

**University Center of Southern Oklahoma**

**Financial Statements  
with Independent Auditors' Report**

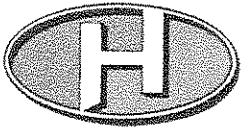
**June 30, 2016 and 2015**



**University Center of Southern Oklahoma**  
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**June 30, 2016 and 2015**

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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 years ended June 30, 2016 and 2015, 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.

### ***Auditors' 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 auditors' judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the 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.

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**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, 2016 and 2015, and the respective changes in financial position and its cash flows for the years 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 i through viii 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 20, 2016 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 Center's internal control over financial reporting and compliance.

*Hibel & Company, PC*

Tulsa, Oklahoma  
October 20, 2016



# **University Center of Southern Oklahoma Management's Discussion and Analysis For the Year Ended June 30, 2016**

## **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, 2016. 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, liabilities and deferred inflows using the accrual basis of accounting, which is consistent with the accounting used by private-sector institutions. All of the current year's revenues and expenses are recognized when earned or incurred, regardless of when cash is received or paid.

**University Center of Southern Oklahoma  
Management's Discussion and Analysis  
For the Year Ended June 30, 2016**

**Financial Highlights (Continued)**

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

Schedule A is prepared from UCISO's Statement of Net Position, and summarizes UCISO's assets, deferred outflows, liabilities, deferred inflows and net position at June 30, 2016, with comparative totals at June 30, 2015 and 2014, respectively.

Schedule A  
Net Position at June 30, 2016  
With Comparative Totals at June 30, 2015 and 2014  
(in thousands)

	2016	<u>restated</u> 2015	2014 *
Current assets	\$ 2,147	\$ 1,818	\$ 896
Noncurrent assets			
Capital assets, net of depreciation	13,784	6,527	3,124
Other	894	5,400	27
Total assets	<u>16,825</u>	<u>13,745</u>	<u>4,047</u>
Deferred outflows	<u>117</u>	<u>80</u>	<u>16</u>
Current liabilities	468	352	127
Noncurrent liabilities	7,604	7,680	597
Total liabilities	<u>8,072</u>	<u>8,032</u>	<u>724</u>
Deferred inflows	<u>256</u>	<u>293</u>	<u>16</u>
Net position			
Net investment in capital assets	8,094	5,292	2,528
Restricted for capital projects	1,254	909	-
Unrestricted	(734)	(701)	795
Total net position	<u>\$ 8,614</u>	<u>\$ 5,500</u>	<u>\$ 3,323</u>

\* prior year amounts not restated for MD&A purposes

At year ended June 30, 2016, other assets decreased by \$4,505 and capital assets increased by \$7,257 from the year ended June 30, 2015 due to the spending of proceeds from the issuance of the ODFA 2014BAN and 2014H capital debt on the construction of the new building. Net investment in capital asset net position also increased significantly in 2016 due to the same reason.

At year ended June 30, 2015, other assets increased by \$5,373 from the year ended June 30, 2014 due to the receipt of proceeds from the issuance of the ODFA 2014BAN and 2014H capital debt. Total liabilities increased by \$7,308 due to the implementation of GASB 68 regarding pensions and the issuance of the ODFA capital debt mentioned above. Unrestricted net position also decreased significantly in 2015 due to the implementation of GASB 68.

**University Center of Southern Oklahoma  
Management's Discussion and Analysis  
For the Year Ended June 30, 2016**

**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, 2016, with comparative totals for the year ended June 30, 2015 and 2014, respectively.

Schedule B  
Operating Results for the Year Ended June 30, 2016  
With Comparative Totals for the Year Ended June 30, 2015 and 2014  
(in thousands)

	2016	<u>restated</u> 2015	2014 *
Operating revenues and expenses			
Tuition and fees	919	935	900
Less operating expenses	<u>(1,494)</u>	<u>(1,623)</u>	<u>(1,780)</u>
Net operating expenses	<u>(575)</u>	<u>(688)</u>	<u>(880)</u>
Nonoperating revenues (expenses)			
State appropriations	563	647	647
On-behalf OTRS contributions	54	58	56
Gifts	68	56	51
Investment income	6	7	7
Interest expense /income	<u>(110)</u>	<u>(136)</u>	<u>(19)</u>
Net nonoperating revenues	<u>581</u>	<u>632</u>	<u>742</u>
Income before other revenues/expenses	6	(56)	(138)
Other revenues/expenses	<u>3,108</u>	<u>3,552</u>	<u>823</u>
Increase (decrease) in net position	<u><u>3,114</u></u>	<u><u>3,496</u></u>	<u><u>685</u></u>

\* prior year amounts not restated for MD&A purposes

**Revenues**

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

Other revenues increased by \$2,729, or 332%, over 2014 due to significant increases in capital funds provided by the Southern Oklahoma Higher Education Foundation for the construction of the new building.

**University Center of Southern Oklahoma  
Management's Discussion and Analysis  
For the Year Ended June 30, 2016**

**Financial Highlights (Continued)**

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

**Expenses**

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

Operating expenses decreased by \$157 in 2015 over the year ended June 30, 2014 primarily as a result of the change in compensation expense due to the implementation of GASB 68.

Schedule C summarizes UCSO's operating expenses for the years ended June 30, 2016, 2015 and 2014, respectively.

Schedule C  
Operating Expenses for the Year Ended June 30, 2016  
With Comparative Totals for the Year Ended June 30, 2015 and 2014  
(in thousands)

	2016	<u>restated</u> 2015	2014 *
Compensation and benefits	\$ 894	\$ 966	\$ 1,117
Contractual services	335	346	402
Supplies and materials	24	36	31
Utilities	52	55	48
Communications	20	18	15
Depreciation	70	115	93
Other	<u>99</u>	<u>87</u>	<u>74</u>
Total Operating Expenses	<u>\$ 1,494</u>	<u>\$ 1,623</u>	<u>\$ 1,780</u>

\* prior year amounts not restated for MD&A purposes



**University Center of Southern Oklahoma  
Management's Discussion and Analysis  
For the Year Ended June 30, 2016**

**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, 2016, with comparative totals for the year ended June 30, 2015 and 2014, respectively.

