

**OKLAHOMA STATE REGENTS
FOR HIGHER EDUCATION**

June 30, 2015

OKLAHOMA STATE REGENTS FOR HIGHER EDUCATION

June 30, 2015

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Independent Auditor's Report

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

We have audited the accompanying financial statements of the governmental activities, the business-type activities and each major fund of the Oklahoma State Regents for Higher Education (the State Regents), a component unit of the State of Oklahoma, as of and for the year ended June 30, 2015, and the related notes to the financial statements, which collectively comprise the State Regents' basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

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

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

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

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business-type activities and each major fund of the State Regents' as of June 30, 2015, and the respective changes in financial position and cash flows thereof for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis on pages 4 - 13 and the schedule of proportionate share of the net pension liability - OTRS, schedule of contributions - OTRS, schedule of changes in net pension liability and related ratios - supplemental plan, schedule of contributions - supplemental plan and schedule of funding progress for other post-employment insurance benefits on pages 61 - 65 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 Supplemental Information

Our audit was conducted for the purpose of forming an opinion on the financial statements that collectively comprise the State Regents' basic financial statements. The Schedule of Expenditures of Federal Awards on page 73 is required by Office of Management and Budget Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. It and the cost center balance sheets and income statements on pages 66 - 67 are presented for purposes of additional analysis and are not a required part of the basic financial statements.

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

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

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated November 5, 2015 on our consideration of the State Regents' internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the State Regents' internal control over financial reporting and compliance.

Tulsa, Oklahoma
November 5, 2015

Stanfield & O'Sell P.C.

OKLAHOMA STATE REGENTS FOR HIGHER EDUCATION
Management's Discussion and Analysis
For the Year Ended June 30, 2015

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, 2015. 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 has determined that the federal student loan reserve fund meets the requirements of GASB 34 regarding assets held in a trustee or agency capacity for the benefit of others, and as such, should be presented as a fiduciary fund. Also, the Regents has determined that under GASB 34, the endowment is properly classified as a permanent fund. This year, in accordance with GASB 68, the Regents has 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) will also be reported as a fiduciary fund. The assets of these two plans are held in a trustee or agency capacity for the benefit of others. The Regents present the assets, liabilities, revenues, and expenses of the federal student loan reserve fund, pension funds, and the endowment fund as separate fiduciary and governmental funds.

FINANCIAL HIGHLIGHTS

- At June 30, 2015, the Regents' business-type activities net position decreased to \$72,551,193 from \$120,820,724 at June 30, 2014.
- Total recognized operating and non-operating revenues in the Regents' business-type activities decreased by \$25,625,135 primarily due to a decrease in state appropriations of \$1,927,093, a decrease in default loan collections of \$24,230,488, and approximately \$21,383,071 decrease from the transfer of pension plans to the fiduciary fund.
- Total operating and non-operating expenses in the Regents' business-type activities increased by \$693,547 primarily due to the recognition of pension plans being moved to the fiduciary fund, partially offset by increases in OCIA on-behalf payments.
- The endowment fund experienced a negative return on investment of \$4,305,878 in 2015, compared to a positive return on investment of \$83,740,436 in 2014, a decrease of \$88,046,314.

OKLAHOMA STATE REGENTS FOR HIGHER EDUCATION
Management's Discussion and Analysis
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FINANCIAL HIGHLIGHTS *(continued)*

- The net position at the beginning of the year was restated to include the impact of GASB 68 adjustments to recognize the Regents' share of net pension liabilities as of the measurement date. The net effect of these changes on beginning net position was a reduction of \$31,725,821.

USING THIS REPORT

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

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

GOVERNMENT-WIDE FINANCIAL STATEMENTS

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

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

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

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

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

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USING THIS REPORT *(continued)*

FUND FINANCIAL STATEMENTS

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

Fiduciary fund: The OCAP federal student loan reserve fund is reported as a fiduciary fund. This fund is used to account for the assets, liabilities, revenues, and expenses administered on behalf of the Federal government. The Regents' supplemental retirement fund and retiree medical plan are reported as fiduciary funds to account for assets held in a trustee or agency capacity for the benefit of agency employees.

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

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

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

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

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

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

Condensed Statement of Net Position

	Governmental Activities		Business-Type Activities		Total	
	<u>2015</u>	<u>2014</u>	<u>2015</u>	<u>2014</u>	<u>2015</u>	<u>2014</u>
Current assets	\$ 53,919,840	\$ 71,233,286	\$ 93,801,377	\$ 127,976,935	\$ 147,721,218	\$ 199,210,221
Capital assets	-	-	18,455,457	21,125,154	18,455,457	21,125,154
Other noncurrent assets	616,454,425	621,517,374	-	-	616,454,425	621,517,374
Total assets	670,374,265	692,750,660	112,256,834	149,102,089	782,631,099	841,852,749
Deferred outflow related to pension			3,190,584	-	3,190,584	-
Current liabilities	70,587,520	65,295,258	7,428,773	15,901,417	78,016,293	81,196,675
Noncurrent liabilities	110,965,000	116,460,000	28,987,139	12,379,948	139,952,139	128,839,948
Total liabilities	181,552,520	181,755,258	36,415,913	28,281,365	217,968,432	210,036,623
Deferred inflow related to pension	-	-	6,480,311	-	6,480,311	-
Net position						
Net Investment in						
Capital Assets	-	-	18,455,457	21,125,154	18,455,457	21,125,154
Restricted	488,821,745	510,995,402	58,303,177	58,808,315	547,124,923	569,803,717
Unrestricted	-	-	(4,207,440)	40,887,255	(4,207,440)	40,887,255
Total Net Position	<u>\$ 488,821,745</u>	<u>\$ 510,995,402</u>	<u>\$ 72,551,195</u>	<u>\$ 120,820,724</u>	<u>\$ 561,372,940</u>	<u>\$ 631,816,126</u>

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

	Condensed Statement of Activities					
	Governmental Activities		Business-Type Activities		Total	
	<u>2015</u>	<u>2014</u>	<u>2015</u>	<u>2014</u>	<u>2015</u>	<u>2014</u>
Operating revenues						
Administrative fees	\$ -	\$ -	\$ 1,149,432	\$ 1,235,040	\$ 1,149,432	\$ 1,235,040
Default aversion fees	-	-	1,095,699	1,998,846	1,095,699	1,998,846
Default loan collections	-	-	20,293,290	44,523,778	20,293,290	44,523,778
Grants, contracts and gifts	-	2,500	12,311,250	12,567,197	12,311,250	12,569,697
OneNet service fee	-	-	17,011,773	14,847,753	17,011,773	14,847,753
Other	-	-	532,835	392,360	532,835	392,360
Nonoperating revenues						
State appropriations	-	-	1,049,810,432	1,051,737,525	1,049,810,432	1,051,737,525
Other state income	-	-	11,220,457	11,497,247	11,220,457	11,497,247
Fund released from OMES	2,623,987	-	-	-	2,623,987	-
On-behalf TRS contributions	-	-	1,378,381	1,256,629	1,378,381	1,256,629
On-behalf payment OCIA	-	432,500	-	-	-	432,500
Gain on disposal of capital assets	-	-	-	13,233	-	13,233
Return on investment	(4,305,878)	83,740,436	1,591,821	1,950,897	(2,714,057)	85,691,333
	<u>(1,681,891)</u>	<u>84,175,436</u>	<u>1,116,395,370</u>	<u>1,142,020,505</u>	<u>1,114,713,479</u>	<u>1,226,195,941</u>
Operating expenses						
Personnel and other operating costs	389,351	372,607	37,505,403	67,243,475	37,894,754	67,616,082
Communications	-	-	12,249,095	10,591,546	12,249,095	10,591,546
Scholarships, tuition and other incen	-	-	12,788,674	13,496,134	12,788,674	13,496,134
Other	2,801,973	2,102,166	-	-	2,801,973	2,102,166
Nonoperating expenses						
Interagency payments	-	-	146,193	508,326	146,193	508,326
Payments to public institutions	23,718,732	25,002,826	985,150,763	984,624,119	1,008,869,495	1,009,626,945
OCIA on-behalf payments	-	-	50,091,757	43,183,505	50,091,757	43,183,505
Loss on disposal of capital assets	-	-	131,450	-	131,450	-
Other	-	-	22,325,741	-	22,325,741	-
Interest expense	6,056,244	6,853,532	75,468	123,892	6,131,712	6,977,424
	<u>32,966,300</u>	<u>34,331,131</u>	<u>1,120,464,544</u>	<u>1,119,770,997</u>	<u>1,153,430,845</u>	<u>1,154,102,128</u>
Net income (loss) before capital appropriations and other revenues	(34,648,192)	49,844,305	(4,069,174)	22,249,508	(38,717,366)	72,093,813
Transfers	<u>12,474,535</u>	<u>13,258,399</u>	<u>(12,474,535)</u>	<u>(13,258,399)</u>	<u>-</u>	<u>-</u>
Change in net assets	(22,173,657)	63,102,704	(16,543,709)	8,991,109	(38,717,366)	72,093,813
Net position, beginning of year as restated	<u>510,995,402</u>	<u>447,892,698</u>	<u>89,094,903</u>	<u>111,829,615</u>	<u>600,090,305</u>	<u>559,722,313</u>
Net position, end of year	<u>\$ 488,821,745</u>	<u>\$ 510,995,402</u>	<u>\$ 72,551,195</u>	<u>\$ 120,820,724</u>	<u>\$ 561,372,940</u>	<u>\$ 631,816,126</u>

OKLAHOMA STATE REGENTS FOR HIGHER EDUCATION
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CAPITAL ASSETS AND DEBT ADMINISTRATION

At June 30, 2015, the Regents business-type activities recorded a total of \$69,151,672 in capital assets and \$50,696,215 in accumulated depreciation. During the year ended June 30, 2015, the Regents acquired \$2,637,981 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

Equipment	60,528,334	61,531,037
Motor vehicles	463,306	331,570
Total	<u>69,151,672</u>	<u>69,816,111</u>
Less accumulated depreciation	<u>(50,696,215)</u>	<u>(48,690,957)</u>
Capital assets, net	<u><u>\$ 18,455,457</u></u>	<u><u>\$ 21,125,154</u></u>

At June 30, 2015, the Regents business-type activities had long-term liabilities of \$30,750,469. The current portion due within one year is \$1,763,330.

