

**UNIVERSITY OF SCIENCE AND ARTS OF OKLAHOMA
AND
UNIVERSITY OF SCIENCE AND ARTS OF OKLAHOMA FOUNDATION, INC.
AND SUBSIDIARY**



**FINANCIAL STATEMENTS AND
SUPPLEMENTARY INFORMATION**

JUNE 30, 2012

**WITH
INDEPENDENT AUDITORS' REPORT**

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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, 2012 and 2011. 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 assets; statements of revenues, expenses, and changes in net assets; 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 assets 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 assets; statements of revenues, expenses and changes in net assets; 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 assets and changes in them. You can think of the University's net assets – 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 assets 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 Assets

	2012	2011
Assets:		
Current assets	\$ 8,743,185	\$ 6,542,633
Capital assets, net	27,077,012	16,234,687
Other assets	595,405	383,130
Total assets	<u>36,415,602</u>	<u>23,160,450</u>
Liabilities		
Current liabilities	1,708,362	1,144,420
Noncurrent liabilities	17,440,170	7,348,546
Total liabilities	<u>19,148,532</u>	<u>8,492,966</u>
Net assets		
Invested in capital assets, net of debt	8,979,981	8,569,146
Restricted-expendable	2,343,744	844,459
Restricted-nonexpendable	340,554	319,699
Unrestricted	<u>5,602,790</u>	<u>4,934,180</u>
Total net assets	<u>\$ 17,267,069</u>	<u>\$ 14,667,484</u>

Statement of Revenues, Expenses and Changes in Net Assets

	2012	2011
Operating revenues	\$ 9,026,616	\$ 8,386,766
Operating expenses	17,087,445	16,923,141
Operating loss	<u>(8,060,829)</u>	<u>(8,536,375)</u>
Nonoperating revenues and expenses	8,313,812	7,867,472
Contributions	1,012,677	-
Other revenues, expenses, gains and losses	<u>1,333,925</u>	<u>1,206,947</u>
Increase in net assets	2,599,585	538,044
Net assets at beginning of year	<u>14,667,484</u>	<u>14,129,440</u>
Net assets at end of year	<u>\$ 17,267,069</u>	<u>\$ 14,667,484</u>

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 \$2,599,585 a 17.7% increase Net Assets.
- Refunding Lawson Court Complex impacted fixed assets, long-term liabilities and provided an infusion of cash from reserve funds.
- The University's additions to fixed assets of \$12,068,368.

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 June 30, 2011	Additions	Disposal	Balance June 30, 2012
Land	\$ 275,619	\$ -	\$ -	\$ 275,619
Buildings	17,546,500	11,758,521	-	29,305,021
Infrastructure & Improvements	2,770,465	44,300	-	2,814,765
Equipment	8,256,372	136,839	200,526	8,192,685
Library Materials	3,079,456	128,708	-	3,208,164
Total Capital Assets	\$ 31,928,412	\$ 12,068,368	\$ 200,526	\$ 43,796,254
Accumulated Depreciation:				
Buildings	7,128,768	759,753	-	7,888,521
Infrastructure & Improvements	1,485,042	104,157	-	1,589,199
Equipment	5,205,184	239,997	200,526	5,244,655
Library Materials	1,874,732	122,135	-	1,996,867
Total Accumulated Depreciation	15,693,726	1,226,042	200,526	16,719,242
Capital Assets, Net	\$ 16,234,686	\$ 10,842,326	\$ -	\$ 27,077,012

Debt Service

During the year ending June 30, 1999, the Oklahoma Capital Improvement Authority, an agency of the State of Oklahoma, issued bonds for capital improvements by various state agencies. The total bond issue was approximately \$160,000,000, of which \$45,000,000 was allocated to the Oklahoma State Board of Regents for use in higher education.

For the year ending June 30, 2000, the University had entered into a capital lease agreement with the Oklahoma Capital Improvements Authority (OCIA). The lease agreement was for \$500,000, to be drawn down at the University's option. These funds were used to renovate the first floor of Troutt Hall and to make capital improvements on the Bill Smith Ballpark. Principal and interest on this obligation were paid by funds appropriated by the state legislature. These funds are to be used for the improvement of the administration building and for improvements to athletic facilities.

In an addition to the agreement, in December 2005, OCIA issued bonds for capital improvements for institutions of higher education for the State of Oklahoma. The total bond issue was approximately \$500,000,000, of which \$6,068,832 was allocated to the University for various capital projects.

The state legislature appropriates monies for the debt service of the OCIA leases. These are recorded as "on behalf payments." It is the understanding of University's management that this obligation will always be paid by funds appropriated by the state legislature.

The lease obligations will mature June 30, 2030, and carries an interest rate of 4.10% to 5.50%. The contract calls for monthly payments paid by the Oklahoma State Regents for Higher Education. Principal required for the next five years and successive five-year periods until maturity is as follows:

Year Ending June 30,	Principal	Interest	Total
2013	190,637	251,297	441,934
2014	477,192	242,154	719,346
2015	492,417	227,169	719,586
2016	491,864	206,089	697,953
2016-2021	1,105,020	743,266	1,848,286
2021-2026	1,329,116	534,478	1,863,594
2026-2030	1,322,477	168,374	1,490,851
	<u>\$ 5,408,723</u>	<u>\$ 2,372,827</u>	<u>\$ 7,781,550</u>

There are no University assets pledged as collateral for this obligation.

