

CONTENTS

Management's Discussion and Analysis	i-v	
Audited Financial Statements of the University of Science and Arts of Oklahoma		
Independent Auditors' Report.....	1	
Statements of Net Position	3	
Statements of Revenues, Expenses and Changes in Net Position.....	4	
Statements of Cash Flows	5	
Notes to Financial Statements	6	
Separately Presented Component Units		
University of Science and Arts of Oklahoma Foundation, Inc.	Exhibit I	
Independent Auditors' Report on Internal Control Over Financial Reporting and on Compliance and Other Matters Based on an Audit of Financial Statements Performed in Accordance with <i>Government Auditing Standards</i>		18
Independent Auditors' Report on Compliance with Requirements Applicable to Each Major Program and Internal Control Over Compliance in Accordance with OMB Circular A-133		20
Schedule of Expenditures of Federal Awards.....	22	
Schedule of State Awards	23	
Schedule of Findings and Questioned Costs.....	25	
Summary Schedule of Prior Audit Findings	26	

MANAGEMENT'S DISCUSSION AND ANALYSIS

Discussion and analysis of the University of Science and Arts of Oklahoma's financial performance provides an overview of the University's financial activities for the years ended June 30, 2013 and 2012. Please read it in conjunction with the University's external auditor's opinion and the financial statements, which begin on page 1.

Using the Annual Report

The annual report consists of a series of financial statements. The statements of net position; statements of revenues, expenses, and changes in net position; and statements of cash flows (starting on page 3) provide information about the activities of the University as a whole and present a long-term view of the University's finances.

Reporting the University as a Whole

One of the most important questions asked about University finances is, "Is the University as a whole better off or worse off as a result of the year's activities?" The statements of net assets and statements of revenues, expenses, and changes in net position report information about the University as a whole and about its activities in a way that helps answer this question. These statements include all assets and liabilities using the accrual basis of accounting, which is similar to the accounting used by most private sector companies.

The statements of net position; statements of revenues, expenses and changes in net position; and statements of cash flows display information about the University entity. The statements are prepared treating the University as a business-type activity. Business-type activities are financed in whole or in part by fees charged to external parties for the goods or services provided. The University charges fees to its students to help cover all or part of the cost of providing services. All of the current year's revenues and expenses are taken into account regardless of when the cash is received or paid.

These statements report the University's net position and changes in them. You can think of the University's net position – the difference between assets and liabilities – as one way to measure the University's financial health, or financial position. Over time, increases or decreases in the University's net position are one indicator of whether its financial health is improving or deteriorating. You will need to consider other non-financial factors, however, such as changes in enrollment trends and construction projects, to assess the overall health of the University.

The statements contained in the external auditor's report categorize the University as an enterprise fund of the State of Oklahoma.

Statement of Net Position

	2013	2012
Assets:		
Current assets	10,618,181	8,743,185
Capital assets, net	26,537,165	27,077,012
Other assets	456,724	595,405
Total assets	\$ 37,612,070	\$ 36,415,602
 Deferred Outflows of Resources	\$ 433,264	\$ -
Liabilities:		
Current liabilities	2,425,442	1,708,362
Noncurrent liabilities	16,646,423	17,440,170
Total liabilities	\$ 19,071,865	\$ 19,148,532
 Deferred Inflows of Resources	\$ 400,000	\$ -
Net Position		
Net investment in capital assets	9,330,606	8,979,981
Restricted-expendable	3,302,742	2,343,744
Restricted -nonexpendable	331,185	340,554
Unrestricted	5,608,936	5,602,790
Total Net Position	\$ 18,573,469	\$ 17,267,069

Statement of Revenue, Expenses and Change in Net Position

	2013	2012
Operating revenues	9,745,072	9,026,616
Operating expenses	17,865,918	17,087,445
Operating loss	(8,120,846)	(8,060,829)
 Nonoperating revenues and expenses	7,888,818	8,313,812
Contributions	-	1,012,677
Other revenues, expenses, gains, and losses	1,715,984	1,333,925
 Increase (decrease) in net position	1,483,956	2,599,585
 Net position, beginning of year	17,267,069	14,667,484
Prior period adjustment	(177,556)	-
Net position, end of year	\$ 18,573,469	\$ 17,267,069

The University as a Whole

The following is an analysis of various aspects of the current year financial statements in comparison to the prior year:

- Change in Net Asset is \$1,306,400 (including prior year adjustment) a 7.6% increase Net Assets.
- The University's additions to fixed assets of \$929,677.

Fixed Assets

Under GASB 34/35, the University is required to post an expense for depreciation (current) and accumulated depreciation. This year, the University completed its purchase of energy conservation equipment.

	Balance			Balance
	June 30, 2012	Additions	Disposal	June 30, 2013
Nondepreciable Capital Assets				
Land	\$ 275,619	\$ -	\$ -	\$ 275,619
Total Nondepreciable Assets	275,619	-	-	275,619
Other Capital Assets				
Buildings	29,305,021	570,449	-	29,875,470
Infrastructure & Improvements	2,814,765	29,387	-	2,844,152
Equipment	8,192,685	284,634	-	8,477,319
Depreciable Library Materials	3,208,164	45,207	-	3,253,371
Total Other Capital Assets	\$ 43,520,635	\$ 929,677	\$ -	\$ 44,450,312
Accumulated Depreciation:				
Buildings	7,888,521	1,060,524	-	8,949,045
Infrastructure & Improvements	1,589,199	105,461	-	1,694,660
Equipment	5,244,655	175,607	-	5,420,262
Library Materials	1,996,867	127,932	-	2,124,799
Total Accumulated Depreciation	16,719,242	1,469,524	-	18,188,766
Capital Assets, Net	\$ 27,077,012	\$ (539,847)	\$ -	\$ 26,537,165

Debt Service

Oklahoma Capital Improvement Authority Leases

During the year ending June 30, 1999, the Oklahoma Capital Improvement Authority (OCIA), an agency of the State of Oklahoma, entered into a lease agreement with the University to provide funding for various building and capital improvement projects. The lease agreement provide for the University to make specified monthly payments to OCIA over the respective terms of the agreements, which range from 5 to 20 years. These expenditures have been capitalized as investment in plant assets or recorded as noncapitalized expenditures, in accordance with University policy.

During 2006, the University entered into another lease agreement with OCIA which provides for monthly payments to OCIA of a variable amount based on estimated needs to fulfill the related obligations for 24 years through June 10, 2030, or until the OCIA leases and related interest are paid. During 2011, OCIA partially refunded their 2005F bonds and refinanced them as 2010 A/B bond issuances. The result of this refinance increased the debt owed on the University's leases in the amount of \$484,236. This amount will be amortized over the remaining life of the loan or \$25,486 per year. The purpose of the refinance was to help provide budgetary relief for OCIA. The proceeds of the bonds and subsequent leases are to provide capital improvements at the University. These expenditures have been capitalized as investment in plant assets or recorded as noncapitalized expenditures, in accordance with University policy.

The OCIA made lease principal and interest payments totaling \$441,935 on-behalf of the University. These on-behalf payments have been recorded as revenue in the University's statements of revenues, expenses, and changes in net assets.

Energy Conservation Lease

During the year ending June 30, 2002, the University entered into a lease-purchase agreement with First Security Leasing, Inc. to purchase approximately \$3,780,000 of equipment related to the conservation of energy on the campus. Interest on the agreement is 5.5%. The University is making monthly, annually escalating payments through December 15, 2017 under the lease agreement.

Oklahoma Development Finance Authority Master Lease Program

During the year ending June 30, 2012, the Oklahoma Development Finance Authority (ODFA), an agency of the State of Oklahoma, entered into a master lease agreement with the University to provide financing for the purchase of Lawson Court from the USAOF, LLC. Interest on the agreement varies from 3.625 to 4.2%. The University is making monthly, annually escalating payments through 2032 under the lease agreement.

The scheduled principal and interest payments related to these leases are as follows:

	Equipment Lease	OCIA Lease	ODFA Lease	Interest	Total Payments
2014	305,000	477,192	460,000	660,572	1,902,764
2015	330,000	492,417	470,000	621,443	1,913,860
2016	360,000	491,864	480,000	574,362	1,906,226
2017	390,000	514,062	490,000	531,978	1,926,040
2018	315,000	537,974	495,000	470,211	1,818,185
2018/2023	-	546,108	2,655,000	1,986,484	5,187,592
2023/2028	-	1,465,180	3,065,000	1,296,280	5,826,460
2028/2032	-	693,289	2,785,000	330,578	3,808,868
	<u>\$ 1,700,000</u>	<u>\$ 5,218,086</u>	<u>\$ 10,900,000</u>	<u>\$ 6,471,908</u>	<u>\$ 24,289,995</u>

Economic Factors and Subsequent Events

The Oklahoma State Regents of Higher Education accepted a Mission Enhancement Plan (MEP) proposed by the University that recognizes the unique public liberal arts mission of the University. As the first step, the State Regents approved a five-year plan to increase entrance requirements from an ACT of 20 to 24. This has created a slight negative impact on enrollments in the short-term, but the increased requirements have created a student body that should persist to graduation at a greater rate and achieved a first year retention rate of more than 75% in fall 2013. The University continues to seek permanent funding for the MEP from the State Regents.