Long-Term Liabilities

	<u>2015</u>	<u>2014</u>
Compensated absences	\$ 1,780,440	\$ 1,731,077
Accrued pension obligation/other post-employment benefits	28,379,941	11,461,377
Master equipment leases payable	573,333	1,928,083
Unamortized bond premium	16,755	56,964
Sub-total long-term liabilities	<u>\$ 30,750,469</u>	<u>\$ 15,177,501</u>
Less: Due within one year	<u>\$ (1,763,330)</u>	<u>\$ (2,797,553)</u>
Total long-term liabilities	<u><u>\$ 28,987,139</u></u>	<u><u>\$ 12,379,948</u></u>

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

The following schedules are prepared from the Regents' Endowment Fund basic financial statements. The statements are presented on a modified accrual basis of accounting whereby revenues are recognized when measurable and available and expenses are recorded when a liability is incurred. During the year ended June 30, 2015, total expenses decreased by \$411,961 compared to June 30, 2014 with total distributions to the institutions decreasing by \$1,284,094 and lease payments increasing by \$155,582. Total return on investments decreased by \$88,046,314.

Regents' Endowment Fund

	<u>2015</u>	<u>2014</u>
Cash and investments	\$ 665,094,367	\$ 691,336,565
Receivables	<u>5,279,898</u>	<u>1,414,095</u>
Total assets	670,374,265	692,750,660
 Total liabilities	 <u>65,092,520</u>	 <u>59,970,258</u>
Total fund balance	<u><u>\$ 605,281,745</u></u>	<u><u>\$ 632,780,402</u></u>

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FINANCIAL ANALYSIS OF THE REGENTS' ENDOWMENT FUND
(continued)

Changes in Fund Balance

	2015	2014
Return on investment	\$ (4,305,878)	\$ 83,740,436
OCIA on behalf payment	-	432,500
Intergovernmental revenue	2,623,987	-
Private gifts	-	2,500
Total revenues	(1,681,891)	84,175,436
Contractual and other	3,191,324	2,474,773
Lease payments	11,381,244	11,225,662
Distributions to institutions	23,718,732	25,002,826
Total expenditures	38,291,300	38,703,261
Transfers in	12,474,535	13,258,399
Total other financing sources	12,474,535	13,258,399
Change in endowment fund balance	<u>\$ (27,498,657)</u>	<u>\$ 58,730,574</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, 2015, total additions decreased by \$27,014,813 from \$173,490,319 to \$146,475,507. Deductions decreased by \$28,923,966 from \$174,899,250 to \$145,975,284. The additions decrease was primarily due to decreased loan collections, federal reinsurance, fee revenues, and a reduction in the provision for default loans, offset by an increase in interest income. The decrease in deductions was primarily due to decreases in default loan purchases, default aversion fees, and default loan collections due to USDE as a result of the continued decline in the outstanding portfolio.

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FINANCIAL ANALYSIS OF THE OCAP FIDUCIARY FUND ACTIVITIES *(continued)*

Fiduciary Net Position

	2015	2014
Other assets	\$ 17,226,593	\$ 20,807,641
Total Assets	17,226,593	20,807,641
Non-reinsured defaulted loans	6,447,910	6,586,127
Total Deferred Outflows of Resources	6,447,910	6,586,127
Total Liabilities	5,950,595	9,838,500
Allowance for default claims	1,556,423	1,888,006
Total Deferred Inflows of Resources	1,556,423	1,888,006
Restricted net assets	16,167,485	15,667,262
Total Net Position	\$ 16,167,485	\$ 15,667,262

Changes in Fiduciary Net Position

	2015	2014
Federal reinsurance	\$ 70,691,605	\$ 75,347,875
Loan collections	74,584,564	96,762,982
Other additions	1,199,338	1,379,463
Total Additions	146,475,507	173,490,320
Purchase of defaulted loans	68,421,679	84,063,351
Loan collections due to USDE	76,457,906	88,836,910
Other deductions	1,095,699	1,998,989
Total Deductions	145,975,284	174,899,250
Change in Federal Fund Net Position	\$ 500,223	\$ (1,408,930)

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ECONOMIC FACTORS AND THE REGENTS' FUTURE

The economic position of the Regents is closely tied to that of the State of Oklahoma. During the 2015 legislative session, the Oklahoma Legislature appropriated \$1,044,523,284 to the Regents for fiscal year 2015, a decrease of \$1,025,723 compared to the fiscal year 2014 appropriations of \$1,045,549,007. Approximately 9.07% of the revenue for fiscal year 2015 comes from gross production tax.

CONTACTING THE REGENTS' FINANCIAL MANAGEMENT

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

BASIC FINANCIAL STATEMENTS

STATEMENT OF NET POSITION

OKLAHOMA STATE REGENTS FOR HIGHER EDUCATION

June 30, 2015

	Governmental Activities	Business-Type Activities	Total
ASSETS AND DEFERRED OUTFLOW			
CURRENT ASSETS			
Cash and cash equivalents	\$ -	\$ 29,680,345	\$ 29,680,345
Receivables			
Accounts receivable	-	7,024,892	7,024,892
Interest	-	35,848	35,848
Other assets	-	1,476,625	1,476,625
Restricted assets			
Cash and cash equivalents	48,639,942	52,557,251	101,197,193
Investments	-	1,294,888	1,294,888
Receivables			
Accounts receivable	-	192,017	192,017
Payable between funds	-	1,184,211	1,184,211
Administrative cost allowance	-	277,492	277,492
Interest	71,150	77,806	148,956
Other	5,208,748	-	5,208,748
TOTAL CURRENT ASSETS	53,919,840	93,801,375	147,721,215
NONCURRENT ASSETS			
Investments	616,454,425	-	616,454,425
Capital assets, net	-	18,455,457	18,455,457
TOTAL NONCURRENT ASSETS	616,454,425	18,455,457	634,909,882
DEFERRED OUTFLOW OF RESOURCES			
Deferred outflow related to pension	-	3,190,584	3,190,584
TOTAL ASSETS AND DEFERRED OUTFLOW	\$ 670,374,265	\$ 115,447,416	\$ 785,821,681

(Continued)

STATEMENT OF NET POSITION--Continued

OKLAHOMA STATE REGENTS FOR HIGHER EDUCATION

June 30, 2015

	Governmental Activities	Business-Type Activities	Total
LIABILITIES AND DEFERRED INFLOW			
CURRENT LIABILITIES			
Accounts payable and accrued expenses	\$ -	\$ 5,076,184	\$ 5,076,184
Compensated absences	-	725,439	725,439
Accrued OPEB obligation	-	248,188	248,188
Liabilities payable from restricted assets			
Accounts payable and accrued expenses	1,896,429	589,259	2,485,688
Compensated absences	-	199,615	199,615
OCIA lease payable	5,495,000	-	5,495,000
Master lease payable	-	573,333	573,333
Unamortized bond premium	-	16,755	16,755
Deposits held in trust for system institutions	3,054,577	-	3,054,577
Undistributed interest on deposits held in trust	60,141,514	-	60,141,514
TOTAL CURRENT LIABILITIES	<u>70,587,520</u>	<u>7,428,773</u>	<u>78,016,293</u>
NONCURRENT LIABILITIES			
Compensated absences	-	736,674	736,674
Accrued pension obligation	-	1,771,205	1,771,205
Net pension liability	-	26,360,548	26,360,548
Noncurrent liabilities payable from restricted assets			
Compensated absences	-	118,712	118,712
OCIA lease payable	110,965,000	-	110,965,000
TOTAL NONCURRENT LIABILITIES	<u>110,965,000</u>	<u>28,987,139</u>	<u>139,952,139</u>
DEFERRED INFLOW OF RESOURCES			
Deferred inflow related to pension	-	6,480,311	6,480,311
TOTAL LIABILITIES AND DEFERRED INFLOW	<u>181,552,520</u>	<u>42,896,223</u>	<u>224,448,743</u>
NET POSITION			
Net investment in capital assets	-	18,455,457	18,455,457
Restricted			
Educational grants and scholarships	-	17,390,654	17,390,654
Oklahoma College Assistance Program	-	37,285,424	37,285,424
Endowment - Nonexpendable	488,821,745	-	488,821,745
Capital Projects	-	3,331,506	3,331,506
Unrestricted	-	(3,911,848)	(3,911,848)
TOTAL NET POSITION	<u>\$ 488,821,745</u>	<u>\$ 72,551,193</u>	<u>\$ 561,372,938</u>

(Concluded)

See notes to financial statements.

STATEMENT OF ACTIVITIES

OKLAHOMA STATE REGENTS FOR HIGHER EDUCATION

Year Ended June 30, 2015

	Governmental Activities	Business-Type Activities	Total
OPERATING REVENUES			
Administrative fees	\$ -	\$ 1,149,432	\$ 1,149,432
Default aversion fees	-	1,095,699	1,095,699
Default loan collections	-	20,293,290	20,293,290
Federal grants and contracts	-	12,311,250	12,311,250
OneNet service fees	-	17,011,773	17,011,773
Other	-	532,835	532,835
TOTAL OPERATING REVENUES	-	52,394,279	52,394,279
OPERATING EXPENSES			
Compensation	-	7,079,823	7,079,823
Pension expense	-	1,693,804	1,693,804
Contractual services	389,351	21,423,573	21,812,924
Communications	-	12,249,095	12,249,095
Scholarships, tuition, and other incentives	-	12,788,674	12,788,674
Supplies and materials	-	359,514	359,514
Utilities	-	63,442	63,442
Other	2,801,974	1,790,561	4,592,535
Depreciation and amortization	-	5,094,687	5,094,687
TOTAL OPERATING EXPENSES	3,191,325	62,543,173	65,734,498
OPERATING LOSS	(3,191,325)	(10,148,894)	(13,340,219)
NONOPERATING REVENUES (EXPENSES)			
State appropriations	-	1,049,810,432	1,049,810,432
Other state income	-	11,220,457	11,220,457
Payments to system institutions	(23,718,732)	(985,150,763)	(1,008,869,495)
OCIA on-behalf payments	-	(50,091,757)	(50,091,757)
Intergovernmental revenue	2,623,987	-	2,623,987
Interagency payments	-	(146,193)	(146,193)
On-behalf Teachers' Retirement System contributions	-	1,378,381	1,378,381
Return on investment	(4,305,878)	1,591,821	(2,714,057)
Loss on disposal of capital assets	-	(131,450)	(131,450)
Other	-	(22,325,741)	(22,325,741)
Interest expense	(6,056,244)	(75,468)	(6,131,712)
NET NONOPERATING REVENUES	(31,456,867)	6,079,719	(25,377,148)
NET INCOME BEFORE CAPITAL APPROPRIATIONS AND OTHER REVENUES	(34,648,192)	(4,069,175)	(38,717,367)
Transfers	12,474,535	(12,474,535)	-
INCREASE IN NET POSITION	(22,173,657)	(16,543,710)	(38,717,367)
NET POSITION AT BEGINNING OF YEAR	510,995,402	89,094,903	600,090,305
NET POSITION AT END OF YEAR	\$ 488,821,745	\$ 72,551,193	\$ 561,372,938

See notes to financial statements.