Schedule D  
Cash Flows for the Year Ended June 30, 2016  
With Comparative Totals for the Year Ended June 30, 2015 and 2014  
(in thousands)

	2016	2015	2014
Cash provided (used) by:			
Operating activities	\$ (504)	\$ (521)	\$ (742)
Noncapital financing activities	632	703	698
Capital and related financing activities	200	777	(553)
Investing activities	<u>6</u>	<u>7</u>	<u>7</u>
Net increase in cash	334	966	(590)
Cash, beginning of year	<u>1,773</u>	<u>807</u>	<u>1,397</u>
Cash, end of year	<u>\$ 2,107</u>	<u>\$ 1,773</u>	<u>\$ 807</u>

**Capital Assets and Debt Administration**

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

For 2015, UCSO recorded a total of \$10,213 in capital assets and \$3,686 in accumulated depreciation. During the year ended June 30, 2015 UCSO acquired \$3,518 in capital assets consisting of construction in progress on the new building, 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, 2016**

**Financial Highlights (Continued)**

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

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

At June 30, 2015, UCSO had long-term liabilities of \$6,619,000, an increase of approximately \$6 million over 2014 long-term liabilities as a result of the issuance of the ODFA 2014BAN and 2014H capital debt.

Schedule E  
Capital Assets, Net  
June 30, 2016  
With Comparative Totals at June 30, 2015 and 2014  
(in thousands)

	2016	2015	2014
Land	\$ 1,036	\$ 1,036	\$ 1,036
Construction in progress	12,600	5,317	1,868
Leasehold improvements	1,849	1,849	1,818
Equipment	1,279	1,242	1,215
Library materials	778	769	758
Total	17,542	10,213	6,695
Less accumulated depreciation	(3,758)	(3,686)	(3,571)
Capital assets, net	<u>\$ 13,784</u>	<u>\$ 6,527</u>	<u>\$ 3,124</u>

Schedule F  
Long-Term Liabilities  
June 30, 2016  
With Comparative Totals at June 30, 2015 and 2014  
(in thousands)

	2016	2015	2014
OCIA capital lease payable	\$ 495	\$ 549	\$ 597
ODFA capital lease payable	6,070	6,070	-
Total long-term liabilities	<u>\$ 6,565</u>	<u>\$ 6,619</u>	<u>\$ 597</u>

# University Center of Southern Oklahoma Management's Discussion and Analysis For the Year Ended June 30, 2016

## Other Financial Information

### Economic Outlook

For FY16 UCSO had a 15.95% reduction in state allocation from the previous year. It is anticipated that cuts in the state allocation will continue, resulting in future tuition increases to offset declining state revenues. UCSO has also experienced declining enrollments over the last several years. Declining enrollments seems to be a trend in higher education at both the state and national levels and may be attributed to changes in population demographics and numbers of students graduating from high school. State allocations now comprise about 1/3 of the UCSO operations budget and tuition and fee revenues comprise the other 2/3.

This all comes at a time when UCSO is completing construction of its new 49,000 sq. ft. Health, Science and Math Center, the first facility to be built on UCSO's new 103-acre campus. During FY17 UCSO will assume the operations and maintenance costs for this facility. While it is unknown what the operation and maintenance costs of this new facility will be, some of these increased costs will be offset by vacating leased and modular facilities currently used by some of UCSO's programs.

Funding to construct the Health, Science and Math Center was provided through a combination of gifts and grants, UCSO direct support, and public financing through the Oklahoma State Regent's Real Property Master Lease program. Through the Master Lease program UCSO obtained \$6 million in the form of revenue bonds with a short-term component (ODFA 2014 BAN) and a long-term component (ODFA 2014 H).

The BAN for cash flow for construction purposes was for \$4.3 million for a term of 4 years. Prepayments to the BAN can be made to reduce interest and principal obligations prior to the end of its term. Once construction is complete and paid, UCSO plans to make a \$3 million payment on the BAN in January, 2017 with cash on hand that has been accumulated from pledge payments. UCSO plans to make subsequent payments in January, 2018 and 2019 to pay the balance of the BAN as pledges for the project pay out.

The 2014H bond is for approximately \$1.7 with a term of 15 years. UCSO continues to increase its tuition rates and has earmarked a portion of tuition receipts to service the long-term bond obligation and to perform future facility maintenance.

It is anticipated that any future budget growth will be the result of tuition receipts from increased enrollment and that the state allocation will remain at current levels or continue to be reduced for the foreseeable future.

The UCSO Board of Trustees and management are currently evaluating options for financing the capital development of the new campus over the next decade.

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

**University Center of Southern Oklahoma  
Management's Discussion and Analysis  
For the Year Ended June 30, 2016**

**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, 2016 and 2015**

	2016		2015	
	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	\$ 2,107,283	\$ 1,067,463	\$ 1,772,772	\$ 4,219,058
Accounts receivable	39,254	—	44,262	—
Pledges receivable	—	405,000	—	1,468,334
Accrued interest receivable	489	516	521	289
Investments	—	5,016,088	—	1,147,823
	<u>2,147,026</u>	<u>6,489,067</u>	<u>1,817,555</u>	<u>6,835,504</u>
<b>Other Assets</b>				
Pledges receivable	—	818,353	—	1,384,510
Receivable from ODFA	890,484	—	5,384,161	—
Prepaid pension asset	3,290	—	14,792	—
Capital assets, net	13,783,986	—	6,527,035	—
	<u>14,677,760</u>	<u>818,353</u>	<u>11,925,988</u>	<u>1,384,510</u>
<b>Total Assets</b>	<u>16,824,786</u>	<u>7,307,420</u>	<u>13,743,543</u>	<u>8,220,014</u>
<b>DEFERRED OUTFLOWS</b>				
Deferred outflows related to pension	117,557	—	71,927	—
Deferred charge on OCIA lease restructuring	—	—	8,195	—
<b>Total Deferred Outflows</b>	<u>117,557</u>	<u>—</u>	<u>80,122</u>	<u>—</u>
<b>LIABILITIES</b>				
<b>Current Liabilities</b>				
Accounts payable and accrued liabilities	343,985	—	265,887	—
Current portion of noncurrent liabilities	124,122	—	85,762	—
	<u>468,107</u>	<u>—</u>	<u>351,649</u>	<u>—</u>
<b>Noncurrent Liabilities</b>				
Other postemployment benefit obligation	82,962	—	66,801	—
Net pension obligation	1,047,014	—	1,051,600	—
Accrued compensated absences	5,926	—	—	—
Lease obligation payable to ODFA	6,037,207	—	6,066,104	—
Lease obligation payable to OCIA	431,082	—	495,242	—
	<u>7,604,191</u>	<u>—</u>	<u>7,679,747</u>	<u>—</u>
<b>Total Liabilities</b>	<u>8,072,298</u>	<u>—</u>	<u>8,031,396</u>	<u>—</u>
<b>DEFERRED INFLOWS</b>				
Deferred gain on OCIA lease restructuring	18,398	—	20,737	—
Deferred inflows related to pension	237,608	—	271,838	—
<b>Total Deferred Inflows</b>	<u>256,006</u>	<u>—</u>	<u>292,575</u>	<u>—</u>
<b>NET POSITION</b>				
Invested in capital assets, net of related debt	8,094,456	—	5,292,200	—
Restricted:				
Capital projects	1,254,082	—	908,609	—
Donor restrictions	—	7,250,958	—	8,167,623
Unrestricted	(734,499)	56,462	(701,115)	52,391
<b>Total Net Position</b>	<u>\$ 8,614,039</u>	<u>\$ 7,307,420</u>	<u>\$ 5,499,694</u>	<u>\$ 8,220,014</u>



