) fund that is an actively managed, multi-manager investment program providing broad exposure to global debt markets and invests primarily in investment grade bond and other fixed income securities. Fixed income securities are valued on the basis of quotations (provided by pricing vendors) from the primary market in which they are traded.

**OKLAHOMA STATE REGENTS FOR HIGHER EDUCATION  
NOTES TO BASIC FINANCIAL STATEMENTS**

**For the Year Ended June 30, 2017**

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

Investments: Fiduciary Fund – OSRHE Supplemental Retirement Plan

As of June 30, 2017 the OSRHE Supplemental Retirement Plan Trust held investments with a fair value of \$12,929,560.

The purpose of the OSRHE Supplemental Retirement Plan Trust is to provide retirement benefits for the eligible employees and to distribute the funds accumulated in the trust, in accordance with the plan, to the participants and their designated beneficiaries. Employees are eligible to participate in the Supplemental Plan, if they: (1) have been a member of the Oklahoma Teachers Retirement System for a minimum of 10 years, (2) have been a full-time regular State Regents employee for at least 10 years, and (3) have been employed by the State Regents prior to March 12, 1999. The following inputs were used to determine the fair value level of the Supplemental Plan at June 30, 2017.

<i>Fiduciary activities</i> <b>OSRHE Supplemental Retirement Plan</b>		<b>FAIR VALUE MEASUREMENTS USING</b>		
		Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
	Fair Value 6/30/2017			
<b>Investments by fair value level</b>				
Equity	\$ 746,606	\$ 746,606		
Fixed Income/Debt	12,182,954	12,182,954		
<b>Total investments measured by fair value level</b>	<u>12,929,560</u>	<u>12,929,560</u>		
<b>Total OSRHE Supplemental Retirement Plan investments at fair value</b>	<u>\$ 12,929,560</u>	<u>\$ 12,929,560</u>		

**OKLAHOMA STATE REGENTS FOR HIGHER EDUCATION  
NOTES TO BASIC FINANCIAL STATEMENTS**

**For the Year Ended June 30, 2017**

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

**Investments: Fiduciary Fund – OSRHE Retiree Medical Plan**

As of June 30, 2017 the OSRHE Retiree Medical Plan held investments with a fair value of \$12,261,154.

The OSRHE Retiree Medical Plan Trust provides funding for payment of eligible State Regents retirees' group health insurance, including dental and vision, less any amount paid by Oklahoma Teachers' Retirement System (OTRS) for that purpose, through the month in which the retiree attains age 65 and becomes eligible for Medicare. If the retiree receives Medicare benefits, the State Regents will continue to pay on behalf of the retiree the Medicare supplemental insurance cost, less any amount paid by OTRS for that purpose, for the remaining life of the retiree. Eligible employees are those retiring after March 12, 1999, who have: (1) been a full-time OSRHE employee for not less than ten (10) years immediately preceding the date of retirement from the OSRHE, and (2) has been a member of the OTRS during that time and has elected to receive a monthly life annuity under the provisions of the OTRS regulations immediately upon retirement.

The following inputs were used to determine the fair value of the OSRHE Retiree Medical Plan Trust's investments at June 30, 2017.

<p><i>Fiduciary activities</i></p> <p><b>OSRHE Retiree Medical Plan</b></p>		FAIR VALUE MEASUREMENTS USING		
		Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
	Fair Value 6/30/2017			
<b>Investments by fair value level</b>				
Cash/Cash Equivalents	\$ 144,226		\$ 144,226	
Fixed Income/Debt	12,116,928	\$ 12,116,928		
<b>Total investments measured by fair value level</b>	12,261,154	12,116,928	144,226	
<b>Total OSRHE Retiree Medical Plan investments at fair value</b>	<u>\$ 12,261,154</u>	<u>\$ 12,116,928</u>	<u>\$ 144,226</u>	

Investments categorized in Level 2 of the fair value hierarchy consist of a money-market fund which seeks to maintain a share value of \$1.00 per share. This investment is recorded at amortized cost, which approximates fair value.

**OKLAHOMA STATE REGENTS FOR HIGHER EDUCATION**  
**NOTES TO BASIC FINANCIAL STATEMENTS**

**For the Year Ended June 30, 2017**

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

**Investments: Interest Rate Risk and Credit Risk**

*Interest rate risk* is the risk that changes in interest rates will adversely affect the fair value of an investment. Investments can be highly sensitive to changes in interest rates due to their terms or characteristics. Duration is a measure of the weighted-average time to receive the discounted present values of all the cash flows (including both principal and interest). Weighted-Average Life is a measure of the time to receive the principal payments (not including interest, and not discounting). Weighted-average maturity is an average of the maturity dates of multiple loans, not an average of principal repayments.

*Credit risk* is the risk that an issuer or other counterparty to an investment will not fulfill its obligations. This risk is measured by the credit quality ratings of investments in debt securities as described by the nationally recognized statistical rating organizations (rating agencies).

The following tables summarize the Regents' investments in fixed income/debt securities subject to interest rate risk and credit risk as of June 30, 2017.

Fixed Income / Debt Securities Investment Type	Fair Value 6/30/2017	Average Credit Quality / Rating	Effective Duration (years)	Average Life (years)	Average Maturity (years)
<i>Governmental activities</i>					
<b>Endowment Trust Fund</b>					
<i>Bond Market Index Fund</i>	\$ 25,736,578	AA-	6.10	N/A	8.40
<i>Total Return Bond Fund</i>	25,617,669	AA-	3.84	5.36	N/A
<i>Global Bond Fund</i>	13,792,288	AA-	5.90	7.69	7.69
<i>Special Purpose Vehicles</i>	20,505,904	BB	1.60	6.40	6.40
<i>Business-type activities</i>					
<b>Academic Scholar's Trust Fund</b>					
<i>Multi-Strategy Fund</i>	538,782	AA-	4.70	7.21	4.73
<i>Fiduciary-type activities</i>					
<b>OSRHE Supplemental Retirement Plan</b>					
<i>Multi-Strategy Fund</i>	12,182,954	AA-	5.76	N/A	8.38
<i>Fiduciary-type activities</i>					
<b>OSRHE Retiree Medical Plan</b>					
<i>Multi-Strategy Fund</i>	12,116,928	AA-	5.50	N/A	8.05
<i>Money Market Fund</i>	\$ 144,225	Not Rated	N/A	N/A	< 1 year

## OKLAHOMA STATE REGENTS FOR HIGHER EDUCATION NOTES TO BASIC FINANCIAL STATEMENTS

**For the Year Ended June 30, 2017**

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

#### Investments: Concentration of Credit Risk

The concentration of credit risk is the risk of loss that may occur due to the amount of investments in a single issuer, not including investments issued or guaranteed by the U.S. Government, investments in mutual funds or external investment pools. As of June 30, 2017, the Regents' did not hold 5% or more of its total investments in any one issuer.

#### Investment - Foreign Currency Risk

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

#### *Endowment Trust Fund*

The international equity manager will invest primarily in non-dollar denominated equity securities. The managers are required to operate under certain restrictions including: regional constraints, diversification requirements and percentage of U.S. securities as dictated by the terms of the commingled or mutual funds in which they are invested.

