

**University Center of  
Southern Oklahoma**

**Financial Statements  
with Independent Auditors' Report**

**June 30, 2014 and 2013**



**University Center of Southern Oklahoma**  
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**June 30, 2014 and 2013**

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## Independent Auditors' Report

Board of Trustees  
University Center of Southern Oklahoma  
Ardmore, Oklahoma

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

We have audited the accompanying financial statements of the University Center of Southern Oklahoma as of and for the year ended June 30, 2014, the related notes to the financial statements, which collectively, comprise the University Center of Southern Oklahoma's basic financial statements as listed in the table of contents.

### ***Management's Responsibility for the Financial Statements***

Management is responsible for the preparation and fair presentation of this financial statement 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 this financial statement based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and *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 opinion.

### ***Opinion***

In our opinion, based on our audits and the report of other auditors, the financial statements referred to above present fairly, in all material respects, the financial position of the University Center of Southern Oklahoma as of June 30, 2014, and the respective changes in financial position and its cash flows for the year then ended, in accordance with accounting principles generally accepted in the United States of America.

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**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 i through v 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. The required supplementary information is the responsibility of management. We have applied certain limited procedures to the required supplemental 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 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 Reporting Required by Government Auditing Standards***

In accordance with *Government Auditing Standards*, we have also issued our report dated October 6, 2014 on our consideration of the University Center of Southern Oklahoma's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the result of that testing and not to provide an opinion on the internal control over financial reporting or compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the College's internal control over financial reporting and compliance.

*Hill & Company*

Tulsa, Oklahoma  
October 6, 2014



# **University Center of Southern Oklahoma Management's Discussion and Analysis For the Year Ended June 30, 2014**

## **Management's Discussion and Analysis**

The discussion and analysis of University Center of Southern Oklahoma (UCSO) financial statements provides an overview of UCSO's financial activities for the year ending June 30, 2014. Since this management's discussion and analysis is designed to focus on current activities, resulting changes and current known facts, please read it in conjunction with UCSO's financial statements and footnotes. A comparative analysis of prior two years financial data is provided.

## **Using This Report**

In June 1999, the Governmental Accounting Standards Board (GASB) released statement No. 34, *Basic Financial Statements and Management's Discussion and Analysis for State and Local Governments*. Changes in statement No. 34 require a comprehensive one-column look at the entity as a whole and capitalization of assets and depreciation. In November 1999, GASB issued statement No. 35, *Basic Financial Statements and Management's Discussion and Analysis for Public Colleges and Universities*, which applies these standards to public colleges and universities. The State of Oklahoma elected early implementation of these standards beginning with the year ended June 30, 2001.

## **Financial Highlights**

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

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

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

**University Center of Southern Oklahoma  
Management's Discussion and Analysis  
For the Year Ended June 30, 2014**

**Financial Highlights (Continued)**

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

Schedule A is prepared from UCSO's Statement of Net Position, and summarizes UCSO's assets, deferred outflows, liabilities, and net position at June 30, 2014, with comparative totals at June 30, 2013 and 2012, respectively.

Schedule A  
Net Position at June 30, 2014  
With Comparative Totals at June 30, 2013 and 2012  
(in thousands)

	2014	2013	2012
Current assets	\$ 896	\$ 1,440	\$ 1,847
Noncurrent assets			
Capital assets, net of depreciation	3,124	1,895	1,644
Other	27	61	58
Total assets	<u>4,047</u>	<u>3,396</u>	<u>3,549</u>
Deferred outflows	<u>16</u>	<u>25</u>	<u>33</u>
Current liabilities	127	153	320
Noncurrent liabilities	597	630	657
Total liabilities	<u>724</u>	<u>783</u>	<u>977</u>
Deferred inflows	<u>16</u>	<u>-</u>	<u>-</u>
Net position			
Net investment in capital assets	2,528	1,295	1,025
Restricted for capital projects	-	-	-
Unrestricted	795	1,343	1,580
Total net position	<u>\$ 3,323</u>	<u>\$ 2,638</u>	<u>\$ 2,605</u>

At year ended June 30, 2014, capital assets increased by \$1,229 or 65% from the year ended June 30, 2013 due to land purchased and the increase in Construction in Progress paid for the new proposed building and campus. Total liabilities decreased by \$59 or 7.6% due to the refinancing of the 2005F OCIA debt with the 2014A debt.

At year ended June 30, 2013, capital assets increased by \$231 or 15% from the year ended June 30, 2012 due to the increase in Construction in Progress paid for the new proposed building and campus. Current liabilities decreased by \$167 or 64% due to a large Construction in Progress invoice in prior year.

**University Center of Southern Oklahoma  
Management's Discussion and Analysis  
For the Year Ended June 30, 2014**

**Financial Highlights (Continued)**

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

Schedule B is prepared from UCSO's Statement of Revenues, Expenses, and Changes in Net Position for the year ended June 30, 2014, with comparative totals for the year ended June 30, 2013 and 2012, respectively.

Schedule B  
Operating Results for the Year Ended June 30, 2014  
With Comparative Totals for the Year Ended June 30, 2013 and 2012  
(in thousands)

	<u>2014</u>	<u>2013</u>	<u>2012</u>
Operating revenues and expenses			
Tuition and fees	\$ 900	\$ 958	\$ 929
Less operating expenses	<u>(1,780)</u>	<u>(1,780)</u>	<u>(1,629)</u>
Net operating expenses	<u>(880)</u>	<u>(822)</u>	<u>(700)</u>
Nonoperating revenues (expenses)			
State appropriations	647	647	641
On-behalf OTRS contributions	56	56	51
Gifts	51	66	38
Investment income	7	7	8
Interest expense/income	<u>(19)</u>	<u>(36)</u>	<u>(20)</u>
Net nonoperating revenues	<u>742</u>	<u>740</u>	<u>718</u>
Income before other revenues/expenses	(138)	(82)	18
Other revenues/expenses	<u>823</u>	<u>115</u>	<u>43</u>
Increase (decrease) in net position	<u>\$ 685</u>	<u>\$ 33</u>	<u>\$ 61</u>

**Revenues**

Other revenues increased by \$726, or 631%, over 2013 due to significant increases in capital funds provided by the Southern Oklahoma Higher Education Foundation for the purchase of the land for the new building.