BALANCE SHEET--GOVERNMENTAL FUND

OKLAHOMA STATE REGENTS FOR HIGHER EDUCATION

June 30, 2015

	<u>Endowment Fund</u>
ASSETS	
Restricted assets	
Cash	\$ 48,639,942
Investments	616,454,425
Receivables:	
Interest	71,150
Other receivables	<u>5,208,748</u>
TOTAL ASSETS	<u>\$ 670,374,265</u>
LIABILITIES	
Deposits held in trust for system institutions	\$ 3,054,577
Accounts payable	1,896,429
Undistributed interest on deposits held in trust	<u>60,141,514</u>
TOTAL LIABILITIES	<u>65,092,520</u>
FUND BALANCE	
Endowment - Nonexpendable	<u>605,281,745</u>
TOTAL FUND BALANCE	<u>605,281,745</u>
TOTAL LIABILITIES AND FUND BALANCE	<u>\$ 670,374,265</u>
	(Continued)

BALANCE SHEET--GOVERNMENTAL FUND--Continued

OKLAHOMA STATE REGENTS FOR HIGHER EDUCATION

June 30, 2015

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

Total fund balance - governmental fund	\$ 605,281,745
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Amounts reported for governmental activities in
the Statement of Net Position are different because:

Long-term liabilities, including bonds payable, are not due and payable in the current period and, therefore, are not reported in the funds.	<u>(116,460,000)</u>
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Net Position of governmental activities	<u>\$ 488,821,745</u> (Concluded)
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See notes to financial statements.

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

OKLAHOMA STATE REGENTS FOR HIGHER EDUCATION

Year Ended June 30, 2015

	<u>Endowment Fund</u>
REVENUES	
Investment return	\$ (4,305,878)
Intergovernmental revenue	<u>2,623,987</u>
Total Revenues	(1,681,891)
EXPENDITURES	
Contractual services	389,352
Payments to system institutions	23,718,732
Other	2,801,973
Lease payments:	
Principal retirement	5,325,000
Interest and other financing	<u>6,056,244</u>
Total expenditures	<u>38,291,301</u>
Excess of revenues over expenditures	(39,973,192)
OTHER FINANCING SOURCES	
Transfers in	<u>12,474,535</u>
Net change in fund balance	(27,498,657)
FUND BALANCE, BEGINNING OF YEAR	<u>632,780,402</u>
FUND BALANCE, END OF YEAR	<u>\$ 605,281,745</u>

(Continued)

See notes to financial statements.

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

OKLAHOMA STATE REGENTS FOR HIGHER EDUCATION

Year Ended June 30, 2015

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	\$ (27,498,657)
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Amounts reported for governmental activities in
the Statement of Activities are different because:

Capital lease principal payments expensed in fund financial statements are treated as a reduction of outstanding debt in government-wide statements	<u>5,325,000</u>
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Change in fund balance of governmental activities	<u>\$ (22,173,657)</u> (Concluded)
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See notes to financial statements.

STATEMENT OF CASH FLOWS--BUSINESS-TYPE ACTIVITIES

OKLAHOMA STATE REGENTS FOR HIGHER EDUCATION

Year Ended June 30, 2015

CASH FLOWS FROM OPERATING ACTIVITIES

Receipts for collections	\$ 22,379,194
Receipts from Admin Fees	1,171,671
Receipts from Federal government	13,604,939
Receipts for OneNet services	16,212,978
Receipts from other sources	2,703,650
Payments to suppliers	(39,840,423)
Payments to employees	(18,606,619)
Payments for scholarships and fellowships	<u>(13,277,582)</u>

NET CASH USED IN OPERATING ACTIVITIES (15,652,192)

CASH FLOWS FROM NONCAPITAL

FINANCING ACTIVITIES

Receipt of state appropriations	1,033,888,967
Receipt of other state income	11,214,181
Payments for assistance grants	(50,091,757)
Payments to public institutions	(1,009,011,674)
Transfers to other funds	<u>(291,265)</u>

NET CASH PROVIDED USED IN
NONCAPITAL FINANCING ACTIVITIES (14,291,548)

CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES

Acquisition of capital assets	(2,577,643)
Principal payments on leases	(1,366,263)
Interest paid on leases	<u>(75,468)</u>

NET CASH USED IN CAPITAL AND
RELATED FINANCING ACTIVITIES (4,019,374)

CASH FLOWS FROM INVESTING ACTIVITIES

Proceeds from sales and maturities of investments	852,023
Interest received	<u>1,624,902</u>

NET CASH PROVIDED BY INVESTING ACTIVITIES 2,476,925

NET CHANGE IN CASH (31,486,189)

CASH AND CASH EQUIVALENTS AT BEGINNING OF YEAR

113,723,785

CASH AND CASH EQUIVALENTS AT END OF YEAR

\$ 82,237,596

See notes to financial statements.

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

OKLAHOMA STATE REGENTS FOR HIGHER EDUCATION

Year Ended June 30, 2015

RECONCILIATION OF OPERATING INCOME (LOSS)	
TO NET CASH USED IN OPERATING ACTIVITIES	
Operating loss/income	\$ (10,148,894)
Adjustments to reconcile operating loss to	
net cash used in operating activities	
Depreciation and amortization	5,094,687
Pension Expense	1,693,804
Deferred Outflow	(3,190,584)
Changes in operating assets and liabilities	
Accounts receivable	2,107,997
Accounts payable and accrued expenses	(11,209,202)
Total adjustments	<u>(5,503,298)</u>
NET CASH USED IN OPERATING ACTIVITIES	<u>\$ (15,652,192)</u>
NONCASH INVESTING, CAPITAL AND	
RELATED FINANCING ACTIVITIES	
Unrealized gain on investments	<u>\$ 20,371</u>
Loss/gain on disposal of capital assets	<u>\$ (131,450)</u>
RECONCILIATION OF CASH AND CASH EQUIVALENTS	
TO STATEMENTS OF NET ASSETS	
Current Assets	
Cash and cash equivalents	\$ 29,680,345
Restricted cash and cash equivalents	<u>52,557,251</u>
TOTAL CASH AND CASH EQUIVALENTS	<u>\$ 82,237,596</u>
	(Concluded)

See notes to financial statements.

STATEMENT OF FIDUCIARY NET POSITION--FIDUCIARY FUND

OKLAHOMA STATE REGENTS FOR HIGHER EDUCATION

Other Post Employment Benefit Plan

June 30, 2015

ASSETS

CURRENT ASSETS

Investment	\$ 9,904,110
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TOTAL ASSETS	<u>\$ 9,904,110</u>
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LIABILITIES

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

Held in trust for Other Post Employment Benefit Plan	\$ 9,904,110
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TOTAL NET POSITION	<u>\$ 9,904,110</u>
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See notes to financial statements.

STATEMENT OF CHANGES IN FIDUCIARY NET POSITION--FIDUCIARY FUND

OKLAHOMA STATE REGENTS FOR HIGHER EDUCATION

Other Post Employment Benefit Plan

Year Ended June 30, 2015

ADDITIONS

Contributions

\$ 9,912,657

TOTAL ADDITIONS

9,912,657

DEDUCTIONS

Loss on investment

8,547

TOTAL DEDUCTIONS

8,547

CHANGE IN NET POSITION

9,904,110

NET POSITION, BEGINNING OF YEAR

-

NET POSITION, END OF YEAR

\$ 9,904,110

See notes to financial statements.

STATEMENT OF FIDUCIARY NET POSITION--FIDUCIARY FUND

OKLAHOMA STATE REGENTS FOR HIGHER EDUCATION
Supplemental Retirement Plan

June 30, 2015

ASSETS

Investment	\$ 11,986,371
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TOTAL ASSETS	<u>\$ 11,986,371</u>
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LIABILITIES

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

Held in trust for Supplemental Retirement Plan	\$ 11,986,371
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TOTAL NET POSITION	<u>\$ 11,986,371</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, 2015

ADDITIONS

Contributions	\$ 12,413,514
Return on Investment	<u>329,365</u>

TOTAL ADDITIONS	<u>12,742,879</u>
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DEDUCTIONS

Retirement payment	<u>756,508</u>
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TOTAL DEDUCTIONS	<u>756,508</u>
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CHANGE IN NET POSITION	11,986,371
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NET POSITION, BEGINNING OF YEAR	<u>-</u>
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NET POSITION, END OF YEAR	<u>\$ 11,986,371</u>
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See notes to financial statements.

STATEMENT OF FIDUCIARY NET POSITION--FIDUCIARY FUND

OKLAHOMA STATE REGENTS FOR HIGHER EDUCATION

Federal Fund

June 30, 2015

ASSETS

CURRENT ASSETS

Cash	\$ 12,021,610
Receivables	
Federal reinsurance	5,057,410
Loan collections	109,066
Other	<u>38,507</u>
TOTAL CURRENT ASSETS	<u>17,226,593</u>
TOTAL ASSETS	<u>\$ 17,226,593</u>

DEFERRED OUTFLOWS OF RESOURCES

Non-reinsured defaulted loans	\$ 6,447,910
TOTAL DEFERRED OUTFLOWS OF RESOURCES	<u>\$ 6,447,910</u>

LIABILITIES

CURRENT LIABILITIES

Accounts payable and accrued expenses	\$ 107,125
Payable between funds	1,184,211
Default loan collections due to USDE	<u>4,659,259</u>
TOTAL CURRENT LIABILITIES	<u>5,950,595</u>
TOTAL LIABILITIES	<u>\$ 5,950,595</u>

DEFERRED INFLOWS OF RESOURCES

Allowance for default claims	\$ 1,556,423
TOTAL DEFERRED INFLOWS OF RESOURCES	<u>\$ 1,556,423</u>

NET POSITION

Held in trust for Federal government	\$ 16,167,485
TOTAL NET POSITION	<u>\$ 16,167,485</u>

See notes to financial statements.

