

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



**FINANCIAL STATEMENTS AND
SUPPLEMENTARY INFORMATION**

JUNE 30, 2014

**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, 2014 and 2013. 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

	2014	2013
Assets:		
Current assets	9,961,378	10,618,181
Capital assets, net	26,884,230	26,537,165
Other assets	279,196	456,724
Total assets	\$ 37,124,804	\$ 37,612,070
 Deferred Outflows of Resources	 \$ 407,778	 \$ 433,264
Liabilities:		
Current liabilities	2,185,807	2,425,442
Noncurrent liabilities	15,685,341	16,646,423
Total liabilities	\$ 17,871,148	\$ 19,071,865
 Deferred Inflows of Resources	 \$ 350,000	 \$ 400,000
Net Position		
Net investment in capital assets	10,587,010	9,330,606
Restricted-expendable	3,849,588	3,302,742
Restricted -nonexpendable	336,097	331,185
Unrestricted	4,538,739	5,608,936
Total Net Position	\$ 19,311,434	\$ 18,573,469

Statement of Revenue, Expenses and Change in Net Position

	2014	2013
Operating revenues	10,173,039	9,745,072
Operating expenses	18,803,459	17,865,918
Operating loss	(8,630,420)	(8,120,846)
Nonoperating revenues and expenses	7,921,596	7,888,818
Contributions	-	-
Other revenues, expenses, gains, and losses	1,446,789	1,715,984
 Increase (decrease) in net position	 737,965	 1,483,956
Net position, beginning of year	18,573,469	17,267,069
Prior period adjustment	-	(177,556)
Net position, end of year	\$ 19,311,434	\$ 18,573,469

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 \$737,965 a 4% increase Net Assets.
- The University's additions to fixed assets of \$1,808,863.

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, 2013	Additions	Disposal	June 30, 2014
Nondepreciable Capital Assets				
Land	\$ 275,619	\$ -	\$ -	\$ 275,619
Total Nondepreciable Assets	275,619	-	-	275,619
Other Capital Assets				
Buildings	29,875,470	1,388,374	-	31,263,844
Infrastructure & Improvements	2,844,152	91,550	-	2,935,702
Equipment	8,477,319	291,732	-	8,769,051
Depreciable Library Materials	3,253,371	37,207	-	3,290,578
Total Other Capital Assets	\$ 44,450,312	\$ 1,808,863	\$ -	\$ 46,259,175
Accumulated Depreciation:				
Buildings	8,949,045	1,083,910	-	10,032,955
Infrastructure & Improvements	1,694,660	66,437	-	1,761,097
Equipment	5,420,262	183,786	-	5,604,048
Library Materials	2,124,799	127,665	-	2,252,464
Total Accumulated Depreciation	18,188,766	1,461,798	-	19,650,564
Capital Assets, Net	\$ 26,537,165	\$ 347,065	\$ -	\$ 26,884,230

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 \$441,939 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, 2013, 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
2015	330,000	478,619	470,000	509,144	1,787,763
2016	360,000	493,906	480,000	574,893	1,908,799
2017	390,000	494,832	490,000	526,263	1,901,095
2018	315,000	515,766	495,000	479,198	1,804,964
2019	-	533,700	505,000	437,433	1,476,133
2019/2024	-	489,659	2,720,000	1,852,309	5,061,968
2024/2029	-	1,382,916	3,175,000	1,147,891	5,705,807
2029/2032	-	649,183	2,105,000	215,532	2,969,715
	<u>\$ 1,395,000</u>	<u>\$ 5,038,581</u>	<u>\$ 10,440,000</u>	<u>\$ 5,742,663</u>	<u>\$ 22,616,244</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 2014. 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

Report on the Financial Statements

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, which comprise the statement of net position as of June 30, 2014, and the related statements of revenues, expenses, and changes in net position, and 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 did not audit the financial statements of the University's discretely presented component unit, the University of Science and Arts of Oklahoma Foundation, Inc. (the Foundation). Those financial statements were audited by other auditors whose report has been furnished to us and, in our opinion, insofar as it relates to the amounts included for the Foundation, 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 and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement. The financial statements of the Foundation were audited by other auditors and were not audited in accordance with *Government Auditing Standards*.