Other revenues increased by \$72, or 170%, over 2012 due to significant increases in capital funds provided by the Community Activities Foundation through the Southern Oklahoma Higher Education Foundation

**University Center of Southern Oklahoma  
Management's Discussion and Analysis  
For the Year Ended June 30, 2014**

**Financial Highlights (Continued)**

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

**Expenses**

Operating expenses held steady in FY14 when compared to FY13.

Operating expenses increased by \$147 or 9% in 2013 over the year ended June 30, 2012 as a result of increased compensation and depreciation expense.

Schedule C summarizes UCSO's operating expenses for the years ended June 30, 2014, 2013 and 2012, respectively.

Schedule C  
Operating Expenses for the Year Ended June 30, 2014  
With Comparative Totals for the Year Ended June 30, 2013 and 2012  
(in thousands)

	2014	2013	2012
Compensation and benefits	\$ 1,117	\$ 1,022	\$ 985
Contractual services	402	401	362
Supplies and materials	31	45	47
Utilities	48	54	49
Communications	15	15	18
Depreciation	93	143	97
Other	74	100	71
Total Operating Expenses	<u>\$ 1,780</u>	<u>\$ 1,780</u>	<u>\$ 1,629</u>



**University Center of Southern Oklahoma  
Management's Discussion and Analysis  
For the Year Ended June 30, 2014**

**Financial Highlights (Continued)**

**Statement of Cash Flows**

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

Schedule D is prepared from UCSO's Statement of Cash Flows, and summarizes UCSO's cash flows for the year ended June 30, 2014, with comparative totals for the year ended June 30, 2013 and 2012, respectively.

Schedule D  
Cash Flows for the Year Ended June 30, 2014  
With Comparative Totals for the Year Ended June 30, 2013 and 2012  
(in thousands)

	2014	2013	2012
Cash provided (used) by:			
Operating activities	\$ (742)	\$ (607)	\$ (534)
Noncapital financing activities	698	713	673
Capital and related financing activities	(553)	(507)	(783)
Investing activities	7	7	8
Net increase in cash	(590)	(394)	(636)
Cash, beginning of year	1,397	1,791	2,427
Cash, end of year	\$ 807	\$ 1,397	\$ 1,791

**Capital Assets and Debt Administration**

For 2014, UCSO recorded a total of \$6,695 in capital assets and \$3,571 in accumulated depreciation. During the year ended June 30, 2014 UCSO acquired \$1,322 in capital assets consisting of land, library resources, office and institutional equipment, and computer equipment.

For 2013, UCSO recorded a total of \$5,373 in capital assets and \$3,478 in accumulated depreciation. During the year ended June 30, 2013 UCSO acquired \$363 in capital assets consisting of leasehold improvements, library resources, office and institutional equipment, and computer equipment.

**University Center of Southern Oklahoma  
Management's Discussion and Analysis  
For the Year Ended June 30, 2014**

**Financial Highlights (Continued)**

**Capital Assets and Debt Administration (Continued)**

At June 30, 2014, UCSO had long-term liabilities of \$597,000, a decrease of 5.2% over 2013 long-term liabilities as a result of payments applied towards existing bond programs and the issuance of the 2014A OCIA refinancing debt.

At June 30, 2013, UCSO had long-term liabilities of \$630,000 a decrease of 4.1% over 2012 long-term liabilities.

Schedule E  
Capital Assets, Net  
June 30, 2014  
With Comparative Totals at June 30, 2013 and 2012  
(in thousands)

	2014	2013	2012
Land	\$ 1,036	\$ -	\$ -
Construction in progress	1,868	1,630	1,373
Leasehold improvements	1,818	1,818	1,757
Equipment	1,215	1,181	1,149
Library materials	<u>758</u>	<u>744</u>	<u>731</u>
Total	6,695	5,373	5,010
Less accumulated depreciation	<u>(3,571)</u>	<u>(3,478)</u>	<u>(3,366)</u>
Capital assets, net	<u>\$ 3,124</u>	<u>\$ 1,895</u>	<u>\$ 1,644</u>

Schedule F  
Long-Term Liabilities  
June 30, 2014  
With Comparative Totals at June 30, 2013 and 2012  
(in thousands)

	2014	2013	2012
Capital lease payable	\$ 543	\$ 598	\$ 625
Other post employment benefits	<u>54</u>	<u>32</u>	<u>31</u>
Total long-term liabilities	<u>\$ 597</u>	<u>\$ 630</u>	<u>\$ 656</u>

# **University Center of Southern Oklahoma Management's Discussion and Analysis For the Year Ended June 30, 2014**

## **Other Financial Information**

### **Economic Outlook**

Enrollment for the year was down significantly compared to previous years. Since, tuition and fees have become a greater proportion of UCSO's funding than state appropriations, decreased enrollment impacts the budget. It is not known if this trend will continue, but there are indications that the lower enrollment levels have somewhat bottomed out.

In April, 2014, UCSO purchased 103 acres of land for a new campus for \$1,030,200. \$800,000 of that purchase was based on donations from private sources and the remainder, \$203,200 was paid from the Capital Outlay Fund. As a result the balance in this fund may become depleted sooner than planned making it necessary to supplement the Capital Outlay Fund from cash reserves if pre-construction costs exceed the Fund cash balance.

In October, 2014, UCSO will begin construction on the Health, Science, and Math Center. Funding to construct the facility will be provided through \$16 million in gifts and grants generated by a capital campaign and \$1.5 million from UCSO resources.

UCSO acquired a \$6.5 million bond through the Oklahoma State Regents for Higher Education Real Property Master Lease program in order to meet the cash flow requirements of the construction project, which is expected to be completed in 19 months. The bond has a 15-year term and annual debt service is estimated to be \$550,000. The debt service will be paid primarily from the proceeds of the gifts and grants to the capital campaign.

UCSO plans to earmark \$3 of a proposed \$4 per credit hour tuition/fee increase to the Capital Outlay fund. Every \$3 per credit hour of tuition/fees generates about \$100,000. UCSO plans to earmark up to \$10 per credit hour of tuition/fees over the next several years through a combination of tuition/fee increases and redistribution of some General Operating Fund revenues to the Capital Outlay Fund.

