

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



**FINANCIAL STATEMENTS AND
SUPPLEMENTARY INFORMATION**

JUNE 30, 2015

**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 year ended June 30, 2015. Please read it in conjunction with the University's financial statements, which begin on page 1.

Using the Annual Report

The annual report consists of a series of financial statements. The statement of net position; statement of revenues, expenses, and changes in net position; and statement 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 statement of net position and statement 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, deferred outflows, liabilities and deferred inflows using the accrual basis of accounting, which is similar to the accounting used by most private sector companies.

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, deferred outflows, liabilities and deferred inflows – 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 University as a Whole

The University's financial position remained strong, with assets of \$37,416,220 and liabilities of \$24,786,719 at June 30, 2015, compared to assets of \$37,124,804 and liabilities of \$17,871,148 at June 30, 2014. Net position, which represents the residual interest in the University's assets and deferred outflows of resources after liabilities and deferred inflows of resources are deducted, totaled \$11,765,594 at June 30, 2015 as compared to \$19,311,434 at June 30, 2014. The primary reason for the decrease to net position was the implementation of a new accounting standard, Governmental Accounting Standards Board (GASB) Statement No. 68, which requires the recognition of a liability of \$8,138,725 for fiscal year 2015 for the unfunded pension liability from the state retirement systems.

Net position for the University increased \$2,145,442 during fiscal year 2015 as compared to an increase of \$737,965 in fiscal year 2014. The recognition of the pension liability caused a decrease to beginning unrestricted net position of \$9,691,282 and an increase to deferred inflows of resources of \$2,103,860. The unfunded pension liability will change each year resulting from the changes in plan assumptions about economic and demographic factors, differences

between actual and expected experience, and differences between actual and expected investment earnings.

Overall, operating revenues are down slightly due to a slight downturn in enrollment. Operating expenses are also down but this downward shift is almost entirely due to the GASB 68 adjustment. Furthermore, non-operating revenues are up \$641,756 due to the Foundation gift for athletic field lights and reduction of interest expense. Restricted state appropriations were also up \$222,013.

Summary Statement of Net Position

	2015	2014
Assets:		
Current assets	10,320,055	9,961,378
Capital assets, net	26,634,988	26,884,230
Other assets	461,177	279,196
Total assets	\$ 37,416,220	\$ 37,124,804
 Deferred Outflows of Resources	 \$ 1,539,953	 \$ 407,778
Liabilities:		
Current liabilities	2,243,236	2,185,807
Noncurrent liabilities	22,543,483	15,685,341
Total liabilities	\$ 24,786,719	\$ 17,871,148
 Deferred Inflows of Resources	 \$ 2,403,860	 \$ 350,000
Net Position		
Net investment in capital assets	11,566,097	10,587,010
Restricted-expendable	4,473,648	336,097
Restricted -nonexpendable	337,794	3,849,588
Unrestricted	(4,611,945)	4,538,739
Total Net Position	\$ 11,765,594	\$ 19,311,434

Summary Statement of Revenue, Expenses and Change in Net Position

	2015	2014
Operating revenues	10,098,009	10,173,039
Operating expenses	18,182,502	18,803,459
Operating loss	(8,084,493)	(8,630,420)
Nonoperating revenues and expenses	8,561,132	7,921,596
Contributions	-	-
Other revenues, expenses, gains, and losses	1,668,803	1,446,789
Increase (decrease) in net position	2,145,442	737,965
Net position, beginning of year	19,311,434	18,573,469
Prior period adjustment	(9,691,282)	-
Net position, end of year	\$ 11,765,594	\$ 19,311,434

Fixed Assets

This year, the University completed purchases of additional property adjacent to the campus and additional sport lighting.