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

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

Opinions

In our opinion, based on our audit and the report of the other auditor, the financial statements referred to above present fairly, in all material respects, the respective financial position of the University of Science and Arts of Oklahoma and its discretely presented component unit, the University of Science and Arts of Oklahoma Foundation, Inc., as of June 30, 2014, and the respective changes in financial position and cash flows thereof for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Member of the American Institute of Certified Public Accountants

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, 2014, on our consideration of the University'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's internal control over financial reporting and compliance.

 C.P.A., Inc.

Becky Fleming, C.P.A., Inc.
October 31, 2014

University of Science and Arts of Oklahoma
Statement of Net Position
June 30, 2014

	University	USAO Foundation
ASSETS		
Current Assets:		
Cash and cash equivalents	5,422,400	156,312
Restricted cash and cash equivalents	3,830,601	-
Accounts and Contracts receivable, net	682,489	551,403
Investments	-	12,568,121
Inventories	-	4,500
Prepaid Expenses	-	21,500
Current portion of loans receivable	25,887	-
Total Current Assets	9,961,378	13,301,836
Noncurrent Assets:		
Restricted cash and cash equivalents	223,179	-
Loans receivable, net	56,018	-
Capital assets, net	26,884,230	-
Total noncurrent assets	27,163,426	-
Total Assets	\$ 37,124,804	\$ 13,301,836
DEFERRED OUTFLOWS OF RESOURCES		
Deferred charge on OCIA lease restructure	\$ 407,778	\$ -
LIABILITIES		
Current Liabilities:		
Accounts payable	116,211	4,551
Accrued payroll	703,180	-
Fund Invested for USAO Alumni Association	-	100,000
Current maturities of capital leases	1,292,417	-
Student deposits	74,000	-
Total Current Liabilities	2,185,807	104,551
Noncurrent Liabilities:		
Accrued compenstated absences	272,760	-
OCIA Capital Lease Obligation	4,546,165	-
ODFA Capital Lease	9,801,417	-
Obligations under other capital leases	1,065,000	-
Total Noncurrent Liabilities	15,685,341	-
Total Liabilities	\$ 17,871,148	\$ 104,551
DEFERRED INFLOWS OF RESOURCES		
Deferred Revenue from service contracts	\$ 350,000	\$ -
NET POSITION		
Net investment in capital assets	10,587,010	-
Restricted for:		
Nonexpendable:		
Scholarships	336,097	4,921,616
Expendable:		
Debt service	45,237	-
Capital projects	2,414,781	-
Scholarships, research, instruction, and other	1,257,666	6,613,764
Loans	131,905	-
Unrestricted	4,538,739	1,661,905
Total Net Position	\$ 19,311,434	\$ 13,197,285

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, 2014

	University	USAO Foundation
Operating Revenues		
Tuition and student fees (net of scholarship allowance of \$1,492,816 respectively)	2,644,975	-
Auxiliary services (net of scholarship allowance of \$1,518,544)	4,510,243	112,711
Federal grants and contracts	2,158,887	-
State grants and contracts	858,934	-
Other operating revenues	2,220	-
Total operating revenues	10,175,259	112,711
Operating Expenses		
Compensation	10,916,444	-
Supplies, materials & utilities	5,898,218	-
Depreciation and Amortization	1,461,798	-
Scholarships and fellowships	234,063	453,370
Other	292,936	362,584
Total operating expenses	18,803,459	815,953
Operating loss	(8,628,200)	(703,242)
Nonoperating Revenues (Expenses)		
State appropriations	7,695,033	-
On-Behalf contributions for OTRS	532,448	-
Gifts and Contributions	-	1,149,332
Investment income	395,367	1,003,234
Interest costs	(703,473)	-
Total nonoperating revenues (expenses)	7,919,376	2,152,566
Gain (Loss) before other revenues, expenses, gains and losses	(708,824)	1,449,324
State appropriations restricted for capital purposes	1,004,850	-
OCIA on-behalf appropriations	441,939	-
Change in net assets	737,965	1,449,324
Net position, beginning of year	18,573,469	11,747,961
Net position, end of year	\$ 19,311,434	\$ 13,197,285