This financial report is designed to provide our citizens, taxpayers, customers, and investors with a general overview of the University of Science and Arts of Oklahoma's finances and to show the University's accountability for the money it receives. If you have questions about this report or need additional financial information, contact the University of Science and Arts of Oklahoma's Office of Fiscal Affairs at 1727 West Alabama, Chickasha, Oklahoma 73018.

The University of Science and Arts of Oklahoma Foundation is a component unit of the university and issues its own separate financial statements. These financial statements can be located at the Office of Fiscal Affairs at 1727 West Alabama, Chickasha, Oklahoma 73018.

BECKY FLEMING, C.P.A., INC.

**7920 108th Ave NE
Norman, OK 73026-9761**

**Cell: 405.641.5794
Fax: 405.799.2039**

INDEPENDENT AUDITOR'S REPORT

To the Board of Regents
The University of Science and Arts of Oklahoma
Chickasha, OK

We have audited the accompanying financial statements of the University of Science and Arts of Oklahoma, (the University), a component unit of the State of Oklahoma, as of and for the year ended June 30, 2013, and the related notes to the financial statements, as listed in the table of contents.

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

Our responsibility is to express opinions on these financial statements based on our audit. We did not audit the financial statements of the separately presented University of Science and Arts of Oklahoma Foundation, Inc. (the Foundation), a nonprofit corporation organized to support the University, and considered a component unit of the University. Those statements were audited by other auditors whose report has been furnished to us and included in the University's financial statements in their entirety. Our opinion, insofar as it relates to the amounts included for the Foundation, is based solely on the report of the other auditors. The University financial statements referred to in the first paragraph do not include amounts from the financial statements of the Foundation. Rather, a complete set of Foundation financial statements is separately presented. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. The Foundation financial statements were audited in accordance with auditing standards generally accepted in the United States of America, but not in accordance with *Government Auditing Standards*. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

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

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

Opinions

In our opinion, based on our audit and the report of other auditors, the financial statements referred to above present fairly, in all material respects, the financial position of the University of Science and Arts of Oklahoma and its separately presented component unit as of June 30, 2013, and the changes in financial position and cash flows thereof for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Member of the American Institute of Certified Public Accountants

Change in Accounting Principle

As discussed in Note 1 to the financial statements, in 2013 the University adopted the following new accounting guidance: GASB Statement No. 62, *Codification of Accounting and Financial Reporting Guidance Contained in Pre-November 30, 1989 FASB and AICPA Pronouncements*; GASB Statement No. 63, *Financial Reporting of Deferred Outflows of Resources, Deferred Inflows of Resources, and Net Position*; and GASB Statement No. 65, *Items Previously Reported as Assets and Liabilities*. Our opinion is not modified with respect to this matter.

Other Matters

Required Supplementary Information

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

Other Information

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the University of Science and Arts of Oklahoma's basic financial statements. The schedule of expenditures of state awards is presented for purposes of additional analysis and is not a required part of the basic financial statements. The schedule of expenditures of federal awards is presented for purposes of additional analysis as required by the U.S. Office of Management and Budget Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*, and is also not a required part of the financial statements.

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

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated October 31, 2013, on our consideration of the University of Science and Arts of Oklahoma's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the University of Science and Arts of Oklahoma's internal control over financial reporting and compliance.

 C.P.A., Inc.

Becky Fleming, C.P.A., Inc.
October 31, 2013

Member of the American Institute of Certified Public Accountants

University of Science and Arts of Oklahoma
Statement of Net Position
June 30, 2013

ASSETS

Current Assets:

Cash and cash equivalents	5,614,718
Restricted cash and cash equivalents	4,254,662
Accounts and Contracts receivable, net	723,025
Current portion of loans receivable	25,776

Total Current Assets 10,618,181

Noncurrent Assets:

Restricted cash and cash equivalents	397,000
Loans receivable, net	59,724
Capital assets, net	26,537,165

Total noncurrent assets 26,993,889

Total Assets \$ 37,612,070

DEFERRED OUTFLOWS OF RESOURCES

Deferred charge on OCIA lease restructure \$ 433,264

LIABILITIES

Current Liabilities:

Accounts payable	519,358
Accrued payroll	589,892
Current maturities of capital leases	1,242,192
Student deposits	74,000

Total Current Liabilities 2,425,442

Noncurrent Liabilities:

Accrued compensated absences	248,791
OCIA Capital Lease Obligation	4,740,894
ODFA Capital Lease	10,261,738
Obligations under other capital leases	1,395,000

Total Noncurrent Liabilities 16,646,423

Total Liabilities \$ 19,071,865

DEFERRED INFLOWS OF RESOURCES

Deferred Revenue from service contracts \$ 400,000

NET POSITION

Net investment in capital assets 9,330,606

Restricted for:

Nonexpendable:

Scholarships 331,185

Expendable:

Debt service 219,058

Capital projects 2,948,184

Loans 135,499

Unrestricted 5,608,936

Total Net Position \$ 18,573,469

The accompanying notes are an integral part of these financial statements.

University of Science and Arts of Oklahoma
Statement of Revenues, Expenses and Changes in Net Position
For the year ended June 30, 2013

Operating Revenues

Tuition and student fees (net of scholarship allowance of \$1,333,473 respectively)	2,705,454
Auxiliary services (net of scholarship allowance of \$1,385,481)	3,811,610
Federal grants and contracts	2,350,046
State grants and contracts	<u>877,963</u>
Total operating revenues	9,745,072

Operating Expenses

Compensation	10,251,050
Supplies, materials & utilities	5,690,785
Depreciation and Amortization	1,479,202
Scholarships and fellowships	242,133
Other	<u>202,749</u>
Total operating expenses	<u>17,865,918</u>

Operating loss (8,120,846)

Nonoperating Revenues (Expenses)

State appropriations	7,522,582
On-Behalf contributions for OTRS	532,939
Investment income	549,775
Other Income	1,497
Interest costs	<u>(717,973)</u>
Total nonoperating revenues (expenses)	<u>7,888,818</u>

Gain (Loss) before other revenues, expenses, gains and losses (232,028)

State appropriations restricted for capital purposes	1,274,050
OCIA on-behalf appropriations	<u>441,934</u>

Change in net assets 1,483,956

Net position, beginning of year	17,267,069
Prior Period Adjustment	<u>(177,556)</u>
Net position, end of year	<u><u>\$ 18,573,469</u></u>

The accompanying notes are an integral part of these financial statements.

University of Science and Arts of Oklahoma
Statement of Cash Flows
For the year ended June 30, 2013

Cash Flows from Operating Activities	
Tuition and student fees	\$ 2,704,252
Federal and state grants and contracts	3,439,702
Scholarships	(242,133)
Payments to suppliers	(5,519,513)
Payments to employees	(9,711,592)
Auxiliary enterprises sales and services	3,804,741
Other operating receipts	1,497
Net cash used in operating activities	<u>(5,523,047)</u>
Cash Flows from Noncapital Financing Activities	
State appropriations	7,522,582
Net cash provided by noncapital financing activities	<u>7,522,582</u>
Cash flows from Capital and Related Financing Activities	
Purchase of capital assets	(929,676)
Principal paid on capital leases and bonds	(735,000)
Interest paid on capital leases and bonds	(441,190)
Capital appropriations received	1,274,050
Net cash used in financing activities	<u>(831,816)</u>
Cash Flows from Investing Activities	
Interest received	549,775
Net cash provided by investing activities	<u>549,775</u>
Net increase in cash and cash equivalents	1,717,495
Cash and cash equivalents at beginning of year	8,548,887
Cash and cash equivalents at end of year	<u>\$ 10,266,382</u>
Reconciliation of Net Operating Revenues (Expenses) to Net Cash Used in Operating Activities:	
Operating loss	\$ (8,120,847)
Adjustments to reconcile net operating loss to net cash used in operating activities:	
Depreciation and amortization expense	1,479,202
On-behalf payments	532,939
Change in assets and liabilities:	
Receivables, net	(146,377)
Accounts payable	374,021
Deferred inflows	350,000
Compensated absences and employee accruals	6,520
Net cash used in operating activities	<u>\$ (5,524,543)</u>
Noncash Investing Capital and Financing Activities	
State appropriations for on-behalf payments	<u>\$ 441,935</u>
Reconciliation of Cash and Cash Equivalents to the Statement of Net Assets	
Current assets:	
Cash and cash equivalents	5,614,718
Restricted cash and cash equivalents	4,254,662
Noncurrent assets:	
Restricted cash and cash equivalents	397,000
	<u>\$ 10,266,382</u>

The accompanying notes are an integral part of these financial statements.