**University Center of Southern Oklahoma**  
**Statements of Revenues, Expenses and Changes in Net Position**  
**Years Ended June 30, 2016 and 2015**

	2016		2015	
	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>918,874</u>	\$ <u>—</u>	\$ <u>935,287</u>	\$ <u>—</u>
<b>Operating Expenses</b>				
Compensation and employee benefits	894,011	—	966,063	—
Contractual services	334,702	—	346,191	—
Supplies and material	24,283	730	35,598	2,181
Utilities	51,851	—	54,985	—
Communications	20,104	—	17,807	—
Depreciation	69,975	—	115,060	—
Other operating expense	99,073	—	87,104	—
Contributions to University Center	—	1,017,884	—	1,533,088
General and administrative	—	2,901	—	5,583
Scholarships awarded	—	46,848	—	53,938
Total operating expenses	<u>1,493,999</u>	<u>1,068,363</u>	<u>1,622,808</u>	<u>1,594,790</u>
<b>Operating Loss</b>	<u>(575,125)</u>	<u>(1,068,363)</u>	<u>(687,521)</u>	<u>(1,594,790)</u>
<b>Nonoperating Revenues (Expenses)</b>				
State appropriations	563,243	—	647,396	—
On-Behalf OTRS	53,783	—	57,821	—
Private gifts and other contributions	68,390	130,479	56,098	173,984
Investment income	6,345	22,316	6,689	7,511
Net unrealized loss on investments	—	2,974	—	6,123
Interest expense	<u>(109,666)</u>	<u>—</u>	<u>(136,214)</u>	<u>—</u>
Total operating expenses	<u>582,095</u>	<u>155,769</u>	<u>631,790</u>	<u>187,618</u>
<b>Income Before Other Revenues, Expenses, Gains or Losses</b>	<u>6,970</u>	<u>(912,594)</u>	<u>(55,731)</u>	<u>(1,407,172)</u>
Capital grants and gifts	3,032,124	—	3,498,964	—
OCIA on-behalf state appropriations	<u>75,251</u>	<u>—</u>	<u>53,204</u>	<u>—</u>
<b>Net Change in Net Position</b>	<u>3,114,345</u>	<u>(912,594)</u>	<u>3,496,437</u>	<u>(1,407,172)</u>
<b>Net Position, Beginning of year as previously reported</b>	5,499,694	8,220,014	3,322,939	9,627,186
Cumulative effect of implementation of GASB 68 and 82	<u>—</u>	<u>—</u>	<u>(1,319,682)</u>	<u>—</u>
<b>Net Position, Beginning of Year as restated</b>	<u>5,499,694</u>	<u>8,220,014</u>	<u>2,003,257</u>	<u>9,627,186</u>
<b>Net Position, End of Year</b>	<u>\$8,614,039</u>	<u>\$7,307,420</u>	<u>\$ 5,499,694</u>	<u>\$ 8,220,014</u>



**University Center of Southern Oklahoma**  
**Statements of Cash Flows**  
**Years Ended June 30, 2016 and 2015**

	<u>2016</u>		<u>2015</u>	
	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	\$ 923,882	\$ —	\$ 979,172	\$ —
Compensation and benefits	(903,045)	—	(950,497)	—
Cash paid to suppliers	(524,328)	(3,631)	(549,305)	(7,764)
Cash paid to University Center	—	(1,017,884)	—	(1,533,088)
Cash paid for scholarships	—	(46,848)	—	(53,938)
Net Cash Used in Operating Activities	<u>(503,491)</u>	<u>(1,068,363)</u>	<u>(520,630)</u>	<u>(1,594,790)</u>
<b>Cash Flows From Noncapital Financing Activities</b>				
State Appropriation	563,243	—	647,396	—
Gifts and contributions	68,390	1,759,970	56,098	4,073,740
Other Income	—	—	—	—
Net Cash Provided by Noncapital Financial Activities	<u>631,633</u>	<u>1,759,970</u>	<u>703,494</u>	<u>4,073,740</u>
<b>Cash Flows From Capital and Related Financing Activities</b>				
Purchases of capital assets	(7,243,765)	—	(3,286,063)	—
Capital contributions	3,032,124	—	3,498,964	—
Proceeds of capital debt and leases	4,493,677	—	685,839	—
Interest Expense	(82,044)	—	(122,104)	—
Net Cash Used in Capital and Related Financing Activities	<u>199,992</u>	<u>—</u>	<u>776,636</u>	<u>—</u>
<b>Cash Flows From Investing Activities</b>				
Purchases of investments	—	(4,350,000)	—	(950,000)
Proceeds from sales of investments	—	501,481	—	—
Interest Income	6,377	5,317	6,742	5,852
Net Cash Provided by Investing Activities	<u>6,377</u>	<u>(3,843,202)</u>	<u>6,742</u>	<u>(944,148)</u>
<b>Net Change in Cash and Cash Equivalents</b>	334,511	(3,151,595)	966,242	1,534,802
<b>Cash and Cash Equivalents, Beginning of Year</b>	<u>1,772,772</u>	<u>4,219,058</u>	<u>806,530</u>	<u>2,684,256</u>
<b>Cash and Cash Equivalents, End of Year</b>	<u>\$2,107,283</u>	<u>\$ 1,067,463</u>	<u>\$ 1,772,772</u>	<u>\$4,219,058</u>