	Balance June 30, 2014	Additions	Disposal	Balance June 30, 2015
Nondepreciable Capital Assets				
Land	\$ 275,619	\$ -	\$ -	\$ 275,619
Total Nondepreciable Assets	275,619	-	-	275,619
Other Capital Assets				
Buildings	31,263,844	149,629	-	31,413,473
Infrastructure & Improvements	2,935,702	696,183	-	3,631,885
Equipment	8,769,051	376,215	-	9,145,266
Depreciable Library Materials	3,290,578	21,131	-	3,311,709
Total Other Capital Assets	\$ 46,259,175	\$ 1,243,158	\$ -	\$ 47,502,333
Accumulated Depreciation:				
Buildings	10,032,955	1,098,681	-	11,131,636
Infrastructure & Improvements	1,761,097	42,819	-	1,803,916
Equipment	5,604,048	218,276	-	5,822,324
Library Materials	2,252,464	132,624	-	2,385,088
Total Accumulated Depreciation	19,650,564	1,492,400	-	21,142,964
Capital Assets, Net	\$ 26,884,230	\$ (249,242)	\$ -	\$ 26,634,988

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. This debt was refinanced during the year as a series 2014B bond issuance.

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 \$587,022 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, 2014, 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
2016	360,000	489,739	480,000	572,524	1,902,263
2017	390,000	492,328	490,000	524,817	1,897,145
2018	315,000	512,478	495,000	478,657	1,801,135
2019	-	529,961	505,000	437,601	1,472,562
2020	-	38,179	520,000	401,591	959,770
2020/2025	-	732,742	2,795,000	1,749,451	5,277,193
2025/2030	-	1,447,246	3,285,000	965,974	5,698,220
2030/2035	-	332,413	1,400,000	99,221	1,831,634
	<u>\$ 1,065,000</u>	<u>\$ 4,575,086</u>	<u>\$ 9,970,000</u>	<u>\$ 5,229,836</u>	<u>\$ 20,839,922</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 65.5% in fall 2015. The University continues to seek permanent funding for the MEP from the State Regents.

The University is preparing for budget cuts of 10% for the upcoming years. The planned cuts apply to the rest of FY16 and FY17. It is not known at this time how the University will be impacted by these cuts.

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.

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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), as of and for the year ended June 30, 2015, and the related notes to the financial statements, which collectively comprise the University's financial statements as listed in the table of contents. These financial statements are reported as a component unit of the State of Oklahoma.

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, 2015, 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

Emphasis of Matter

As discussed in Note 1 to the financial statements, effective July 1, 2014, the University adopted the new accounting guidance under Governmental Accounting Standards Board (GASB) Statement No. 68, *Accounting and Financial Reporting for Pensions*, which is an amendment to Statement No. 27. In accordance with Statement No. 68, the University is now recognizing its unfunded pension benefit obligation as a liability on the statement of net position for the first time. This statement also enhances accountability and transparency through revised note disclosures and required supplementary information (RSI). Our opinion is not modified with respect to this matter.

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis, the schedule of the University's proportionate share of the net pension liability, and the schedule of university contributions, as listed in the table of contents, 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 29, 2015, 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 29, 2015

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University of Science and Arts of Oklahoma
Statement of Net Position
June 30, 2015

	University	USAO Foundation
ASSETS		
Current Assets:		
Cash and cash equivalents	5,579,076	634,520
Restricted cash and cash equivalents	4,272,405	-
Accounts and Contracts receivable, net	440,714	200,000
Investments	-	12,210,196
Inventories	-	4,500
Prepaid Expenses	-	6,250
Current portion of loans receivable	27,860	-
Total Current Assets	10,320,055	13,055,466
Noncurrent Assets:		
Restricted cash and cash equivalents	405,016	-
Loans receivable, net	56,161	-
Capital assets, net	26,634,988	-
Total noncurrent assets	27,096,165	-
Total Assets	\$ 37,416,220	\$ 13,055,466
DEFERRED OUTFLOWS OF RESOURCES	\$ 1,539,953	\$ -
LIABILITIES		
Current Liabilities:		
Accounts payable	138,265	68,853
Accrued payroll	701,232	-
Fund Invested for USAO Alumni Association	-	100,000
Current maturities of capital leases	1,329,739	-
Student deposits	74,000	-
Total Current Liabilities	2,243,236	168,853
Noncurrent Liabilities:		
Accrued compenstated absences	283,315	-
Net Pension Liability	8,138,725	-
OCIA Capital Lease Obligation	4,085,347	-
ODFA Capital Lease	9,331,096	-
Obligations under other capital leases	705,000	-
Total Noncurrent Liabilities	22,543,483	-
Total Liabilities	\$ 24,786,719	\$ 168,853
DEFERRED INFLOWS OF RESOURCES	\$ 2,403,860	\$ -
NET POSITION		
Net investment in capital assets	11,566,097	-
Restricted for:		
Nonexpendable:		
Scholarships	337,793	8,451,237
Expendable:		
Debt service	227,073	-
Capital projects	2,751,077	-
Scholarships, research, instruction, and other	1,361,477	3,232,703
Loans	134,021	-
Unrestricted	(4,611,945)	1,202,673
Total Net Position	\$ 11,765,594	\$ 12,886,613