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 paid interest of \$15,660 per month through December 2002. Beginning January 15, 2003, the University is making monthly, annually escalating payments through December 15, 2018 under the lease agreement.

The scheduled principal and interest payments related to the lease are as follows:

Year Ending June 30,	Principal	Interest	Total
2013	280,000	91,771	371,771
2014	305,000	78,099	383,099
2015	330,000	63,155	393,155
2016	360,000	46,554	406,554
2017	705,000	35,938	740,938
	<u>\$ 1,980,000</u>	<u>\$ 315,517</u>	<u>\$ 2,295,517</u>

During the year ending June 30, 2012, the Oklahoma Development Finance Authority (ODFA), an agency of the State of Oklahoma, issued bonds for the acquisition of or improvements to certain real property. The University used the proceed to purchase Lawson Court from the USAOF, LLC. The University's pro rata share of bonds was \$11,455,000 and has been recorded as a lease payable.

Activity related to the leases payable to ODFA for the year ended June 30, 2012, was as follows:

	2012
Balance, beginning of year	\$ -
Issuance of bonds	11,455,000
Less principal payments on bonds	(100,000)
Balance, end of year	11,355,000
Less current portion	(455,000)
Less discount	(187,941)
Long-term portion	<u>\$ 10,712,059</u>

The scheduled principal and interest payments related to the lease are as follows:

Year Ending June 30,	Principal	Interest	Total
2013	455,000	349,419	804,419
2014	460,000	340,319	800,319
2015	470,000	331,119	801,119
2016	480,000	321,719	801,719
2017	490,000	312,119	802,119
2017-2022	2,595,000	1,397,394	3,992,394
2022-2027	2,965,000	1,001,944	3,966,944
2027-2032	3,440,000	413,544	3,853,544
	<u>\$ 11,355,000</u>	<u>\$ 4,467,575</u>	<u>\$ 15,822,575</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. 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.

INDEPENDENT AUDITOR'S REPORT

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

We have audited the accompanying statement of net assets of the University of Science and Arts of Oklahoma (the University), a component unit of the State of Oklahoma, as of June 30, 2012, and the related statements of revenues, expenses, and changes in net assets, and cash flows, for the year then ended. These financial statements are the responsibility of the management of the University of Science and Arts of Oklahoma. Our responsibility is to express an opinion 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 reports of the other auditors. The University financial statements referred to above do not include amounts from the financial statements of the Foundation. Rather, a complete set of Foundation financial statements are 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. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. The financial statements of the Foundation, which were audited by other auditors, were not audited in accordance with *Government Auditing Standards*. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, based on our audit and the report of the other auditors, the financial statements referred to in the first paragraph present fairly, in all material respects, the respective financial position of the University of Science and Arts of Oklahoma and its separately presented component unit as of June 30, 2012, and the respective changes in net assets and cash flows for the year then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued our report dated December 6, 2012, on our consideration of the internal control over financial reporting of the University of Science and Arts of Oklahoma, 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 the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis on pages i through v be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. 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.

Our audit was conducted for the purpose of forming an opinion on the financial statements that collectively comprise the University's financial statements as a whole. The schedule of expenditures of state awards is presented for purposes of additional analysis and is not a required part of the financial statements. The accompanying 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 federal and state awards are the responsibility of management and were derived from and relate directly to the underlying accounting and other records used to prepare the financial statements. The information has been subjected to the auditing procedures applied in the audit of the financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements or to the financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the information is fairly stated in all material respects in relation to the financial statements as a whole.

 *Becky Fleming, C.P.A., Inc.*

Becky Fleming, C.P.A., Inc.
December 6, 2012

University of Science and Arts of Oklahoma
Statement of Net Assets
June 30, 2012

ASSETS

Current Assets:

Cash and cash equivalents	4,968,761
Restricted cash and cash equivalents	3,165,666
Accounts receivable, net	585,332
Current portion of loans receivable	<u>23,426</u>
Total Current Assets	8,743,185

Noncurrent Assets:

Restricted cash and cash equivalents	414,460
Loans receivable, net	53,389
Bond issuance cost, net	127,556
Capital assets, net	<u>27,077,012</u>
Total noncurrent assets	<u>27,672,417</u>

Total Assets	36,415,602
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LIABILITIES

Current Liabilities:

Accounts payable	145,338
Accrued payroll	563,388
Current maturities of capital leases	925,637
Student deposits	<u>74,000</u>
Total Current Liabilities	1,708,362

Noncurrent Liabilities:

Accrued compensated absences	268,776
OCIA Capital Lease Obligation	4,759,336
ODFA Capital Lease, net of discount	10,712,059
Obligations under other capital leases	<u>1,700,000</u>
Total Noncurrent Liabilities	<u>17,440,170</u>