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

### **Contacting the Program's Financial Management**

This financial report is designed to provide our citizens, taxpayers, investors, and creditors with a general overview of UCSO's finances and to show UCSO's accountability for the money it receives. If you have any questions about this report or need additional financial information, contact the University Center of Southern Oklahoma, 611 Veterans Boulevard, Ardmore, Oklahoma 73401.

**University Center of Southern Oklahoma**  
**Statements of Net Position**  
**June 30, 2014 and 2013**

	2014		2013	
	University Center of Southern Oklahoma	Southern Oklahoma Higher Education Foundation, Inc.	University Center of Southern Oklahoma	Southern Oklahoma Higher Education Foundation, Inc.
<b>ASSETS</b>				
<b>Current Assets</b>				
Cash and cash equivalents	\$ 806,530	\$ 2,684,256	\$1,396,646	\$ 26,515
Accounts receivable	88,147	—	42,855	—
Pledges receivable	—	1,803,333	—	—
Accrued interest receivable	574	—	503	—
Investments	—	190,330	—	166,453
	<u>895,251</u>	<u>4,677,919</u>	<u>1,440,004</u>	<u>192,968</u>
<b>Other Assets</b>				
Pledges receivable	—	4,949,267	—	—
Prepaid pension asset	27,310	—	60,709	—
Capital assets, net	3,124,331	—	1,895,450	—
	<u>3,151,641</u>	<u>4,949,267</u>	<u>1,956,159</u>	<u>—</u>
<b>Total Assets</b>	<u>4,046,892</u>	<u>9,627,186</u>	<u>3,396,163</u>	<u>192,698</u>
<b>DEFERRED OUTFLOWS</b>				
Deferred charge on OCIA lease restructuring	16,390	—	24,585	—
	<u>16,390</u>	<u>—</u>	<u>24,585</u>	<u>—</u>
<b>LIABILITIES</b>				
<b>Current Liabilities</b>				
Accounts payable and accrued liabilities	42,244	—	95,482	—
Current portion of noncurrent liabilities	84,634	—	57,517	—
	<u>126,878</u>	<u>—</u>	<u>152,999</u>	<u>—</u>
<b>Noncurrent Liabilities</b>				
Accrued compensated absences	54,003	—	32,236	—
Capital leases	542,947	—	597,688	—
	<u>596,950</u>	<u>—</u>	<u>629,924</u>	<u>—</u>
<b>Total Liabilities</b>	<u>723,828</u>	<u>—</u>	<u>782,923</u>	<u>—</u>
<b>DEFERRED INFLOWS</b>				
Deferred gain on OCIA lease restructuring	16,515	—	—	—
	<u>16,515</u>	<u>—</u>	<u>—</u>	<u>—</u>
<b>NET Position</b>				
Invested in capital assets, net of related debt	2,527,719	—	1,294,830	—
Restricted:				
Donor restrictions	—	9,577,763	—	166,453
Unrestricted	795,220	49,423	1,342,995	26,515
	<u>795,220</u>	<u>49,423</u>	<u>1,342,995</u>	<u>26,515</u>
<b>Total Net Position</b>	<u>\$ 3,322,939</u>	<u>\$ 9,627,186</u>	<u>\$ 2,637,825</u>	<u>\$ 192,968</u>



**University Center of Southern Oklahoma**  
**Statements of Revenues, Expenses and Changes in Net Position**  
**June 30, 2014 and 2013**

	2014		2013	
	University Center of Southern Oklahoma	Southern Oklahoma Higher Education Foundation, Inc.	University Center of Southern Oklahoma	Southern Oklahoma Higher Education Foundation, Inc.
<b>Operating Revenues</b>				
Student tuition and fees	\$ <u>900,433</u>	\$ <u>—</u>	\$ <u>957,864</u>	\$ <u>—</u>
<b>Operating Expenses</b>				
Compensation and employee benefits	1,116,603	—	1,021,935	—
Contractual services	401,530	—	400,879	—
Supplies and material	30,536	2,993	45,233	428
Utilities	47,857	—	54,045	—
Communications	15,330	—	15,110	—
Depreciation	93,226	—	143,452	—
Other operating expense	75,467	—	99,571	—
Contributions to University Center	—	803,025	—	63,679
General and administrative	—	3,317	—	1,710
Scholarships awarded	—	31,304	—	141,245
Total operating expenses	<u>1,780,549</u>	<u>840,639</u>	<u>1,780,225</u>	<u>207,062</u>
<b>Operating Loss</b>	(880,116)	(840,639)	(822,361)	(207,062)
<b>Nonoperating Revenues (Expenses)</b>				
State appropriations	647,394	—	647,396	—
On-Behalf OTRS	56,316	—	56,232	—
Private gifts and other contributions	50,272	10,246,712	65,631	148,355
Investment income	7,365	4,269	6,917	980
Net unrealized loss on investments	—	23,876	—	(3,979)
Interest expense	(19,593)	—	(36,204)	—
Total operating expenses	<u>741,754</u>	<u>10,274,857</u>	<u>739,972</u>	<u>145,356</u>
<b>Income Before Other Revenues, Expenses, Gains or Losses</b>	(138,362)	9,434,218	(82,389)	(61,706)
Capital grants and gifts	800,000	—	60,839	—
OCIA on-behalf state appropriations	<u>23,476</u>	<u>—</u>	<u>54,155</u>	<u>—</u>
<b>Net Change in Net Position</b>	685,114	9,434,218	32,605	(61,706)
<b>Net Position, Beginning of Year</b>	<u>2,637,825</u>	<u>192,968</u>	<u>2,605,220</u>	<u>254,674</u>
<b>Net Position, End of Year</b>	<u>\$3,322,939</u>	<u>\$9,627,186</u>	<u>\$2,637,825</u>	<u>\$ 192,968</u>