UNIVERSITY OF SCIENCE AND ARTS OF OKLAHOMA
NOTES TO FINANCIAL STATEMENTS
June 30, 2013

Note 1 – Nature of Operations and Summary of Significant Account Policies

Nature of operations and reporting entity

The University of Science and Arts of Oklahoma (the University) is a four-year, state-supported university operating under the jurisdiction of the Board of Regents of the University of Science and Arts of Oklahoma (the Board of Regents) and the Oklahoma State Regents for Higher Education and is a component unit of the State of Oklahoma. The University is accredited by the North Central Association of Colleges and Schools. Federally funded student financial aid programs in which the University participates include the Federal Pell Grant, Federal Supplemental Educational Opportunity Grant, Federal Work Study, Federal Perkins Loans and Federal Direct Student Loans.

For the fiscal year ended June 30, 2013, the University implemented the new financial reporting requirements of the following GASB statements:

GASB 62 incorporates into the GASB's authoritative literature certain accounting and financial reporting guidance included in other pronouncements issued on or before November 30, 1989, which does not conflict with or contradict GASB pronouncements. This statement also supersedes Statement No. 20, relating to proprietary fund accounting, eliminating the election for enterprise funds and business-type activities to apply post-November 30, 1989 FASB Statements and Interpretations that do not conflict with or contradict GASB pronouncements.

GASB 63 provides financial reporting guidance for deferred outflows and inflows of resources and identifies net position as the residual of all other elements presented in the statement of financial position. This Statement amends the net asset reporting requirements of other pronouncements by incorporating deferred outflows and inflows into the definitions of the required components of the residual measure and by renaming that measure as net position, rather than net assets.

GASB 65 reclassifies certain items currently being reported as assets and liabilities as deferred outflows and inflows of resources; and recognizes certain items currently being reported as assets and liabilities as outflows and inflows of resources.

Separately presented component unit

The University of Science and Arts of Oklahoma Foundation, Inc., (the Foundation) is a legally separate, tax-exempt component unit of the University. The Foundation provides support for the University through donor support for scholarships, capital projects, and other activities. Scholarships awarded by the Foundation are remitted to the University after the University pays the award recipient. The Foundation's 25-member board of Trustees is self-perpetuating and consists of graduates and friends of the University. Although the University does not control the timing or amount of receipts from the Foundation, the majority of resources that the Foundation holds and invests are restricted to the activities of the University by the donors.

Because these restricted resources held by the Foundation can only be used for the benefit of the University, the Foundation is considered a component unit of the University and is separately presented in the University's financial statements.

During the year ended June 30, 2013, the Foundation distributed approximately \$322,504 to the University for scholarships awarded.

The Foundation is a private nonprofit organization that reports under FASB standards, including FASB Statement No. 117, *Financial Reporting for Not-for-Profit Organizations*. As such, certain revenue recognition criteria and presentation features are different from GASB revenue recognition criteria and presentation features. No modifications have been made to the Foundation's financial information in the University's financial reporting entity for these differences.

Measurement focus and basis of accounting

The financial statements of the University have been prepared using the economic resources measurement focus and the accrual basis of accounting. Revenues, expenses, gains, losses, assets and liabilities from exchange and exchange-like transactions are recognized when the exchange transaction takes place while those from government-mandated nonexchange transactions (principally federal and state grants and state appropriations) are recognized when all applicable eligibility requirements are met. Internal activity and balances are eliminated in preparation of the financial statements unless they relate to services provided and used internally. Operating revenues and expenses include exchange transactions and program-specific government-mandated nonexchange transactions. Government-mandated nonexchange transactions that are not program specific (such as state appropriations), investment income, and interest on capital asset-related debt are included in nonoperating revenues and expenses. The University first applies restricted net assets when an expense or outlay is incurred for purposes for which both restricted and unrestricted net assets are available.

The University prepares its financial statements as a business-type activity in conformity with applicable pronouncements of the Governmental Accounting Standards Board (GASB).

Use of 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.

Cash equivalents and investment income

The University considers all liquid investments with original maturities of three months or less to be cash equivalents. Investment income consists primarily of interest earned on these cash equivalents.

Accounts receivable

The University's accounts receivable primarily relate to tuition and fee charges to students and to auxiliary enterprise services provided to students, faculty and staff. Other receivables relate to reimbursements of expenditures from various federal, state and private sources. Receivables are carried at original amounts less an estimate made for doubtful receivables based on a review of all outstanding amounts. Management determines the allowance for doubtful accounts by identifying troubled accounts and by using historical experience applied to an aging of accounts. Receivables are written-off when deemed uncollectible. Recoveries of receivables previously written-off are recorded as revenue when received.

Capital assets

Capital assets are recorded at cost on the date of acquisition or fair value if acquired by gift. The University's capitalization policy includes all items with a unit cost of \$2,500 or more, and an estimated useful life of greater than one year. Renovations to buildings, infrastructure and land improvements that significantly increase the value or extend the useful life of the structure are capitalized. Routine repairs and maintenance are charged to operating expense in the year in which the expense was incurred. Depreciation is computed using the straight-line method over the estimated useful life of each asset. The following estimated useful lives are being used by the University:

Land improvements	20 years
Buildings	45 years
Furniture, fixtures and equipment	5 years
Infrastructure	30 years
Library materials	15 years

Compensated absences

Employees with over five years of employment with the University are allowed to accumulate up to 480 hours of vacation time. Employees with less than five years of employment are allowed to accumulate up to 240 hours of vacation time. The liability for vacation time is recorded at year-end as accrued compensated absences in the statements of net assets, and as a component of compensation and benefit expense in the statements of revenues, expenses and changes in net assets.

Income taxes

The University, as a unit of Oklahoma state government, is exempt from federal and state income taxes under Section 115(1) of the Internal Revenue Code and a similar provision of state law.

Net position

The University's net position is classified as follows:

Net investment in capital assets: This represents the University's total investment in capital assets, net of outstanding debt obligations related to those capital assets. To the extent debt has been incurred but not yet expended for capital assets, such amounts are not included as a component of invested in capital assets, net of related debt.

Restricted net position – nonexpendable: Restricted nonexpendable net position include a permanently restricted endowment for scholarships.

Restricted net position – expendable: Restricted expendable net position include resources in which the University is legally or contractually obligated to spend resources in accordance with restrictions imposed by external third parties.

Unrestricted net position: Unrestricted net position represent resources derived from student tuition and fees, state appropriations, and sales and services of educational departments and auxiliary enterprises. These resources are used for transactions relating to the education and general operations of the University, and may be used at the discretion of the governing board to meet current expenses for any purpose. These resources also include auxiliary enterprises, which are substantially self-supporting activities that provide services for students, faculty and staff.

Classification of revenues

The University 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 (1) student tuition and fees, net of scholarship discounts and allowances, (2) sales and services of auxiliary enterprises, net of scholarship discounts and allowances, (3) most federal, state and local grants and contracts and federal appropriations, and (4) interest on institutional student loans.

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 No. 9, *Reporting Cash Flows of Proprietary and Nonexpendable Trust Funds and Governmental Entities That Use Proprietary Fund Accounting*, and GASB No. 34, *Basic Financial Statements – and Management's Discussion and Analysis – for State and Local Governments*, such as state appropriations and investment income.

Scholarship discounts and allowances

Student tuition and fee revenues, and certain other revenues from students, are reported net of scholarship discounts and allowances in the statements of revenues, expenses, and changes in net assets. Scholarship discounts and allowances are the difference between the stated charge for

goods and services provided by the University, and the amount that is paid by students and/or third parties making payments on the students' behalf. Certain governmental grants, such as Pell grants, and other federal, state or nongovernmental programs, are recorded as either operating or nonoperating revenues in the University's financial statements. To the extent that revenues from such programs are used to satisfy tuition and fees and other student charges, the University has recorded a scholarship discount and allowance.

Deferred Outflows of Resources

Deferred outflows are the consumption of net position by the University that are applicable to a future reporting period. At June 30, 2013, the University's deferred outflows of resources were comprised of deferred charges on an OCIA lease restructure.

Deferred Inflows of Resources

Deferred inflows are the acquisition of net position by the University that are applicable to a future reporting period. At June 30, 2013 the University's deferred inflows were comprised of unearned service contract contributions.

Note 2 – Cash and Cash Equivalents

Deposits

Cash balances of \$8,776,274 at June 30, 2013, are maintained with the state treasurer. By state statute, the state treasurer is required to ensure that all state funds are either insured by the Federal Deposit Insurance Corporation, collateralized by securities held by the cognizant Federal Reserve Bank, or invested in U.S. government obligations. The University's deposits with the state treasurer are pooled with the funds of other state agencies and then, in accordance with statutory limitations, placed in banks or invested as the treasurer may determine, in the State's name.