Total Liabilities	19,148,533
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NET ASSETS

Invested in capital assets, net of related debt	8,979,981
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Restricted for:

Nonexpendable:

Scholarships	340,554
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Expendable:

Debt service	217,823
Capital projects	1,999,106
Loans	126,815

Unrestricted	<u>5,602,790</u>
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Total Net Assets	<u>\$ 17,267,069</u>
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University of Science and Arts of Oklahoma
Statement of Revenues, Expenses and Changes in Net Assets
For the year ended June 30, 2012

Operating Revenues

Tuition and student fees (net of scholarship allowance of \$1,558,408 respectively)	2,706,882
Auxiliary services (net of scholarship allowance of \$1,727,279)	2,998,790
Federal grants and contracts	2,443,566
State grants and contracts	877,378
Total operating revenues	<u>9,026,616</u>

Operating Expenses

Compensation	9,195,624
Supplies, materials & utilities	6,106,013
Depreciation and Amortization	1,237,638
Scholarships and fellowships	184,722
Other	363,449
Total operating expenses	<u>17,087,445</u>

Operating loss (8,060,829)

Nonoperating Revenues (Expenses)

State appropriations	7,469,661
On-Behalf contributions for OTRS	517,432
Investment income	766,278
Other Income	1,012,677
Interest costs	(439,559)
Total nonoperating revenues (expenses)	<u>9,326,489</u>

Gain (Loss) before other revenues, expenses, gains and losses 1,265,659

State appropriations restricted for capital purposes 1,225,031
OCIA on-behalf appropriations 108,894

Change in net assets 2,599,585

Net assets, beginning of year 14,667,484

Net assets, end of year \$ 17,267,069

University of Science and Arts of Oklahoma
Statement of Cash Flows
For the year ended June 30, 2012

Cash Flows from Operating Activities	
Tuition and student fees	\$ 2,662,375
Federal and state grants and contracts	3,320,944
Scholarships	(184,722)
Payments to suppliers	(6,756,251)
Payments to employees	(8,648,829)
Auxiliary enterprises sales and services	2,991,131
Net cash used in operating activities	<u>(6,615,351)</u>
Cash Flows from Noncapital Financing Activities	
State appropriations	7,469,661
Transfer from USAOF, LLC	1,012,677
Net cash provided by noncapital financing activities	<u>8,482,338</u>
Cash flows from Capital and Related Financing Activities	
Purchase of capital assets	(12,068,368)
Proceeds from ODFA bond issuance less discount & costs	11,127,908
Principal paid on capital leases and bonds	(350,000)
Interest paid on capital leases and bonds	(331,996)
Capital appropriations received	1,225,031
Net cash used in financing activities	<u>(397,425)</u>
Cash Flows from Investing Activities	
Interest received	766,278
Net cash provided by investing activities	<u>766,278</u>
Net increase in cash and cash equivalents	2,235,841
Cash and cash equivalents at beginning of year	6,313,047
Cash and cash equivalents at end of year	<u><u>\$ 8,548,888</u></u>
Reconciliation of Net Operating Revenues (Expenses) to	
Net Cash Used in Operating Activities:	
Operating loss	\$ (8,060,829)
Adjustments to reconcile net operating loss to net cash	
used in operating activities:	
Depreciation and amortization expense	1,237,638
On-behalf payments	517,432
Change in assets and liabilities:	
Receivables, net	(53,566)
Inventories	4,134
Other liabilities	1,400
Accounts payable	(290,922)
Compensated absences and employee accruals	29,362
Net cash used in operating activities	<u><u>\$ (6,615,351)</u></u>
Noncash Investing Capital and Financing Activities	
State appropriations for on-behalf payments	<u><u>\$ 108,895</u></u>
Reconciliation of Cash and Cash Equivalents to the	
Statement of Net Assets	
Current assets:	
Cash and cash equivalents	4,968,761
Restricted cash and cash equivalents	3,165,666
Noncurrent assets:	
Restricted cash and cash equivalents	414,460
	<u><u>\$ 8,548,888</u></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, 2012

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.

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 by way of scholarships. 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, 2012, the Foundation distributed approximately \$335,483 to the University for scholarships awarded. The Foundation's subsidiary also contributed \$1,012,677 to the University as an unrestricted contribution during the year.

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). Pursuant to GASB Statement No. 20, the University has elected not to apply the provisions of all relevant pronouncements of the Financial Accounting Standards Board (FASB) that were issued after November 30, 1989.

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, the majority of each residing in the state of Oklahoma. 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.

Inventories

Inventories, mainly printing supplies, are stated at the lower of cost or market. Cost is determined using the first-in, first-out method. There were no amounts in inventory as of the end of the year.

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 assets

The University's net assets are classified as follows:

Invested in capital assets, net of related debt: 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 assets – nonexpendable: Restricted nonexpendable net assets include a permanently restricted endowment for scholarships.

Restricted net assets – expendable: Restricted expendable net assets 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 assets: Unrestricted net assets 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.