**University Center of Southern Oklahoma**  
**Statements of Cash Flows**  
**Years Ended June 30, 2014 and 2013**

	2014		2013	
	University Center of Southern Oklahoma	Southern Oklahoma Higher Education Foundation, Inc.	University Center of Southern Oklahoma	Southern Oklahoma Higher Education Foundation, Inc.
<b>Cash Flows From Operating Activities</b>				
Tuition and fees	\$ 855,141	\$ —	\$ 970,724	\$ —
Compensation and benefits	(1,008,376)	—	(960,458)	—
Cash paid to suppliers	(588,915)	(6,310)	(757,458)	(2,139)
Cash paid to University Center	—	(803,025)	—	(63,679)
Cash paid for scholarships	—	(31,304)	—	(141,244)
Net Cash Used in Operating Activities	<u>(742,150)</u>	<u>(840,639)</u>	<u>(747,192)</u>	<u>(207,062)</u>
<b>Cash Flows From Noncapital Financing Activities</b>				
State Appropriation	647,394	—	647,396	—
Gifts and contributions	50,272	3,494,111	65,631	148,355
Other Income	—	—	60,839	—
Net Cash Provided by Noncapital Financial Activities	<u>697,666</u>	<u>3,494,111</u>	<u>773,866</u>	<u>148,355</u>
<b>Cash Flows From Capital and Related Financing Activities</b>				
Purchases of capital assets	(1,352,926)	—	(416,371)	—
Capital contributions	800,000	—	—	—
Interest Expense	—	—	(11,267)	—
Net Cash Used in Capital and Related Financing Activities	<u>(552,926)</u>	<u>—</u>	<u>(427,638)</u>	<u>—</u>
<b>Cash Flows From Investing Activities</b>				
Purchases of investments	—	—	—	(170,784)
Proceeds from sale of investments	—	—	—	88,160
Interest Income	7,294	4,269	7,048	1,049
Net Cash Provided by Investing Activities	<u>7,294</u>	<u>88,750</u>	<u>7,048</u>	<u>(81,575)</u>
<b>Net Change In Cash and Cash Equivalents</b>	(590,116)	2,657,741	(393,916)	(140,282)
<b>Cash and Cash Equivalents, Beginning of Year</b>	<u>1,396,646</u>	<u>26,515</u>	<u>1,790,562</u>	<u>166,797</u>
<b>Cash and Cash Equivalents, End of Year</b>	<u>\$ 806,530</u>	<u>\$2,684,256</u>	<u>\$1,396,646</u>	<u>\$ 26,515</u>



**University Center of Southern Oklahoma**  
**Statements of Cash Flows**  
**Years Ended June 30, 2014 and 2013**

(Continued)

	2014		2013	
	University Center of Southern Oklahoma	Southern Oklahoma Higher Education Foundation, Inc.	University Center of Southern Oklahoma	Southern Oklahoma Higher Education Foundation, Inc.
<b>Reconciliation of Operating Loss to Cash Used in Operating Activities</b>				
Operating Loss	\$ (880,116)	\$ (840,639)	\$ (822,361)	\$ (207,062)
Adjustments to reconcile operating loss to net cash used in operating activities				
Depreciation	93,226	—	143,452	—
On-behalf OTRS	56,316	—	56,232	—
Changes in assets and liabilities				
Accounts receivable	(45,292)	—	12,860	—
Accounts payable and accrued expenses	(22,419)	—	(138,452)	—
Prepaid pension asset	33,399	—	88	—
Other postemployment benefit obligation	21,767	—	826	—
Accrued compensated absences	969	—	163	—
Net Cash Used in Operating Activities	<u>\$ (742,150)</u>	<u>\$ (840,639)</u>	<u>\$ (747,192)</u>	<u>\$ (207,062)</u>
<b>Noncash Investing, Noncapital Financing, and Capital and Related Financing Transactions</b>				
Interest on capital debt paid by state agency on behalf of the Center	<u>\$ 11,655</u>	<u>\$ —</u>	<u>\$ 27,920</u>	<u>\$ —</u>
Principal on capital debt paid by state agency on behalf of the Center	<u>11,821</u>	<u>—</u>	<u>26,235</u>	<u>—</u>
Capital assets received as gifts and contributions	<u>\$ —</u>	<u>\$ —</u>	<u>\$ 60,839</u>	<u>\$ —</u>



**University Center of Southern Oklahoma**  
**Notes to Financial Statements**  
**Year Ended June 30, 2014 and 2013**

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

**Nature of Operations**

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

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

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

**Financial Statement Presentation**

As a component unit of the State, the Center has prepared its financial statements in accordance with the requirements of GASB Statement No. 34, *Basic Financial Statements and Management Discussion and Analysis for State and Local Governments* and GASB Statement No. 35, *Basic Financial Statements and Management's Discussion and Analysis for Public Colleges and Universities*. The financial statement presentation required by GASB Statements No. 34 and 35 provides a comprehensive, entity-wide perspective of the Center's assets, liabilities, net position, revenues, expenses, changes in net position and cash flows.

**Reporting Entity**

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





**University Center of Southern Oklahoma**  
**Notes to Financial Statements**  
**Year Ended June 30, 2014 and 2013**

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

**Reporting Entity (Continued)**

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

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

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

**Basis of Accounting**

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

The Center has the option to apply all FASB pronouncements issued after November 30, 1989, unless FASB conflicts with GASB. The Center has elected to not apply FASB pronouncements issued after the applicable date.



**University Center of Southern Oklahoma**  
**Notes to Financial Statements**  
**Year Ended June 30, 2014 and 2013**

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

**Cash Equivalents**

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

**Investments**

The Center accounts for its investments at fair value in accordance with GASB Statement No. 31, Accounting and Financial Reporting for Certain Investments and for External Investment Pools. Changes in unrealized gain (loss) on the carrying value of investments are reported as a component of return on investments in the statements of revenues, expenses, and changes in net position.

**Accounts Receivable**

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

**Capital Assets**

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

**Noncurrent Liabilities**

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



**University Center of Southern Oklahoma**  
**Notes to Financial Statements**  
**Year Ended June 30, 2014 and 2013**

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

**Compensated Absences**

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

**Net Position**

The Center's net position is classified as follows:

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

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

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

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

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



**University Center of Southern Oklahoma**  
**Notes to Financial Statements**  
**Year Ended June 30, 2014 and 2013**

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

**Classifications of Revenues**

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

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

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

**Tax Status**

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

**Estimates**

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



**University Center of Southern Oklahoma**  
**Notes to Financial Statements**  
**Year Ended June 30, 2014 and 2013**

**Note 2: Cash and Cash Equivalents**

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

At June 30, 2014 and 2013, the carrying amounts of the Center's deposits with the State Treasurer were \$806,530 and \$1,395,646, respectively. The Foundation had deposits at a financial institution with carrying amounts of \$2,684,256 and \$26,515 as of June 30, 2014 and 2013, respectively.