**University Center of Southern Oklahoma**  
**Statements of Cash Flows**  
**Years Ended June 30, 2016 and 2015**

(Continued)

	2016		2015	
	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	\$ (575,125)	\$(1,068,363)	\$ (687,521)	\$ (1,597,790)
Adjustments to reconcile operating loss to net cash used in operating activities				
Depreciation	69,975	—	115,060	—
On-behalf OTRS	53,783	—	57,821	—
Changes in assets and liabilities				
Accounts receivable	5,008	—	43,885	—
Deferred outflows related to pension	(45,630)	—	7,440	—
Accounts payable and accrued expenses	(5,063)	—	(8,058)	—
Prepaid pension asset	11,502	—	12,518	—
Other postemployment benefit obligation	16,161	—	12,798	—
Net pension obligation	(4,586)	—	(347,449)	—
Deferred inflows related to pensions	(34,230)	—	271,838	—
Accrued compensated absences	4,714	—	1,038	—
Net Cash Used in Operating Activities	<u>\$ (503,491)</u>	<u>\$ (1,068,363)</u>	<u>\$ (520,630)</u>	<u>\$ (1,597,790)</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>\$ 21,496</u>	<u>\$ —</u>	<u>\$ 11,931</u>	<u>\$ —</u>
Principal on capital debt paid by state agency on behalf of the Center	<u>53,755</u>	<u>—</u>	<u>41,273</u>	<u>—</u>
Capital assets received as gifts and contributions	<u>\$ —</u>	<u>\$ —</u>	<u>\$ 31,088</u>	<u>\$ —</u>





**University Center of Southern Oklahoma**  
**Notes to Financial Statements**  
**Year Ended June 30, 2016 and 2015**

**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, 2016 and 2015**

**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, 2016 and 2015**

**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, 2016 and 2015**

**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, 2016 and 2015**

**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*.

**Pensions**

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

**Prior Period Adjustments**

Beginning fund balances/net position were restated as of June 30, 2015 as follows:

	<u>Fiscal Year 2015</u>
Beginning net position, as previously reported	\$ 5,542,649
Implementation of GASB Statement 82	<u>(42,955)</u>
Beginning net positions, restated	<u>\$ 5,499,694</u>



**University Center of Southern Oklahoma**  
**Notes to Financial Statements**  
**Year Ended June 30, 2016 and 2015**

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

**Tax Status**

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

**Estimates**

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

**Note 2: Cash and Cash Equivalents**

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

Of the \$2,107,283 and \$1,772,772 in cash and cash equivalents on deposit with the State Treasurer as of June 30, 2016 and June 30, 2015, respectively, \$335,235 and \$358,467, respectively, represent amounts held within OK INVEST an internal investment pool. Agencies and funds that are considered to be part of the State's reporting entity in the State's Comprehensive Annual Financial Report are allowed to participate in OK INVEST. Oklahoma statutes and the State Treasurer establish the primary objectives and guidelines governing the investment of funds in OK INVEST.



**University Center of Southern Oklahoma**  
**Notes to Financial Statements**  
**Year Ended June 30, 2016 and 2015**

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

Safety, liquidity, and return on investment are the objectives that establish the framework for the day to day OK INVEST management with an emphasis on safety of the capital and the probable income to be derived and meeting the State's daily cash flow requirements. Guidelines in the State Treasurer's Investment Policy address credit quality requirements, diversification percentages and the types and maturities of allowable investments. The specifics regarding these policies can be found on the State Treasurer's website at <http://www.ok.gov/treasurer/>. An evaluation of the use and purpose of the Departments participation in the internal investment pool the amount on deposit with OK INVEST are treated as demand accounts and reported as cash equivalents.

The Foundation had deposits at a financial institution with carrying amounts of \$1,067,463 and \$4,219,058 as of June 30, 2016 and 2015, respectively.

**Note 3: Investments**

As of June 30, 2016 and 2015, the Center had no investments. The Foundation's investments consisted of the following:

Types of Investment	Fair Value Heirarchy	2016	2015
Short-term investment fund with Vanguard	Level 1	\$ 62,115	\$ 61,481
Index investment funds with Vanguard	Level 1	137,311	134,971
CD's and repurchase agreements	N/A	4,816,662	951,371
Total investments		<u>\$ 5,016,088</u>	<u>\$ 1,147,823</u>

**Note 4: Pledges Receivable**

The following is a summary of the pledges receivable as June 30, 2016 and 2015:

	2016	2015
Pledges receivable in:		
Less than one year	\$ 405,000	\$ 1,468,334
One year to five years	<u>818,353</u>	<u>1,384,510</u>
	<u>1,223,353</u>	<u>2,852,844</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.