Note 2 – Cash and Cash Equivalents

Deposits

Cash balances of \$7,170,518 at June 30, 2012, 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, 2012, totaled \$217,823 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, 2012 totaled \$1,013,208. The Oklahoma State Regents for Higher Education holds for the University endowed gifts totaling \$2,179,153. 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 \$143,888 at June 30, 2012, at an FDIC insured bank and \$3,420 at June 30, 2012, of petty cash funds held at the University.

The above cash and cash equivalents are included in the June 30, 2012, statements of net assets as follows:

	<u>2012</u>
Current assets:	
Cash and cash equivalents	\$ 4,968,761
Restricted cash and cash equivalents	3,165,666
Noncurrent assets:	
Restricted cash and cash equivalents	414,461
	<u>\$ 8,548,888</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 \$458,904 at June 30, 2012.

Note 4 – Loans Receivable

Student loans made through the Federal Perkins Loans Program (the Program) comprise all of the loans receivable at June 30, 2012.

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 approximately \$50,000, at June 30, 2012.

Note 5 – Capital Assets

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

	Balance June 30, 2011	Additions	Disposal	Balance June 30, 2012
Nondepreciable Capital Assets				
Land	\$ 275,619	\$ -	\$ -	\$ 275,619
Total Nondepreciable Assets	275,619	-	-	275,619
Other Capital Assets				
Buildings	17,546,500	11,758,521	-	29,305,021
Infrastructure & Improvements	2,770,465	44,300	-	2,814,765
Equipment	8,256,372	136,839	200,526	8,192,685
Depreciable Library Materials	3,079,456	128,708	-	3,208,164
Total Other Capital Assets	\$ 31,652,793	\$ 12,068,368	\$ 200,526	\$ 43,520,635
Accumulated Depreciation:				
Buildings	7,128,768	759,753	-	7,888,521
Infrastructure & Improvements	1,485,042	104,157	-	1,589,199
Equipment	5,205,184	239,997	200,526	5,244,655
Library Materials	1,874,732	122,135	-	1,996,867
Total Accumulated Depreciation	15,693,726	1,226,042	200,526	16,719,242
Capital Assets, Net	\$ 16,234,686	\$ 10,842,326	\$ -	\$ 27,077,012

At June 30, 2012, 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	934,676	465,648	2,448,311	3,848,635
	\$ 15,270,642	\$ 804,302	\$ 1,528,768	\$ 17,603,712

Note 6 – 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 \$1,225,031 during the year ended June 30, 2012, 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 \$14,781,429 at June 30, 2012.

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 matches amounts, plus any retained accumulated earnings, totaled approximately \$2,179,153 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 \$1,013,208 have been reflected as assets in the statements of net assets.

Note 7 – Long-Term Liabilities

Long-term liability activity for the years ended June 30, 2012, is as follows:

	Balance June 30, 2011	Additions	Reductions	Balance June 30, 2012	Amounts Due Within One Year
Capital Leases	\$ 7,181,305	\$ 11,455,000	\$ (539,274)	\$ 18,097,031	\$ 925,637
Accrued Compensated Absences	285,111	8,754	(25,089)	268,776	
Total Long-Term Liabilities	\$ 7,466,416	\$ 11,463,754	\$ (564,363)	\$ 18,365,807	\$ 925,637

Additional information regarding capital lease obligations is included in Notes 8, 9, and 10.

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 \$108,895 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
2013	280,000	190,637	455,000	692,487	1,618,124
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	705,000	514,062	490,000	531,978	2,241,040
2017-2022	-	831,491	2,595,000	2,088,902	5,515,393
2022-2027	-	1,395,507	2,965,000	1,470,029	5,830,536
2027-2032	-	1,015,553	3,440,000	516,147	4,971,700
	<u>\$ 1,980,000</u>	<u>\$ 5,408,723</u>	<u>\$ 11,355,000</u>	<u>\$ 7,155,920</u>	<u>\$ 25,899,643</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 of 8.55%, is applied to annual compensation, and is determined by state statute. The contribution rate was 8.55% in fiscal year 2011 and 8.05%-8.55% in fiscal year 2010.

Employee's contributions are also determined by state statute. For all employees, the contribution rate was 7% of covered salaries and fringe benefits in 2012, 2011, and 2010. 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, 2012, 2011, and 2010, were approximately \$1,113,360, \$1,098,647, and \$1,120,572, 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 2012, 2011, and 2010, 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, 2012, 2011, and 2010 was approximately \$517,432, \$460,046, and \$410,267, 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, 2012, in the amount of approximately \$425,112.

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, 2012 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	340,524	340,524	-	-
Total Assets	\$ 340,524	\$ 340,524	\$ -	\$ -

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

NOTE 13 – SUBSEQUENT EVENTS

Subsequent events have been evaluated through December 6, 2012, which is the date the financial statements were available to be issued.