The international fixed income manager may enter into forward currency exchange contracts, agreements to exchange one currency for another at a future date, in order to manage risk arising from exposure to changing currency fluctuations; buy or sell futures and options contracts relating to foreign currencies; purchase securities indexed to foreign currencies, contingent upon their being within those countries comprising the Salomon Non-U.S. Bond Index or denominated in the U.S. dollar; and hedge portfolio securities from time to time by shifting investment exposure from one currency to another, contingent upon the currencies being within those countries comprising the Salomon Non-U.S. Bond Index.

#### Investments: Asset Allocation

#### *Endowment Trust Fund*

The Endowment Trust Fund's investing activities are managed under the custody of investment managers. Each investment manager is evaluated against the appropriate comparative benchmark to ensure investing is performed in accordance with internal investment policies. Endowment Trust Funds may be invested in Domestic Equity, International Equity, Private Equity, Domestic/Global Fixed Income, International Fixed Income, Hedge Funds, Domestic Inflation Protected Fixed Assets and REITS/Real Estate. The overall level of risk in the investment portfolio will be primarily mitigated by attention to asset allocation.

OKLAHOMA STATE REGENTS FOR HIGHER EDUCATION  
NOTES TO BASIC FINANCIAL STATEMENTS

For the Year Ended June 30, 2017

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

Investments: Asset Allocation *(continued)*:

The focus is on overall portfolio risk, not risk related to specific asset classes. Asset allocation guidelines approved by the State Regents for the Endowment Trust Fund are as follows:

REGENTS ENDOWMENT TRUST FUND			
TARGET POLICY ASSET ALLOCATION AND ALLOWABLE RANGE PERCENTAGES			
Asset Class	Target Allocation %	Minimum Target Allocation %	Maximum Target Allocation %
<b><i>GROWTH ASSETS:</i></b>			
Domestic Equity	12	12	45
International Equity	16	5	25
Global Equity	5	0	10
Growth Fixed Income	5	0	10
Private Equity	15	0	15
<i>Total, Growth Assets</i>	53	17	105
<b><i>RISK REDUCTION ASSETS:</i></b>			
Domestic/Fixed Income	7	5	30
International Fixed Income	3	0	10
Absolute Return (Hedge Funds)	20	0	25
Cash	2	0	15
<i>Total, Risk Reduction Assets</i>	32	5	80
<b><i>INFLATION PROTECTED ASSETS:</i></b>			
Domestic Inflation Protected Fixed	0	0	10
REITS/Real Assets	15	0	15
<i>Total, Inflation Protected Assets</i>	15	0	25



**OKLAHOMA STATE REGENTS FOR HIGHER EDUCATION  
NOTES TO BASIC FINANCIAL STATEMENTS**

**For the Year Ended June 30, 2017**

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

**Investments: Asset Allocation** *(continued)*

*William P. Willis Trust Fund*

The principal of the fund, defined as the total legislative appropriations, may be treated as quasi-endowment funds and invested in up to sixty percent (60%) equity and equity-like investments. The remainder of the principal should be held in fixed income investments and cash.

*Academic Scholars Trust Fund*

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

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

ACADEMIC SCHOLARS TRUST FUND				
ALLOCATION GUIDELINE PERCENTAGES				
Asset Class		Minimum	Target	Maximum
<b><i>EQUITITES:</i></b>				
Core		32%	37%	42%
Small Cap		2%	7%	12%
International		10%	15%	20%
<b><i>FIXED INCOME:</i></b>				
Core		18%	23%	28%
Intermediate		10%	15%	20%
Cash		0%	3%	8%
			100%	

*Retirement Funds*

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

**OKLAHOMA STATE REGENTS FOR HIGHER EDUCATION**  
**NOTES TO BASIC FINANCIAL STATEMENTS**

**For the Year Ended June 30, 2017**

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

*Investment of All Other Funds*

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

**NOTE D--CAPITAL ASSETS**

A summary of the changes in capital assets is as follows for the year ended June 30, 2017:

	Balance June 30, 2016	Additions	Retirements	Balance June 30, 2017
<i>Business-type activities</i>				
Capital assets				
Buildings	\$ 8,696,249	\$ 285,687	\$ (180,000)	\$ 8,801,936
Equipment	61,763,437	1,749,405	(1,784,020)	61,728,822
Motor vehicles	463,306	-	-	463,306
Total capital assets	70,922,992	2,035,092	(1,964,020)	70,994,064
Less accumulated depreciation				
Buildings	(6,872,887)	(80,050)	180,000	(6,772,937)
Equipment	(48,130,015)	(3,689,624)	1,773,180	(50,046,459)
Motor vehicles	(309,478)	(56,231)	-	(365,709)
Total accumulated depreciation	(55,312,380)	(3,825,905)	1,953,180	(57,185,105)
Capital assets, net	15,610,613	(1,790,813)	(10,840)	13,808,959

A summary of the changes in OCAP fiduciary capital assets is as follows for the year ended June 30, 2017:

	Balance June 30, 2016	Additions	Retirements	Balance June 30, 2017
<i>Fiduciary Fund</i>				
Capital assets				
Equipment	\$ 289,354	\$ -	\$ (13,315)	\$ 276,039
Motor vehicles	17,049	-	-	17,049
Total capital assets	306,403	-	(13,315)	293,088
Less accumulated depreciation				
Equipment	(289,354)		13,315	(276,039)
Motor vehicles	(17,049)	-	-	(17,049)
Total accumulated depreciation	(306,403)	-	13,315	(293,088)
Capital assets, net	\$ -	\$ -	\$ -	\$ -

## OKLAHOMA STATE REGENTS FOR HIGHER EDUCATION NOTES TO BASIC FINANCIAL STATEMENTS

**For the Year Ended June 30, 2017**

### NOTE E – EMPLOYEE RETIREMENT BENEFITS

In June 2012, the Governmental Account Standards Board issued Statement No. 68, *Accounting and Financial Reporting for Pensions*. The statement, as amended by Statement No. 71, was effective for fiscal year beginning after June 15, 2014. The total pension liability for Oklahoma Teachers' Retirement System (OTRS) and Supplemental Pension Plans was determined based on actuarial valuations performed as of June 30, 2016, which is also the measurement date. There were no changes in assumptions or changes between the measurement date of June 30, 2016, and the Regents' report ending date of June 30, 2017, that would have had a significant impact on the net pension liability. The adoption of the standard adds deferred outflows for pension payments from the measurement date to the Regents' year-end of June 30, 2017 for payments made to the plan which were not used by the plan in determining the pension obligations; deferred inflows primarily related to delayed recognition of investment return; and the recognition of the Regents' share of net pension liabilities as of the measurement date.

#### Oklahoma Teachers' Retirement System

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

*Benefit provisions:* Members become 100% vested in retirement benefits earned to date after five years of credited Oklahoma service. OTRS provides retirement, disability, and death benefits to members of the plan.