Cash equivalents on deposit with the trustee at June 30, 2013, totaled \$219,058 and consisted of U.S. government securities money market mutual funds held by a trustee in the reserve fund and principal and interest fund related to capital lease payables. There are no significant differences between cost and market value. These mutual funds are not classifiable by custodial credit risk category as they are not evidenced by securities that exist in physical or book entry form.

Cash equivalents on deposit with the Oklahoma State Regents' Endowment Trust fund at June 30, 2013 totaled \$1,112,889. The Oklahoma State Regents for Higher Education holds for the University endowed gifts totaling \$2,291,774. Any earnings distributed are to be used for the University's activities associated with the endowment program.

The remaining cash balances consist of deposits of \$154,710 at June 30, 2013, at an FDIC insured bank and \$3,420 at June 30, 2013, of petty cash funds held at the University.

The above cash and cash equivalents are included in the June 30, 2013, statements of net assets as follows:

	<u>2013</u>
Current assets:	
Cash and cash equivalents	\$ 5,614,718
Restricted cash and cash equivalents	4,254,662
Noncurrent assets:	
Restricted cash and cash equivalents	397,000
	<u>\$ 10,266,380</u>

Investments

The University's deposits held by the State Treasurer are invested in accordance with the State Treasurer's investment policy. In accordance with state statutes the State Treasurer may only purchase and invest in (a) obligations of the United State government, its agencies and instrumentalities; (b) prime banker's acceptances; (c) investment grade obligations of state and local governments; (d) money market funds; (e) collateralized or insured certificates of deposits; (f) negotiable certificates of deposits; (g) prime commercial paper; and (h) repurchase agreements.

Note 3 – Accounts Receivable

The University's accounts receivable primarily relate to tuition and fee charges to students and to auxiliary enterprise services to students, faculty and staff. Total accounts receivable are shown on the accompanying statements of net assets net of related allowances for doubtful accounts of approximately \$442,937 at June 30, 2013.

Note 4 – Loans Receivable

Student loans made through the Federal Perkins Loans Program (the Program) comprise all of the loans receivable at June 30, 2013.

The Program provides for cancellation of a note at rates of 15% to 30% per year up to a maximum of 100% if the participant complies with certain provisions. The federal government reimburses the University's loan funds for amounts cancelled under these provisions.

As the University determines loans are uncollectible and not eligible for reimbursement by the federal government, the loans are written off and assigned to the U.S. Department of Education.

The University has provided an allowance for uncollectible loans, which in management's opinion, is sufficient to absorb loans which will ultimately be written off. The allowance for uncollectible loans was \$50,000, at June 30, 2013.

Note 5 – Funds Held in Trust by Others

Beneficial Interest in State School Land Funds

The University has a beneficial interest in the "Section Thirteen Fund State Educational Institutions" and the "New College Fund," administered by the Commissioners of the Land Office, as trustees for the various educational institutions entitled thereto. The University has the right to receive annually approximately 3.75% of the distributions of income produced by

"Section Thirteen Fund State Educational Institutions" assets and 100% of the distributions of income produced by the University of Science and Arts of Oklahoma "New College Fund." The University received \$1,274,050 during the year ended June 30, 2013, which is restricted to the construction or acquisition of buildings, equipment, or other capital items. These amounts are recorded as state appropriations restricted for capital purposes in the statements of revenues, expenses and changes in net assets. State law prohibits the distribution of any corpus of these funds to the beneficiaries. The total trust reserve for the University held in trust by the Commissioners of the Land Office was \$16,009,519 at June 30, 2013.

Oklahoma State Regents Endowment Trust Fund

In connection with the Oklahoma State Regents' Endowment Program (the "Endowment Program"), the State of Oklahoma has matched contributions received under the Endowment Program. The state match amounts, plus any retained accumulated earnings, totaled approximately \$2,291,774 and is invested by the Oklahoma State Regents on behalf of the University. The University is entitled to receive an annual distribution of 5% of the market value at year end on these funds. As legal title of the State Regents matching endowment funds is retained by the Oklahoma State Regents, only the funds available for distribution approximately \$1,112,889 have been reflected as assets in the statements of net assets.

Note 6 – Capital Assets

A summary of the changes in capital assets is as follows:

	Balance June 30, 2012	Additions	Disposal	Balance June 30, 2013
Nondepreciable Capital Assets				
Land	\$ 275,619	\$ -	\$ -	\$ 275,619
Total Nondepreciable Assets	275,619	-	-	275,619
Other Capital Assets				
Buildings	29,305,021	570,449	-	29,875,470
Infrastructure & Improvements	2,814,765	29,387	-	2,844,152
Equipment	8,192,685	284,634	-	8,477,319
Depreciable Library Materials	3,208,164	45,207	-	3,253,371
Total Other Capital Assets	\$ 43,520,635	\$ 929,677	\$ -	\$ 44,450,312
Accumulated Depreciation:				
Buildings	7,888,521	1,060,524	-	8,949,045
Infrastructure & Improvements	1,589,199	105,461	-	1,694,660
Equipment	5,244,655	175,607	-	5,420,262
Library Materials	1,996,867	127,932	-	2,124,799
Total Accumulated Depreciation	16,719,242	1,469,524	-	18,188,766
Capital Assets, Net	\$ 27,077,012	\$ (539,847)	\$ -	\$ 26,537,165

At June 30, 2013, the cost and related accumulated depreciation of assets held under capital lease obligation was as follows:

	Buildings	Infrastructure	Equipment	Total
Cost	16,205,318	1,269,950	3,977,079	21,452,347
Less: Accumulated Depreciation	1,593,547	491,047	2,796,254	4,880,847
	<u>\$ 14,611,771</u>	<u>\$ 778,903</u>	<u>\$ 1,180,825</u>	<u>\$ 16,571,500</u>

Note 7 – Long-Term Liabilities

Long-term liability activity for the years ended June 30, 2013, is as follows:

	Balance			Amounts	
	June 30, 2012	Additions	Reductions	Balance June 30, 2013	Due Within One Year
Capital Leases	\$ 18,743,723	\$ -	\$ (925,637)	\$ 17,818,086	\$ 1,242,192
Accrued Compensated Absences	268,776	134,632	(154,618)	248,791	-
Total Long-Term Liabilities	<u>\$ 19,012,499</u>	<u>\$ 134,632</u>	<u>\$ (1,080,255)</u>	<u>\$ 18,066,876</u>	<u>\$ 1,242,192</u>

Additional information regarding capital lease obligations is included in Note 8.

Note 8 – Capital Leases

Oklahoma Capital Improvement Authority Leases

During the year ending June 30, 1999, the Oklahoma Capital Improvement Authority (OCIA), an agency of the State of Oklahoma, entered into a lease agreement with the University to provide funding for various building and capital improvement projects. The lease agreement provide for the University to make specified monthly payments to OCIA over the respective terms of the agreements, which range from 5 to 20 years. These expenditures have been capitalized as investment in plant assets or recorded as noncapitalized expenditures, in accordance with University policy.

During 2006, the University entered into another lease agreement with OCIA which provides for monthly payments to OCIA of a variable amount based on estimated needs to fulfill the related obligations for 24 years through June 10, 2030, or until the OCIA leases and related interest are paid. During 2011, OCIA partially refunded their 2005F bonds and refinanced them as 2010 A/B bond issuances. The result of this refinance increased the debt owed on the University's leases in the amount of \$484,236. This amount will be amortized over the remaining life of the loan or \$25,486 per year. The purpose of the refinance was to help provide budgetary relief for OCIA. The proceeds of the bonds and subsequent leases are to provide capital improvements at the University. These expenditures have been capitalized as investment in plant assets or recorded as noncapitalized expenditures, in accordance with University policy.

The OCIA made lease principal and interest payments totaling \$441,935 on-behalf of the University. These on-behalf payments have been recorded as revenue in the University's statements of revenues, expenses, and changes in net assets.

Energy Conservation Lease

During the year ending June 30, 2002, the University entered into a lease-purchase agreement with First Security Leasing, Inc. to purchase approximately \$3,780,000 of equipment related to the conservation of energy on the campus. Interest on the agreement is 5.5%. The University is making monthly, annually escalating payments through December 15, 2017 under the lease agreement.

Oklahoma Development Finance Authority Master Lease Program

During the year ending June 30, 2012, the Oklahoma Development Finance Authority (ODFA), an agency of the State of Oklahoma, entered into a master lease agreement with the University to provide financing for the purchase of Lawson Court from the USAOF, LLC. Interest on the agreement varies from 3.625 to 4.2%. The University is making monthly, annually escalating payments through 2032 under the lease agreement.