SEPARATELY PRESENTED COMPONENT UNIT

**UNIVERSITY OF SCIENCE AND ARTS OF OKLAHOMA FOUNDATION, INC.
AND SUBSIDIARY**

CONSOLIDATED FINANCIAL STATEMENTS

JUNE 30, 2012

University of Science & Arts of Oklahoma Foundation, Inc. and Subsidiary
June 30, 2012

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CERTIFIED PUBLIC ACCOUNTANTS

INDEPENDENT AUDITOR'S REPORT

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

We have audited the accompanying Consolidated Statement of Financial Position of University of Science and Arts of Oklahoma Foundation, Inc. (a nonprofit organization) and Subsidiary as of June 30, 2012, and the related Consolidated Statement of Activities and Changes in Net Assets and Consolidated Statement of Cash Flows, for the year then ended. These financial statements are the responsibility of the Foundation's management. Our responsibility is to express an opinion on these financial statements based on our audit. We did not audit the financial statements of USAOF Student Housing, LLC, a subsidiary, which statements reflect total assets of \$0 as of June 30, 2012, and total support and revenues of \$555,739 for the year then ended. Those statements were audited by other auditors whose report has been furnished to us, and our opinion, insofar as it relates to the amounts included for USAOF Student Housing, LLC, is based solely on the report of the other auditors.

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 consolidated financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the consolidated financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit and the report of other auditors provide a reasonable basis for our opinion.

In our opinion, based on our audit and the report of other auditors, the consolidated 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. and Subsidiary as of June 30, 2012 and changes in their net assets and their cash flows, for the year then ended in conformity 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
November 27, 2012

University of Science and Arts of Oklahoma Foundation, Inc. and Subsidiary
Consolidated Statement of Financial Position
June 30, 2012

ASSETS

CURRENT ASSETS

Cash & Cash Equivalents	\$ 1,347,555
Contributions Receivable	31,309
Accrued Interest	5,679
Inventories	4,500
<i>Total Current Assets</i>	<u>1,389,043</u>

INVESTMENTS

Investments	8,309,299
Minerals	378,027

OTHER ASSETS

Art & Historical Collections	-
<i>TOTAL ASSETS</i>	<u>\$ 10,076,369</u>

LIABILITIES AND NET ASSETS

CURRENT LIABILITIES

Accounts Payable	\$ 7,906
Funds Invested for USAOAA	100,000
<i>Total Current Liabilities</i>	<u>107,906</u>

<i>TOTAL LIABILITIES</i>	<u>107,906</u>
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NET ASSETS

Current Unrestricted	1,176,525
Temporarily Restricted	3,058,232
Permanently Restricted:	
Endowment Corpus	5,733,706
<i>TOTAL NET ASSETS</i>	<u>9,968,463</u>

<i>TOTAL LIABILITIES AND NET ASSETS</i>	<u>\$ 10,076,369</u>
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The accompanying notes are an integral part of the financial statements

University of Science and Arts of Oklahoma Foundation, Inc. and Subsidiary
Consolidated Statement of Activities and Changes in Net Assets
For The Year Ended June 30, 2012

	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Permanently Restricted</u>	<u>Total</u>
SUPPORT AND REVENUE				
Support				
Contributions & Grants	\$ 48,601	\$ 835,729	\$	\$ 884,330
Non Cash/In Kind Donations	35,258			35,258
Endowment Fund Support			299,525	299,525
<i>Total Support</i>	<u>83,859</u>	<u>835,729</u>	<u>299,525</u>	<u>1,219,113</u>
Revenue				
Royalties/Lease Bonus-net	67,769		141,675	209,444
Investment-Trust Distribution	13,679			13,679
Investment Return (net of fees)		(230,638)		(230,638)
Program & Fundraising Revenues	74,329			74,329
Bank Interest	1,916			1,916
LLC-Revenues	553,263			553,263
LLC-Investment Return (net of fees)	2,477			2,477
Net Assets Released from Restrictions	265,671	(296,981)	31,310	-
<i>Total Revenue</i>	<u>979,103</u>	<u>(527,619)</u>	<u>172,985</u>	<u>624,469</u>
<i>Total Support and Revenue</i>	<u>1,062,962</u>	<u>308,110</u>	<u>472,510</u>	<u>1,843,582</u>
EXPENSES				
Program Services				
Scholarships	340,644			340,644
Program Costs	347,812			347,812
Supporting Services				
Management & General	92,189			92,189
Fund Raising	48,264			48,264
LLC-Management & General	802,135			802,135
<i>Total Expenses</i>	<u>1,631,044</u>	<u>-</u>	<u>-</u>	<u>1,631,044</u>
<i>Changes in Net Assets before Extraordinary Items</i>	(568,082)	308,110	472,510	212,538
Extraordinary Items (LLC)				
Net Gain on Disposal of Assets	4,489,183			4,489,183
Donation of Excess Funds to USAO	(1,012,677)			(1,012,677)
<i>Total Extraordinary Items</i>	<u>3,476,506</u>	<u>-</u>	<u>-</u>	<u>3,476,506</u>
<i>Changes in Net Assets after Extraordinary Items</i>	<u>2,908,424</u>	<u>308,110</u>	<u>472,510</u>	<u>3,689,044</u>
<i>Net Assets at Beginning of Year</i>	(1,731,899)	2,811,802	5,261,196	6,341,099
<i>Prior Period Adjustments</i>	<u>(61,680)</u>	<u>(61,680)</u>	<u>(61,680)</u>	<u>(61,680)</u>
<i>Net Assets at Beginning of Year-Restated</i>	(1,731,899)	2,750,122	5,261,196	6,279,419
<i>Net Assets at End of Year</i>	<u>\$ 1,176,525</u>	<u>\$ 3,058,232</u>	<u>\$ 5,733,706</u>	<u>\$ 9,968,463</u>