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, 2014

Cash Flows from Operating Activities	
Tuition and student fees	\$ 2,588,603
Federal and state grants and contracts	2,967,821
Auxiliary enterprises sales and services	4,472,439
Other operating receipts	2,220
Scholarships	(234,063)
Payments to suppliers	(6,594,302)
Payments to employees	<u>(10,246,738)</u>
Net cash used in operating activities	(7,044,020)
Cash Flows from Noncapital Financing Activities	
State appropriations	7,695,033
Direct loan receipts	3,016,057
Direct loan disbursements	<u>(3,016,057)</u>
Net cash provided by noncapital financing activities	7,695,033
Cash flows from Capital and Related Financing Activities	
Purchase of capital assets	(1,670,557)
Principal paid on capital leases and bonds	(765,000)
Interest paid on capital leases and bonds	(405,873)
Capital appropriations received	<u>1,004,850</u>
Net cash used in financing activities	(1,836,580)
Cash Flows from Investing Activities	
Interest received	<u>395,367</u>
Net cash provided by investing activities	<u>395,367</u>
Net increase in cash and cash equivalents	(790,199)
Cash and cash equivalents at beginning of year	<u>10,266,381</u>
Cash and cash equivalents at end of year	<u><u>\$ 9,476,182</u></u>
Reconciliation of Net Operating Revenues (Expenses) to Net Cash Used in Operating Activities:	
Operating loss	\$ (8,628,200)
Adjustments to reconcile net operating loss to net cash used in operating activities:	
Depreciation and amortization expense	1,461,798
On-behalf payments	532,448
Change in assets and liabilities:	
Receivables, net	(94,176)
Accounts payable	(403,148)
Deferred inflows	(50,000)
Compensated absences and employee accruals	<u>137,257</u>
Net cash used in operating activities	<u><u>\$ (7,044,020)</u></u>
Noncash Investing Capital and Financing Activities	
State appropriations for on-behalf payments	<u><u>\$ 441,939</u></u>
Reconciliation of Cash and Cash Equivalents to the Statement of Net Assets	
Current assets:	
Cash and cash equivalents	5,422,400
Restricted cash and cash equivalents	3,830,601
Noncurrent assets:	
Restricted cash and cash equivalents	<u>223,179</u>
	<u><u>\$ 9,476,182</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, 2014

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 Universities 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.

Discretely 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 discretely presented in the University's financial statements.

During the year ended June 30, 2014, the Foundation distributed approximately \$453,370 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 University is a special purpose government engaging in business-type activities. 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. 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.

Restricted cash

Cash and investments that are externally restricted to make debt service payments, maintain sinking or reserve funds, make long-term student loans, or to purchase capital or other noncurrent assets, are classified as restricted cash in the statement of net position.

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 operating 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, 2014, 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, 2014 the University's deferred inflows were comprised of unearned service contract contributions.

New Accounting Pronouncement Issued Not Yet Adopted: The GASB has issued a new accounting pronouncement which will be effective for the University in subsequent years. A description of the new accounting pronouncement, the fiscal year in which they are effective, and the University's consideration of the impact of this pronouncement is described below:

Fiscal Year Ended June 30, 2015

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

GASB No. 68 establishes standards for measuring and recognizing liabilities, deferred outflows of resources, deferred inflows of resources, and pension expenses. GASB No. 68 also details the recognition and disclosure requirements for employers with liabilities to a defined benefit pension plan and for employers whose employees are provided with defined contribution pensions. Defined benefit pensions are further classified by GASB No. 68 as single employer plans, agent employer plans and cost-sharing plans, and recognition and disclosure requirements are addressed for each classification. GASB No. 68 was issued in June 2012, and implementation guidance is expected to be issued in November 2013. Although the University has not yet quantified the impact that GASB No. 68 will have on its financial statements, it believes that adoption will result in a significant decrease in its net position.

Note 2 – Cash and Cash Equivalents

Custodial Credit Risk — Deposits

Custodial credit risk is the risk that in the event of a bank failure, the University's deposits may not be returned to it. The University's deposit policy for custodial credit risk is described as follows:

Oklahoma Statutes require the State Treasurer to ensure that all state funds either be insured by Federal Deposit Insurance, collateralized by securities held by the cognizant Federal Reserve Bank, or invested in U.S. government obligations. The 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 financial institutions or invested as the Treasurer may determine, in the State's name.

The University requires that balances on deposit with financial institutions be insured by Federal Deposit Insurance or collateralized by securities held by the cognizant Federal Reserve Bank, or invested in U.S. Government obligations, in the University's name.