The scheduled principal and interest payments related to these leases are as follows:

	Equipment Lease	OCIA Lease	ODFA Lease	Interest	Total Payments
2014	305,000	477,192	460,000	660,572	1,902,764
2015	330,000	492,417	470,000	621,443	1,913,860
2016	360,000	491,864	480,000	574,362	1,906,226
2017	390,000	514,062	490,000	531,978	1,926,040
2018	315,000	537,974	495,000	470,211	1,818,185
2018/2023	-	546,108	2,655,000	1,986,484	5,187,592
2023/2028	-	1,465,180	3,065,000	1,296,280	5,826,460
2028/2032	-	693,289	2,785,000	330,578	3,808,868
	<u>\$ 1,700,000</u>	<u>\$ 5,218,086</u>	<u>\$ 10,900,000</u>	<u>\$ 6,471,908</u>	<u>\$ 24,289,995</u>

Note 9 – Retirement Plans

Oklahoma Teachers' Retirement System (OTRS) – Plan description – Defined Benefit Plan

The University contributes to the OTRS, a cost-sharing, multiple employer, defined benefit, public employee retirement system administered by a 13-member Board of Trustees appointed by the Oklahoma State Governor. Pension expense is recorded for the amount the University is required to contribute for the year as determined by the OTRS Board of Trustees or Oklahoma State Statute. OTRS issues a publicly available financial report that includes the financial statements and required supplementary information. This report may be obtained by writing to the Oklahoma Teachers' Retirement System at P.O. Box 53524, Oklahoma City, Oklahoma 73152, or calling (405) 521-2387.

OTRS provides defined retirement benefits based on members' final compensation, age, and term of service for all qualified persons employed by state-supported educational institutions. In addition, OTRS provides for benefits upon disability and to survivors upon death of eligible members. OTRS does not provide for a cost-of-living adjustment. Oklahoma Statute, Title 70 O.S., Section 17-105, defines all retirement benefits under OTRS. The authority to establish or amend benefit provisions rests with the Oklahoma State Legislature.

Funding policy

The University is required to contribute a fixed percentage of annual compensation on behalf of active members. The employer contribution rate is applied to annual compensation, and is determined by state statute. The contribution rate was 8.55% in fiscal year 2013, 2012, and 2011.

Employee's contributions are also determined by state statute. For all employees, the contribution rate was 7% of covered salaries and fringe benefits in 2013, 2012, and 2011. The University contributes a portion of the required amounts for participating members.

The University's contributions to the OTRS for the years ended June 30, 2013, 2012, and 2011, were approximately \$1,243,132, \$1,113,360, and \$1,098,647, respectively, equal to the required contributions for each year. These contributions included the University's statutory contribution and the share of the employee's contribution paid directly by the University.

Oklahoma statutes require the state of Oklahoma to contribute to OTRS a defined percentage of state revenues from sales, use, and individual income taxes. The dedicated tax contribution to OTRS is used toward the University's required fixed percentage contribution. For 2013, 2012, and 2011, the contribution rate was 5%. The University recognizes these on-behalf payments made to OTRS by the state of Oklahoma under the provisions of GASB Statement No. 24. These on-behalf payments do not represent a direct or indirect obligation of the University. The University's prorated share of these payments for the years ended June 30, 2013, 2012, and 2011 was approximately \$532,939, \$517,432, and \$460,046, respectively, and is recognized in revenues and expenses.

Note 10 – Commitments and Contingencies

The University participates in certain Federal grant programs. These programs are subject to financial and compliance audits by the grantor or its representative. Such audits could lead to requests for reimbursement to the grantor agency for expenditures disallowed under terms of the grant. Management believes disallowances, if any, will not be material.

The University has commitments for outstanding purchase orders at June 30, 2013, in the amount of approximately \$952,344.

The University has two contract contingencies as of June 30, 2013. During the course of the year, the University entered into certain service contracts which allowed for upfront payments to be made to the University. In accordance with the contract however, if the University terminates these contracts early the payments must be refunded to the service provider on a pro rata basis.

Note 11 – Risk Management

The University is exposed to various risks of loss from torts; theft of, damage to and destruction of assets; errors and omissions; employee injuries and illnesses; natural disasters; and employee health, life and accident benefits. Commercial insurance coverage is purchased for claims arising from such matters other than torts, property and workers' compensation. Settled claims have not exceeded this commercial coverage in any of the three preceding years.

The University, along with other state agencies and political subdivisions, participates in the State of Oklahoma Risk Management Program and the state Insurance Fund, public entity risk pools currently operating as a common risk management and insurance program for its members. The University pays an annual premium to the pools for its torts, property and workers' compensation insurance coverage. The Oklahoma Risk Management Pool's governing agreement specifies that the Pool will be self-sustaining through member premiums and will reinsure through commercial carriers for claims in excess of specified stop-loss amounts.

Note 12 – Fair Value Measurements on a Recurring Basis

Fair values of assets measured on a recurring basis on June 30, 2013 are as follows:

	Fair Value	Quoted Prices in		
		Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
Investments	331,155	331,155	-	-
Total Assets	\$ 331,155	\$ 331,155	\$ -	\$ -

Fair values for investments are determined by reference to quoted market prices and other relevant information generated by market transactions.

Note 13 – Prior Period Adjustment

A prior period adjustment was made in the amount of \$177,556. This adjustment was comprised of the following: \$50,000 was needed to properly adjust contract revenue that was received in the prior fiscal year and should have been recorded as deferred inflow of resources and \$127,556 was needed to reclassify bond costs in accordance with GASB 63 & 65.

Note 14 – Related Party Transactions

During the course of the year the University received a payment in the amount of \$400,000 from Sodexo, Inc. as part of a service contract. The University then transferred the entire amount to the USAO Foundation for capital improvements to the cafeteria as required by the contract. As of June 30, 2013 the Foundation had paid out \$261,693 in capital improvements which have been added to the University's capital assets. The balance of funds to be used for capital improvements as of June 30, 2013 was \$138,307 and has been recorded as a receivable.

Note 15 – Service Concession Arrangements

The University has contracted with outside vendors to provide for certain auxiliary services related to food service and bookstore operations in order to provide these services more efficiently and in a more cost effective manner. Advance contract payments of \$400,000 are recorded as deferred inflows on the statement of net position. The bookstore contract is a five-year contract being amortized at the rate of \$10,000 per year, while the food service contract is for 10 years and is being amortized at \$40,000 per year. Upon early cancellation, the unamortized portion of each contract is refundable to the vendor. Additional rights and

obligations concerning facility maintenance, equipment, inventories, rates, and other operating or cancellation provisions are specified in each contract.

Note 16 – Subsequent Events

Management performed an evaluation of the University's activities through October 31, 2013, the audit report date, and has concluded that there are no significant subsequent events requiring disclosure through that date.

SEPARATELY PRESENTED COMPONENT UNIT

UNIVERSITY OF SCIENCE AND ARTS OF OKLAHOMA FOUNDATION, INC.

CONSOLIDATED FINANCIAL STATEMENTS

JUNE 30, 2013

CERTIFIED PUBLIC ACCOUNTANTS

INDEPENDENT AUDITOR'S REPORT

Board of Trustees
University of Science and Arts of Oklahoma Foundation, Inc.

We have audited the accompanying financial statements of University of Science and Arts of Oklahoma Foundation, Inc. (a nonprofit organization) which comprise the Statement of Financial Position as of June 30, 2013, and the related Statement of Activities and Changes in Net Assets and Statement of Cash Flows, for the year then ended and the related notes to the financial statements.

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement.

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

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

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the University of Science and Arts of Oklahoma Foundation, Inc. of June 30, 2013 and changes in their net assets and their cash flows, for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Angel, Johnston & Blasingame, P.C.

ANGEL, JOHNSTON & BLASINGAME, P.C.
Certified Public Accountants
Chickasha, Oklahoma
October 30, 2013

University of Science and Arts of Oklahoma Foundation, Inc.
Statement of Financial Position
June 30, 2013

ASSETS

CURRENT ASSETS

Cash & Cash Equivalents	\$	398,544
Promise to Give		400,000
Prepaid Expense		91,205
Accrued Interest		5,679
Inventories		4,500
<i>Total Current Assets</i>		899,928

INVESTMENTS

Investments		10,692,111
Minerals		409,337

OTHER ASSETS

Art & Historical Collections		-
<i>TOTAL ASSETS</i>	\$	12,001,376

LIABILITIES AND NET ASSETS

CURRENT LIABILITIES

Accounts Payable	\$	15,109
Payable to USAO		138,307
Funds Invested for USAOAA		100,000
<i>Total Current Liabilities</i>		253,416
<i>TOTAL LIABILITIES</i>		253,416

NET ASSETS

Current Unrestricted		1,301,027
Temporarily Restricted		4,551,331
Permanently Restricted:		
Endowment Corpus		5,895,602
<i>TOTAL NET ASSETS</i>		11,747,960
<i>TOTAL LIABILITIES AND NET ASSETS</i>	\$	12,001,376

The accompanying notes are an integral part of the financial statements

University of Science and Arts of Oklahoma Foundation, Inc.
Statement of Activities and Changes in Net Assets
For The Year Ended June 30, 2013