Some deposits with the State Treasurer are placed in the State Treasurer's internal investment pool *OK INVEST*. *OK INVEST* pools the resources of all state funds and agencies and invests them in (a) U.S. treasury securities which are explicitly backed by the full faith and credit of the U.S. government; (b) U.S. agency securities which carry an implicit guarantee of the full faith and credit of the U.S. government; (c) money market mutual funds which participates in investments, either directly or indirectly, in securities issued by the U.S. Treasury and/or agency and repurchase agreements relating to such securities; and (d) investments related to tri-party repurchase agreements which are collateralized at 102% and, whereby, the collateral is held by a third party in the name of the State Treasurer. Of funds on deposit with the State Treasurer, amounts invested in *OK INVEST* total \$385,063 in 2014 and \$307,857 in 2013.

For financial reporting purposes, deposits with the State Treasurer that are invested in *OK INVEST* are classified as cash equivalents. At June 30, the distribution of deposits in *OK INVEST* is as follows:

OK INVEST Portfolio	2014		2013	
	Cost	Market Value	Cost	Market Value
U.S. Agency securities	\$ 176,668	\$ 176,325	\$ 121,013	\$ 120,502
Money market mutual funds	18,592	18,592	28,888	28,888
End of Day Commercial Paper	8,103	8,103	6,471	6,471
Certificate of deposits	9,996	9,996	7,864	7,864
Mortgage backed agency bonds	158,187	161,451	132,287	132,936
Municipal bonds	5,908	6,542	5,187	5,741
Foreign bonds	3,025	3,025	2,432	2,432
U.S. Treasury Obligations	4,584	5,675	3,715	4,534
Total other capital assets	<u>385,063</u>	<u>389,709</u>	<u>307,857</u>	<u>309,368</u>



**University Center of Southern Oklahoma**  
**Notes to Financial Statements**  
**Year Ended June 30, 2014 and 2013**

**Note 2: Cash and Cash Equivalents (Continued)**

Agencies and funds that are considered to be part of the State's reporting entity in the State's Comprehensive Annual Financial Report are allowed to participate in *OK INVEST*. Oklahoma statutes and the State Treasurer establish the primary objectives and guidelines governing the investment of funds in *OK INVEST*. Safety, liquidity, and return on investment are the objectives 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 the types and maturities of allowable investments. The specifics regarding these policies can be found on the State Treasurer's website at <http://www.treasurer.state.ok.us/>. 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 three years. *OK INVEST* maintains an overall weighted average maturity of less than 270 days.

Participants in *OK INVEST* maintain an interest in its underlying investments and, accordingly, may be exposed to certain risks. As stated in the State Treasurer information statement, the main risks are interest rate risk, credit/default risk, liquidity risk, and U.S. government securities risk. Interest rate risk is the risk that during periods of rising interest rates, the yield and market value of the securities will tend to be lower than prevailing market rates; in periods of falling interest rates, the yield will tend to be higher. Credit/default risk is the risk that an issuer or guarantor of a security, or a bank or other financial institution that has entered into a repurchase agreement, may default on its payment obligations. Liquidity risk is the risk that *OK INVEST* will be unable to pay redemption proceeds within the stated time period because of unusual market conditions, an unusually high volume of redemption requests, or other reasons. U.S. Government securities risk is the risk that the U.S. government will not provide financial support to U.S. government agencies, instrumentalities or sponsored enterprises if it is not obligated to do so by law. Various investment restrictions and limitations are enumerated in the State Treasurer's Investment Policy to mitigate those risks; however, any interest in *OK INVEST* is not insured or guaranteed by the State, the FDIC or any other government agency.

As of June 30, 2014 and 2013, the Center had no investments. The Foundation's investments consisted of short-term investment funds and index funds on deposit with Vanguard as follows:

Types of Investment	2014	2013
Short-term investment fund with Vanguard	\$ 62,116	\$ 61,481
Index investment funds with Vanguard	128,214	104,972
Total investments	<u>\$ 190,330</u>	<u>\$ 166,453</u>



**University Center of Southern Oklahoma**  
**Notes to Financial Statements**  
**Year Ended June 30, 2014 and 2013**

**Note 3: Pledges Receivable**

The following is a summary of the pledges receivable as June 30, 2014:

	<u>2014</u>	<u>2013</u>
Pledges receivable in:		
Less than one year	\$ 1,803,333	—
One year to five years	<u>4,949,267</u>	—
	<u>\$ 6,752,600</u>	<u>—</u>

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

**Note 4: Capital Assets**

The following is a summary of the changes in capital assets for the years ended June 30, 2014:

	<u>2014</u>			
	<u>Balance</u>			<u>Balance</u>
	<u>June 30, 2013</u>	<u>Additions</u>	<u>Retirements</u>	<u>June 30, 2014</u>
Capital assets not being depreciated				
Land	\$ -	\$ 1,036,385	\$ -	\$ 1,036,385
Construction in progress	1,629,580	238,777	-	1,868,357
Total capital assets, not being depreciated	<u>\$ 1,629,580</u>	<u>\$ 1,275,162</u>	<u>\$ -</u>	<u>\$ 2,904,742</u>
Other capital assets				
Leasehold improvements	\$ 1,818,172	\$ -	\$ -	\$ 1,818,172
Equipment	1,181,444	33,019	-	1,214,463
Library materials	744,158	13,925	-	758,083
Total capital assets	<u>3,743,774</u>	<u>46,944</u>	<u>-</u>	<u>3,790,718</u>
Less accumulated depreciation				
Leasehold improvements	(1,818,172)	-	-	(1,818,172)
Equipment	(955,207)	(82,266)	-	(1,037,473)
Library materials	(704,524)	(10,960)	-	(715,484)
Total accumulated depreciation	<u>(3,477,903)</u>	<u>(93,226)</u>	<u>-</u>	<u>(3,571,129)</u>
Other capital assets, net	<u>\$ 265,871</u>	<u>\$ (46,282)</u>	<u>\$ -</u>	<u>\$ 219,589</u>
Total cost of capital assets	\$ 5,373,354	\$ 1,322,106	\$ -	\$ 6,695,460
Less accumulated depreciation	(3,477,903)	(93,226)	-	(3,571,129)
Capital assets, net	<u>\$ 1,895,451</u>	<u>\$ 1,228,880</u>	<u>\$ -</u>	<u>\$ 3,124,331</u>