**OKLAHOMA STATE REGENTS FOR HIGHER EDUCATION  
NOTES TO BASIC FINANCIAL STATEMENTS**

**For the Year Ended June 30, 2017**

NOTE E – EMPLOYEE RETIREMENT BENEFITS (*continued*)

Oklahoma Teachers' Retirement System (*continued*)

- Eligibility for Distribution

Normal retirement:

1. Member after July 1, 1967, and before November 1, 2011 – age 62 with 5 years of service
2. Member before July 1, 1992 – age and the number of years of creditable service total 80.
3. Member on or after July 1, 1992 but prior to November 1, 2011 – age and the number of years totals 90.
4. Member after October 31, 2011 – age 65 with 5 years of service or age 60 and the number of years of service totals 90.

Early retirement:

1. Member prior to November 1, 2011 – Age 55 and 5 years of service or upon completion of 30 years of service.
2. Member after October 31, 2011 – Age 60 and 5 years of service.

- Final compensation for members who joined the System prior to July 1, 1992 is defined as the average salary for the three highest years of compensation. Final compensation for members joining the System after June 30, 1992 is defined as the average of the highest five consecutive years of credited service.

- 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.

## OKLAHOMA STATE REGENTS FOR HIGHER EDUCATION NOTES TO BASIC FINANCIAL STATEMENTS

**For the Year Ended June 30, 2017**

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

### Oklahoma Teachers' Retirement System (*continued*)

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.

At the election of each eligible member initiating receipt of retirement benefits, the System remits between \$100 and \$105 per month per eligible retiree to the Employees Group Insurance Division ("EGID"), depending on the members' years of service during 2017.

*Funding Policy:* The contribution requirements of the Plan are at an established rate determined by Oklahoma Statute, amended by the Oklahoma Legislature, and are not based on actuarial calculations. Employees are required to contribute 7% percent of their annual pay. Participating employers are required to contribute 9.5% of the employees' annual pay and an additional 8.25% for any employees' salaries covered by federal funds. Contributions to the pension plan from the Regents was \$1,526,867. The State of Oklahoma also made on-behalf contributions to OTRS, of which \$1,059,254 was recognized by the Regents; these on-behalf payments did not meet the criteria of a special funding situation.

*Pension Liabilities, Pension Expense, and Deferred Outflows of Resources and Deferred Inflows of Resources Related to Pensions:* At June 30, 2017, the Regents reported a liability of \$31,935,538 for its proportionate share of the net pension liability. The net pension liability was measured as of June 30, 2016, and the total pension liability used to calculate the net pension liability was determined by an actuarial valuation as of June 30, 2016. The Regents' proportion of the net pension liability was based on the Regents' contributions received by the pension plan relative to the total contributions received by pension plan for all participating employers as of June 30, 2016. Based upon this information, the Regents' proportion was 0.38266503%.

**OKLAHOMA STATE REGENTS FOR HIGHER EDUCATION**  
**NOTES TO BASIC FINANCIAL STATEMENTS**

**For the Year Ended June 30, 2017**

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

Oklahoma Teachers' Retirement System (continued)

For the year ended June 30, 2017, the Regents recognized pension expense of \$2,572,416. At June 30, 2017, the Regents reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

	Deferred Outflows of Resources	Deferred Inflows of Resources
Net difference between projected and actual earnings on pension plan investments	\$ 3,728,031	\$ -
Net difference between expected and actual experience		741,411
Change in assumptions	3,845,488	
Change in proportion		4,065,867
Regents' contributions subsequent to the measurement date	1,526,867	-
	<u>\$ 9,100,386</u>	<u>\$ 4,807,278</u>

**OKLAHOMA STATE REGENTS FOR HIGHER EDUCATION  
NOTES TO BASIC FINANCIAL STATEMENTS**

**For the Year Ended June 30, 2017**

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

Oklahoma Teachers' Retirement System (continued)

The \$1,526,867 reported as deferred outflows reflected above will be recognized as a reduction of the net pension liability in the year ended June 30, 2018.

<u>Year ended June 30,</u>	<u>Deferred Outflows</u>	<u>Deferred Inflows</u>
2017	\$ 1,282,860	\$ 1,099,928
2018	1,282,860	1,099,928
2019	2,528,453	1,099,928
2020	1,988,373	1,056,555
2021	490,973	450,939
	<u>\$ 7,573,519</u>	<u>\$ 4,807,278</u>

Best estimates of arithmetic real rates of return for each major asset class included in the plan's target asset allocation as of June 30, 2017 are summarized below:

<u>Asset Class</u>	<u>Target Asset Allocation</u>	<u>Long-Term Expected Real Rate of Return</u>
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	<u>100%</u>	

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

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

# OKLAHOMA STATE REGENTS FOR HIGHER EDUCATION

## NOTES TO BASIC FINANCIAL STATEMENTS

**For the Year Ended June 30, 2017**

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

### Oklahoma Teachers' Retirement System (continued)

Sensitivity of the next pension liability to changes in the discount rate – The following presents the net pension liability of the System's employers calculated using the discount rate of 7.50% as well as what the employers' liability would be if it were calculated using a discount rate that is 1 percent point lower or 1 percent point higher than the current rate:

	1% Decrease Rate (6.50%)	Current Discount Rate (7.50%)	1% Increase Rate (8.50%)
Employers' net pension liability	\$41,848,371	\$31,935,538	\$23,638,682

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

- Actuarial Cost Method – Entry Age Normal
- Inflation – 2.50%
- Salary Increases – Composed of 3.00 percent wage inflation, plus 0.75 percent productivity increase rate, plus step-rate promotional increases for members with less than 25 years of services
- 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 – Males: RP-2000 Combined Healthy mortality table for males with White Collar Adjustments. Generational mortality improvements in accordance with Scale BB from the table's base year of 2000. Females: GRS Southwest Region Teacher Mortality Table, scaled at 105%. Generational mortality improvements in accordance with Scale BB from the table's base year of 2012.



## OKLAHOMA STATE REGENTS FOR HIGHER EDUCATION NOTES TO BASIC FINANCIAL STATEMENTS

**For the Year Ended June 30, 2017**

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

#### Oklahoma Teachers' Retirement System *(continued)*

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

#### Oklahoma State Regents for Higher Education Supplemental Retirement Plan

*Plan Description:* The Supplemental Retirement Plan was established by the Oklahoma State Regents to provide supplemental retirement benefits to employees who: (a) were hired prior to March 12, 1999, (b) have been a member of the Oklahoma Teachers' Retirement System (OTRS) for a minimum of 10 years, and (c) have been a full-time permanent employee for at least 10 years. The primary components of the Supplemental Retirement Plan consist of (1) the calculation of the guaranteed retirement benefit, and (2) the calculation of the sources that will fund the guaranteed retirement benefit: Oklahoma Teachers' Retirement System, Social security, TIAA-CREF Annuity and, if necessary, the Regents' supplement. Specific calculation methods can be found in the Plan on file with the Oklahoma State Regents for Higher Education. The Supplemental Benefit Plan does not issue a stand-alone financial report nor is it included in the financial report of another entity. The benefits payable under this plan are supplemental to the benefits that the participants receive under OTRS, TIAA, and Social Security. The authority to amend the Supplemental Benefit Plan's benefit provisions rests with the Regents.