	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Permanently Restricted</u>	<u>Total</u>
SUPPORT AND REVENUE				
Support				
Contributions & Grants	\$ 541,278	\$ 1,394,318	\$	\$ 1,935,596
Non Cash/In Kind Donations	33,000			33,000
Endowment Fund Support			23,075	23,075
<i>Total Support</i>	<u>574,278</u>	<u>1,394,318</u>	<u>23,075</u>	<u>1,991,671</u>
Revenue				
Royalties/Lease Bonus-net	191,605		119,634	311,239
Investment-Trust Distribution	16,416			16,416
Investment Return (net of fees)	110,863	803,357	19,187	933,407
Program & Fundraising Revenues	47,737			47,737
Bank Interest	1,206			1,206
Net Assets Released from Restrictions	704,576	(704,576)		-
<i>Total Revenue</i>	<u>1,072,403</u>	<u>98,781</u>	<u>138,821</u>	<u>1,310,005</u>
<i>Total Support and Revenue</i>	<u>1,646,681</u>	<u>1,493,099</u>	<u>161,896</u>	<u>3,301,676</u>
EXPENSES				
Program Services				
Scholarships	316,395			316,395
Program Costs	977,633			977,633
Supporting Services				
Management & General	62,082			62,082
Fund Raising	166,069			166,069
<i>Total Expenses</i>	<u>1,522,179</u>	<u>-</u>	<u>-</u>	<u>1,522,179</u>
<i>Changes in Net Asset</i>	<u>124,502</u>	<u>1,493,099</u>	<u>161,896</u>	<u>1,779,497</u>
<i>Net Assets at Beginning of Year</i>	1,176,525	3,058,232	5,733,706	9,968,463
<i>Net Assets at End of Year</i>	<u>\$ 1,301,027</u>	<u>\$ 4,551,331</u>	<u>\$ 5,895,602</u>	<u>\$ 11,747,960</u>

The accompanying notes are an integral part of the financial statements.

University of Science and Arts of Oklahoma Foundation, Inc.
Statement of Cash Flows
Year Ended June 30, 2013

CASH FLOWS FROM OPERATING ACTIVITIES	
Change in Net Assets	\$ 1,779,497
Adjustments to reconcile change in net assets to net cash provided by operating activities:	
Unrealized Gains on Investments	(586,140)
(Increase) Decrease in	
Contributions Receivable/Promise to Give	(368,690)
Accrued Interest Receivable	0
Prepaid Expense	(91,205)
Increase (Decrease) in	
Accounts Payable	7,202
Payable to USAO	138,307
	<u>138,307</u>
<i>NET CASH PROVIDED BY OPERATING ACTIVITIES</i>	<u>\$ 878,971</u>
 CASH FLOWS FROM INVESTING ACTIVITIES	
Net Change in Investments	\$ (1,796,672)
Net Change in Minerals	(31,310)
	<u>(31,310)</u>
<i>NET CASH USED BY INVESTING ACTIVITIES</i>	<u>\$ (1,827,982)</u>
 CASH FLOWS FROM FINANCING ACTIVITIES	
<i>NET CASH PROVIDED BY FINANCING ACTIVITIES</i>	<u>\$ 0</u>
 NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	 \$ (949,011)
CASH AND CASH EQUIVALENTS AT BEGINNING OF YEAR	<u>1,347,555</u>
CASH AND CASH EQUIVALENTS AT END OF YEAR	<u><u>\$ 398,544</u></u>

The accompanying notes are an integral part of the financial statements.

University of Science and Arts of Oklahoma Foundation, Inc.
Notes to the Financial Statements
June 30, 2013

Note 1 – Organization and Significant Accounting Policies

Organization and Nature of Activities

The **University of Science and Arts of Oklahoma Foundation, Inc.** (the Foundation) was formed and incorporated on April 21, 1977 as a charitable tax exempt Corporation under Internal Revenue Code Section 501(c)(3). The Foundation is also publicly supported under code sections 509(a) (1) and 170(b) (1) (A) (vi) and donors may deduct the contributions they provide under Section 170 and Sections 2055, 2106 and 2522. The purpose of the Foundation is to receive and manage gifts and gift related income for the benefit of the University of Science and Arts of Oklahoma (USAO).

Basis of Accounting

The financial statements of the University of Science and Arts of Oklahoma Foundation, Inc have been prepared on the accrual basis of accounting and accordingly reflect all significant receivables, payables and other liabilities.

Use of 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 reported amounts of revenue and expense during the reporting period. Actual results could differ from those estimates.

Inventories

Inventories are stated at lower of cost or market. At year-end the inventory consisted donated jewelry to be sold.

Cash and Cash Equivalents

The Foundation considers cash and cash equivalents to be funds deposited in the checking, savings and money market accounts. These accounts are readily accessible and liquid. Certificates of deposit and treasury bills/notes are not considered cash or cash equivalent for purpose of the cash flow analysis, though they are highly liquid and the principal is protected.

University of Science and Arts of Oklahoma Foundation, Inc.
Notes to the Financial Statements
June 30, 2013

Note 1 – Organization and Significant Accounting Policies (continued)

Investments

The Foundation carries investments in marketable securities with readily determinable fair values and all investments in debt securities at their fair values in the Statement of Financial Position. Investment return is comprised of interest, dividends, realized gains and losses and changes in the fair market value of assets, less trustee fees.

Minerals

Minerals are recorded at estimated fair market value based on Oklahoma Estate Tax Regulations for valuing oil and gas minerals. Annual income multiplied seven years to value gas and four years to value oil producing properties.

Promises to Give

Unconditional promises to give are recognized as revenues or gains in the period received and as assets, decreases of liabilities, or expenses depending on the form of the benefits received. Conditional promises to give are recognized only when the conditions on which they depend are substantially met and the promises become unconditional.

Public Support and Revenue

Contributions are recognized when the donor makes a promise to give to the Foundation that is, in substance, unconditional. Contributions that are restricted by the donor are reported as increases in unrestricted net assets if the restrictions expire in the fiscal year in which the contributions are recognized. All other donor-restricted contributions are reported as increases in temporarily or permanently restricted net assets depending on the nature of the restrictions. When a restriction expires, temporarily restricted net assets are reclassified to unrestricted net assets.

Endowment contributions and investments are permanently restricted by the donor. Investment earnings available for distribution are recorded in unrestricted net assets. Investment earnings with donor restrictions are recorded in temporarily or permanently restricted net assets based on the nature of the restrictions.

University of Science and Arts of Oklahoma Foundation, Inc.
Notes to the Financial Statements
June 30, 2013

Note 1 – Organization and Significant Accounting Policies (continued)

Income Tax Status

The Foundation is a not-for-profit organization that is exempt from income taxes under section 501(c) (3) of the Internal Revenue Code and applicable state law. The LLC as a single member limited liability company (solely owned by the USAO Foundation) is considered a disregarded entity for income tax purposes, with all reporting made directly through the Foundation.

The accounting standard on accounting for uncertainty in income taxes address the determination of whether tax benefits claimed or expected to be claimed on a tax return should be recorded in the financial statements. Under that guidance, the Foundation may recognized the tax benefit from an uncertain tax position only if it is more likely than not that the tax position will be sustained on examination by tax authorities based on the technical merits of the position. Examples of tax positions include the tax-exempt status of the Foundation and various positions related to the potential sources of unrelated business taxable income (UBIT). The tax benefits recognized in the financial statements from such a position are measured based on the largest benefit that has a greater than 50% likelihood of being realized upon ultimate settlement. There were no recognized tax benefits identified or recorded as liabilities for the fiscal year ended June 30, 2013.

The Organization files its forms 990 in the U.S. federal jurisdiction and the Oklahoma Tax Commission. The Agency is generally no longer subject to examination by the Internal Revenue Service for years before 2010.

However, income from certain activities (if any) not directly related to the Organization's tax-exempt purpose is subject to taxation as unrelated business income. In addition, the Organization qualifies for the charitable contribution deduction under Section 170(b)(1)(A) and has been classified as an organization other than a private foundation under Section 509(a)(2).

University of Science and Arts of Oklahoma Foundation, Inc.
Notes to the Financial Statements
June 30, 2013

Note 2 –Investments and Investment Income

Investments are reported at fair value, as discussed in Note 1. At June 30, 2013 the investments consisted of the following:

Investments

The following investments were held by various banks & investments firms that are agents of the Foundation.

	Cost	Fair Value	Unrealized Appreciation (Depreciation)
Cash and Cash Equivalents	\$ 534,709	\$ 534,709	\$ -
Certificate of Deposits	404,480	405,365	885
Government Obligations/Securities	668,830	693,398	24,568
Equity Funds & Corporate Stocks	7,546,359	8,679,331	1,132,972
Annuities	56,137	56,137	-
Mortgages & Notes	<u>321,151</u>	<u>323,171</u>	<u>2,020</u>
Total	<u>\$ 9,531,666</u>	<u>\$10,692,111</u>	<u>\$ 1,160,445</u>

Funds Invested for USAO Alumni Association

The Foundation received \$100,000 from the University's Alumni Association to be invested by the Foundation, subject to their investment policies. The earnings and gains or losses, realized or unrealized are recorded by the Foundation restricted for the University's Art Museum per donor intent. The \$100,000 is the Alumni Association's funds and will be returned to them at their discretion and accordingly is recorded as a liability by the Foundation.