**University Center of Southern Oklahoma**  
**Notes to Financial Statements**  
**Year Ended June 30, 2014 and 2013**

**Note 4: Capital Assets (Continued)**

The following is a summary of the changes in capital assets for the years ended June 30, 2013:

	2013			Balance June 30, 2013
	Balance June 30, 2012	Additions	Retirements	
Capital assets not being depreciated				
Construction in progress	\$ 1,373,071	\$ 256,509	\$ -	\$ 1,629,580
Other capital assets				
Leasehold improvements	\$ 1,757,333	\$ 60,839	\$ -	\$ 1,818,172
Equipment	1,148,723	64,676	(31,955)	1,181,444
Library materials	731,396	12,762	-	744,158
Total capital assets	<u>3,637,452</u>	<u>138,277</u>	<u>(31,955)</u>	<u>3,743,774</u>
Less accumulated depreciation				
Leasehold improvements	(1,757,333)	(60,839)		(1,818,172)
Equipment	(913,745)	(73,417)	31,955	(955,207)
Library materials	(695,328)	(9,196)		(704,524)
Total accumulated depreciation	<u>(3,366,406)</u>	<u>(143,452)</u>	<u>31,955</u>	<u>(3,477,903)</u>
Other capital assets, net	<u>\$ 271,046</u>	<u>\$ (5,175)</u>	<u>\$ -</u>	<u>\$ 265,871</u>
Total cost of capital assets	\$ 5,010,523	\$ 394,786	\$ (31,955)	\$ 5,373,354
Less accumulated depreciation	<u>(3,366,406)</u>	<u>(143,452)</u>	<u>31,955</u>	<u>(3,477,903)</u>
Capital assets, net	<u>\$ 1,644,117</u>	<u>\$ 251,334</u>	<u>\$ -</u>	<u>\$ 1,895,451</u>

The cost and related accumulated depreciation of assets held under the Oklahoma Capital Improvement Authority (OCIA) lease obligations was as follows as of June 30;

	2013	2012
Construction in progress	600,000	600,000
Leasehold improvements	200,000	200,000
Less accumulated depreciation	<u>(200,000)</u>	<u>(200,000)</u>
	<u>600,000</u>	<u>600,000</u>





**University Center of Southern Oklahoma**  
**Notes to Financial Statements**  
**Year Ended June 30, 2014 and 2013**

**Note 5: Noncurrent Liabilities**

The following is a summary of noncurrent liability transactions of the Center for the years ended June 30, 2014 and 2013;

	2014				
	Balance	Additions	Deductions	Balance	Current Portion
	June 30, 2013			June 30, 2014	June 30, 2014
OCIA capital lease obligation	\$ 625,205	\$ 302,239	\$ (330,832)	596,612	\$ 53,665
Accrued compensated absences	30,000	30,969	(30,000)	30,969	30,969
Other post employment benefits	32,236	30,105	(8,338)	54,003	-
	<u>\$ 687,441</u>	<u>\$ 363,313</u>	<u>\$ (369,170)</u>	<u>\$ 681,584</u>	<u>\$ 84,634</u>

	2013				
	Balance	Additions	Deductions	Balance	Current Portion
	June 30, 2012			June 30, 2013	June 30, 2013
OCIA capital lease obligation	\$ 651,440	\$ -	\$ (26,235)	\$ 625,205	\$ 27,517
Accrued compensated absences	30,663	30,000	(30,663)	30,000	30,000
Other post employment benefits	31,410	7,128	(6,302)	32,236	-
	<u>\$ 713,513</u>	<u>\$ 37,128</u>	<u>\$ (63,200)</u>	<u>\$ 687,441</u>	<u>\$ 57,517</u>

**Note 6: Oklahoma Capital Improvement Authority Leases**

In September 1999, the Oklahoma Capital Improvement Authority ("OCIA") issued its OCIA Bond Issues, 1999 Series A, B and C. Of the total bond indebtedness, the State Regents for Higher Education allocated \$200,000 to the Center. Concurrently with the allocation, the Center entered into a lease agreement with OCIA, for the project being funded by OCIA bonds. The lease agreement provides for the Center to make periodic principal and interest payments to OCIA over the respective terms of the agreement, which is 20 years. The proceeds of the bonds and subsequent lease are to provide capital improvements for the Center. The Center expects to receive state appropriations in amounts equal to the required lease payments.

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



**University Center of Southern Oklahoma**  
**Notes to Financial Statements**  
**Year Ended June 30, 2014 and 2013**

**Note 6: Oklahoma Capital Improvement Authority Leases (Continued)**

All of the OCIA 1999 Series A, B, and C has been drawn down for expenditures incurred in connection with the specific projects. These expenditures are recorded as capital assets or as non-capitalized expenditures, in accordance with the Center's policy. The Center has recorded a lease obligation payable to OCIA for the total amount of the allotment, less repayment made during the fiscal year. The Center has also recorded an asset for its pro-rata share of the bond issuance costs, and is amortizing that asset over the term of the lease agreement. At June 30, 2014 and 2013, the unamortized bond issuance costs totaled \$0 and \$88, respectively. The Center has recorded a lease obligation payable to OCIA for the total amount of the allotment, less repayment made.

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

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

During the years ended June 30, 2014 and 2013, OCIA made lease principal and interest payments totaling \$40,248 and \$54,155, respectively, on behalf of the Center. These on-behalf payments have been recorded as restricted state appropriations in the Center's statements of revenues, expenses, and changes in net position.



**University Center of Southern Oklahoma**  
**Notes to Financial Statements**  
**Year Ended June 30, 2014 and 2013**

**Note 6: Oklahoma Capital Improvement Authority Leases (Continued)**

Future minimum lease payments under the Center's obligation to OCIA are as follows as of June 30, 2014:

<u>Year Ending June 30,</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2015	53,665	14,518	68,183
2016	75,685	22,443	98,128
2017	44,898	22,435	67,333
2018	68,625	20,035	88,660
2019	70,214	16,836	87,050
2020-2024	84,475	65,788	150,263
2025-2029	161,870	40,384	202,254
2030	37,180	5,428	42,608
Total future minimum lease payments	<u>\$ 596,612</u>	<u>\$ 207,867</u>	<u>\$ 804,479</u>

**Note 7: Employee Retirement Benefits**

The Center's academic and professional personnel who work at least half-time are required to participate in the Oklahoma Teachers Retirement System ("OTRS"); classified personnel participation is voluntary. OTRS was established by the state of Oklahoma and is a component unit of the state's financial reporting entity, reported as pension fund trust. The Center does not maintain the accounting records, hold the investments for, or administer OTRS.