*Funding Policy:* Contribution requirements of the Regents are established and may be amended by the Regents. All contributions are made by the Regents. Contributions required to fund the cost of pension and other benefits provided by the Plan shall be made solely by the Regents. The Regents shall contribute to the Plan from time to time such sums as are required by the actuary to pay benefits from the Plan, in accordance with actuarial practices acceptable to the Internal Revenue Service. Actual payment of a contribution may be made at any time permitted by law and regulations. Contributions by the participant are neither permitted nor required under this Plan.

**OKLAHOMA STATE REGENTS FOR HIGHER EDUCATION**  
**NOTES TO BASIC FINANCIAL STATEMENTS**

**For the Year Ended June 30, 2017**

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

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

*Pension Liabilities, Pension Expense, and Deferred Outflows of Resources and Deferred Inflows of Resources Related to Pensions:* At June 30, 2017, the Regents reported a liability of \$513,741. The net pension liability was measured as of June 30, 2016, and the total pension liability used to calculate the net pension liability was determined by an actuarial valuation as of June 30, 2016. For the year ended June 30, 2017, the Regents recognized pension expense of \$237,305. At June 30, 2017, the Regents reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

	Deferred Outflows of Resources	Deferred Inflows of Resources
Differences between expected and actual - experience gain	\$ -	\$ 190,784
Net Difference between projected and actual earnings on pension plan investments	1,593,493	-
Contributions	-	686,792
Total	\$ 1,593,493	\$ 877,576

**OKLAHOMA STATE REGENTS FOR HIGHER EDUCATION**  
**NOTES TO BASIC FINANCIAL STATEMENTS**

**For the Year Ended June 30, 2017**

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

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

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

Year ended June 30:

2017	\$ 160,482
2018	129,270
2019	268,050
2020	145,133
2021	12,982

<u>\$ 715,917</u>
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Sensitivity of the Net Pension Liability to Changes in the Discount Rate - The following shows how the Net Pension Liability would be affected by changes to the blended discount rate. A blended discount rate of 6.00% was used. Results are shown assuming a 1% reduction in the blended discount rate (to 5.00%) and a 1% increase in the blended discount rate (to 7.00%).

	1% Decrease Rate (5.00%)	Current Discount Rate (6.00%)	1% Increase Rate (7.00%)
Employers' net pension liability/(asset)	\$1,802,845	\$513,741	(\$589,831)

	2017
Beginning net pension liability	\$ 1,410,221
Service cost	80,760
Interest cost	774,935
Difference between actual and expected experience	190,784
Change of assumptions	(21,053)
Employer contributions	(1,291,647)
Net investment income	(630,259)
Ending net position	<u>\$ 513,741</u>

# OKLAHOMA STATE REGENTS FOR HIGHER EDUCATION

## NOTES TO BASIC FINANCIAL STATEMENTS

For the Year Ended June 30, 2017

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

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

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

- Actuarial Cost Method – Individual Entry Age Normal Cost Method
- Amortization Method - Level Percentage of Payroll
- Inflation - 3.00%
- Salary Increases – 2.50%
- Investment Rate of Return – 6.00%
- Retirement Age – Earlier of: (a) attainment of age 62 and completion of 10 years of OTRS service, or (b) when age plus OTRS service total at least 80 (90 for members joining OTRS after June 30, 1992).
- Mortality – Retirement Plan 2000 Mortality Table (RP\_2000) with projected mortality improvements:

### Pre-Retirement

RP-2000 for non-annuitants	Projected to 2030 as of 6/30/15
	Projected to 2031 as of 6/30/16

### Post-Retirement

RP-2000 for annuitants	Projected to 2022 as of 6/30/15
	Projected to 2023 as of 6/30/16

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

**OKLAHOMA STATE REGENTS FOR HIGHER EDUCATION  
NOTES TO BASIC FINANCIAL STATEMENTS**

**For the Year Ended June 30, 2017**

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

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

*Plan Description* - As authorized by Title 70, Section 3205, of the Oklahoma State Statutes, the Regents cover the cost of health and dental insurance for any employee retiring after March 12, 1999 who has been a full-time employee for not less than ten (10) years immediately preceding the date of retirement and has been a member of the OTRS during that time and elected to receive a monthly life annuity under the provisions of OTRS regulations immediately upon retirement, less any amount paid by OTRS for that purpose through the month in which the retiree reaches age 65 and becomes eligible for Medicare. If the retiree receives Medicare benefits, the Regents will continue to pay on behalf of the retiree the Medicare supplemental insurance costs, less any amount paid by OTRS for that purpose, for the remaining life of the employee.

*Funding Policy* - Contribution requirements of the Regents are established and may be amended by the State Board of Regents. The annual required contribution for 2017 was determined as part of an actuarial valuation on June 30, 2017, using the entry age normal level percent of salary method. The actuarial assumptions included (a) discount rate of 4.0% per year compounded annually, (b) retirement at the earlier of (1) attainment of age 63 or attained age if greater, and completion of 10 years of OTRS service, or (2) when age plus OTRS service total at least 80 (90 for members joining OTRS after June 30, 1992), and (c) medical, dental, and vision rates increasing 3-8% annually.

*OPEB Liabilities, Expense, and Deferred Outflows/Inflows of Resources Related to OPEB* -

At June 30, 2017, the Regents reported a net OPEB liability of \$10,318,015. The net OPEB liability was measured as of June 30, 2017, and the total OPEB liability used to calculate the net OPEB liability was determined by an actuarial valuation as of June 30, 2017.

**OKLAHOMA STATE REGENTS FOR HIGHER EDUCATION**  
**NOTES TO BASIC FINANCIAL STATEMENTS**

**For the Year Ended June 30, 2017**

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

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

The Governmental Accounting Standards Board (GASB) issued GASB Statement No. 75, *Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions*. Regents adopted GASB 75 for reporting periods ended June 30, 2017. The total liability for Post-Employment Benefits Other Than Pension (OPEB) was determined based on actuarial valuations performed as of June 30, 2017 (measurement date), the same as Regent's year end of June 30, 2017. The Regents have elected to apply this Statement to the audit period ending June 30, 2017, retroactively restating beginning net position. The beginning net position has been reduced by \$5,266,746.

Actuarially determined amounts are subject to continual revision as actual results are compared to past expectations and new estimates are made about the future. Examples include assumptions about future employment, mortality, and healthcare cost trends. Projections include the type of benefits provided at the time of each valuation and the historical pattern of sharing of benefit costs between the employer and plan members at that point. The actuarial methods used are designed to reduce the effects of short-term volatility in actuarial accrued liabilities and the actuarial value of assets, consistent with a long-term perspective.