**University Center of Southern Oklahoma**  
**Notes to Financial Statements**  
**Year Ended June 30, 2016 and 2015**

**Note 5: Capital Assets**

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

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





**University Center of Southern Oklahoma**  
**Notes to Financial Statements**  
**Year Ended June 30, 2016 and 2015**

**Note 5: Capital Assets (Continued)**

The following is a summary of the changes in capital assets for the years ended June 30, 2015:

	2015			Balance June 30, 2015
	Balance June 30, 2014	Additions	Retirements	
Capital assets not being depreciated				
Land	\$ 1,036,385	\$ -	\$ -	\$ 1,036,385
Construction in progress	1,868,357	3,448,709	-	5,317,066
Total capital assets, not being depreciated	<u>\$ 2,904,742</u>	<u>\$ 3,448,709</u>	<u>\$ -</u>	<u>\$ 6,353,451</u>
Other capital assets				
Leasehold improvements	\$ 1,818,172	\$ 31,088	\$ -	\$ 1,849,260
Equipment	1,214,463	27,202	-	1,241,665
Library materials	758,083	10,765	-	768,848
Total capital assets	<u>3,790,718</u>	<u>69,055</u>	<u>-</u>	<u>3,859,773</u>
Less accumulated depreciation				
Leasehold improvements	(1,818,172)	(31,088)		(1,849,260)
Equipment	(1,037,473)	(74,051)	-	(1,111,524)
Library materials	(715,484)	(9,921)		(725,405)
Total accumulated depreciation	<u>(3,571,129)</u>	<u>(115,060)</u>	<u>-</u>	<u>(3,686,189)</u>
Other capital assets, net	<u>\$ 219,589</u>	<u>\$ (46,005)</u>	<u>\$ -</u>	<u>\$ 173,584</u>
Total cost of capital assets	\$ 6,695,460	\$ 3,517,764	\$ -	\$ 10,213,224
Less accumulated depreciation	(3,571,129)	(115,060)	-	(3,686,189)
Capital assets, net	<u>\$ 3,124,331</u>	<u>\$ 3,402,704</u>	<u>\$ -</u>	<u>\$ 6,527,035</u>

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

	2016	2015
Construction in progress	5,690,399	1,196,484
Leasehold improvements	200,000	200,000
Less accumulated depreciation	(200,000)	(200,000)
	<u>5,690,399</u>	<u>1,196,484</u>



**University Center of Southern Oklahoma**  
**Notes to Financial Statements**  
**Year Ended June 30, 2016 and 2015**

**Note 6: Noncurrent Liabilities**

The following is a summary of noncurrent liability transactions of the Center for the years ended June 30, 2016 and 2015:

	2016			Balance June 30, 2016	Current Portion June 30, 2016
	Balance June 30, 2015	Additions	Deductions		
OCIA capital lease obligation	548,997	-	(53,755)	495,242	64,160
ODFA master lease payable	6,070,000	-	-	6,070,000	29,167
Accrued compensated absences	32,007	36,721	(32,007)	36,721	30,795
Other post employment benefits	66,801	24,062	(7,901)	82,962	-
	<u>6,717,805</u>	<u>60,783</u>	<u>(93,663)</u>	<u>6,684,925</u>	<u>124,122</u>

	2015			Balance June 30, 2015	Current Portion June 30, 2015
	Balance June 30, 2014	Additions	Deductions		
OCIA capital lease obligation	596,612	64,501	(112,116)	548,997	53,755
ODFA master lease payable	-	6,070,000	-	6,070,000	-
Accrued compensated absences	30,969	32,007	(30,969)	32,007	32,007
Other post employment benefits	54,003	24,688	(11,890)	66,801	-
	<u>681,584</u>	<u>6,191,196</u>	<u>(154,975)</u>	<u>6,717,805</u>	<u>85,762</u>

**Note 7: 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, 2016 and 2015**

**Note 7: Oklahoma Capital Improvement Authority Leases (Continued)**

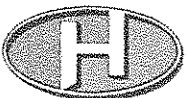
All of the OCIA 1999 Series A, B, and C has been drawn down for expenditures incurred in connection with the specific projects. These expenditures are recorded as capital assets or as non-capitalized expenditures, in accordance with the Center's policy. The Center has recorded a lease obligation payable to OCIA for the total amount of the allotment, less repayment made during the fiscal year.

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.

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

During the years ended June 30, 2016 and 2015, OCIA made lease principal and interest payments totaling \$75,251 and \$53,204, 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, 2016 and 2015**

**Note 7: Oklahoma Capital Improvement Authority Leases (Continued)**

Future minimum lease payments under the Center's obligation to OCIA are as follows as of June 30, 2016:

<u>Year Ending June 30,</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2017	64,160	21,857	86,017
2018	66,678	19,818	86,496
2019	69,010	16,903	85,913
2020	14,391	13,716	28,107
2021	-	13,384	13,384
2022-2026	111,383	59,258	170,641
2027-2031	169,620	25,444	195,064
Total future minimum lease payments	<u>\$ 495,242</u>	<u>\$ 170,380</u>	<u>\$ 665,622</u>

**Note 8: Oklahoma Development Finance Authority Leases**

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

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

Future minimum lease payments under the Center's obligation to ODFA are as follows as of June 30, 2016:

<u>Year Ending June 30,</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2017	29,167	82,044	111,211
2018	2,578,750	81,460	2,660,210
2019	1,905,833	55,173	1,961,006
2020	135,000	35,119	170,119
2021	137,917	32,419	170,336
2022-2026	733,751	119,391	853,142
2027-2030	549,582	32,854	582,436
Total future minimum lease payments	<u>\$ 6,070,000</u>	<u>\$ 438,460</u>	<u>\$ 6,508,460</u>



**University Center of Southern Oklahoma**  
**Notes to Financial Statements**  
**Year Ended June 30, 2016 and 2015**

**Note 9: 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, 2016 and 2015 was approximately \$573,000 and \$689,000 respectively. Total covered payroll, which refers to all compensation paid by the Center to active employees covered by American Fidelity, amounted to \$268,000 in 2016 and \$268,000 in 2015. The Center contributed approximately \$21,000 in 2016 and \$21,000 in 2015, which represents 7.50% and 7.50% of covered payroll respectively, for each year. As of June 30, 2016, there were no related party investments between American Fidelity and the Center.

Defined Benefit Plan

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



**University Center of Southern Oklahoma**  
**Notes to Financial Statements**  
**Year Ended June 30, 2016 and 2015**

**Note 9: Employee Retirement Benefits (Continued)**

*Funding Policy* – Benefits are funded on a “pay as you go” basis. During the fiscal years ending June 30, 2016 and 2015, the Center made payments of \$22,000 and \$22,000, 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,

	2016	2015
Annual required contribution	\$ 32,301	\$ 32,301
Interest on net pension obligation	(518)	(956)
Adjustment to annual required contribution	1,719	3,173
Annual pension cost	33,502	34,518
Contributions made	22,000	22,000
Increase in net pension asset	(11,502)	(12,518)
Net pension asset, beginning of year	14,792	27,310
Net pension asset, end of year	\$ 3,290	\$ 14,792

Significant actuarial assumptions used in the valuations include (a) a discount rate of 3.50% 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.