Defined Contribution Plan

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

The Center's total payroll for the years ended June 30, 2014 and 2014 was approximately \$755,000 and \$746,000 respectively. Total covered payroll, which refers to all compensation paid by the Center to active employees covered by American Fidelity, amounted to \$281,000 in 2014 and \$292,000 in 2013. The Center contributed approximately \$22,000 in 2014 and \$23,000 in 2013, which represents 7.50% and 7.50% of covered payroll respectively, for each year. As of June 30, 2014, there were no related party investments between American Fidelity and the Center.



**University Center of Southern Oklahoma**  
**Notes to Financial Statements**  
**Year Ended June 30, 2014 and 2013**

**Note 7: Employee Retirement Benefits (Continued)**

Defined Benefit Plan

*Plan Description* – The Center contributes to a single-employer public employee retirement system through the Supplemental Retirement Plan (the Plan), sponsored by the State Regents. The Plan was adopted on July 1, 1985, and was substantially replaced by the funded TIAA/CREF plan adopted in July 1991. The Plan provides employees who retire from the Oklahoma Teacher's Retirement System (OTRS) a guarantee-based monthly retirement allowance. This guaranteed allowance is determined by the average of the highest three years of salary times 2% for each of the first 25 years of service in Oklahoma's system of public education, plus an additional 0.5% for each year of service prior to July 1, 1985, and 1% for each of year of service after July 1, 1985, up to a maximum of 60% of final salary entitlement. The Plan pays the difference, if any, between the guaranteed retirement allowance and the combined benefits under OTRS, TIAA/CREF and social security. Benefits vest upon retirement. The Plan does not issue a stand-alone financial report.

*Funding Policy* – Benefits are funded on a “pay as you go” basis. During the fiscal years ending June 30, 2014 and 2013, the Center made payments of \$21,750 and \$21,500, respectively, which were recorded against the accrued pension liability.

*Annual Pension Cost and Net Pension Asset* – The Center's annual pension cost and net pension Asset of the Plan are as follows as of June 30,

	2014	2013
Annual required contribution	\$ 46,953	\$ 16,173
Interest on net pension obligation	(3,946)	(3,031)
Adjustment to annual required contribution	<u>12,142</u>	<u>5,374</u>
Annual pension cost	55,149	18,516
Contributions made	<u>21,750</u>	<u>21,500</u>
Increase in net pension asset	(33,399)	2,984
Net pension asset, beginning of year	<u>60,709</u>	<u>57,725</u>
Net pension asset, end of year	<u>\$ 27,310</u>	<u>\$ 60,709</u>

Significant actuarial assumptions used in the valuations include (a) a discount rate of 6.50% per year compounded annually, and (b) life expectancy of participants based on published mortality tables. The Plan is an unfunded plan. Accordingly, no assets have been transferred to a pension trust fund.



**University Center of Southern Oklahoma**  
**Notes to Financial Statements**  
**Year Ended June 30, 2014 and 2013**

**Note 7: Employee Retirement Benefits (Continued)**

*Three-Year Trend Information*

Fiscal Year Ended	Annual Pension Cost (APC)	Percentage of APC Contributed	Accrued Pension Obligation
June 30, 2012	18,406	115%	173,739
June 30, 2013	18,516	116%	173,739
June 30, 2014	55,149	39%	234,766

*Funded Status and Funding Progress*

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

	2014	2013
Actuarial accrued liability (AAL)	\$ 234,766	\$ 173,739
Actuarial value of plan assets	-	-
Unfunded actuarial accrued liability (UAAL)	<u>\$ 234,766</u>	<u>\$ 173,739</u>
Funded ratio (actuarial value of plan assets/AAL)	0.0%	0.0%
Covered payroll (active plan members)	\$ -	\$ -

Oklahoma Teachers' Retirement System

*Plan Description* – The Center contributes to the Oklahoma Teachers' Retirement System (OTRS), a cost-sharing, multiple-employer, defined benefit pension plan sponsored by the State of Oklahoma. OTRS provides defined retirement benefits based on members' final compensation, age and term of service. In addition, the retirement program provides for benefits upon disability and to survivors upon the death of eligible members. OTRS does not provide for a cost-of-living adjustment. Title 70, of the Oklahoma Statutes, Sections 17-101 through 17-120 assigns the authority for management and operations of the plan to the Board of Trustees of OTRS. The authority to establish and amend benefit provisions rests with the State Legislature. The OTRS issues a publicly available financial report that includes financial statements and supplementary information for OTRS. That report may be obtained by writing to Teachers' Retirement System of Oklahoma, PO Box 53524, Oklahoma City, Oklahoma 73152, or by calling (405) 521-2387.



**University Center of Southern Oklahoma**  
**Notes to Financial Statements**  
**Year Ended June 30, 2014 and 2013**

**Note 7: Employee Retirement Benefits (Continued)**

*Funding Policy* – The Center is required to contribute a fixed percentage of annual compensation on behalf of active members. The employer contribution rates applied to annual compensation are determined by state statute. The employer contribution rate was 9.50% for fiscal years 2014, 2013 and 2012. Employees' contributions are also determined by State statute. For all employees, the contribution rate was 7% of covered salaries and fringe benefits in 2014, 2013, and 2012. For Center employees meeting the requirements of the Center's defined benefit plan, and other employees who opted to enroll in OTRS prior to July 1, 1993, substantially all of the members' OTRS contributions are made directly by the Center.

The Center's contribution to OTRS for the years ended June 30, 2014, 2013 and 2012, were approximately \$124,000, \$121,000, and \$108,000 respectively, equal to the required contribution for each year. These contributions included the Center's statutory contribution and the share of the employee's contribution paid directly by the Center.