For the year ended June 30, 2017, the Regents recognized OPEB expense of \$1,121,314. The Regents 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
Net differences between expected and actual experience	\$ -	\$ 281,152
Changes in assumptions	1,994,382	
Net differences between projected and actual earnings	501,238	
	<u>\$ 2,495,620</u>	<u>\$ 281,152</u>



**OKLAHOMA STATE REGENTS FOR HIGHER EDUCATION**  
**NOTES TO BASIC FINANCIAL STATEMENTS**

**For the Year Ended June 30, 2017**

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

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

The components of the net pension liability at June 30, 2017 were as follows:

	<u>FY17</u>
Total OPEB Liability - beginning of year	\$ 19,295,047
Service cost	945,053
Interest	766,195
Change in assumption	2,160,581
Differences between expected and actual experience	(304,581)
Benefit payment	(283,126)
Total OPEB Liability - end of year	<u>22,579,169</u>
Plan fiduciary net position - beginning of year	11,312,814
Contribution	1,000,000
Net investment income	248,311
Benefit payment	(283,126)
Trust Admin Fee	(16,845)
Plan fiduciary net position - end of year	<u>12,261,154</u>
Net OPEB - end of year	<u><u>\$ 10,318,015</u></u>

Plan Fiduciary net position as a percentage of total pension liability 54.30%



**OKLAHOMA STATE REGENTS FOR HIGHER EDUCATION  
NOTES TO BASIC FINANCIAL STATEMENTS**

**For the Year Ended June 30, 2017**

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

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

Sensitivity of the Net OPEB Liability to Changes in the Discount Rate - The following shows how the Net OPEB Liability would be affected by changes to the blended discount rate. A blended discount rate of 4.00% was used. Results are shown assuming a 1% reduction in the blended discount rate (to 3.00%) and a 1% increase in the blended discount rate (to 5.00%).

	1% Decrease Rate (3.00%)	Current Discount Rate (4.00%)	1% Increase Rate (5.00%)
Employers' net OPEB liability/(asset)	\$14,664,810	\$10,318,015	\$6,888,738

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

- Actuarial Cost Method - Entry Age Normal Level % of Salary
- Inflation – 2.50%
- Salary Increases – Composed of 3.00 percent wage inflation, plus 0.75 percent productivity increase rate, plus step-rate promotional increases for members with less than 25 years of services
- 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 – Males: RP-2000 Combined Healthy mortality table for males with White Collar Adjustments. Generational mortality improvements in accordance with Scale BB from the table's base year of 2000. Females: GRS Southwest Region Teacher Mortality Table, scaled at 105%. Generational mortality improvements in accordance with Scale BB from the table's base year of 2012.

## OKLAHOMA STATE REGENTS FOR HIGHER EDUCATION NOTES TO BASIC FINANCIAL STATEMENTS

**For the Year Ended June 30, 2017**

### NOTE F- TRANSFERS TO SYSTEM INSTITUTIONS

Transfers to system institutions consist principally of funds for educational and general operations, capital improvements, and technical and other educational programs. Such transfers are made for designated purposes subsequent to official resolutions of the Regents.

### NOTE G --LEASE COMMITMENTS

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

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

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

**OKLAHOMA STATE REGENTS FOR HIGHER EDUCATION**  
**NOTES TO BASIC FINANCIAL STATEMENTS**

**For the Year Ended June 30, 2017**

**NOTE G – LEASE COMMITMENTS** *(continued)*

The following is a schedule of annual future minimum payments as of June 30, 2017:

<u>Year Ending June 30,</u>	<u>Principal</u>	<u>Interest</u>
2018	\$ 5,930,000	\$ 5,555,233
2019-2021	19,515,000	14,944,748
2022-2026	39,660,000	17,773,917
2027-2031	<u>40,160,000</u>	<u>5,786,154</u>
Total	<u>\$ 105,265,000</u>	<u>\$ 44,060,052</u>

**NOTE H – OPERATING LEASE COMMITMENTS**

The Regents are engaged in various operating lease agreements.

The Regents lease office space for its core operations from the University of Oklahoma Health Science OSRHE (OUHSC), formerly Presbyterian Health Foundation (PHF). Rental expense of approximately \$1,026,336 was paid to the OUHSC for the Regents' operating facilities for the year ended June 30, 2017.

Rental expense of \$12,475 was paid for storage facilities for the year ended June 30, 2017. Rental expense of \$64,389 was paid for parking facilities for the year ended June 30, 2017.

**OKLAHOMA STATE REGENTS FOR HIGHER EDUCATION**  
**NOTES TO BASIC FINANCIAL STATEMENTS**

**For the Year Ended June 30, 2017**

**NOTE I--LONG-TERM LIABILITIES**

Long-term liability activity was as follows for the year ended June 30, 2017:

	Balance June 30, 2016	Additions	Deletions	Balance June 30, 2017	Due Within One Year
<i>Business-type activities</i>					
Compensated absences	\$ 1,813,971		\$ (199,555)	\$ 1,614,416	\$ 834,142
Net pension liability - OTRS	23,585,081	8,350,457		31,935,538	
Net liability - OPEB	2,715,487	7,602,528		10,318,015	
Net pension liability - Supplemental	1,410,221		(896,480)	513,741	-
Business-type activities total	<u>\$ 29,524,760</u>	<u>\$ 15,952,985</u>	<u>\$ (1,096,035)</u>	<u>\$ 44,381,710</u>	<u>\$ 834,142</u>
 <i>Governmental Activities</i>					
OCIA lease payable	<u>\$ 110,965,000</u>	<u>\$ -</u>	<u>\$ (5,700,000)</u>	<u>\$ 105,265,000</u>	<u>\$ 5,930,000</u>
 <i>Fiduciary Fund</i>					
Allowance for default claims	<u>\$ 1,477,637</u>	<u>\$ 206,338</u>		<u>\$ 1,683,975</u>	<u>\$ -</u>

**NOTE J--RISK MANAGEMENT**

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

## OKLAHOMA STATE REGENTS FOR HIGHER EDUCATION NOTES TO BASIC FINANCIAL STATEMENTS

**For the Year Ended June 30, 2017**

### NOTE K--COMMITMENTS AND CONTINGENCIES

The Regents have received certain federal and state grants that are subject to review and audit by grantor agencies. Such audits could lead to requests for reimbursement to the grantor agency for expenditures disallowed under the terms of the grant. The Regents' management believes that disallowances, if any, would not be material.

### NOTE L--ACCOUNTING STANDARDS ISSUED NOT YET ADOPTED

In March 2016 GASB issued Statement No. 81, *Irrevocable Split-Interest Agreements*. This Statement requires that a government that receives resources pursuant to an irrevocable split-interest agreement recognize assets, liabilities, and deferred inflows of resources at the inception of the agreement. Furthermore, this Statement requires that a government recognize assets representing its beneficial interests in irrevocable split-interest agreements that are administered by a third party, if the government controls the present service capacity of the beneficial interests. This Statement requires that a government recognize revenue when the resources become applicable to the reporting period. The State Regents are currently studying GASB 81 and if adoption is required, it will be effective for the reporting period beginning July 1, 2017.

In November 2016 GASB issued Statement No. 83, *Certain Asset Retirement Obligations*. The objective of this Statement is to provide financial statement users with information about asset retirement obligations (AROs) that were not addressed in GASB standards by establishing uniform accounting and financial reporting requirements for these obligations. The State Regents currently believe the scope and applicability of this Statement will not require adoption. The requirements of this Statement are effective for the reporting period beginning July 1, 2018 although earlier application is encouraged by GASB.

In January 2017 GASB issued Statement No. 84, *Fiduciary Activities*. The objective of this Statement is to improve guidance regarding the identification of fiduciary activities for accounting and financial reporting purposes and how those activities should be reported. The State Regents are currently studying the Statement and plan on adoption when required, which will be for the reporting period beginning July 1, 2019 although earlier application is encouraged by GASB.