*Three-Year Trend Information*

Fiscal Year Ended	Annual Pension Cost (APC)	Percentage of APC Contributed	Accrued Pension Obligation
June 30, 2014	55,149	39%	234,766
June 30, 2015	34,518	64%	278,036
June 30, 2016	33,502	66%	278,036

*Funded Status and Funding Progress*

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

	2016	2015
Actuarial accrued liability (AAL)	\$ 278,036	\$ 278,036
Actuarial value of plan assets	-	-
Unfunded actuarial accrued liability (UAAL)	\$ 278,036	\$ 278,036
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%



**University Center of Southern Oklahoma**  
**Notes to Financial Statements**  
**Year Ended June 30, 2016 and 2015**

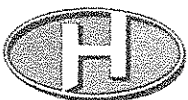
**Note 9: Employee Retirement Benefits (Continued)**

Oklahoma Teachers' Retirement System

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

*Benefits Provided* – OTRS provides retirement, disability, and death benefits to members of the plan. Benefit provisions include:

- Members become 100% vested in retirement benefits earned to date after five years of credited Oklahoma service. Members who joined the System on June 30, 1992 or prior are eligible to retire at maximum benefits when age and years of creditable service total 80. Members joining the System after June 30, 1992 are eligible for maximum benefits when their age and years of creditable service total 90. Members whose age and service do not equal the eligible limit may receive reduced benefits as early as age 55, and at age 62 receive unreduced benefits based on their years of service. The maximum retirement benefit is equal to 2% of final compensation for each year of credited service.
- Final compensation for members who joined the System prior to July 1, 1992 is defined as the average salary for the three highest years of compensation. Final compensation for members joining the System after June 30, 1992 is defined as the average of the highest five consecutive years of annual compensation in which contributions have been made. The final average compensation is limited for service credit accumulated prior to July 1, 1995 to \$40,000 or \$25,000, depending on the member's election. Monthly benefits are 1/12 of this amount. Service credits accumulated after June 30, 1995 are calculated based on each member's final average compensation, except for certain employees of the two comprehensive universities. Upon the death of a member who has not yet retired, the designated beneficiary shall receive the member's total contributions plus 100% of interest earned through the end of the fiscal year, with interest rates varying based on time of service. A surviving spouse of a qualified member may elect to receive, in lieu of the aforementioned benefits, the retirement benefit the member was entitled to at the time of death as provided under the Joint Survivor Benefit Option.
- Upon the death of a retired member, the System will pay \$5,000 to the designated beneficiary, in addition to the benefits provided for the retirement option selected by the member.
- A member is eligible for disability benefits after ten years of credited Oklahoma service. The disability benefit is equal to 2% of final average compensation for the applicable years of credited service.



**University Center of Southern Oklahoma**  
**Notes to Financial Statements**  
**Year Ended June 30, 2016 and 2015**

**Note 9: Employee Retirement Benefits (Continued)**

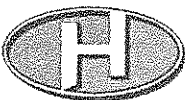
- Upon separation from the System, members' contributions are refundable with interest based on certain restrictions provided in the plan, or by the IRC.
- Members may elect to make additional contributions to a tax-sheltered annuity program up to the exclusion allowance provided under the IRC under Code Section 403(b).

At the election of each eligible member initiating receipt of retirement benefits, the System remits between \$100 and \$105 per month per eligible retiree to the Employees Group Insurance Division ("EGID"), depending on the members' years of service during 2016.

*Contributions* – The contributions requirements of the Plan are at an established rate determine by Oklahoma Statute, amended by the Oklahoma Legislature, and are not based on actuarial calculations. Employees are required to contribute 7% percent of their annual pay. Participating employers are required to contribute 9.50% of the employees' annual pay and an additional 8.25% for any employees' salaries covered by federal funds. Contributions to the pension plan from the Center were \$67,422 and \$71,927 for June 30, 2016 and 2015, respectively. The State of Oklahoma also made on-behalf contributions to OTRS, of which \$53,783 and \$57,821, during 2016 and 2015 respectively, was recognized by the Center; these on-behalf payments did not meet the criteria of a special funding situation.

*Pension Liabilities, Pension Expense, and Deferred Outflows of Resources and Deferred Inflows of Resources Related to Pensions* – At June 30, 2016 and 2015, the Center reported a liability of \$1,047,014 and \$1,051,600, respectively, for its proportionate share of the net pension liability. The net pension liability was measured as of June 30, 2015 and 2014, and the total pension liability used to calculate the net pension liability was determined by an actuarial valuation as of June 30, 2015 and 2014. The Center's proportion of the net pension liability was based on the Center's contributions received by the pension plan relative to the total contributions received by pension plan for all participating employers as of June 30, 2015 and 2014. Based upon this information, the Center's proportion was 0.0172412 percent and 0.019547 percent for June 30, 2016 and 2015, respectively.

For the year ended June 30, 2016 and 2015, the Center recognized pension expense of \$36,758 and \$61,577.





**University Center of Southern Oklahoma**  
**Notes to Financial Statements**  
**Year Ended June 30, 2016 and 2015**

**Note 9: Employee Retirement Benefits (Continued)**

At June 30, 2016, the Center reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

	Deferred Outflows of Resources	Deferred Inflows of Resources
Differences between expected and actual experience	\$ -	\$ 35,563
Changes of assumptions	50,134	-
Net difference between projected and actual earnings on pension plan investments	-	71,028
Changes in proportion and differences between Center contributions and proportionate share of contributions	-	131,017
College contributions subsequent to the measurement date	67,422	
Total	<u>\$ 117,556</u>	<u>\$ 237,608</u>

At June 30, 2015, the Center reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

	Deferred Outflows of Resources	Deferred Inflows of Resources
experience	\$ -	\$ 17,333
Net difference between projected and actual earnings on pension plan investments	-	254,505
College contributions subsequent to the measurement date	71,927	-
Total	<u>\$ 71,927</u>	<u>\$ 271,838</u>