The carrying amount and related bank balances of the University's deposits held by the State Treasurer was \$8,052,050 at June 30, 2014.

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

Of funds on deposit with the State Treasurer, amounts invested in *OK INVEST* total \$4,905,931 at June 30, 2014.

For financial reporting purposes, deposits with the State Treasurer that are invested in *OK INVEST* are classified as cash equivalents. At June 30, 2014, the distribution in *OK INVEST* was as follows:

OK INVEST Portfolio	Cost	Market Value
U.S. Agency securities	\$ 2,250,857	\$ 2,246,480
Money market mutual funds	236,867	236,867
Certificates of deposit	127,350	127,350
End of Day Commercial Paper Sweep	103,241	103,241
Mortgage backed agency securities	2,015,402	2,056,989
Municipal bonds	75,265	83,356
Foreign bonds	38,541	38,541
U.S. Treasury Obligations	58,408	72,304
Total	\$ 4,905,931	\$ 4,965,128

Agencies and funds that are considered to be part of the State's reporting entity in the State's Comprehensive Annual Financial Report are allowed to participate in *OK INVEST*. Oklahoma statutes and the State Treasurer establish the primary objectives and guidelines governing the investment of funds in *OK INVEST*. Safety, liquidity, and return on investment are the objectives which establish the framework for the day to day *OK INVEST* management with an emphasis on safety of the capital and the probable income to be derived and meeting the State and its funds and agencies' daily cash flow requirements. Guidelines in the Investment Policy address credit quality requirements, diversification percentages and specify the types and maturities of allowable investments, and the specifics regarding these policies can be found on the State Treasurer's website at <http://www.treasurerstate.ok.us/>. The State Treasurer, at his discretion, may further limit or restrict such investments on a day to day basis.

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

Cash equivalents on deposit with trustees at June 30, 2014, totaled \$45,237 and consisted of U.S. government securities money market mutual funds held by trustees in 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, 2014 totaled \$1,217,320. The Oklahoma State Regents for Higher Education holds for the University endowed gifts totaling \$2,491,130. 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 \$158,124 at June 30, 2014, at an FDIC insured bank and \$3,420 at June 30, 2014, of petty cash funds held at the University.

The above cash and cash equivalents are included in the June 30, 2014, statements of net assets as follows:

	<u>2014</u>
Current assets:	
Cash and cash equivalents	\$ 5,422,400
Restricted cash and cash equivalents	3,830,601
Noncurrent assets:	
Restricted cash and cash equivalents	<u>223,179</u>
	<u><u>\$ 9,476,180</u></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

Accounts receivable consisted of the following at June 30, 2014:

Student tuition and fees	\$ 542,707
Auxiliary enterprises and other operating activities	<u>654,642</u>
	1,197,349
Less: allowance for doubtful accounts	<u>(514,860)</u>
	<u><u>\$ 682,489</u></u>

Note 4 – Loans Receivable

Student loans made through the Federal Perkins Loans Program (the Program) comprise all of the loans receivable at June 30, 2014.

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, 2014.

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 University 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 University Fund." The University received \$1,004,850 during the year ended June 30, 2014, 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, on the cost basis, was \$17,275,693 at June 30, 2014.

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 \$2,491,130 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 \$1,217,320 have been reflected as assets in the statements of net assets.

Note 6 – Fair Value Measurements on a Recurring Basis

Fair values of assets measured on a recurring basis on June 30, 2014 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	336,067	336,067	-	-
Total Assets	\$ 336,067	\$ 336,067	\$ -	\$ -

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

Note 7 – Capital Assets

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

	Balance			Balance		
	June 30, 2013	Additions	Disposal	June 30, 2014		
Nondepreciable Capital Assets						
Land	\$ 275,619	\$ -	\$ -	\$ 275,619		
Total Nondepreciable Assets	275,619	-	-	275,619		
Other Capital Assets						
Buildings	29,875,470	1,388,374	-	31,263,844		
Infrastructure & Improvements	2,844,152	91,550	-	2,935,702		
Equipment	8,477,319	291,732	-	8,769,051		
Depreciable Library Materials	3,253,371	37,207	-	3,290,578		
Total Other Capital Assets	\$ 44,450,312	\$ 1,808,863	\$ -	\$ 46,259,175		
Accumulated Depreciation:						
Buildings	8,949,045	1,083,910	-	10,032,955		
Infrastructure & Improvements	1,694,660	66,437	-	1,761,097		
Equipment	5,420,262	183,786	-	5,604,048		
Library Materials	2,124,799	127,665	-	2,252,464		
Total Accumulated Depreciation	18,188,766	1,461,798	-	19,650,564		
Capital Assets, Net	\$ 26,537,165	\$ 347,065	\$ -	\$ 26,884,230		