STATEMENT OF CHANGES IN FIDUCIARY NET POSITION--FIDUCIARY FUND

OKLAHOMA STATE REGENTS FOR HIGHER EDUCATION

Federal Fund

Year Ended June 30, 2015

ADDITIONS

Federal reinsurance	\$ 70,691,605
Loan collections	74,584,564
Default aversion fees	649,361
Interest income	209,526
Other additions	8,868
Provision for default loans	<u>331,583</u>

TOTAL ADDITIONS 146,475,507

DEDUCTIONS

Purchase of defaulted Loans	68,421,679
Default loan collections due to USDE	76,457,906
Default aversion fees	<u>1,095,699</u>

TOTAL DEDUCTIONS 145,975,284

DECREASE IN NET POSITION 500,223

NET POSITION, BEGINNING OF YEAR 15,667,262

NET POSITION, END OF YEAR \$ 16,167,485

See notes to financial statements.

NOTES TO BASIC FINANCIAL STATEMENTS
OKLAHOMA STATE REGENTS FOR HIGHER EDUCATION
June 30, 2015

NOTE A--NATURE OF OPERATIONS

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

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

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

- *Educational programs* are established to make higher education available to those persons who cannot otherwise attend an institution of higher education. The funds for these programs are provided from state resources.
- *Student assistance programs* are established to aid students in higher education through the use of scholarships, grants, guaranteed loans and contract programs. These programs are funded from both state and federal resources.
- *The Oklahoma Teacher Preparation Professional Development Program* was established to evaluate first-year teachers in the State Public School System. This program is funded by state resources.
- *The endowment fund program* involves state-appropriated and privately donated funds for the creation of an endowment program to support the establishment of faculty chairs,

NOTES TO BASIC FINANCIAL STATEMENTS
OKLAHOMA STATE REGENTS FOR HIGHER EDUCATION
June 30, 2015

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

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

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

NOTE B--SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

These financial statements are prepared as required by generally accepted accounting principles promulgated by the Governmental Accounting Standards Board ("GASB"). The Regents has elected not to apply those pronouncements. The accounting and reporting framework and the more significant accounting policies are discussed in subsequent sections of this note.

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

Basis of Presentation: The Regents follow GASB Statement No. 34 "*Basic Financial Statements and Management's Discussion and Analysis - for State and Local Governments*" and related pronouncements in the preparation of its financial statements. Under the provisions of the standard, the Regents are considered a special-purpose government engaged in governmental and business-type activities and are thereby required to provide both government-wide statements and proprietary fund financial statements, along with required supplementary information (RSI) that includes management's discussion and analysis (MD&A). The financial statement presentation required by GASB Statement No. 34 and as modified by GASB Statement No. 63 and 65 provides a comprehensive, entity-wide perspective of the Regents' assets, liabilities, net position, revenues, expenses, changes in net position and cash flows. The Regents' fiduciary funds include OCAP, the supplemental retirement plan (as required by GASB Statement 68) and the retiree medical plan.

NOTES TO BASIC FINANCIAL STATEMENTS
OKLAHOMA STATE REGENTS FOR HIGHER EDUCATION
June 30, 2015

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

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

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

The Regents report the following major governmental fund:

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

The Regents report the following major proprietary funds:

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

The Regents report the following fiduciary funds:

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

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

NOTES TO BASIC FINANCIAL STATEMENTS
OKLAHOMA STATE REGENTS FOR HIGHER EDUCATION
June 30, 2015

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

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 a liability is incurred, regardless of the timing of related cash flows.

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

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

Use of Estimates in the Preparation of Financial Statements: The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenditures during the reporting period. Estimation of the accrued pension obligation and other post-employment benefits obligation involves the use of actuarial assumptions, including selection of a discount rate, projected salary increases, and projected annuity increases are included in the Regents' report effective for year ended June 30, 2015. Actual results could differ from those estimates. Another significant estimate made by the Regents includes the depreciation of capital assets.

Investments: Investments are under control of the State Treasurer, the Common Fund, the Teachers' Insurance Annuity Association - College Retirement Equities Fund ("TIAA/CREF"), and other various outside investment managers and are recorded at fair value based on reports provided by independent sources as of June 30, 2015. The net change in fair value of

NOTES TO BASIC FINANCIAL STATEMENTS
OKLAHOMA STATE REGENTS FOR HIGHER EDUCATION
June 30, 2015

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

investments is recorded as investment return on the statement of revenues, expenses, and changes in net assets and includes the unrealized and realized gains and losses on investments.

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

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

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

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

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

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

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.

NOTES TO BASIC FINANCIAL STATEMENTS
OKLAHOMA STATE REGENTS FOR HIGHER EDUCATION
June 30, 2015

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

Non-reinsured Defaulted Loans: OCAP estimates collections on non-reinsured defaulted loans based upon historical recovery experience. The historical collection rate for June 30, 2015 is 54.44%. 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 November 5, 2015, the date the financial statements were available to be issued.

NOTE C--DEPOSITS AND INVESTMENTS

Deposits: Custodial Credit Risk is the risk that in the event of the failure of a counter party, the Regents will be unable to recover the value of its investments. Deposits are exposed to custodial risk if they are uninsured and uncollateralized. The Regents deposits its funds with the Office of the State Treasurer ("OST") and those funds are pooled with funds of other state agencies and then, in accordance with statutory limitations, are placed in financial institutions or invested as the OST may determine, in the state's name. By Oklahoma Statute, the State Treasurer is required to ensure that all state funds are either insured by Federal Deposit Insurance, collateralized by securities held by the cognizant Federal Reserve Bank, or invested in United States government obligations. The OST's responsibilities include receiving and collateralizing the deposit of State Funds, investing State funds in compliance with statutory 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, 2015, the carrying amount of the Regents' deposits with the State Treasurer was approximately \$142,899,148. Of the funds on deposit with OST, \$129,332,301 is invested in *OK INVEST*.

NOTES TO BASIC FINANCIAL STATEMENTS
OKLAHOMA STATE REGENTS FOR HIGHER EDUCATION
June 30, 2015

NOTE C--DEPOSITS AND INVESTMENTS

Deposits (continued):

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

<u><i>OK INVEST</i> Portfolio</u>	<u>Cost</u>	<u>Market Value</u>
U.S. Treasury	\$ 1,496,945	\$ 1,796,970
U.S. Agency Securities	51,924,388	51,868,253
Money Market Mutual Fund	16,236,380	16,236,380
End of Day Commercial Paper SWEEP	2,616,649	2,616,649
Mortgage Backed Agency Securities	50,737,562	51,386,050
Municipal Bonds	1,793,243	1,944,497
Foreign Bonds	995,846	995,843
Certificates of Deposit	3,531,288	3,531,288
Totals	<u>\$ 129,332,301</u>	<u>\$ 130,375,930</u>

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

The State Treasurer, at his discretion, may further limit or restrict such investments on a day to day basis. *OK INVEST* includes a substantial investment in securities with an overnight 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.

NOTES TO BASIC FINANCIAL STATEMENTS
OKLAHOMA STATE REGENTS FOR HIGHER EDUCATION
June 30, 2015

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:

The Regents had the following investments as of June 30, 2015:

<u>Type of Investment</u>	<u>Fair Value / Carrying Amount</u>	<u>Average Credit Quality/ Rating</u>	<u>Effective Duration</u>	<u>Average Life</u>	<u>Average Maturity</u>
Governmental activities					
Endowment Fund					
Equity	\$ -				
Common stock	\$48,902,784	N/A			
Equity index fund	82,133,170	N/A			
International equity fund	63,823,153	AA	5.87 yrs	NA	7.84 yrs
Limited liability company	549,179	A	4.02 yrs	5.94 yrs	N/A
Limited partnership	25,789,937	B2/B+	.05 yrs	N/A	5.70 yrs
Fixed income					
Multi-strategy bond fund	27,334,793	A+	3.96 yrs	NA	6.72 yrs
Global bond fund	23,375,238	AA	5.87 yrs	NA	7.84 yrs
Commingled funds-fixed	141,689,461				
Hedge funds	199,216,222	N/A			
Cash equivalent funds	3,640,488				
Total Endowment Fund	<u>\$616,454,425</u>				
Governmental activities investments	<u>\$ 616,454,425</u>				

NOTES TO BASIC FINANCIAL STATEMENTS
OKLAHOMA STATE REGENTS FOR HIGHER EDUCATION
June 30, 2015

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

Investments (*continued*):

The Regents had the following investments as of June 30, 2015:

<u>Type of Investment</u>	<u>Fair Value / Carrying Amount</u>	<u>Average Credit Quality / Rating</u>	<u>Effective Duration</u>	<u>Average Life</u>	<u>Average Maturity</u>
<i>Business-type Activities</i>					
Academic Scholars' Trust Fund					
Equity					
Multi-strategy fund	\$230,803	N/A			
Fixed income					
Multi-strategy bond fund	1,064,085	A+	3.96 yrs	N/A	6.72 yrs
Total Academic Scholars'	<u>\$1,294,888</u>				
 Fiduciary Fund - Supplemental					
Supplemental CREF stock fund	331,727	N/A			
Supplemental CREF bond market fund	11,595,825	N/A			
CREF money market fund	58,819	N/A			
Total Fiduciary Fund - Supplemental	<u>11,986,371</u>				
 Fiduciary Fund - OPEB					
OPEB CREF bond market fund	9,898,176	N/A			
OPEB CREF money market fund	5,934	N/A			
Total Fiduciary Fund - OPEB	<u>9,904,110</u>				

Investments (*continued*):

In accordance with Title 70 O.S. 2001 § 3951, the Oklahoma Regents for Higher Education are designated as trustees of the "Oklahoma Regents' Endowment Trust Fund". The Trust Fund principal shall consist of monies the Legislature appropriates or transfers to the Oklahoma Regents for Higher Education for the Trust Fund and any monies or assets contributed to the Trust Fund from any other source, public or private. Trust Fund principal shall not be diminished.