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, 2015

	University	USAO Foundation
Operating Revenues		
Tuition and student fees (net of scholarship allowance of \$1,654,915 respectively)	2,682,371	-
Auxiliary services (net of scholarship allowance of \$1,533,663)	4,456,032	117,754
Federal grants and contracts	2,082,719	-
State grants and contracts	874,737	-
Other operating revenues	2,150	-
Total operating revenues	10,098,009	117,754
Operating Expenses		
Compensation	9,641,996	-
Supplies, materials & utilities	6,145,895	-
Depreciation and Amortization	1,492,400	-
Scholarships and fellowships	178,265	1,235,768
Other	723,946	1,068,726
Total operating expenses	18,182,502	2,304,494
Operating loss	(8,084,493)	(2,186,741)
Nonoperating Revenues (Expenses)		
State appropriations	7,701,594	-
On-Behalf contributions for OTRS	565,057	-
Gifts and Contributions	451,100	1,178,226
Investment income	381,223	697,843
Interest costs	(537,842)	-
Total nonoperating revenues (expenses)	8,561,132	1,876,069
Gain (Loss) before other revenues, expenses, gains and losses	476,639	(310,672)
State appropriations restricted for capital purposes	1,081,780	-
OCIA on-behalf appropriations	587,022	-
Change in net position	2,145,441	(310,672)
Net position, beginning of year	19,311,434	13,197,285
Adjustment for change in accounting principle	(9,691,282)	-
Net position, end of year	\$ 11,765,594	\$ 12,886,613

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, 2015

Cash Flows from Operating Activities	
Tuition and student fees	\$ 2,744,747
Federal and state grants and contracts	2,907,456
Auxiliary enterprises sales and services	4,633,314
Other operating receipts	2,150
Scholarships	(178,265)
Payments to suppliers	(6,847,787)
Payments to employees	(9,674,688)
Net cash used in operating activities	<u>(6,413,073)</u>
Cash Flows from Noncapital Financing Activities	
State appropriations	7,701,594
Other gifts and contributions	451,100
Direct loan receipts	3,016,057
Direct loan disbursements	(3,016,057)
Net cash provided by noncapital financing activities	<u>8,152,694</u>
Cash flows from Capital and Related Financing Activities	
Purchase of capital assets	(1,243,158)
Principal paid on capital leases and bonds	(800,000)
Interest paid on capital leases and bonds	(379,149)
Capital appropriations received	1,081,780
Net cash used in financing activities	<u>(1,340,527)</u>
Cash Flows from Investing Activities	
Interest received	381,223
Net cash provided by investing activities	<u>381,223</u>
Net increase in cash and cash equivalents	780,318
Cash and cash equivalents at beginning of year	9,476,181
Cash and cash equivalents at end of year	<u>\$ 10,256,498</u>
Reconciliation of Net Operating Revenues (Expenses) to Net Cash Used in Operating Activities:	
Operating loss	\$ (8,084,493)
Adjustments to reconcile net operating loss to net cash used in operating activities:	
Depreciation and amortization expense	1,492,400
On-behalf payments	565,057
Change in assets and liabilities:	
Receivables, net	239,658
Accounts payable	22,054
Deferred inflows	2,053,860
Deferred outflows	(1,157,661)
Net Pension Liability	(1,552,557)
Compensated absences and employee accruals	8,609
Net cash used in operating activities	<u>\$ (6,413,073)</u>
Noncash Investing Capital and Financing Activities	
State appropriations for on-behalf payments	<u>\$ 587,022</u>
Reconciliation of Cash and Cash Equivalents to the Statement of Net Assets	
Current assets:	
Cash and cash equivalents	5,579,076
Restricted cash and cash equivalents	4,272,405
Noncurrent assets:	
Restricted cash and cash equivalents	405,016
	<u>\$ 10,256,498</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, 2015