The \$67,422 and \$71,927 reported as deferred outflows of resources related to pensions resulting from College contributions subsequent to the measurement date for June 30, 2016 and 2015, respectively will be recognized as a reduction of the net pension liability in the year ended June 30, 2017 and 2016, respectively. Other amounts reported as deferred outflows of resources and deferred inflows of resources related to pensions will be recognized in pension expense as follows:



**University Center of Southern Oklahoma**  
**Notes to Financial Statements**  
**Year Ended June 30, 2016 and 2015**

**Note 9: Employee Retirement Benefits (Continued)**

Year ended June 30:			Year ended June 30:		
2017	\$	(54,590)	2016	\$	(66,884)
2018		(54,590)	2017		(66,884)
2019		(54,590)	2018		(66,884)
2020		1,531	2019		(66,884)
2021		(20,849)	2020		(3,259)
Thereafter		(4,385)	Thereafter		(1,043)
		\$ (187,473)			\$ (271,838)

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

- Actuarial Cost Method - Entry Age
- Amortization Method - Level Percentage of Payroll
- Inflation - 3.00%
- Salary Increases - Composed of 3.75% inflation, including 3.00% price inflation, plus a service-related component ranging from 0.00% to 8% based on years of service.
- Investment Rate of Return - 8.00%
- Retirement Age - Experience-based table of rates based on age, service, and gender. Adopted by the Board in May 2015 in conjunction with the five year experience study for the period ending June 30, 2014.
- Mortality Rates after Retirement – Males: RP-2000 Combined Mortality Table for males with White Collar Adjustments. Generational mortality improvements in accordance with Scale BB from table's base year of 2000. Females: GRS Southwest Region Teacher Mortality Table, scaled at 105%. Generational mortality improvements in accordance with Scale BB from the table's base year of 2012.
- Mortality Rates for Active Members – RP – 2000 Employer Mortality tables, with male rates multiplied by 60% and female rates multiplied by 50%.



**University Center of Southern Oklahoma**  
**Notes to Financial Statements**  
**Year Ended June 30, 2016 and 2015**

**Note 9: Employee Retirement Benefits (Continued)**

Asset Class	Target Asset Allocation	Long-Term Expected Real Rate of Return
Domestic All Cap Equity*	7.0%	6.0%
Domestic Large Cap Equity	10.0%	5.3%
Domestic Mid Cap Equity	13.0%	6.1%
Domestic Small Cap Equity	10.0%	6.6%
International Large Cap Equity	11.5%	5.8%
International Small Cap Equity	6.0%	5.8%
Core Plus Fixed Income	17.5%	1.8%
High-yield Fixed Income	6.0%	4.1%
Private Equity	5.0%	7.6%
Real Estate**	7.0%	5.5%
Master Limited Partnerships	7.0%	7.6%
Total	<u>100.00%</u>	

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

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

The total pension liability as of June 30, 2015, was determined based on an actuarial valuation prepared as if 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 Rates after Retirement – Males: RP-2000 Combined Mortality tables, projected to 2016 using Scale AA, multiplied by 90% for males and 80% for females.

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.



**University Center of Southern Oklahoma**  
**Notes to Financial Statements**  
**Year Ended June 30, 2016 and 2015**

**Note 9: Employee Retirement Benefits (Continued)**

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%
<b>Total</b>	<b>100%</b>	

\* 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, 2015 and June 30, 2014. 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 the projection of cash flows, the pension plan's fiduciary net position and future contributions were projected to be available to finance all projected future benefit payments of current plan members. Therefore, the long-term expected rate of return on pension plan investments was applied to all periods of projected benefit payments to determine the total pension liability. The projection of cash flows used to determine this single discount rate assumed that plan member and employer contributions will be made at the current statutory levels and remain a level percentage of payrolls. The projection of cash flows also assumed that the State's contribution plus the matching contributions will remain a constant percent of projected member payroll based on the past five years of actual contributions.

*Sensitivity of the Net Pension Liability to Change in the Discount Rate* – The following presents the net pension liability of the employers calculated using the discount rate 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:

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



**University Center of Southern Oklahoma**  
**Notes to Financial Statements**  
**Year Ended June 30, 2016 and 2015**

**Note 9: Employee Retirement Benefits (Continued)**

For June 30, 2015	1% Decrease (7%)	Current Discount Rate (8%)	1% Increase (9%)
Employers' net pension liability	\$ 1,447,388	\$ 1,047,014	\$ 710,481

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

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

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

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

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

	2016	2015
Annual required contribution	\$ 27,328	\$ 27,328
Interest on net OPEB obligation	2,338	1,890
Adjustment to annual required contribution	(5,604)	(4,530)
Annual OPEB cost (expense)	24,062	24,688
Contributions made	7,902	11,890
Increase in net OPEB obligation	(16,160)	(12,798)
Net OPEB obligation, beginning of year	(66,801)	(54,003)
Net OPEB obligation, end of year	\$ (82,961)	\$ (66,801)



**University Center of Southern Oklahoma**  
**Notes to Financial Statements**  
**Year Ended June 30, 2016 and 2015**

**Note 9: Employee Retirement Benefits (Continued)**

This obligation is currently unfunded. The annual required contribution for 2016 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 3.50% 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
2014	30,105	27.70%	54,003
2015	24,688	48.16%	66,801
2016	24,062	32.84%	82,961

*Funded Status and Funding Progress*

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

	2016	2015
Actuarial accrued liability (AAL)	\$ 238,443	\$ 238,443
Actuarial value of plan assets	-	-
Unfunded actuarial accrued liability (UAAL)	<u>\$ 238,443</u>	<u>\$ 238,443</u>
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%



**University Center of Southern Oklahoma**  
**Notes to Financial Statements**  
**Year Ended June 30, 2016 and 2015**

**Note 10: 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 \$31,088 and supplies and other items of \$18,000 and \$2,000 in 2016 and 2015, 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, 2016 and 2015, the Foundation awarded scholarships totaling approximately \$47,000 and \$54,000, respectively, to students.

**Note 11: Risk Management**

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

**Note 12: Lease Commitments**

The Center, as lessor, leases an educational facility from the Board of Education, Independent School District No. 19, Carter County, Oklahoma. The lease is on a year-to-year basis. Rental expense of approximately \$147,000 and \$111,000, respectively, per year, was paid to the School District during the years ended June 30, 2016 and 2015.