NOTES TO BASIC FINANCIAL STATEMENTS
OKLAHOMA STATE REGENTS FOR HIGHER EDUCATION
June 30, 2015

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

The pooled Endowment Trust balance as of June 30, 2015 is \$479,221,843 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 \$36,285,466. These funds have also been presented in the financial statements for Langston University as an asset of the University.

Interest Rate Risk

Interest rate risk is the risk that changes in interest rates will adversely affect the fair value of an investment. Investments can be highly sensitive to changes in interest rates due to their terms or characteristics.

Regents' investment policy is that any funds invested in equities must be able to tolerate the volatility associated with the stock market. As a general rule, funds which cannot be invested for more than five years should not have equity exposure. For investments other than those made in endowment funds, maturities should coincide with cash need.

Investments-Credit Risk and Concentration of Credit Risk

Credit risk is the risk that an issuer or other counterparty to an investment will not fulfill its obligations. This risk is measured by the credit quality ratings of investments in debt securities as described by the nationally recognized statistical rating organizations (rating agencies) such as Standard & Poor's (S&P) and Moody's. The concentration of credit risk is the risk of loss that may occur due to the amount of investments in a single issuer, not including investments issued or guaranteed by the U.S. Government, investments in mutual funds or external investment pools.

NOTES TO BASIC FINANCIAL STATEMENTS
OKLAHOMA STATE REGENTS FOR HIGHER EDUCATION
June 30, 2015

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

Investments (*continued*):

Endowment Trust Fund

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

Asset allocation guidelines for the Endowment Trust Fund are as follows:

	<u>Minimum</u>	<u>Target</u>	<u>Maximum</u>
Growth Assets			
Domestic Equity	12%	12%	45%
International Equity	5%	6%	25%
Private Equity	0%	8%	15%
Risk Reduction Assets			
Domestic/Global Fixed Income	5%	21%	30%
International Fixed Income	0%	5%	10%
Absolute Return (Hedge Funds)	0%	18%	25%
Cash	0%	12%	15%
Inflation Protected Assets			
Domestic Inflation Protected Fixed	0%	11%	15%
REITS/Real Estate	0%	7%	15%

The Endowment Trust Fund's investment policy prohibits investment of more than 5% of its assets in the securities of any one issuer for the domestic equity and domestic fixed income investments. Domestic fixed income securities must be rated at least A by Moody's or by S&P. The Regents may exempt any fixed income manager from this restriction and allow the manager to invest in securities rated BBB or better by Moody's or by S&P if they consider it necessary for that manager to accomplish his investment objective.

NOTES TO BASIC FINANCIAL STATEMENTS
OKLAHOMA STATE REGENTS FOR HIGHER EDUCATION
June 30, 2015

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

Investments *(continued)*:

Academic Scholars Trust Fund

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

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

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

Retirement Funds

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

Investment of All Other Funds

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

Foreign Currency Risk

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

NOTES TO BASIC FINANCIAL STATEMENTS
OKLAHOMA STATE REGENTS FOR HIGHER EDUCATION
June 30, 2015

Investments (continued):

Endowment Fund

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

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

The Endowment Trust Fund also invests in alternative investments. Alternative investments include private equities, hedge funds and real estate. Alternative investments are based upon fair values of the underlying assets as reported by the entities through audited financial statements by Independent Certified Public Accountants and as determined by the fund manager. In some cases, the underlying assets are marketable securities with quoted market prices. In other situations, the underlying assets are not marketable and the fund managers determine valuations. Due to the inherent uncertainty of valuation of nonmarketable and restricted investments, those estimated values may differ significantly from the values that would have been used had a ready market for the securities existed.

The Endowment Trust Fund invests in various limited liability companies and limited partnerships. In connection with these investments and other alternative investments, Regents was subject to various subscription agreements and other funding commitments as of June 30, 2015.

NOTES TO BASIC FINANCIAL STATEMENTS
OKLAHOMA STATE REGENTS FOR HIGHER EDUCATION
June 30, 2015

NOTE D--CAPITAL ASSETS

A summary of the changes in capital assets is as follows for the year ended June 30, 2015:

	Balance June 30, 2014	Additions	Retirements	Balance June 30, 2015
<i>Business-type activities</i>				
Capital assets				
Buildings	\$ 7,953,504	\$ 221,528	\$ (15,000)	\$ 8,160,032
Equipment	61,531,037	2,284,717	(3,287,420)	60,528,334
Motor vehicles	331,570	131,736	-	463,306
Total capital assets	69,816,111	2,637,981	(3,302,420)	69,151,672
Less accumulated depreciation				
Buildings	(6,574,155)	(184,208)	15,000	(6,743,363)
Equipment	(41,916,610)	(6,717,294)	4,925,384	(43,708,520)
Motor vehicles	(200,192)	(44,141)	-	(244,333)
Total accumulated depreciation	(48,690,957)	(6,945,643)	4,940,384	(50,696,215)
Business-type activities capital assets, net	<u>\$ 21,125,154</u>	<u>\$ (4,307,662)</u>	<u>\$ 1,637,965</u>	<u>\$ 18,455,457</u>

A summary of the changes in capital assets is as follows for the years ended June 30, 2015:

	Balance June 30, 2014	Additions	Retirements	Balance June 30, 2015
<i>Fiduciary Fund</i>				
Capital assets				
Equipment	\$ 311,062	\$ -	\$ (18,142)	\$ 292,920
Motor vehicles	17,049	-	-	17,049
Total capital assets	328,111	-	(18,142)	309,969
Less accumulated depreciation				
Equipment	(311,062)	-	18,142	(292,920)
Motor vehicles	(17,049)	-	-	(17,049)
Total accumulated depreciation	(328,111)	-	18,142	(309,969)
Fiduciary fund capital assets, net	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>

NOTES TO BASIC FINANCIAL STATEMENTS
OKLAHOMA STATE REGENTS FOR HIGHER EDUCATION
June 30, 2015

NOTE E--EMPLOYEE RETIREMENT BENEFITS

In June 2012, The Governmental Accounting Standards Board issued Statement No. 68, Accounting and Financial Reporting for Pensions. The statement, as amended by Statement No. 71, was effective for fiscal years beginning after June 15, 2014. The Regents has adopted a measurement date of the beginning of the fiscal year (June 30, 2014) for its OTRS and Supplemental Pension Plans. The adoption of the standard added deferred outflows for pension payments from the measurement date to the Regents' year-end of June 30, 2015 for payments made to the plan which were not used by the plan in determining the pension obligations; deferred inflows primarily related to delayed recognition of investment return; and the recognition of the Regents' share of net pension liabilities as of the measurement date.

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

Net pension liability, beginning of year	\$35,758,761
Deferred inflows, contributions	<u>4,032,940</u>
Net position adjustment	<u>\$31,725,821</u>

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

Net pension liability, beginning of year	\$35,758,761
Pension expense	1,693,804
Contributions	(4,032,940)
On-behalf pension payments	(1,378,381)
Deferred inflows and outflows	
Difference in expected and actual return on investment	(5,267,486)
Change in assumptions	<u>(413,210)</u>
Net pension liability, end of year	<u>\$26,360,548</u>

NOTES TO BASIC FINANCIAL STATEMENTS
OKLAHOMA STATE REGENTS FOR HIGHER EDUCATION
June 30, 2015

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

Oklahoma Teachers' Retirement System

Plan description - The Regents as the employer, participates in the Oklahoma Teachers Retirement Plan—a cost-sharing multiple-employer defined benefit pension plan administered by the Oklahoma Teachers Retirement System (OTRS). Title 70 O. S. Sec. 17-105 defines all retirement benefits. The authority to establish and amend benefit provisions rests with the State Legislature. OTRS issues a publicly available financial report that can be obtained at www.ok.gov/OTRS.

Benefits provided - OTRS provides retirement, disability, and death benefits to members of the plan. Benefit provisions include:

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

NOTES TO BASIC FINANCIAL STATEMENTS
OKLAHOMA STATE REGENTS FOR HIGHER EDUCATION
June 30, 2015

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

Oklahoma Teachers' Retirement System (*continued*)

- Upon the death of a retired member, the System will pay \$5,000 to the designated beneficiary, in addition to the benefits provided for the retirement option selected by the member.
- A member is eligible for disability benefits after ten years of credited Oklahoma service. The disability benefit is equal to 2% of final average compensation for the applicable years of credited service.
- Upon separation from the System, members' contributions are refundable with interest based on certain restrictions provided in the plan, or by the IRC.
- Members may elect to make additional contributions to a tax-sheltered annuity program up to the exclusion allowance provided under the IRC under Code Section 403(b).

At the election of each eligible member initiating receipt of retirement benefits, the System remits between \$100 and \$105 per month per eligible retiree to the Employees Group Insurance Division ("EGID"), depending on the members' years of service during 2015.

Contributions - The contribution requirements of the Plan are at an established rate determined by Oklahoma Statute, amended by the Oklahoma Legislature, and are not based on actuarial calculations. Employees are required to contribute 7% percent of their annual pay. Participating employers are required to contribute 9.5% of the employees' annual pay and an additional 8.25% for any employees' salaries covered by federal funds. OTRS' allocation of contributions to the pension plan from the Regents were \$1,892,016. The State of Oklahoma also made on-behalf contributions to OTRS, of which \$1,256,629 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, 2014, the Regents reported a liability of \$25,068,901 for its proportionate share of the net pension liability. The net pension liability was measured as of June 30, 2014, and the total pension liability used to calculate the net pension liability was determined by an actuarial valuation as of July 1, 2014. 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, 2014. Based upon this information, the Regents' proportion was .46597628 percent.