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 University's 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, 2015, the Foundation distributed approximately \$513,612 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, liabilities, deferred outflows, and deferred inflows 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: All other net position that does not meet the definition of the previous two classifications.

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 of resources are the consumption of net position by the University that are applicable to a future reporting period. As of June 30, 2015, the University's deferred outflows were comprised of deferred charges on an OCIA lease restructure (\$382,291) and (\$1,157,661) related to pensions as required by GASB Statement No. 68, *Accounting and Financial Reporting for Pensions – an amendment of GASB Statement No. 27*, and GASB Statement No. 71, *Pension Transition for Contributions Made Subsequent to the Measurement Date – an amendment of GASB Statement No. 68*.

Deferred Inflows of Resources

Deferred inflows of resources are the acquisition of net position by the University that are applicable to a future reporting period. As of June 30, 2015, the University's deferred inflows were comprised of deferred charges on service contracts of (\$300,000) and (\$2,103,860) related to pensions as required by GASB Statement No. 68.

Newly Adopted Accounting Pronouncements

The GASB issued GASB Statement No. 68, *Accounting and Financial Reporting for Pensions—an Amendment of GASB Statement No. 27* and GASB Statement No. 71, *Pension Transition for Contributions Made Subsequent to the Measurement Date*. Statement No. 68

requires governments providing defined benefit pensions to recognize their unfunded pension benefit obligation as a liability for the first time, and to more comprehensively and comparably measure the annual costs of pension benefits. Statement No. 71 is a clarification to GASB 68 requiring a government to recognize a beginning deferred outflow of resources for its pension contributions, if any, made subsequent to the measurement date of the beginning net pension liability. The Statements also enhance accountability and transparency through revised note disclosures and required supplementary information (RSI). June 30, 2014 amounts have not been restated to reflect the impact of GASB 68 because the information is not available to calculate the impact on pension expense for the fiscal year ending June 30, 2014. In accordance with the statement, the University has reported a net pension liability (net of deferred outflow of resources) in the amount of \$9,691,282 as a change in accounting principle adjustment to unrestricted net position as of July 1, 2014.

New Accounting Pronouncement Issued Not Yet Adopted

In February 2015, the Governmental Accounting Standards Board issued GASB Statement No. 72, *Fair Value Measurement and Application*. The requirements of this Statement will enhance comparability of financial statements among governments by requiring measurement of certain assets and liabilities at fair value using a consistent and more detailed definition of fair value and acceptable valuation techniques. This Statement also will enhance fair value application guidance and related disclosures in order to provide information to financial statement users about the impact of fair value measurements on a government's financial position. GASB Statement No. 72 is required to be adopted for years beginning after June 15, 2015. The University is currently evaluating the impact this standard will have on the financial statements when adopted during the 2016 fiscal year.

In June 2015, the GASB issued Statement No. 75, *Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions* which addresses reporting by governments that provide postemployment benefits other than pensions (OPEB) to their employees and for governments that finance OPEB for employees of other governments. This OPEB standard will require the University to recognize on the face of the financial statements its proportionate share of the net OPEB liability related to its participation in OTRS and other plans. The statement also enhances accountability and transparency through revised note disclosures and required supplementary information (RSI). The University is currently evaluating the impact this standard will have on the financial statements when adopted. The provisions of this statement are effective for the University's financial statements for the year ending June 30, 2018.