## OKLAHOMA STATE REGENTS FOR HIGHER EDUCATION NOTES TO BASIC FINANCIAL STATEMENTS

**For the Year Ended June 30, 2017**

### NOTE L--ACCOUNTING STANDARDS ISSUED NOT YET ADOPTED (*continued*)

In March 2017 GASB issued Statement No. 85, *Omnibus 2017*. The objective of this Statement is to address practice issues that have been identified during implementation and application of certain GASB Statements. This Statement addresses a variety of topics including issues related to blending component units, goodwill, fair value measurement and application, and postemployment benefits (pensions and other postemployment benefits [OPEB]). The State Regents are currently studying the Statement and plan on adoption when required, which will be for the reporting period beginning July 1, 2017.

In May 2017 GASB issued Statement No. 86, *Certain Debt Extinguishment Issues*. This Statement establishes standards of accounting and financial reporting for in-substance defeasance transactions in which cash and other monetary assets acquired with only existing resources (resources other than the proceeds of refunding debt) that are placed in an irrevocable trust for the purpose of extinguishing debt. The State Regents are currently studying the Statement and plan on adoption when required, which will be for the reporting period beginning July 1, 2017.

In June 2017 GASB issued Statement No. 87, *Leases*. The objective of this Statement is to better meet the information needs of financial statement users by improving accounting and financial reporting for leases by governments. This Statement increases the usefulness of governments' financial statements 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 this Statement, 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 State Regents are currently studying the Statement and plan on adoption when required, which will be for the reporting period beginning July 1, 2020 although earlier application is encouraged by GASB.

**OKLAHOMA STATE REGENTS FOR HIGHER EDUCATION**

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

**OKLAHOMA TEACHER'S RETIREMENT SYSTEM**

As of plan year-end of June 30,	<u>2017</u>	<u>2016</u>	<u>2015</u>
OSRHE percentage of the net pension liability	0.38266503%	0.3883751%	0.4660000%
OSRHE proportionate share of the net pension liability	31,935,538	23,585,081	25,068,901
OSRHE's covered-employee payroll	11,945,582	12,630,188	12,691,019
OSRHE's proportionate share of the net pension liability as a percentage of its covered-employee payroll	267.3418%	186.7358%	197.5326%
Plan fiduciary net position as a percentage of the total pension liability	62.24%	70.31%	72.43%

**Notes to Schedule:**

GASB Statement 68 requires the information presented in the "Schedules of Required Supplementary Information" cover the 10 most recent fiscal years. The information above covers the period retroactive to the adoption of GASB Statement 68 and is the latest available at the date of publication.

**TEACHER'S RETIREMENT PLAN**

**OKLAHOMA STATE REGENTS FOR HIGHER EDUCATION**

**SCHEDULE OF CONTRIBUTIONS - LAST 10 FISCAL YEARS\***

**OKLAHOMA TEACHERS' RETIREMENT SYSTEM**

As of plan year-end of June 30,

	<u>2016</u>	<u>2015</u>	<u>2014</u>
Contractually required contribution	1,526,867	1,620,231	1,892,016
Contributions in relation to the contractually required contribution	1,526,867	1,620,231	1,892,016
Contribution deficiency (excess)	0	0	0
OSRHE covered-employee payroll	11,945,582	12,630,188	12,691,019
Contributions as a percentage of covered-employee payroll	12.78%	12.83%	14.91%

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



## **SUPPLEMENTAL RETIREMENT PLAN**

### OKLAHOMA STATE REGENTS FOR HIGHER EDUCATION

#### SCHEDULES OF REQUIRED SUPPLEMENTARY INFORMATION

##### SCHEDULE OF CHANGES IN OSRHE NET PENSION LIABILITY AND RELATED RATIOS

###### OSRHE Supplemental Retirement Plan

	2017	2016	2015
<b>Total pension liability</b>			
Service cost	\$ 80,760	\$ 79,527	\$ 71,268
Interest	774,935	877,209	913,757
Changes in benefit terms	-	-	309,899
Differences between expected and actual experience	190,784	(1,332,369)	16,570
Changes of assumptions	(21,053)	626,712	(753,553)
Benefit payments including refunds of employee contributions	(773,797)	(754,715)	
<b>Net change in total pension liability</b>	251,629	(503,636)	557,941
<b>Total pension liability - beginning</b>	13,396,592	13,900,228	13,342,287
<b>Total pension liability - ending (a)</b>	<u>\$ 13,648,221</u>	<u>\$ 13,396,592</u>	<u>\$ 13,900,228</u>
<b>Plan fiduciary net position</b>			
Contributions - employer	\$ 1,291,647	\$ -	\$ 13,076,131
Contributions - employee			-
Net investment income	630,259	132,505	286,003
Benefit payments, including refunds of employee contributions	(773,797)	(754,715)	(753,553)
Administrative expense			
Other			
<b>Net change in plan fiduciary net position</b>	<u>\$ 1,148,109</u>	<u>\$ (622,210)</u>	<u>\$ 12,608,581</u>
<b>Plan fiduciary net position - beginning</b>	11,986,371	12,608,581	-
<b>Plan fiduciary net position - ending (b)</b>	<u>\$ 13,134,480</u>	<u>\$ 11,986,371</u>	<u>\$ 12,608,581</u>
OSRHE net pension liability - ending (a) - (b)	\$ 513,741	\$ 1,410,221	\$ 1,291,647
Plan fiduciary net position as a percentage of the total pension liability	96.2%	89.5%	90.7%
Covered-employee payroll	\$ 5,232,408	\$ 5,645,441	\$ 5,660,742
OSRHE net position liability as a percentage of covered-employee payroll	9.8%	25.0%	22.8%

### **Notes to Schedule:**

GASB Statement 68 requires the information presented in the “Schedules of Required Supplementary Information” cover the 10 most recent fiscal years. The information above covers the period retroactive to the adoption of GASB Statement 68 and is the latest available at the date of publication.

Benefit Changes: Information to present a 10-year history is not readily available.  
 Changes in Actuarial Assumptions: Information to present a 10-year history is not readily available.

**OKLAHOMA STATE REGENTS FOR HIGHER EDUCATION**

**SCHEDULE OF CONTRIBUTIONS - LAST 10 FISCAL YEARS**

**OSRHE Supplemental Retirement Plan**

As of plan year-end of June 30,

	2016	2015	2014
Actuarially Determined Contribution (ADC)	\$ 513,741	\$ 1,291,647	\$ 2,599,880
Contributions in relation to the ADC	513,741	1,291,647	12,120,025
Contribution deficiency (excess)	-	-	14,719,905
OSRHE covered-employee payroll	5,232,408	5,645,441	5,660,742
Contributions as a percentage of covered-employee payroll	9.8184%	22.8795%	214.1066%

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

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

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

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

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

Salary Increase Rate: 2.50%

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

<u>Pre-Retirement</u>	
RP-2000 for non-annuitants	Projected to 2029 as of 6/30/14 Projected to 2030 as of 6/30/15
<u>Post-Retirement</u>	
RP-2000 for annuitants	Projected to 2012 as of 6/30/14 Projected to 2022 as of 6/30/15