NOTES TO BASIC FINANCIAL STATEMENTS
OKLAHOMA STATE REGENTS FOR HIGHER EDUCATION
June 30, 2015

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

Oklahoma Teachers' Retirement System (continued)

For the year ended June 30, 2015, the Regents recognized pension expense of \$1,467,928. At June 30, 2015, 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
Changes in assumptions	\$ -	\$ 413,210
Net Difference between projected and actual earnings on pension plan investments	-	6,067,101
Regents' contributions subsequent to the measurement date	1,467,928	-
	<u>\$ 1,467,928</u>	<u>\$ 6,480,311</u>

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

Year ended June 30:

2016	\$(1,594,446)
2017	\$(1,594,446)
2018	\$(1,594,446)
2019	\$(1,594,446)
2020	<u>\$ (77,672)</u>
Thereafter	<u><u>\$(6,480,311)</u></u>

NOTES TO BASIC FINANCIAL STATEMENTS
OKLAHOMA STATE REGENTS FOR HIGHER EDUCATION
June 30, 2015

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

Oklahoma Teachers' Retirement System *(continued)*

Actuarial Assumptions - The total pension liability as of June 30, 2014 was determined based on an actuarial valuation prepared as of June 30, 2014 using the following actuarial assumptions:

- Actuarial Cost Method - Entry Age
- Amortization Method - Level Percentage of Payroll
- Inflation - 3.00%
- Salary Increases - Composed of 3.00% inflation, plus 1.00% productivity increase rate, plus step-rate promotional increases for members with less than 25 years of service.
- Investment Rate of Return - 8.00%
- Retirement Age - Experience-based table of rates based on age, service, and gender. Adopted by the Board in September 2010 in conjunction with the five year experience study for the period ending June 30, 2009.
- Mortality - RP-2000 Combined Mortality Table, projected to 2016 using Scale AA, multiplied by 90% for males and 80% for females.

NOTES TO BASIC FINANCIAL STATEMENTS
OKLAHOMA STATE REGENTS FOR HIGHER EDUCATION
June 30, 2015

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

Oklahoma Teachers' Retirement System (*continued*)

The actuarial assumptions used in the July 1, 2014 valuation were based on the results of an actuarial experience study for the period July 2007 to June 2011.

Asset Class	Target Asset Allocation	Long-Term Expected Real Rate of Return
Domestic All Cap Equity*	7.0%	6.7%
Domestic Large Cap Equity	10.0%	6.2%
Domestic Mid Cap Equity	13.0%	6.9%
Domestic Small Cap Equity	10.0%	7.0%
International Large Cap Equity	11.5%	7.0%
International Small Cap Equity	6.0%	7.0%
Core Plus Fixed Income	17.5%	2.1%
High-yield Fixed Income	6.0%	4.5%
Private Equity	5.0%	7.9%
Real Estate**	7.0%	5.5%
Master Limited Partnerships	7.0%	7.9%
Total	100.00%	

* 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).

Discount Rate - A single discount rate of 8.00% was used to measure the total pension liability as of June 30, 2014 and June 30, 2013. This single discount rate was based solely on the expected rate of return on pension plan investments of 8.00%. Based on the stated assumptions and then projection of cash flows, the pension plan's fiduciary net position and future contributions were projected to be available to finance all projected future benefit payments of current plan members. Therefore, the long-term expected rate of return on pension plan investments was applied to all periods of projected benefit payments to determine the total pension liability. The projection of cash flows used to determine this single discount rate assumed that plan member and employer contributions will be made at the current statutory levels and remain a level percentage of payrolls. The projection of cash flows also assumed that the State's contribution

NOTES TO BASIC FINANCIAL STATEMENTS
OKLAHOMA STATE REGENTS FOR HIGHER EDUCATION
June 30, 2015

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

Oklahoma Teachers' Retirement System (continued)

plus the matching contributions will remain a constant percent of projected member payroll based on the past five years of actual contributions.

Sensitivity of the Net Pension Liability to Changes in the Discount Rate - The following presents the net pension liability of the employers calculated using the discount rate of 8%, as well as what the Plan's net pension liability would be if it were calculated using a discount rate that is 1-percentage point lower (7%) or 1-percentage-point higher (9%) than the current rate:

	1% Decrease <u>Rate (7%)</u>	Current Discount <u>Rate (8%)</u>	1% Increase <u>Rate (9%)</u>
Employers' net pension liability	\$35,218,519	\$25,068,901	\$16,502,275

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

Oklahoma State Regents for Higher Education Supplemental Retirement Plan

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

Supplemental Benefit Plan does not issue a stand-alone financial report nor is it included in the financial report of another entity.

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

NOTES TO BASIC FINANCIAL STATEMENTS
OKLAHOMA STATE REGENTS FOR HIGHER EDUCATION
June 30, 2015

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

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

Funding Policy – Contribution requirements of the Regents are established and may be amended by the State Board of Regents. All contributions are made by the Regents. Eligible employees are not required to make contributions to the Plan. Benefits are funded under a “pay as you go” funding method; however, expenses are recorded as benefits accumulate. Contributions required to fund the cost of pension and other benefits provided by the Plan shall be made solely by the Regents. The Regents shall contribute to the Plan from time to time such sums as are required by the actuary to pay benefits from the Plan, in accordance with actuarial practices acceptable to the Internal Revenue Service. Actual payment of a contribution may be made at any time permitted by law and regulations. Contributions by the participant are neither permitted nor required under this Plan. All payments made and increments thereon pursuant to this Plan shall be held and disbursed in accordance with the provisions of the Plan. No person shall have any interest in, or right to, any part of the funds so held in the Plan, except as expressly provided in the Plan.

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

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

Pension Liabilities, Pension Expense, and Deferred Outflows of Resources and Deferred Inflows of Resources Related to Pensions - At June 30, 2014, the Regents reported a liability of \$1,291,647. The net pension liability was measured as of June 30, 2014, and the total pension liability used to calculate the net pension liability was determined by an actuarial valuation as of July 1, 2014.

NOTES TO BASIC FINANCIAL STATEMENTS
OKLAHOMA STATE REGENTS FOR HIGHER EDUCATION
June 30, 2015

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

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

For the year ended June 30, 2015, the Regents recognized pension expense of \$225,876. At June 30, 2015, 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	\$ 309,899	-
Net Difference between projected and actual earnings on pension plan investments	16,570	-
Assumption Changes	473,146	-
Total	\$ 799,615	-

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:

2015	196,651
2016	196,650
2017	196,650
2018	115,035
2019	94,629
	<hr/> 799,615 <hr/>

NOTES TO BASIC FINANCIAL STATEMENTS
OKLAHOMA STATE REGENTS FOR HIGHER EDUCATION
June 30, 2015

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, 2014 was determined based on an actuarial valuation prepared as of June 30, 2014 using the following actuarial assumptions:

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

Pre-Retirement

RP-2000 for non-annuitants	Projected to 2028 as of 6/30/13
	Projected to 2029 as of 6/30/14

Post-Retirement

RP-2000 for annuitants	Projected to 2020 as of 6/30/13
	Projected to 2021 as of 6/30/14

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

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

Sensitivity of the Net Pension Liability to Changes in the Discount Rate - The following presents the net pension liability of the employers calculated using the discount rate of 8%, as well as

NOTES TO BASIC FINANCIAL STATEMENTS
OKLAHOMA STATE REGENTS FOR HIGHER EDUCATION
June 30, 2015

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

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

what the Plan's net pension liability would be if it were calculated using a discount rate that is 1-percentage point lower (7%) or 1-percentage-point higher (9%) than the current rate:

	1% Decrease Rate (5.50%)	Current Discount Rate (6.50%)	1% Increase Rate (7.50%)
Employers' net pension liability	\$2,654,943	\$1,291,647	\$125,380

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

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

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

NOTES TO BASIC FINANCIAL STATEMENTS
OKLAHOMA STATE REGENTS FOR HIGHER EDUCATION
June 30, 2015

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

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

The Regents' annual other post-employment benefit ("OPEB") cost and net OPEB obligations of the OPEB health and dental insurance plan for 2015 are as follows:

	<u>Total</u>
Annual required contribution	\$ 1,139,537
Interest on net OPEB obligation	389,403
Adjustment to annual required contribution	<u>(902,042)</u>
Annual OPEB cost (expense)	626,899
Contributions made	<u>10,160,846</u>
Increase (Decrease) in net OPEB obligation	(9,533,947)
Net OPEB obligation at beginning of year	<u>11,453,044</u>
Net OPEB obligation at end of year	<u><u>\$ 1,919,097</u></u>

The net pension obligation at June 30, 2015 for both the Regent's activities is included in current and non-current liabilities.

The annual required contribution for 2015 was determined as part of an actuarial valuation on June 30, 2015, using the projected unit credit actuarial cost method. The actuarial assumptions included (a) discount rate of 3.4% per year compounded annually, (b) retirement at the earlier of (1) attainment of age 62 and completion of 10 years of OTRS service, or (2) when age plus OTRS service total at least 80 (90 for members joining OTRS after June 30, 1992), and (c) medical, dental, and vision rates increasing 3-6.5% annually.

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

Regents and plan members to that point. Actuarial methods reflect a long-term perspective, and actuarial valuations involve estimates of the value of reported amounts and assumptions about the probability of events far into the future. As such, actuarial amounts are subject to continual revision as results are compared to past expectations and new estimates are made about the future.

NOTES TO BASIC FINANCIAL STATEMENTS
OKLAHOMA STATE REGENTS FOR HIGHER EDUCATION
June 30, 2015

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

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

Trend Information

<u>June 30</u>	<u>Cost</u>	<u>Contributed</u>	<u>Obligation</u>
2015	\$ 626,899	1621.8%	\$ 1,919,097
2014	\$ 1,552,136	8.2%	\$ 11,453,044
2013	\$ 2,219,637	5.7%	\$ 9,576,675
2012	\$ 1,544,850	8.2%	\$ 7,532,337

Funded Status

The funded status of the plan as of June 30, 2015 was as follows:

	<u>2015</u>
Actuarial accrued liability (AAL)	\$ 1,919,097
Actuarial value of plan assets	<u>10,160,846</u>
Unfunded actuarial accrued liability (UAAL)	<u>\$ (8,241,749)</u>
Funded ratio (actuarial value of plan assets/AAL)	529.46%
Covered payroll (active plan members)	\$ 15,905,562
UAAL as a percentage of covered payroll	-51.82%

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

NOTE F- TRANSFERS TO SYSTEM INSTITUTIONS

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

NOTE G--RELATED PARTY TRANSACTIONS

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

NOTES TO BASIC FINANCIAL STATEMENTS
OKLAHOMA STATE REGENTS FOR HIGHER EDUCATION
June 30, 2015

NOTE H--LEASE COMMITMENTS

Master Equipment Lease – Series 2009B

In November 2009, the Regents entered into a six year capital lease agreement with the Oklahoma Development Finance Authority as a beneficiary of a portion of the proceeds from the Oklahoma Development Finance Authority Master Lease Revenue Bonds, Series 2009B. The amount of \$6,292 is held in trust for the Regents for the purchase of data processing and telecommunications equipment.