**University Center of Southern Oklahoma**  
**Notes to Financial Statements**  
**Year Ended June 30, 2016 and 2015**

**Note 13: Accounting Standards Issued Not Yet Adopted**

*Fiscal Year Ended June 30, 2016*

Statement No. 73, *Accounting and Financial Reporting for Pensions and Related Assets That Are Not within the Scope of GASB Statement 68, and Amendments to Certain Provisions of GASB Statements 67 and 68* – GASB No. 73 was issued in June 2015 and establishes requirements for defined benefit pensions that are not within the scope of Statement No. 68, *Accounting and Financial Reporting for Pensions*, as well as for the assets accumulated for purposes of providing those pensions. In addition, it establishes requirements for defined contribution pensions that are not within the scope of Statement 68. It also amends certain provisions of Statement No. 67, *Financial Reporting for Pension Plans*, and Statement 68 for pension plans and pensions that are within their respective scopes. The requirements of this Statement that address accounting and financial reporting by employers and governmental nonemployer contributing entities for pensions that are not within the scope of Statement 68 are effective for financial statements for fiscal years beginning after June 15, 2016, and the requirements of this Statement that address financial reporting for assets accumulated for purposes of providing those pensions are effective for fiscal years beginning after June 15, 2015. The requirements of this Statement is for pension plans that are within the scope of Statement 67 or for pensions that are within the scope of Statement 68 are effective for fiscal years beginning after June 15, 2015. The Center has not yet determined the impact that implementation of GASB 75 will have on its net position.

Statement No. 74, *Financial Reporting for Postemployment Benefit Plans Other Than Pension Plans* - GASB No. 74 was issued in June 2015, and replaces Statements No. 43, *Financial Reporting for Postemployment Benefit Plans Other Than Pension Plans*, as amended, and No. 57, *OPEB Measurements by Agent Employers and Agent Multiple-Employer Plans*. It also includes requirements for defined contribution OPEB plans that replace the requirements for those OPEB plans in Statement No. 25, *Financial Reporting for Defined Benefit Pension Plans and Note Disclosures for Defined Contribution Plans*, as amended, Statement 43, and Statement No. 50, *Pension Disclosures*. This Statement is effective for financial statements for fiscal years beginning after June 15, 2016. The Center has not yet determined the impact that implementation of GASB 75 will have on its net position.





**University Center of Southern Oklahoma**  
**Notes to Financial Statements**  
**Year Ended June 30, 2016 and 2015**

**Note 13: Accounting Standards Issued Not Yet Adopted (Continued)**

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

GASB Statement No. 77, *Tax Abatement Disclosures* - GASB 77 was issued in August 2015, and establishes financial reporting standards for tax abatement agreements entered into by state and local governments. The disclosures required by this Statement encompass tax abatements resulting from both (a) agreements that are entered into by the reporting government and (b) agreements that are entered into by other governments and that reduce the reporting government's tax revenues. The requirements of this Statement are effective for financial statements for periods beginning after December 15, 2015. The Center has not yet determined the impact that implementation of GASB 75 will have on its net position.

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



**University Center of Southern Oklahoma**  
**Notes to Financial Statements**  
**Year Ended June 30, 2016 and 2015**

**Note 13: Accounting Standards Issued Not Yet Adopted (Continued)**

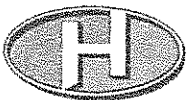
GASB Statement No. 79, *Certain External Investment Pools and Pool Participants* – GASB 79 was issued in December 2015, and addresses accounting and financial reporting for certain external investment pools and pool participants. Specifically, it establishes criteria for an external investment pool to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

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

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



## Required Supplementary Information



**University Center of Southern Oklahoma**  
**Schedules of Required Supplementary Information**  
**Year Ended June 30, 2016 and 2015**

Schedules of Required Supplementary Information  
**SCHEDULE OF THE CENTER'S PROPORTIONATE SHARE OF THE NET PENSION LIABILITY**  
**OKLAHOMA TEACHERS RETIREMENT SYSTEM**  
**Last 10 Fiscal Years\* (Dollar amounts in thousands)**

	<u>2015</u>	<u>2016</u>
Center's proportion of the net pension liability	0.0195%	0.0172%
Center's proportionate share of the net pension liability	\$ 1,051,600	\$ 1,047,014
Center's covered-employee payroll	\$ 754,983	\$ 688,693
Center's proportionate share of the net pension liability as a percentage of its covered-employee payroll	139%	152%
Plan fiduciary net position as a percentage of the total pension liability	72.43%	70.31%

\*The amounts present for each fiscal year were determined as of 6/30

**Notes to Schedule:**

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



**University Center of Southern Oklahoma**  
**Schedules of Required Supplementary Information**  
**Year Ended June 30, 2016 and 2015**

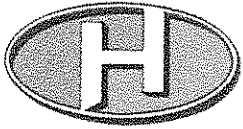
**SCHEDULE OF THE CENTER'S CONTRIBUTIONS**  
**OKLAHOMA TEACHERS RETIREMENT SYSTEM**  
**Last 10 Fiscal Years (Dollar amounts in thousands)**

	<u>2015</u>	<u>2016</u>
Contractually required contribution	\$ 71,927	\$ 67,422
Contributions in relation to the contractually required contribution	<u>71,927</u>	<u>67,422</u>
Contribution deficiency (excess)	<u>\$ -</u>	<u>\$ -</u>
College's covered-employee payroll	\$ 688,693	\$ 573,272
Contributions as a percentage of covered-employee payroll	10%	12%

**Notes to Schedule:**

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





**HINKLE &  
COMPANY**

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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, 2016, 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 20, 2016. Our report includes a reference to other auditors who audited the financial statements of University Center of Southern Oklahoma Educational Foundation, Inc., the Center's discretely presented component unit, as described in our report on the Center's financial statements. The financial statements of the Foundation were not audited in accordance with Government Auditing Standards and accordingly this report does not include reporting on internal control over financial reporting or instances of reportable noncompliance associated with the Foundation.

***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.

*Hinkle & Company, PC*

Tulsa, Oklahoma  
October 20, 2016