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

University of Science and Arts of Oklahoma Foundation, Inc. and Subsidiary
Consolidated Statement of Cash Flows
Year Ended June 30, 2012

CASH FLOWS FROM OPERATING ACTIVITIES

Change in Net Assets	\$ 3,689,044
Adjustments to reconcile change in net assets to net cash provided by operating activities:	
Unrealized Gains on Investments	405,826
Allowance for Bad Debt	(122,269)
(Increase) Decrease in	
Accounts Receivable (LLC)	255,789
Contributions Receivable	234,664
Accrued Interest Receivable	4,437
Prepaid Expense	5,321
Increase (Decrease) in	
Accounts Payable	2,442
Accrued Interest Payable (LLC)	(112,913)
Security Deposits (LLC)	<u>(110,230)</u>
NET CASH PROVIDED BY OPERATING ACTIVITIES	\$ <u>4,252,111</u>

CASH FLOWS FROM INVESTING ACTIVITIES

Net Change in Investments	\$ 1,587,370
Disposal of Property & Equipment	<u>6,644,338</u>
NET CASH USED BY INVESTING ACTIVITIES	\$ <u>8,231,708</u>

CASH FLOWS FROM FINANCING ACTIVITIES

Repayment of Long-Term Debt (LLC)	<u>(12,150,000)</u>
NET CASH PROVIDED BY FINANCING ACTIVITIES	\$ <u>(12,150,000)</u>

NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	\$ 333,820
CASH AND CASH EQUIVALENTS AT BEGINNING OF YEAR	<u>1,013,735</u>
CASH AND CASH EQUIVALENTS AT END OF YEAR	\$ <u><u>1,347,555</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, 2012

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).

The Foundation has a wholly owned subsidiary, **USAOF Student Housing, L.L.C.**, (LLC) organized under the Laws of the State of Oklahoma as a Limited Liability Company. The subsidiary was organized for the purpose of operating and maintaining a 300 bedroom student apartment complex on the campus of the University of Science and Arts of Oklahoma (USAO) located in Chickasha, Oklahoma.

Principles of Consolidation

The accompanying financial statements include the accounts of the Foundation and its' wholly owned subsidiary, USAOF Student Housing, LLC. All material intercompany balances and transactions have been eliminated in the consolidated financial statements.

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.

University of Science and Arts of Oklahoma Foundation, Inc.
Notes to the Financial Statements
June 30, 2012

Note 1 – Organization and Significant Accounting Policies (continued)

Property and Equipment (LLC)

Property and equipment are stated at cost if purchased and fair market value if donated. Depreciation is computed using the straight-line method over the estimated useful life of the asset. Buildings and improvements estimated useful lives are 30 years, furniture and fixtures estimated useful lives are 10 years.

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.

Investments

Short term investments and marketable equity securities are valued at market at year-end. The fair values of investments are based on quoted market prices for those or similar investments. Investment return is comprised of interest, dividends, 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.

Contribution Receivable

The receivable is the expected distribution of mineral rights from a trust held at First National Bank & Trust in the amount of \$31,310. The contribution of the mineral rights were recorded in the prior fiscal year; however, the transfer of the asset had not occurred by the end of the current fiscal year. Current year earnings from the mineral rights have been recorded as royalty income in the current year. The contribution receivable is reported at fair value and is reflected in the permanently restricted class of net assets.

University of Science and Arts of Oklahoma Foundation, Inc.
Notes to the Financial Statements
June 30, 2012

Note 1 – Organization and Significant Accounting Policies (continued)

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.

Rental Revenue (LLC)

Two and four bedroom units are leased to students of USAO for the fall, spring and summer terms. Revenue is recognized in the period earned.

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, 2012.

University of Science and Arts of Oklahoma Foundation, Inc.
Notes to the Financial Statements
June 30, 2012

Note 1 – Organization and Significant Accounting Policies (continued)

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 2009.

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).

Note 2 – Investments and Investment Income

Investments are reported at fair value, as discussed in Note 1. At June 30, 2012 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	\$ 741,562	\$ 741,562	\$ -
Certificate of Deposits	598,936	601,871	2,935
Government Obligations/Securities	786,913	837,132	50,219
Equity Funds & Corporate Stocks	5,430,173	5,945,317	515,144
Mortgages & Notes	177,410	183,417	6,007
Total	<u>\$ 7,734,994</u>	<u>\$ 8,309,299</u>	<u>\$ 574,305</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.