The following is a schedule of annual future minimum payments as of June 30, 2015:

<u>Year Ending June 30,</u>	<u>Principal</u>	<u>Interest</u>
2016	<u>\$ 573,333</u>	<u>\$ 22,495</u>

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 Authority previously issued its Oklahoma Regents for Higher Education, Endowed Chairs Funding Program Bonds, Federally taxable Series 2006 on February 22, 2006, in the original principal amount of \$50,000,000, of which \$28,670,000 is outstanding as of the June 30, 2015.

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, 2011-2015, 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

NOTES TO BASIC FINANCIAL STATEMENTS
OKLAHOMA STATE REGENTS FOR HIGHER EDUCATION
June 30, 2015

NOTE H--LEASE COMMITMENTS (*continued*)

Master Equipment Lease – Series 2009B

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.

The following is a schedule of annual future minimum payments as of June 30, 2015:

<u>Year Ending June 30,</u>	<u>Principal</u>	<u>Interest</u>
2016	5,495,000	5,993,876
2017	5,700,000	5,788,363
2018	5,930,000	5,555,233
2019-2021	19,515,000	14,944,748
2022-2026	39,660,000	17,773,917
2027-2031	40,160,000	5,786,154
Total	<u>\$ 116,460,000</u>	<u>\$ 55,842,291</u>

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 \$866,028 was paid to the OUHSC for the Regents' operating facilities for the year ended June 30, 2015.

Rental expense of \$8,700 was paid for storage facilities for the year ended June 30, 2015. Rental expense of \$65,365 was paid for parking facilities for the year ended June 30, 2015. Rental expense of \$11,218 was paid for parking facilities for the year ended June 30, 2015.

NOTES TO BASIC FINANCIAL STATEMENTS
OKLAHOMA STATE REGENTS FOR HIGHER EDUCATION
June 30, 2015

NOTE J--LONG-TERM LIABILITIES

Long-term liability activity was as follows for the year ended June 30, 2015:

	Balance June 30, 2014	Additions	Deletions	Balance June 30, 2015	Due Within One Year
<i>Business-type activities</i>					
Compensated absences	\$ 1,731,077	\$ 896,087	\$ (846,724)	\$ 1,780,440	\$ 925,054
OTRS pension liabilities		25,068,901		25,068,901	
Accrued post-employment benefits	11,461,377	-	(9,441,984)	2,019,393	248,188
Net pension liability - Supplemental	-	1,291,647	-	1,291,647	-
Master equipment leases payable	1,928,083	-	(1,354,750)	573,333	573,333
Unamortized bond premium	56,964	-	(40,209)	16,755	16,755
Accrued interest payable	-	-	-	-	-
Business-type activities total	<u>\$ 15,177,501</u>	<u>\$ 27,256,635</u>	<u>\$ (11,683,667)</u>	<u>\$ 30,750,469</u>	<u>\$ 1,763,330</u>
<i>Governmental Activities</i>					
OCIA lease payable	<u>\$ 121,785,000</u>	<u>\$ -</u>	<u>\$ (5,325,000)</u>	<u>\$ 116,460,000</u>	<u>\$ 5,495,000</u>
<i>Fiduciary Fund</i>					
Allowance for default claims	<u>\$ 1,888,006</u>	<u>\$ -</u>	<u>\$ (331,583)</u>	<u>\$ 1,556,423</u>	<u>\$ -</u>

NOTE K--RISK MANAGEMENT

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

NOTES TO BASIC FINANCIAL STATEMENTS
OKLAHOMA STATE REGENTS FOR HIGHER EDUCATION
June 30, 2015

NOTE L--COMMITMENTS AND CONTINGENCIES

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

NOTE M--ACCOUNTING STANDARDS ISSUED NOT YET ADOPTED

In February 2015, the Governmental Accounting Standards Board (GASB) issued Statement No. 72 *Fair Value Measurement and Application*, which addresses accounting and financial reporting issues related to fair value measurements. The statement provides guidance for determining a fair value measurement for financial reporting purposes and provides guidance for applying fair value to certain investments and disclosures related to all fair value measurements. The statement requires disclosures to be made about fair value measurements, the level of fair value hierarchy, and valuation techniques. This statement is effective for fiscal years beginning after June 15, 2015. Earlier application is encouraged.

In June 2015, the Governmental Accounting Standards Board (GASB) issued Statement No. 73 *Accounting and Financial Reporting for Pensions and Related Assets That Are Not within the Scope of GASB Statement 68, and Amendments to Certain Provisions of GASB Statements 67 and 68*. This Statement establishes requirements for defined benefit pensions that are not within the scope of Statement No. 68, Accounting and Financial Reporting for Pensions, as well as for the assets accumulated for purposes of providing those pensions. In addition, it establishes requirements for defined contribution pensions that are not within the scope of Statement 68. It also amends certain provisions of Statement No. 67, Financial Reporting for Pension Plans, and Statement 68 for pension plans and pensions that are within their respective scopes. Effective Date: The provisions in Statement 73 are effective for fiscal years beginning after June 15, 2015—except those provisions that address employers and governmental nonemployer contributing entities for pensions that are not within the scope of Statement 68, which are effective for fiscal years beginning after June 15,. Earlier application is encouraged.

In June 2015, the Governmental Accounting Standards Board (GASB) issued Statement No. 74. *Financial Reporting for Postemployment Benefit Plans Other Than Pension Plans*, which improves the usefulness of information about postemployment benefits other than pensions (other postemployment benefits or OPEB) by providing guidance on all postemployment benefits with regard to decision-juseful information, supporting assessments of accountability and interperiod equity with additional transparency. This Statement replaces Statements No. 43,

NOTES TO BASIC FINANCIAL STATEMENTS
OKLAHOMA STATE REGENTS FOR HIGHER EDUCATION
June 30, 2015

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

Financial Reporting for Postemployment Benefit Plans Other Than Pension Plans, as amended, and No. 57, *OPEB Measurements by Agent Employers and Agent Multiple-Employer Plans*. It also includes requirements for defined contribution OPEB plans that replace the requirements for those OPEB plans in Statement No. 25, *Financial Reporting for Defined Benefit Pension Plans and Note Disclosures for Defined Contribution Plans*, as amended, Statement 43, and Statement No. 50, *Pension Disclosures*. This statement is effective for fiscal years beginning after June 15, 2016. Earlier application is encouraged.

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

In June 2015, the Governmental Accounting Standards Board (GASB) issued Statement No. 76 *The Hierarchy of Generally Accepted Accounting Principles for State and Local Governments*. The objective of this Statement is to identify, in the context of the current governmental financial reporting environment, the hierarchy of generally accepted accounting principles (GAAP). The "GAAP hierarchy" consists of the sources of accounting principles used to prepare financial statements of state and local governmental entities in conformity with GAAP and the framework for selecting those principles. This Statement reduces the GAAP hierarchy to two categories of authoritative GAAP and addresses the use of authoritative and non-authoritative literature in the event that the accounting treatment for a transaction or other event is specified with a source of authoritative GAAP. This Statement supersedes Statement No. 55, *The Hierarchy of Generally Accepted Accounting Principles for State and Local Governments*. The requirements of this Statement are effective for financial statements for periods beginning after June 15, 2015, and should be applied retroactively. Earlier application is permitted.

REQUIRED SUPPLEMENTARY INFORMATION

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

OKLAHOMA STATE REGENTS FOR HIGHER EDUCATION

OKLAHOMA TEACHER'S RETIREMENT SYSTEM

As of plan year-end of June 30,	<u>2015</u>
OSRHE percentage of the net pension liability	0.4660%
OSRHE proportionate share of the net pension liability	25,068,901
OSRHE's covered-employee payroll	313,920,690
OSRHE's proportionate share of the net pension liability as a percentage of its covered-employee payroll	7.99%
Plan fiduciary net position as a percentage of the total pension liability	72.43%

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

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

OKLAHOMA STATE REGENTS FOR HIGHER EDUCATION

OKLAHOMA TEACHER'S RETIREMENT SYSTEM

As of plan year-end of June 30,

	<u>2015</u>
Contractually required contribution	1,467,928
Contributions in relation to the contractually required contribution	1,467,928
Contribution deficiency (excess)	-
OSRHE covered-employee payroll	313,920,690
Contributions as a percentage of covered-employee payroll	0.9352%

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

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

OKLAHOMA STATE REGENTS FOR HIGHER EDUCATION

SUPPLEMENTAL RETIREMENT PLAN

	2015
<u>Total pension liability</u>	
Service cost	71,268
Interest	913,757
Differences between expected and actual experience	309,899
Changes of assumptions	16,570
Benefit payments	(753,553)
Net change in total pension liability	557,941
Total pension liability - beginning	13,342,287
Total pension liability - ending (a)	13,900,228

Plan fiduciary net position

Contributions - employer	\$ 13,076,131
Contributions - employee	-
Net investment income	286,003
Benefit payments, including refunds of employee contributions	(753,553)
Net change in plan fiduciary net position	12,608,581
Plan fiduciary net position - beginning	-
Plan fiduciary net position - ending (b)	12,608,581
OSRHE net pension liability - ending (a) - (b)	\$ 1,291,647
Plan fiduciary net position as a percentage of the total pension liability	90.71%
Covered-employee payroll	5,660,742
OSRHE net position liability as a percentage of covered-employee payroll	22.82%

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

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

OKLAHOMA STATE REGENTS FOR HIGHER EDUCATION

SUPPLEMENTAL RETIREMENT PLAN

As of plan year-end of June 30,

	<u>2015</u>
Contractually required contribution	2,599,880
Contributions in relation to the contractually required contribution	<u>12,120,025</u>
Contribution deficiency (excess)	<u>14,719,905</u>
OSRHE covered-employee payroll	5,660,742
Contributions as a percentage of covered-employee payroll	214.11%

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

Notes to Schedule

Valuation date: June 30, 2014

Actuarially determined contribution rates are calculated as of June 30

Methods and assumptions used to determine contribution rates:

Actuarial cost method	Entry age normal
Amortization method	Level percentage of payroll, closed
Remaining amortization period	15 years
Asset valuation method	5-year smoothed market
Inflation	2.50%
Salary increases	2.50%
Investment rate of return	6.50%
Retirement age	In the 20X7 actuarial valuation, expected retirement ages of general employees were adjusted to more closely reflect actual experience. In the 20X4 actuarial valuation, expected retirement ages of public safety employees were adjusted to more closely reflect actual experience.