**OKLAHOMA STATE REGENTS FOR HIGHER EDUCATION**  
**SCHEDULES OF REQUIRED SUPPLEMENTARY INFORMATION**

**SCHEDULE OF CHANGES IN OSRHE NET PENSION LIABILITY AND RELATED RATIOS**

**OSRHE Post Employment Benefits Other Than Pension Plan (OPEB)**

	<u>2017</u>
<b><u>Total pension liability</u></b>	
Service cost	945,053
Interest	766,195
Changes of assumptions	2,160,581
Differences between expected and actual experience	(304,581)
Benefit payments	(283,126)
<b>Net change in total pension liability</b>	<u>3,284,122</u>
<b>Total pension liability - beginning</b>	<u>19,295,047</u>
<b>Total pension liability - ending (a)</b>	<u><u>22,579,169</u></u>
 <b><u>Plan fiduciary net position</u></b>	
Contributions - employer	1,000,000
Net investment income	248,311
Benefit payments, including refunds of employee contributions	(283,126)
Administrative expense	(16,845)
<b>Net change in plan fiduciary net position</b>	<u>948,340</u>
<b>Plan fiduciary net position - beginning</b>	11,312,814
<b>Plan fiduciary net position - ending (b)</b>	<u><u>12,261,154</u></u>
 OSRHE net pension liability - ending (a) - (b)	10,318,015
Plan fiduciary net position as a percentage of the total pension liability	54.3%
Covered-employee payroll	11,945,582
OSRHE net position liability as a percentage of covered-employee payroll	86.4%

**Notes to Schedule:**

GASB Statement 68 requires the information presented in the “Schedules of Required Supplementary Information” cover the 10 most recent fiscal years. The information above covers the period retroactive to the adoption of GASB Statement 68 and is the latest available at the date of publication.

Benefit Changes: Information to present a 10-year history is not readily available.

Changes in Actuarial Assumptions: Information to present a 10-year history is not readily available.

**OKLAHOMA STATE REGENTS FOR HIGHER EDUCATION**

**SCHEDULE OF CONTRIBUTIONS - LAST 10 FISCAL YEARS**

**OSRHE Post Employment Benefits Other Than Pension Plan (OPEB)**

As of plan year-end of June 30,

	<u>2017</u>
Actuarially Determined Contribution (ADC)	1,487,679
Contributions in relation to the ARC	1,000,000
Contribution deficiency (excess)	(487,679)
OSRHE covered-employee payroll	11,945,582
Contributions as a percentage of covered-employee payroll	8.3713%

# BALANCE SHEET - OCAP COST CENTER

## OKLAHOMA STATE REGENTS FOR HIGHER EDUCATION

June 30, 2017

### ASSETS

#### Restricted Assets

##### Current Assets

Cash and cash equivalents	\$ 36,556,876
Receivables	
Accounts Receivable	301
Receivable between funds	704,988
Administrative cost allowance	222,844
Interest	<u>52,545</u>
Total Current Assets	37,537,554

#### Noncurrent Assets

Capital assets, net	<u>76,895</u>
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TOTAL ASSETS 37,614,449

### LIABILITIES

#### Liabilities payable from restricted assets

##### Current liabilities

Accounts payable and accrued expenses	329,970
Compensated absences	<u>111,714</u>
Total current liabilities	<u>441,684</u>

##### Long-term liabilities

Compensated absences	<u>27,370</u>
Total long-term liabilities	<u>27,370</u>

TOTAL LIABILITIES 469,054

### NET POSITION

Net investment in capital assets	76,895
Restricted	
Oklahoma College Assistance Program	<u>37,068,500</u>

TOTAL NET POSITION \$ 37,145,395

See notes to supplemental information.

# INCOME STATEMENT - OCAP COST CENTER

## OKLAHOMA STATE REGENTS FOR HIGHER EDUCATION

Year Ended June 30, 2017

### OPERATING REVENUES

Default loan collections	\$ 14,043,838
Administrative fees	936,584
Default aversion fees	498,539
Other sources	<u>157,378</u>

TOTAL OPERATING REVENUES	<u>15,636,339</u>
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### OPERATING EXPENSES

Compensation	2,239,331
Rent	172,661
Processing charges	698,635
Postage	17,452
Collection agency fees	4,770,334
Default prevention servicing fees	913,763
Default aversion fees	720,242
Other	6,526,930
Depreciation and amortization	<u>54,299</u>

TOTAL OPERATING EXPENSES	<u>16,113,647</u>
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OPERATING INCOME	<u>(477,308)</u>
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### NONOPERATING REVENUES (EXPENSES)

Interest income	651,449
Loss on disposal of capital assets	<u>(9,891)</u>

NET NONOPERATING REVENUES	<u>641,558</u>
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INCREASE IN NET POSITION	164,250
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NET POSITION AT BEGINNING OF YEAR	<u>36,981,145</u>
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NET POSITION AT END OF YEAR	<u>\$ 37,145,395</u>
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See notes to supplemental information.

## NOTES TO SUPPLEMENTAL INFORMATION

### OKLAHOMA STATE REGENTS FOR HIGHER EDUCATION

June 30, 2017

#### NOTE A - BASIS OF PRESENTATION

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

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

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

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

Effective July 1, 2012, OCAP expanded its student loan guaranty servicing system agreement with Sallie Mae, Inc., now known as Navient Solutions, LLC, to handle transaction services for lender



claims review processing and post-default collection activities. This expansion continues to provide the most robust and cost-effective servicing solution to allow OCAP to continue to provide student support services as part of our business model.

In October 2013, OCAP contracted with Student Outreach Solutions, Inc. to provide student grace period and cohort management services for participating state system schools. Effective April 2015, USA Funds began performing the work on our behalf through a contract assignment with SOSI and the Student Assistance Corporation as part of the same contract assignment, which provides default aversion services on behalf of OCAP's FFEL portfolio to provide further cost-effective servicing solutions. Effective February 9, 2017, United Student Aid Funds, Inc. changed names to Strada Education Network, Inc. with the services provided by the affiliate Education@Work, Inc.

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

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

- At June 30, 2017, the Cost Center's net assets increased to \$37,145,395 from \$36,981,145 in 2016.
- Total operating and non-operating revenues decreased by \$1,954,119 from \$18,241,907 to \$16,287,788 primarily due to decreased default loan collections income, administrative fees, and default aversion fee income as a result of the continued decline in the outstanding portfolio.
- Total operating and non-operating expenses decreased by \$2,605,839 from \$18,729,377 to \$16,123,538. This decrease was primarily due to decreases in compensation, processing charges, collection agency fees, default prevention servicing fees, portfolio management fees for post-default activities (Other) and intra-agency payments (Other), offset by an increase in default aversion fees (rebate).
- At June 30, 2017, the Cost Center recorded net capital assets of \$76,894 with a total of \$1,423,015 in capital assets and \$1,346,121 in accumulated depreciation.
- At June 30, 2017, the Cost Center had long-term liabilities of \$139,084. The current portion due within one year is \$111,714.



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

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

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States the financial statements of the governmental activities, the business-type activities, each major fund and the aggregate remaining fund information of the Oklahoma State Regents for Higher Education ("OSRHE"), as of and for the year ended June 30, 2017, and the related notes to the financial statements, which collectively comprise OSRHE's basic financial statements, and have issued our report thereon dated October 31, 2017.