Payable to USAO

The Foundation received \$400,000 from the University to be used for capital improvements for the University. The University received the donation from Sodexo, Inc. During the fiscal year the Foundation had paid out of the funds for capital improvements \$261, 693. The remaining balance at the end of the fiscal year is \$138,307.

University of Science and Arts of Oklahoma Foundation, Inc.
Notes to the Financial Statements
June 30, 2013

Classification of Investment Return

The following schedule summarizes the investment return and its classification in the statement of activities for the year ended June 30, 2013:

<u>Net Assets</u>	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Permanently Restricted</u>	<u>Total</u>
Interest and dividends	\$ 25,742	186,534	4,455	\$ 216,732
Trustee Fees/Expense	(11,193)	(81,106)	(1,937)	(94,236)
Purchased Interest	(33)	(241)	(6)	(281)
Realized Gains/(Losses)	26,730	193,696	4,626	225,052
Unrealized Gains/(Losses)	<u>69,617</u>	<u>504,474</u>	<u>12,049</u>	<u>586,140</u>
Total Investment Return	\$ <u>110,863</u>	<u>803,357</u>	<u>19,187</u>	\$ <u>(933,407)</u>

Investment Return Allocation

Investment return allocation to net assets by fund balance is calculated at year-end. Management has allocated realized earnings, net of expenses and not the unrealized losses. As per adopted policy, which follows FASB statement #124, the losses on the investments of a donor restricted endowment fund shall reduce temporarily restricted net assets and any remaining loss shall reduce unrestricted net assets.

The current boards' spending policy of endowed funds is to maintain a formal reserve of 20% of total earnings on endowed funds. Disbursement of informal reserves in excess of 80% of annual total return requires board approval. Also, upon board approval, policy allows up to 1% of investment return on the endowed funds to be allocated to general unrestricted. In the current fiscal year, the board elected to not transfer earnings on endowed funds to unrestricted.

Note 3 - Temporarily Restricted Net Assets

Temporarily restricted net assets are available for the following purposes or periods:

Scholarships	\$ 1,056,428
Capital Improvements	254,357
Art & Other Programs	2,840,546
For Subsequent Periods	<u>400,000</u>
	<u>\$ 4,551,331</u>

University of Science and Arts of Oklahoma Foundation, Inc.
Notes to the Financial Statements
June 30, 2013

Note 4 - Permanently Restricted Net Assets

Net assets were permanently restricted for the following purposes at June 30, 2013:

Scholarships	\$ 4,676,827
Art & Other Programs	581,427
OSRHE Matching Program	250,000
Mineral Assets	<u>387,348</u>
	<u>\$ 5,895,602</u>

Note 5 – Endowment Funds

The Foundation's endowment consists of individual funds established for student scholarships and other support to the University of Science and Arts of Oklahoma. Its endowment includes donor restricted funds and funds designated by the Board of Trustees to function as endowments. As required by generally accepted accounting principles, net asset as associated with endowment funds, including funds designated by the Board of trustees to function as endowments, are classified and reported based on the existence or absence of donor imposed restrictions.

The Board of Trustees of the Foundation has interpreted the State Prudent Management of Institutional Funds Act (SPMIFA) as requiring the preservation of the fair value of the original gift as of the gift date of the donor-restricted endowment funds absent explicit donor stipulations to the contrary. As a result of this interpretation, the Organization classifieds as permanently restricted net assets (a) the original value of gifts donated to the permanent endowment, (b) the original value of subsequent gifts to the permanent endowment, and (c) accumulations to the permanent endowment made in accordance with the direction of the applicable donor gift instrument at the time the accumulation is added to the fund. The remaining portion of the donor-restricted endowment fund that is not classified in permanently restricted net assets is classified as temporarily restricted net assets until those amounts are appropriated for expenditure by the Foundation in a manner consistent with the standard of prudence prescribed by SPMIFA. In accordance with SPMIFA, the Foundation considers the following factors in making a determination to appropriate or accumulated donor-restricted endowment funds: (1) the duration and preservation of the various funds, (2) the purpose of the donor-restricted endowment funds, (3) general economic conditions, (4) the possible effect of inflation and deflation, (5) the expected total return form income and the appreciation of investments, (6) other resources of the Foundation, and (7) the Foundation's investment policies.

University of Science and Arts of Oklahoma Foundation, Inc.
Notes to the Financial Statements
June 30, 2013

Note 5 – Endowment Funds (continued)

Investment Return Objectives, Risk Parameters and Strategies. The Foundation has adopted investment and spending policies, approved by the Board of Trustee, that attempt to earn a total return within prudent levels of risk to maintain purchasing power and support the defined spending policy. The long term objective is to preserve the real (inflation adjusted) purchasing power of endowment assets and other long-term assets as well as generate capital appreciation, after accounting for endowment spending, inflation, and costs of fund management, both internal and external. The long-term target minimum annual return shall be six percent (6%). Actual returns in any given year may vary from this amount. Accordingly, the risk level of entire fund should be moderate based on a balanced portfolio of high-quality investments.

Spending Policy. Annually, not more than 80 percent of earnings based on a rolling three-year average, net of any fees, of any one endowment shall be spent unless otherwise indicated by donor restriction.

Endowment Net Asset Composition by Type of Fund as of June 30, 2013 is as follows:

	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Permanently Restricted</u>	<u>Total Net Endowment Assets</u>
Donor Restricted Funds	\$ -	\$ 514,046	\$ 5,895,602	\$ 6,409,648
Board-Designated Funds	-	-	-	-
Total Funds	<u>\$ -</u>	<u>\$ 514,046</u>	<u>\$ 5,895,602</u>	<u>\$ 6,409,648</u>

Changes in endowment net assets as of June 30, 2013 are as follows:

	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Permanently Restricted</u>	<u>Total Net Endowment Assets</u>
Net Assets, July 1, 2012	\$ -	\$ (96,860)	\$ 5,733,706	\$ 5,636,846
Contributions/Royalties	-	-	142,709	142,709
Investment Income	-	201,599	7,138	208,737
Amounts Expended	-	-	-	-
Net (Depreciation)	-	409,307	12,049	421,356
Net Assets, June 30, 2013	<u>\$ -</u>	<u>\$ 514,046</u>	<u>\$ 5,895,602</u>	<u>\$ 6,409,648</u>

University of Science and Arts of Oklahoma Foundation, Inc.
Notes to the Financial Statements
June 30, 2013

Note 6 - Donated Services and Property

The Foundation receives a significant amount of donated services from unpaid volunteers who assist in fund-raising and special projects. Only amounts that meet the criteria for recognition under SFAS No. 116 have been recognized in the statement of activities. During the current fiscal year the Foundation received and recorded advertising and other services of \$33,000.

Note 7 - Oklahoma State Regents for Higher Education

The Oklahoma State Regents for Higher Education holds for the University endowed gifts totaling \$1,772,517. These are matched by Foundation endowed funds. The University is the sole beneficiary and the funds are placed in the State Regents Agency Special Account. Any earnings distributed are to be used for the University's activities associated with the endowment program. The amounts held by the State Regents are not recorded on the Foundation's books unless received by the Foundation.

Note 8 – Related Party

The Foundation was established to receive and manage gift and gift related income for the benefit of the University of Science and Arts of Oklahoma. Scholarships are given to students to attend the University. Also instructional related support is provided in various curriculum areas. In addition the University's personnel provide accounting and administrative services for the Foundation.

As described in Note 1 – Payable to USAO, the Foundation received funds from the University to be used for capital improvements. At the end of the fiscal year the remaining balance of these funds is \$138,307.

Note 9 – Collections

The Foundation's practice for donated collections of works of art, historical treasures or assets of a similar nature is to not capitalize or recognized the fair market value of the donated item, if the item meets the following criteria:

- Are held for exhibit to the public, for educational purposes, or for research in furtherance of public service and not for financial gain.
- Are protected, cared for and preserved.
- Are subject to a policy requiring any proceeds from the sale of collection items to be reinvested in other collection items.

University of Science and Arts of Oklahoma Foundation, Inc.
Notes to the Financial Statements
June 30, 2013

Note 9 – Collections (continued)

Currently the major collections have an estimated value of approximately \$365,220. The Foundation has a qualified art collection administrator to account for collections donated and ensure proper protection, care and preservation.

Note 10 – Financial Instruments

Concentrations of Credit Risk Arising from Cash Deposits in Excess of Insured Limits

The Foundation maintains cash balances at several financial institutions. Accounts at each institution are insured by the Federal Deposit Insurance Corporation. At June 30, 2013 the Foundation had uninsured balances of \$185,360.