Mortality
In the 20X1 actuarial valuation, assumed life expectancies were adjusted as a result of adopting the RP-2000 Healthy Annuity Mortality Table. In prior years, those assumptions were based on the 1994 Group Annuity Mortality Table.

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

OKLAHOMA STATE REGENTS FOR HIGHER EDUCATION

OTHER POST EMPLOYMENT BENEFITS

June 30, 2015

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

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

OTHER SUPPLEMENTAL INFORMATION

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

OKLAHOMA STATE REGENTS FOR HIGHER EDUCATION

June 30, 2015

ASSETS

Restricted Assets

Current Assets

Cash and cash equivalents \$ 36,308,475

Receivables

Accounts Receivables 79,188

Payable between funds 1,184,211

Administrative cost allowance 277,492

Interest 52,945

Total Current Assets 37,902,311

Noncurrent Assets

Capital assets, net 183,191

TOTAL ASSETS 38,085,502

LIABILITIES

Liabilities payable from restricted assets

Current liabilities

Accounts payable and accrued expenses \$ 410,799

Compensated absences 117,743

Total current liabilities 528,542

Long-term liabilities

Copmensated absences 88,345

Total long-term liabilities 88,345

TOTAL LIABILITIES 616,887

NET POSITION

Net investment in capital assets 183,191

Restricted

Oklahoma College Assistance Program 37,285,424

TOTAL NET POSITION \$ 37,468,615

See notes to supplemental information.

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

OKLAHOMA STATE REGENTS FOR HIGHER EDUCATION

Year Ended June 30, 2015

OPERATING REVENUES

Defaulted loan collections	\$ 20,293,290
Administrative fees	1,149,432
Default aversion fees	1,095,699
Other	(216,793)

TOTAL OPERATING REVENUES \$ 22,321,628

OPERATING EXPENSES

Compensation	2,256,596
Rent	179,623
Processing charges	849,261
Postage	16,669
Collection agency expenses	8,299,204
Default prevention fees	1,434,001
Default aversion fees	649,361
Other	6,134,020
Depreciation and amortization	87,016

TOTAL OPERATING EXPENSES 19,905,751

OPERATING INCOME 2,415,877

NONOPERATING REVENUES (EXPENSES)

On-behalf Teachers' Retirement System contributions	-
Interest income	645,898
Loss on disposal of capital assets	(28,697)
Intra-agency transfer OPEB and Supplemental Benefit Plan	-
Other	430

NET NONOPERATING REVENUES 617,631

INCREASE IN NET POSITION 3,033,508

NET POSITION AT BEGINNING OF YEAR 34,435,107

NET POSITION AT END OF YEAR \$ 37,468,615

See notes to supplemental information

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

OKLAHOMA STATE REGENTS FOR HIGHER EDUCATION

June 30, 2015

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 Federal Family Education Loan Program (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 FFELP program after June 30, 2010. All new Federal Stafford, PLUS, and Consolidation student loans were made under the William D. Ford Federal Direct Loan Program beginning July 1, 2010. OCAP continues to maintain loan guarantees for the existing FFELP portfolio, including compliance and program reviews, providing default aversion assistance to lenders for delinquent loans, paying lender claims for loans that default, and collecting on the defaulted loan portfolio. OCAP also continues to provide student support services including financial literacy and college access activities. OCAP's student support initiatives were further supported by an amendment to our enabling statute which authorizes State Regents to contract with any necessary parties to provide these types of services.

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

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

The OCAP Cost Center and a Federal Reserve Fund (Federal Fund) are used to account for the 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, 2015, the Cost Center's net assets increased to \$37,468,615 from \$34,435,107 in 2014.
- Total operating and non-operating revenues decreased by \$25,670,330 from \$48,638,286 to \$22,967,956 primarily due to decreased default loan collections income and default aversion fee income.
- Total operating and non-operating expenses decreased by \$14,110,926 from \$34,045,374 to \$19,934,448. This decrease was primarily due to decreases in portfolio management, collections, rehabs, and reductions to salaries and benefits, rent, default aversion fee rebates, and processing charges.
- At June 30, 2015, the Cost Center recorded net capital assets of \$183,191 with a total of \$1,566,831 in capital assets and \$1,383,640 in accumulated depreciation.
- At June 30, 2015, the Cost Center had long-term liabilities of \$206,088. The current portion due within one year is \$117,743.

REPORT REQUIRED BY
GOVERNMENT AUDITING STANDARDS



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

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

We have audited, in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of the governmental activities, the business-type activities and each major fund of the Oklahoma State Regents for Higher Education (the "State Regents"), a component unit of the State of Oklahoma, as of and for the year ended June 30, 2015, and the related notes to the financial statements, which collectively comprise the State Regent's basic financial statements, and have issued our report thereon dated November 5, 2015.

Internal Control Over Financial Reporting

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

Our consideration of internal control over financial reporting was for the limited purpose described in the preceding paragraph and was not designed to identify all deficiencies in internal control over financial reporting that might be material weaknesses or significant deficiencies and therefore, material weaknesses or significant deficiencies may exist that were not identified. However, as described in the accompanying schedule of findings and questioned costs, we identified a deficiency in internal control that we consider to be a material weakness.

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. We consider the deficiency described in the accompanying schedule of findings and questioned costs as item 2015-001 to be a material weakness.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the State Regents' financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

Purpose of this Report

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

Tulsa, Oklahoma
November 5, 2015

Stanfield & O'Sell P.C.

REPORTS REQUIRED BY
OMB CIRCULAR A-133



**Independent Auditor's Report on Compliance
With Requirements Applicable to each Major Program and Internal
Control over Compliance in Accordance with OMB Circular A-133**

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

We have audited the Oklahoma State Regents for Higher Education's (the "State Regents"), a component unit of the State of Oklahoma, compliance with the types of compliance requirements described in the U.S. Office of Management and Budget (OMB) Circular A-133 *Compliance Supplement* that could have a direct and material effect on each of the State Regents' major federal programs for the year ended June 30, 2015. The State Regents' major federal programs are identified in the summary of auditor's results section of the accompanying schedule of findings and questioned costs.

Management's Responsibility

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

Auditor's Responsibility

Our responsibility is to express an opinion on compliance for each of the State Regents' major federal programs based on our audit of the types of compliance requirements referred to above. We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. Those standards and OMB Circular A-133 require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about the State Regents' compliance with those requirements and performing such other procedures as we considered necessary in the circumstances.

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

Opinion on Each Major Federal Program

In our opinion, the State Regents complied, in all material respects, with the types of compliance requirements referred to above that could have a direct and material effect on each of its major federal programs for the year ended June 30, 2015.

Report on Internal Control over Compliance

Management of the State Regents is responsible for establishing and maintaining effective internal control over compliance with the types of compliance requirements referred to above. In planning and performing our audit of compliance, we considered the State Regents' internal control over compliance with the types of compliance that could have a direct and material effect on each major federal program as a basis for designing auditing procedures that are appropriate in the circumstances for the purpose of requirements expressing an opinion on compliance for each major federal program and to test and report on internal control over compliance in accordance with OMB Circular A-133, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of the State Regents' internal control over compliance.

A deficiency in internal control over compliance exists when the design or operation of a control over compliance does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct noncompliance with a type of compliance requirement of a federal program on a timely basis. *A material weakness in internal control over compliance* is a deficiency, or combination of deficiencies in internal control over compliance, such that there is a reasonable possibility that material noncompliance with a type of compliance requirement of a federal program will not be prevented, or detected and corrected on a timely basis. *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 OMB Circular A-133. Accordingly, this report is not suitable for any other purpose.

Tulsa, Oklahoma
November 5, 2015

Stanfield & O'Sell P.C.

SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS

OKLAHOMA STATE REGENTS FOR HIGHER EDUCATION

For the Year Ended June 30, 2015

<u>Federal Grantor/Program Title</u>	<u>Federal CFDA Number</u>	<u>Expenditures</u>
U.S. Department of Education:		
Federal Family Education Loan Program	84.032	145,966,421
Teacher and Principal Training & Recruiting	84.367	692,887
College Access Challenge Grant Program	84.378	1,287,847
Gaining Early Awareness and Readiness for Undergraduate Programs	84.334	5,001,477
U.S. Department of Human Services:		
Pass-through program from Oklahoma Department of Human Services		
Temporary Assistance to Needy Families.	93.558	3,789,215
Child Care and Development Block Grant	93.575	2,106,558
		<u>158,844,405</u>

See notes to schedule of federal awards.

NOTES TO SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS

OKLAHOMA STATE REGENTS FOR HIGHER EDUCATION

For the Year Ended June 30, 2015

NOTE A--SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

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

NOTE B--SUB-RECIPIENTS

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

<u>Program Title</u>	<u>Federal CFDA Number</u>	<u>Amount Provided to Subrecipients</u>
Gaining Early Awareness and Headiness for Undergraduate Program	84.334	2,242,876
Teacher and Principal Training & Recruiting NCLB	84.367	680,440
College Access Challenge Grant Program	84.378	369,587
Temporary Assistance to Needy Families	93.558	3,739,215
Child Care and Development Block Grant	93.575	1,752,594

SCHEDULE OF FINDINGS AND QUESTIONED COSTS

OKLAHOMA STATE REGENTS FOR HIGHER EDUCATION

For the Year Ended June 30, 2015

Section I--Summary of Auditors' Results

Financial statements

Type of auditors' report issued:

Unqualified

Internal control over financial reporting:

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

Noncompliance material to financial statements noted?

☐ yes ☒ no

Federal Awards

Internal control over major programs:

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

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

Unqualified

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

☐ yes ☒ no

Identification of major programs:

Federal Family Education Loan Program CFDA # 84.032

Temporary Assistance to Needy Families CFDA # 93.558

Dollar threshold used to distinguish between type A and type B programs: \$313,998

Auditee qualified as low-risk auditee?

☒ yes ☐ no

SCHEDULE OF FINDINGS AND QUESTIONED COSTS--Continued

OKLAHOMA STATE REGENTS FOR HIGHER EDUCATION

For the Year Ended June 30, 2015

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

Item 2015-001 –

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

Management Response: Management agrees that the new GASB 68 was a challenge on several levels with difficult concepts and new procedures for reporting pensions. The structure of pensions were addressed and positive procedures were adopted.

Section III--Finding Required to be Reported in Accordance with OMB Circular A-133:

None to report for the June 30, 2015 period.