University of Science and Arts of Oklahoma Foundation, Inc.
Notes to the Financial Statements
June 30, 2012

Note 2 – Assets Limited as to Use, Investments, and Investment Income (continued)

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, 2012:

<u>Net Assets</u>	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Permanently Restricted</u>	<u>Total</u>
Interest and dividends	\$ -	207,580	-	\$ 207,580
Trustee Fees/Expense	-	(83,371)	-	(83,371)
Purchased Interest	-	(934)	-	(934)
Other Increases	-	2,626	-	2,626
Realized Gains/(Losses)	-	49,289	-	49,289
Unrealized Gains/(Losses)	-	(405,826)	-	(405,826)
Total Investment Return	\$ -	(230,638)	-	\$ (230,638)

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	\$ 257,172
Capital Improvements	762,961
Art & Other Programs	<u>2,038,099</u>
	<u>\$ 3,058,232</u>

University of Science and Arts of Oklahoma Foundation, Inc.
Notes to the Financial Statements
June 30, 2012

Note 4 - Permanently Restricted Net Assets

Net assets were permanently restricted for the following purposes at June 30, 2012:

Scholarships	\$ 4,529,582
Art & Other Programs	566,776
OSRHE Matching Program	250,000
Mineral Assets	<u>387,348</u>
	<u>\$ 5,733,706</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, 2012

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, 2012 is as follows:

	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Permanently Restricted</u>	<u>Total Net Endowment Assets</u>
Donor Restricted Funds	\$ -	\$ -	\$ 5,733,706	\$ 5,733,706
Board-Designated Funds	-	(96,860)	-	(96,860)
Total Funds	<u>\$ -</u>	<u>\$ (96,860)</u>	<u>\$ 5,733,706</u>	<u>\$ 5,636,846</u>

Changes in endowment net assets as of June 30, 2012 are as follows:

	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Permanently Restricted</u>	<u>Total Net Endowment Assets</u>
Net Assets, July 1, 2011				
<i>Restated</i>	\$ -	\$ 111,596	\$ 5,261,196	\$ 5,372,792
Contributions/Royalties		(31,310)	472,510	441,200
Investment Income		134,556	-	134,556
Amounts Expended		-	-	-
Net (Depreciation)		(311,702)	-	(311,702)
Net Assets, June 30, 2012	<u>\$ -</u>	<u>\$ (96,860)</u>	<u>\$ 5,733,706</u>	<u>\$ 5,636,846</u>

University of Science and Arts of Oklahoma Foundation, Inc.
Notes to the Financial Statements
June 30, 2012

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 services of \$30,000.

Donated property (except for collections, see Note 15) is valued at the fair market value at the time of receipt. The Foundation received goods, for use by the University, valued at \$5,258.

Note 7 - Oklahoma State Regents for Higher Education

The Oklahoma State Regents for Higher Education holds for the University endowed gifts totaling \$1,657,685. 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 set up to raise funds 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.

During the current year ending June 30, 2012 the University of Science and Arts of Oklahoma purchased the main asset of the Foundation's subsidiary, USAOF Student Housing, L.L.C., (LLC), the Lawson Court dormitory. The proceeds of the sale were used to pay off the three revenue bond obligations that USAOF's subsidiary had incurred to build and remodel Lawson Court. The sole purpose of the subsidiary of USAOF was to hold ownership of the Lawson Court facility and to service the debt that accompanied the building and remodeling. With the sale of the dormitory and extinguishment of the debt the Organization (LLC) has no assets or liabilities. The LLC transferred its residual assets (\$1,012,677) to the University of Science and Arts prior to June 30, 2012.

University of Science and Arts of Oklahoma Foundation, Inc.
Notes to the Financial Statements
June 30, 2012

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.

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, 2012 the Foundation had uninsured balances of \$1,114,520.

The Foundation's investments held by various bank trust departments and investment firms are insured by SIPC and FDIC in the amount of \$892,064 other investments are backed by the federal government in the amount of \$1,284,146. At June 30, 2012 the Foundation's uninsured investments totaled \$6,131,501.

Note 11 – Fair Value Measurements on a Recurring Basis

Fair values of assets measured on a recurring basis at June 30, 2012 are as follows:

	<u>Fair Value</u>	<u>Quoted Prices in Active Markets for Identical Assets (Level 1)</u>	<u>Significant Other Observable Inputs (Level 2)</u>	<u>Significant Unobservable Inputs Level (3)</u>
Investments:				
Total	\$ 8,309,299	\$ 8,309,299	\$ -	\$ -

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

University of Science and Arts of Oklahoma Foundation, Inc.
Notes to the Financial Statements
June 30, 2012

Note 12 – Other Related Party Transactions

The Foundation has contracted with a current board member's brother's company to provide consultation services in regards to their oil and gas investments. This is in conflict with board's conflict of interest policy. However, due to the specialty of this type of service and full disclosure of any potential conflict, the board has approved this exception. The payments made to this related party for the fiscal year were \$8,081.

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.

The Foundation has entered into a construction project contract for the Nobbs Wellness Center. The contract amount and the remaining balance at June 30, 2012 is \$289,515.

Note 14 – Subsequent Events

Subsequent events were evaluated through November 27, 2012 which is the date the financial statements were available to be issued.