The State of Oklahoma is also required to contribute to the OTRS on behalf of the participating employers. For 2014 and 2013, the State of Oklahoma contributed 5% of State revenues from sales and use taxes and individual income taxes. The Center has estimated the amounts contributed to the OTRS by the State of Oklahoma on its behalf by multiplying the ratio of its covered salaries to total covered salaries for OTRS for the year by the applicable percentage of taxes collected during the year. For the years ended June 30, 2014 and 2013, the total amount contributed to the OTRS by the State of Oklahoma on behalf of the Center was approximately \$56,316 and \$56,232, respectively. These on-behalf payments have been recorded as both revenues and expenses in the statements of revenues, expenses, and changes in net position.

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

The Center covers the cost of health and dental insurance for three retired employees. The Center has a policy for providing health and dental insurance for any current full time employees upon retirement. Eligible employees must work a minimum of 10 years preceding retirement and been a member of OTRS during that time. As of June 30, 2014, the Center has 10 employees who qualify. In 2004, GASB Issued Statement No. 45, *Accounting and Financial Reporting by Employers for Postemployment Benefits Other Than Pensions*. GASB Statement No. 45 establishes standards for the measurement, recognition and display of OPEB expense/expenditures and related liabilities (assets), note disclosures and, if applicable, required supplementary information ("RSI") in the financial reports of state and local governmental employers. The provisions of this Statement are effective for fiscal periods beginning after December 15, 2006, with earlier application encouraged. The Center implemented the requirements of GASB Statement No. 45 during fiscal year 2008.



**University Center of Southern Oklahoma**  
**Notes to Financial Statements**  
**Year Ended June 30, 2014 and 2013**

**Note 7: Employee Retirement Benefits (Continued)**

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

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

	2014	2013
Annual required contribution	\$ 31,231	\$ 8,403
Interest on net OPEB obligation	2,095	1,649
Adjustment to annual required contribution	(3,221)	(2,924)
Annual OPEB cost (expense)	30,105	7,128
Contributions made	8,338	6,302
Increase in net OPEB obligation	(21,767)	(826)
Net OPEB obligation, beginning of year	(32,236)	(31,410)
Net OPEB obligation, end of year	\$ (54,003)	\$ (32,236)

This obligation is currently unfunded. The annual required contribution for 2014 was determined as part of an actuarial valuation on June 30, 2013, using the projected unit credit actuarial cost method. The actuarial assumptions included (a) discount rate of 6.50% 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 3-8% 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 the Center and plan members to that point. Actuarial methods reflect a long-term perspective, and actuarial valuations involve estimates of the value of reported amounts and assumptions about the probability of events far into the future. As such, actuarial amounts are subject to continual revision as results are compared to past expectations and new estimates are made about the future.

*Trend Information*

Year Ended June 30	Annual Pension Cost	% of APC Contributed	Net Pension Obligation
2012	7,168	86.29%	31,410
2013	7,128	88.41%	32,236
2014	30,105	27.70%	54,003



**University Center of Southern Oklahoma**  
**Notes to Financial Statements**  
**Year Ended June 30, 2014 and 2013**

**Note 7: Employee Retirement Benefits (Continued)**

*Funded Status and Funding Progress*

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

	2014	2013
Actuarial accrued liability (AAL)	\$ 237,712	\$ 90,271
Actuarial value of plan assets	-	-
Unfunded actuarial accrued liability (UAAL)	\$ 237,712	\$ 90,271
Funded ratio (actuarial value of plan assets/AAL)	0.0%	0.0%
Covered payroll (active plan members)	\$ -	\$ -
UAAL as a percentage of covered payroll	0.0%	0.0%

**Note 8: Related Party Transactions**

Community Activities, Inc. of Ardmore, Oklahoma serves as a fund-raising foundation on behalf of the Center and other community services operating in the Ardmore area. The Center received from Community Activities, Inc. Leasehold improvements of \$0 and \$60,839 and supplies and other items of \$8,025 and \$2,841 in 2014 and 2013, respectively.

The Center and Foundation have an agreement for providing the Foundation with services including office space and part-time service of Center staff. In exchange, the Foundation provides the Center with program support that includes, but is not limited to, administration of scholarships and other academic and program enhancements. During the years ended June 30, 2014 and 2013, the Foundation awarded scholarships totaling approximately \$31,000 and \$76,000, respectively, to students.

**Note 9: Risk Management**

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





**University Center of Southern Oklahoma**  
**Notes to Financial Statements**  
**Year Ended June 30, 2014 and 2013**

**Note 10: Lease Commitments**

The Center, as lessor, leases an educational facility from the Board of Education, Independent School District No. 19, Carter County, Oklahoma. The lease is on a year-to-year basis. Rental expense of approximately \$120,000 and \$183,000, respectively, per year, was paid to the School District during the years ended June 30, 2014 and 2013.

**Note 11: Accounting Standards Issued Not Yet Adopted**

*Fiscal Year Ended June 30, 2015*

Statement No. 68, *Accounting and Financial Reporting for Pensions, an Amendment of GASB Statement No. 27*

GASB No. 68 establishes standards for measuring and recognizing liabilities, deferred outflows of resources, deferred inflows of resources, and pension expenses. GASB No. 68 also details the recognition and disclosure requirements for employers with liabilities to a defined benefit pension plan and for employers whose employees are provided with defined contribution pensions. Defined benefit pensions are further classified by GASB No. 68 as single employer plans, agent employer plans and cost-sharing plans, and recognition and disclosure requirements are addressed for each classification. GASB No. 68 was issued in June 2012, and the College has not yet determined the impact that implementation of GASB No. 68 will have on its net position.





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

Board of Trustees  
University Center of Southern Oklahoma  
Ardmore, Oklahoma

We have audited, in accordance with the auditing standards generally accepted in the United States 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 University Center of Southern Oklahoma and the separately presented component units as of and for the year ended June 30, 2014, and the related notes to the financial statements, which collectively comprise University Center of Southern Oklahoma's basic financial statements, and have issued our report thereon dated October 6, 2014. Our report includes a reference to other auditors who audited the financial statements of University Center of Southern Oklahoma Educational Foundation, Inc., the College's discretely presented component unit, as described in our report on the College's financial statements. The financial statements of the Foundation were not audited in accordance with Government Auditing Standards and accordingly this report does not include reporting on internal control over financial reporting or instances of reportable noncompliance associated with the Foundation.

***Internal Control over Financial Reporting***

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

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

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

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***Compliance and Other Matters***

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

***Purpose of this Report***

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

Hick & Company, PC

Tulsa, Oklahoma  
October 6, 2014