The Foundation’s investments held by various bank trust departments and investment firms are insured by SIPC and FDIC in the amount of \$940,074 other investments are backed by the federal government in the amount of \$693,398. At June 30, 2013 the Foundation’s uninsured investments totaled \$8,896,551.

Note 11 – Fair Value Measurements on a Recurring Basis

Fair values of assets measured on a recurring basis at June 30, 2013 are as follows:

	<u>Fair Value</u>	Quoted Prices in Active Markets for Identical Assets <u>(Level 1)</u>	Significant Other Observable Inputs <u>(Level 2)</u>	Significant Unobservable Inputs <u>Level (3)</u>
Investments:				
Total	\$ 10,692,111	\$ 10,692,111	\$ -	\$ -

Fair values for investments are determined by reference to quoted market prices and other relevant information generated by market transactions.

Note 12 – Unconditional Promises to Give

The balance of the promise to give is \$400,000 as of June 30, 2013. The promise is unconditional and is to be received equally over the next four years and is divided equally between the Current Scholarship Fund and the Nash Library Renovation Fund.

University of Science and Arts of Oklahoma Foundation, Inc.
Notes to the Financial Statements
June 30, 2013

Note 13 – Commitments and Contingencies

Grants and bequests require fulfillment of certain conditions as set forth in the instrument of the grant. Failure to fulfill the conditions could result in the return of the funds to grantors. Although that is a possibility, the Board deems this contingency remote. Since accepting the gifts and their terms, it has accommodated the provisions of the gifts.

Note 14 – Subsequent Events

Subsequent events were evaluated through October 30, 2013 which is the date the financial statements were available to be issued.

REPORTS REQUIRED BY GOVERNMENT AUDITING STANDARDS AND OMB
CIRCULAR A-133

BECKY FLEMING, C.P.A., INC.

**7920 108th Ave NE
Norman, OK 73026-9761**

**Cell: 405.641.5794
Fax: 405.799.2039**

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

To the Board of Regents
The University of Science and Arts of Oklahoma
Chickasha, OK

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 of Science and Arts of Oklahoma, a component unit of the State of Oklahoma, as of and for the year ended June 30, 2013, and the related notes to the financial statements, which collectively comprise the University of Science and Arts of Oklahoma's basic financial statements, and have issued our report thereon dated October 31, 2013. Our report includes a reference to other auditors who audited the financial statements of the University of Science and Arts of Oklahoma Foundation, Inc. (the Foundation), the University's separately presented component unit, as described in our report on the University's financial statements. This report does not include the results of the other auditors' testing of internal control over financial reporting or compliance and other matters that are reported on separately by those auditors. The financial statements of the Foundation were not audited in accordance with *Government Auditing Standards*.

Internal Control Over Financial Reporting

In planning and performing our audit of the financial statements, we considered the University of Science and Arts of 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 of Science and Arts of Oklahoma's internal control. Accordingly, we do not express an opinion on the effectiveness of University of Science and Arts of 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.

Member of the American Institute of Certified Public Accountants

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the University of Science and Arts of 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.

 C.P.A., Inc.

Becky Fleming, C.P.A., Inc.
October 31, 2013

BECKY FLEMING, C.P.A., INC.

**7920 108th Ave NE
Norman, OK 73026-9761**

**Cell: 405.641.5794
Fax: 405.799.2039**

**INDEPENDENT AUDITOR'S REPORT ON COMPLIANCE FOR EACH MAJOR PROGRAM
AND ON INTERNAL CONTROL OVER COMPLIANCE REQUIRED BY OMB CIRCULAR A-133**

To the Board of Regents
The University of Science and Arts of Oklahoma
Chickasha, OK

Report on Compliance for Each Major Federal Program

We have audited the University of Science and Arts of Oklahoma's compliance with the types of compliance requirements described in the *OMB Circular A-133 Compliance Supplement* that could have a direct and material effect on each of the University of Science and Arts of Oklahoma's major federal programs for the year ended June 30, 2013. The University of Science and Arts of Oklahoma's major federal programs are identified in the summary of auditor's results section of the accompanying schedule of findings and questioned costs.

Management's Responsibility

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

Auditor's Responsibility

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

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

Opinion on Each Major Federal Program

In our opinion, the University of Science and Arts of Oklahoma, complied, in all material respects, with the types of compliance requirements referred to above that could have a direct and material effect on each of its major federal programs for the year ended June 30, 2013.

Report on Internal Control Over Compliance

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

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

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

The purpose of this report on internal control over compliance is solely to describe the scope of our testing of internal control over compliance and the results of that testing based on the requirements of OMB Circular A-133. Accordingly, this report is not suitable for any other purpose.

 C.P.A., Inc.

Becky Fleming, C.P.A., Inc.
October 31, 2013

UNIVERSITY OF SCIENCE AND ARTS OF OKLAHOMA
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
Year ended June 30, 2013

Federal Agency/ Pass-Through Entity/Program	CFDA Number	Amount Expended
U.S. Department of Education		
Student Financial Aid Cluster:		
Federal Supplemental Education Opportunity Grant	84.007	\$ 51,829
Federal Work Study Program	84.033	\$ 277,909
Federal Pell Grant Program	84.063	\$ 2,015,686
Federal Direct Student Loans	84.268	<u>\$ 3,592,159</u>
Total Student Aid Financial Aid Cluster		\$ 5,937,582
AmeriCorps - ARRA	94.006	\$ 1,500
Pass thru from Oklahoma State Regents for Higher Education College Access Challenge Grant Program	84.378A	<u>\$ 3,122</u>
Total Expenditures of Federal Awards		<u><u>\$ 5,942,204</u></u>

Notes to Schedule:

Note 1 – Basis of Presentation

This schedule of expenditure of federal awards includes the federal awards activity of The University of Science and Arts of Oklahoma and is presented on the accrual basis of accounting. The information in this schedule is presented in accordance with the requirements of OMB Circular A- 133, *Audits of States, Local Governments, and Non-Profit Organizations*. Therefore, some amounts presented in this schedule may differ from amounts presented in, or used in the preparation of, the basic financial statements.

Note 2 – Federal Direct Loan Program

Under the Federal Direct Student Loan Program (“Direct Loan Program”), the U.S. Department of Education makes loans to enable a student or parent to pay the costs of the student’s attendance at a postsecondary school. The Direct Loan Program enables an eligible student or parent to obtain a loan to pay for the student’s cost of attendance directly from the U.S.

Department of Education rather than through private lenders. The University administers the origination and disbursement of the loans to eligible students or parents.

Note 3 – Loans Outstanding

The University had the following loan balances outstanding at June 30, 2013. This loan program is also included in the federal expenditures presented in the schedule of expenditures of federal awards.

<u>Cluster/Program Title</u>	<u>Federal CFDA Number</u>	<u>Amount Outstanding</u>
Federal Perkins Loan Program	84.038	\$ 135,499

Note 4 – Subrecipients

The University provided no federal awards to subrecipients.

UNIVERSITY OF SCIENCE AND ARTS OF OKLAHOMA
 SCHEDULE OF STATE AWARDS
 Year ended June 30, 2013

State grantor/ Program Title	Contract Number	Contract Period	State Expenditures
Oklahoma State Regents for Higher Education			
OK Tuition Aid Grant (OTAG)	N/A	7/1/12-6/30/13	\$ 148,000
OK Higher Learning Access Program (OHLAP)	N/A	7/1/12-6/30/13	<u>729,963</u>
			<u>\$ 877,963</u>

UNIVERSITY OF SCIENCE AND ARTS OF OKLAHOMA
 SCHEDULE OF FINDINGS AND QUESTIONED COSTS
 Year ended June 30, 2013

Section I - Summary of Auditors' Results

1. The University of Science and Arts of Oklahoma received an unqualified opinion on its financial statements.
2. N/A
3. The audit did not disclose any material noncompliance.
4. N/A
5. The University of Science and Arts of Oklahoma received an unqualified opinion on compliance for major programs.
6. The audit did not disclose any findings required to be reported by OMB Circular A-133, sub-part E, section 510(a).
7. The University's major programs were:

Federal Grantor/Program Title	Federal CFDA No.
Student Financial Aid Cluster:	
Federal Supplemental Education Opportunity Grant	84.007
Federal Work Study	84.033
Federal Pell Grant	84.063
Federal Direct Student Loans	84.268

8. A threshold of \$300,000 was used to distinguish between Type A and Type B programs as those terms are defined in OMB Circular A-133.
9. The University did not qualify as a low-risk auditee as that term is defined in OMB Circular A-133.

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

The University of Science and Arts of Oklahoma had no findings relating to the financial statements which are required to be reported in accordance with GAGAS.

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

The University of Science and Arts of Oklahoma had no findings relating to Federal awards as defined by OMB Circular A-133, sub-part E, section 510(a).

UNIVERSITY OF SCIENCE AND ARTS OF OKLAHOMA
SUMMARY SCHEDULE OF PRIOR AUDIT FINDINGS
Year ended June 30, 2013

There are no prior year findings or questioned costs.