(LLC) - Subsequent events were evaluated through November 2, 2012 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**

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**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 the 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, 2012, and have issued our report thereon dated December 6, 2012. Other auditors 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. The financial statements of the Foundation were not audited in accordance with *Government Auditing Standards*. 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.

Internal Control Over Financial Reporting

Management of the University of Science and Arts of Oklahoma is responsible for establishing and maintaining effective internal control over financial reporting. In planning and performing our audit, we considered the University's internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the University of Science and Arts of Oklahoma's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the University's internal control over financial reporting.

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.


Our consideration of internal control over financial reporting 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 financial reporting that might be deficiencies, significant deficiencies, or material weaknesses. We did not identify any deficiencies in internal control over financial reporting that we consider to be material weaknesses as defined above.

Member of the American Institute of Certified Public Accountants

Compliance and Other Matters

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

This report is intended solely for the information and use of the Board of Regents, management, others within the organization, and federal and state awarding agencies and is not intended to be and should not be used by anyone other than these specified parties.

 , C.P.A., Inc.

Becky Fleming, C.P.A., Inc.
December 6, 2012

**INDEPENDENT AUDITOR'S REPORT ON COMPLIANCE WITH REQUIREMENTS
THAT COULD HAVE A DIRECT AND MATERIAL EFFECT ON EACH MAJOR
PROGRAM AND ON INTERNAL CONTROL OVER COMPLIANCE IN
ACCORDANCE WITH OMB CIRCULAR A-133**

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

Compliance

We have audited the compliance of the University of Science and Arts of Oklahoma (the University) 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's major federal programs for the year ended June 30, 2012. The University's major federal programs are identified in the summary of auditor's results section of the accompanying schedule of findings and questioned costs. Compliance with the requirements of laws, regulations, contracts and grants applicable to each of its major federal programs is the responsibility of the management of the University of Science and Arts of Oklahoma. Our responsibility is to express an opinion on the University's compliance based on our audit.

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 compliance of the University of Science and Arts of Oklahoma with those requirements and performing such other procedures we consider necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion. Our audit does not provide a legal determination on the University's compliance with those requirements.

In our opinion, the University of Science and Arts of Oklahoma complied, in all material respects, with the requirements referred to above that are applicable to each of its major federal programs for the year ended June 30, 2012.

Internal Control Over Compliance

The management of the University of Science and Arts of Oklahoma is responsible for establishing and maintaining effective internal control over compliance with the requirements of laws, regulations, contracts and grants applicable to federal programs. In planning and performing our audit, we considered the University's internal control over compliance with the requirements that could have a direct and material effect on a major federal program in order to

determine our auditing procedures for the purpose of expressing our opinion on compliance 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.

Our consideration of the 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 deficiencies, significant deficiencies, or material weaknesses. We did not identify any deficiencies in internal control over compliance that we consider to be material weaknesses as defined above.

This report is intended solely for the information and use of the Board of Regents, management, others within the organization, and federal and state awarding agencies and is not intended to be and should not be used by anyone other than these specified parties.

 , C.P.A., Inc.

Becky Fleming, C.P.A., Inc.
December 6, 2012

UNIVERSITY OF SCIENCE AND ARTS OF OKLAHOMA
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
Year ended June 30, 2012

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	\$ 59,169
Federal Work Study Program	84.033	\$ 281,403
Federal Pell Grant Program	84.063	\$ 2,097,451
Federal Direct Student Loans	84.268	<u>\$ 3,251,492</u>
Total Student Aid Financial Aid Cluster		\$ 5,689,515
Pass thru from Oklahoma State Regents for Higher Education College Access Challenge Grant Program		
	84.378A	<u>\$ 5,543</u>
Total Expenditures of Federal Awards		<u><u>\$ 5,695,058</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, 2012. 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	\$ 126,815

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, 2012

State grantor/ Program Title	Contract Number	Contract Period	State Expenditures
Oklahoma State Regents for Higher Education			
OK Tuition Aid Grant (OTAG)	N/A	7/1/11-6/30/12	\$ 151,849
OK Higher Learning Access Program (OHLAP)	N/A	7/1/11-6/30/12	<u>725,529</u>
			<u>\$ 877,378</u>

UNIVERSITY OF SCIENCE AND ARTS OF OKLAHOMA
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
Year ended June 30, 2012

Section I - Summary of Auditors' Results

1. The independent auditors' report on the financial statements expresses an unqualified opinion.
2. No reportable conditions were reported in the independent auditors' report on internal control over financial reporting.
3. No instance of noncompliance considered material to the financial statements was disclosed by the audit.
4. No reportable conditions relating to the audit of the major federal award programs were reported in the "Report on Compliance with Requirement Applicable to Each Major Program and Internal Control Over Compliance in Accordance with OMB Circular A-133."
5. The independent auditors' report on compliance with requirements applicable to major federal awards programs expressed an unqualified opinion.
6. The audit disclosed no 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*:

No matters are reportable.

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

No matters are reportable.

UNIVERSITY OF SCIENCE AND ARTS OF OKLAHOMA
SUMMARY SCHEDULE OF PRIOR AUDIT FINDINGS
Year ended June 30, 2012

There are no prior year findings or questioned costs.