**Internal Control over Financial Reporting**

In planning and performing our audit of the financial statements, we considered OSRHE'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 OSRHE's internal control. Accordingly, we do not express an opinion on the effectiveness of OSRHE'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 entity's financial statements will not be prevented, or detected and corrected on a timely basis. A *significant deficiency* is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

Our consideration of internal control 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 OSRHE'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 entity's internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the entity's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

*Arledge & Associates, P.C.*

October 31, 2017



INDEPENDENT AUDITOR'S REPORT ON COMPLIANCE FOR EACH MAJOR FEDERAL PROGRAM  
AND ON INTERNAL CONTROL OVER COMPLIANCE REQUIRED BY THE UNIFORM GUIDANCE

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

**Report on Compliance for Each Major Federal Program**

We have audited Oklahoma State Regents for Higher Education's ("OSRHE") compliance with the types of compliance requirements described in the *OMB Compliance Supplement* that could have a direct and material effect on each of OSRHE's major federal programs for the year ended June 30, 2017. OSRHE's major federal programs are identified in the summary of auditor's results section of the accompanying schedule of findings and questioned costs.

***Management's Responsibility***

Management is responsible for compliance with federal statutes, regulations, and the terms and conditions of its federal awards applicable to its federal programs.

***Auditor's Responsibility***

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

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

***Opinion on Each Major Federal Program***

In our opinion, OSRHE complied, in all material respects, with the types of compliance requirements referred to above that could have a direct and material effect on each of its major federal programs for the year ended June 30, 2017.

## Report on Internal Control over Compliance

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

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

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

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

A handwritten signature in black ink that reads "Arledge & Associates, P.C." in a cursive, flowing script.

October 31, 2017

SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS

OKLAHOMA STATE REGENTS FOR HIGHER EDUCATION

Year Ended June 30, 2017

<i>Federal Grantor/Pass-Through Grantor/Program Title</i>	<i>Federal CFDA Number</i>	<i>Pass-Through Entity Identifying Number</i>	<i>Passed Through to Subrecipients</i>	<i>Federal Expenditures</i>
<b>U.S. DEPARTMENT OF EDUCATION</b>				
<b>Student Financial Assistance Cluster</b>				
Federal Family Education Loans	84.032		\$ -	\$ 134,273,137
<i>Total Student Financial Assistance Cluster</i>			-	134,273,137
<b>Other Programs</b>				
Gaining Early Awareness and Readiness for Undergraduate Programs	84.334		1,704,270	4,016,449
Supporting Effective Instruction State Grants	84.367		699,979	742,715
Higher Education Institutional Aid	84.031A		-	201,660
<i>Total Other Programs</i>			2,404,249	4,960,824
TOTAL U.S. DEPARTMENT OF EDUCATION			2,404,249	<b>139,233,961</b>
<b>U.S. DEPARTMENT OF HEALTH AND HUMAN SERVICES</b>				
Passed through Oklahoma Department of Health and Human Services				
<b>TANF Cluster</b>				
Temporary Assistance for Needy Families (TANF) State Programs	93.558	0310559	2,356,722	2,456,722
<i>Total TANF Cluster</i>			2,356,722	2,456,722
<b>CCDF Cluster</b>				
Child Care and Development Block Grant	93.575	01936002309	1,054,513	1,354,713
<i>Total CCDF Cluster</i>			1,054,513	1,354,713
TOTAL U.S. DEPARTMENT OF HEALTH AND HUMAN SERVICES			3,411,235	<b>3,811,435</b>
<b>TOTAL EXPENDITURES OF FEDERAL AWARDS</b>			<b>\$ 5,815,484</b>	<b>\$ 143,045,396</b>

See notes to the schedule of expenditures of federal awards.

## NOTES TO THE SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS

### OKLAHOMA STATE REGENTS FOR HIGHER EDUCATION

Year Ended June 30, 2017

#### NOTE A--BASIS OF PRESENTATION

The accompanying schedule of expenditures of federal awards (the "Schedule") includes the federal award activity of the Oklahoma State Regents for Higher Education ("OSRHE") under programs of the federal government for the year ended June 30, 2017. The information in this Schedule is presented in accordance with the requirements of Title 2 U.S. Code of Federal Regulations Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (Uniform Guidance). Because the Schedule presents only a selected portion of the operations of OSRHE, it is not intended to and does not present the financial position, changes in net assets, or cash flows of OSRHE.

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

Expenditures reported on the Schedule are reported on the accrual basis of accounting. Such expenditures are recognized following, as applicable, either the cost principles in Office of Management and Budget Circular A-21, Cost Principles for Educational Institutions, or the cost principles contained in Title 2 U.S. Code of Federal Regulations Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards*, wherein certain types of expenditures are not allowable or are limited as to reimbursement. OSRHE has elected not to use the 10-percent de minimis indirect cost rate allowed under the Uniform Guidance.

#### NOTE C—FEDERAL FAMILY EDUCATION LOAN PROGRAM

OSRHE through its Oklahoma College Assistance Program ("OCAP") continues to maintain loan guarantees for the Federal Family Education Loan (FFEL) Program. No new loans are being made under the federal program but OCAP is responsible for the existing loan portfolio that totals \$1,418,609,100.

## SCHEDULE OF FINDINGS AND QUESTIONED COSTS

### OKLAHOMA STATE REGENTS FOR HIGHER EDUCATION

Year Ended June 30, 2017

#### Section I--Summary of Auditor's Results

##### *Financial statements*

Type of auditor's report issued on whether the financial statements were in accordance with GAAP:

*Unmodified*

Internal control over financial reporting:

- Material weakness(es) identified? ☐ yes ☒ no
- Significant deficiency(ies) identified? ☐ yes ☒ none reported

Noncompliance material to financial statements noted?

☐ yes ☒ no

##### *Federal Awards*

Internal control over major federal programs:

- Material weakness(es) identified? ☐ yes ☒ no
- Significant deficiency(ies) identified? ☐ yes ☒ none reported

Type of auditor's report issued on compliance for major federal programs:

*Unmodified*

Any audit findings disclosed that are required to be reported in accordance with 2 CFR 200.516(a)?

☐ yes ☒ no

Identification of major federal programs:

<u>Program</u>	<u>CFDA Number</u>
Federal Family Education Loans	84.032
Gaining Early Awareness and Readiness for Undergraduate Programs	84.334
Child Care and Development Block Grant	93.575

Dollar threshold used to distinguish between type A and type B programs:

\$750,000

Auditee qualified as low-risk auditee?

☐ yes ☒ no



SCHEDULE OF FINDINGS AND QUESTIONED COSTS--Continued

OKLAHOMA STATE REGENTS FOR HIGHER EDUCATION

Year Ended June 30, 2017

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

None to report for the June 30, 2017 period.

**Section III--Finding Required to be Reported in Accordance with the Uniform Guidance:**

None to report for the June 30, 2017 period.

SUMMARY SCHEDULE OF PRIOR AUDIT FINDINGS AND QUESTIONED COSTS  
OKLAHOMA STATE REGENTS FOR HIGHER EDUCATION

Year Ended June 30, 2017

No matters were reportable.