At June 30, 2014, 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	2,272,801	634,975	2,978,588	5,886,364
	\$ 13,932,517	\$ 634,975	\$ 998,491	\$ 15,565,983

Note 8 – Long-Term Liabilities

Long-term liability activity for the years ended June 30, 2014, is as follows:

	Balance			Amounts	
	June 30, 2013	Additions	Reductions	Balance	Due Within
				June 30, 2014	One Year
Capital Leases	\$ 17,818,086	\$ -	\$ (944,504)	\$ 16,873,582	\$ 1,278,619
Accrued Compensated Absences	248,791	146,551	(122,582)	272,760	-
Total Long-Term Liabilities	\$ 18,066,877	\$ 146,551	\$ (1,067,087)	\$ 17,146,341	\$ 1,278,619

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

Note 9 – 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. During 2014, OCIA partially refunded their 2005F bonds and refinanced them as 2014A bond issuances. 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 \$441,939 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
2015	330,000	478,619	470,000	509,144	1,787,764
2016	360,000	493,906	480,000	574,893	1,908,799
2017	390,000	494,832	490,000	526,263	1,901,094
2018	315,000	515,766	495,000	479,198	1,804,964
2019	-	533,700	505,000	437,433	1,476,134
2019/2024	-	489,659	2,720,000	1,852,309	5,061,969
2024/2029	-	1,382,916	3,175,000	1,147,891	5,705,807
2029/2032	-	649,183	2,105,000	215,531	2,969,714
	\$ 1,395,000	\$ 5,038,581	\$ 10,440,000	\$ 5,742,663	\$ 22,616,244

Note 10 – 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 2014, 2013, and 2012.

Employee's contributions are also determined by state statute. For all employees, the contribution rate was 7% of covered salaries and fringe benefits in 2014, 2013, and 2012. 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, 2014, 2013, and 2012, were approximately \$1,136,482, \$1,243,132, and \$1,113,360, 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 2014, 2013, and 2012, 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, 2014, 2013, and 2012 was approximately \$532,448, \$532,939, and \$517,432, respectively, and is recognized in revenues and expenses.

Note 11 – 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, 2014, in the amount of approximately \$219,080.

During prior years, the University entered into certain service contracts which allowed for upfront payments to be made to the University. If the University terminates these contracts early, the payments must be refunded to the service provider on a pro rata basis.

Note 12 – 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 13 – Related Party Transactions

During 2013, 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, 2014 the Foundation had paid out \$400,000 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, 2014 was \$-0-.

Note 14 – 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 15 – University of Science and Arts of Oklahoma Foundation, Inc.

The following are significant disclosures of the Foundation:

Organization and Nature of Activities

The University of Science and Arts of Oklahoma Foundations, Inc., (the Foundations) 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) (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.

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 Foundations 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.

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 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 Foundations may recognize 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 2011.

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).

Investments and Investment Income

Investments are reported at fair value, as discussed in Note 11, at June 30, 2014 the investments consisted of the following:

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.

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, 2014.

Net Assets	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Royalties/Lease Bonus	\$ 38,678	70,910	212,730	\$ 322,318
Interest & Dividends	28,915	53,011	159,033	240,959
Realized Gains/(Losses)	38,345	70,299	210,897	319,541
Unrealized Gains/(Losses)	14,450	26,492	79,475	120,417
	<u>\$ 120,388</u>	<u>\$ 220,712</u>	<u>\$ 662,135</u>	<u>\$ 1,003,235</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.

Temporarily Restricted Net Assets

Temporarily restricted net assets are available for scholarships, capital improvements, arts & other programs and for subsequent periods.

Permanently Restricted Net Assets

Permanently restricted net assets are available for scholarships, art & other programs, OSRHE matching programs and subsequent periods.

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 absences 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.

Investment Return Objectives, Risk Parameters and Strategies. The Foundation has adopted investment and spending policies, approved by the Board of Trustees, 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 per cent of earnings based on a rolling three-year

average, net of any fees, of any one endowment shall be spent unled otherwise indicated by donor restriction.

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 \$94,640.

Oklahoma State Regents for High Education

The Oklahoma State Regents for Higher Education holds for the University endowed gifts totaling \$2,491,130 of which \$1,217,320 were available for distribution. 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.

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.

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 fur 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.

Financial Instruments

Concentration 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, 2014 the Foundation had no uninsured balances.

The Foundation's investment held by various bank trust departments and investment firms are insured by SIPC (Securities Investor Protection Corporation) and FDIC (Federal Deposit Insurance Corporation). The Foundation is insured up to \$250,000 per account for funds deposited in a commercial bank by the FDIC. The Foundation is insured up to \$500,000 for securities and cash in a brokerage account however cash deposits are limited to \$250,000 of coverage. SIPC only protects the custody function of the brokerage, which means SIPC works to restore to customers their securities and cash that are in their accounts when a brokerage firm is liquidated. SIPC does not protect against the decline in value of securities.

Fair Value Measurements on a Recurring Basis

Fair values of assets measured on a recurring basis at June 30, 2014 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	\$ 12,158,784	\$ 12,158,784	\$ -	\$ -
Total	\$ 12,158,784	\$ 12,158,784	\$ -	\$ -

Unconditional Promises to Give

The balance of the promises to give is \$551,403 as of June 30, 2014. The promises are unconditional and are to be received the next three years as follows:

2014/2015	351,403
2015/2016	100,000
2016/2017	100,000
	<u>\$ 551,403</u>

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 16 – Subsequent Events

Management performed an evaluation of the University's activities through October 31, 2014, the audit report date, and has concluded that there are no significant subsequent events requiring disclosure through that date.

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 the financial statements of the University of Science and Arts of Oklahoma (the University), a component unit of the State of Oklahoma, which comprise the statement of net position as of June 30, 2014, and the related statements of revenues, expenses, and changes in net position and cash flows for the year then ended, and the related notes to the financial statements, as of and for the year ended June 30, 2014, and the related notes to the financial statements, and have issued our report thereon dated October 29, 2014. We conducted our audit 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. 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 discretely 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* and accordingly, this report does not include reporting on internal control over financial reporting or compliance and other matters associated with the Foundation.

Internal Control Over Financial Reporting

In planning and performing our audit of the financial statements, we considered the University'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 opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the University'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.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the University'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, 2014

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 (the University) 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's major federal programs for the year ended June 30, 2014. 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.

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'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'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'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, 2014.

Report on Internal Control Over Compliance

Management of the University 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'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

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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'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, 2014

UNIVERSITY OF SCIENCE AND ARTS OF OKLAHOMA
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
Year ended June 30, 2014

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	\$ 66,309
Federal Work Study Program	84.033	253,789
Federal Pell Grant Program	84.063	1,830,426
Federal Perkins Loan Program	84.038	131,905
Federal Direct Student Loans	84.268	<u>3,016,057</u>
Total Student Aid Financial Aid Cluster		\$ 5,298,485
Corporation for National and Community Service		
Passed thru Oklahoma Community Service Commission:		
Americoprs Oklahoma in Action	94.006	\$ 4,656
Pass thru from Oklahoma State		
Regents for Highed Education		
College Access Challenge Grant Program	84.378A	<u>\$ 3,707</u>
Total Expenditures of Federal Awards		<u>\$ 5,306,848</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, 2014. This loan program is also included in the federal expenditures presented in the schedule of expenditures of federal awards. During the year ended June 30, 2014, the University issued Perkins loans totaling \$16,000.

<u>Cluster/Program Title</u>	<u>Federal CFDA Number</u>	<u>Amount Outstanding</u>
Federal Perkins Loan Program	84.038	\$ 131,905

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, 2014

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	\$ 159,656
OK Higher Learning Access Program (OHLAP)	N/A	7/1/12-6/30/13	<u>699,278</u>
			<u>\$ 858,934</u>

UNIVERSITY OF SCIENCE AND ARTS OF OKLAHOMA
 SCHEDULE OF FINDINGS AND QUESTIONED COSTS
 Year ended June 30, 2014

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 Perkins Loan	84.038
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, 2014

There are no prior year findings or questioned costs.