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 \$8,545,052 at June 30, 2015.

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 \$5,471,481 at June 30, 2015.

For financial reporting purposes, deposits with the State Treasurer that are invested in *OK INVEST* are classified as cash equivalents. At June 30, 2015, the distribution in *OK INVEST* was as follows:

OK INVEST Portfolio	Cost	Market Value
U.S. Agency securities	\$ 2,196,693	\$ 2,194,318
Money market mutual funds	686,890	686,890
Certificates of deposit	149,393	149,393
End of Day Commercial Paper Sweep	110,699	110,699
Mortgage backed agency securities	2,146,483	2,173,918
Municipal bonds	75,864	82,283
Foreign bonds	42,130	42,130
U.S. Treasury Obligations	63,329	76,022
Total	\$ 5,471,481	\$ 5,515,653

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, 2015, totaled \$227,073 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, 2015 totaled \$1,321,131. The Oklahoma State Regents for Higher Education holds for the University endowed gifts totaling \$2,137,814. 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 \$159,821 at June 30, 2015, at an FDIC insured bank and \$3,420 at June 30, 2015, of petty cash funds held at the University.

The above cash and cash equivalents are included in the June 30, 2015, statements of net assets as follows:

	<u>2015</u>
Current assets:	
Cash and cash equivalents	\$ 5,579,076
Restricted cash and cash equivalents	4,272,405
Noncurrent assets:	
Restricted cash and cash equivalents	405,016
	<u>\$ 10,256,497</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, 2015:

Student tuition and fees	\$ 823,222
Auxiliary enterprises and other operating activities	645,826
	<u>1,469,048</u>
Less: allowance for doubtful accounts	(1,028,333)
	<u>\$ 440,714</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, 2015.

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, 2015.

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 \$1,081,780 during the year ended June 30, 2015, 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 \$18,603,458 at June 30, 2015.

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 \$2,137,814 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 \$1,321,131 have been reflected as assets in the statements of net assets.

Note 6 – Capital Assets

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

	Balance			Balance
	June 30, 2014	Additions	Disposal	June 30, 2015
Nondepreciable Capital Assets				
Land	\$ 275,619	\$ -	\$ -	\$ 275,619
Total Nondepreciable Assets	275,619	-	-	275,619
Other Capital Assets				
Buildings	31,263,844	149,629	-	31,413,473
Infrastructure & Improvements	2,935,702	696,183	-	3,631,885
Equipment	8,769,051	376,215	-	9,145,266
Depreciable Library Materials	3,290,578	21,131	-	3,311,709
Total Other Capital Assets	\$ 46,259,175	\$ 1,243,158	\$ -	\$ 47,502,333
Accumulated Depreciation:				
Buildings	10,032,955	1,098,681	-	11,131,636
Infrastructure & Improvements	1,761,097	42,819	-	1,803,916
Equipment	5,604,048	218,276	-	5,822,324
Library Materials	2,252,464	132,624	-	2,385,088
Total Accumulated Depreciation	19,650,564	1,492,400	-	21,142,964
Capital Assets, Net	\$ 26,884,230	\$ (249,242)	\$ -	\$ 26,634,988

At June 30, 2015, 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	2,941,863	719,638	3,243,727	6,905,229
	\$ 13,263,455	\$ 550,312	\$ 733,352	\$ 14,547,118

Note 7 – Fair Value Measurements on a Recurring Basis

Fair values of assets measured on a recurring basis on June 30, 2015 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	337,763	337,763	-	-
Total Assets	\$ 337,763	\$ 337,763	\$ -	\$ -

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

Note 8 – Long-Term Liabilities

Long-term liability activity for the years ended June 30, 2015, is as follows:

	Balance June 30, 2014	Additions	Reductions	Balance June 30, 2015	Amounts Due Within One Year
Capital Leases	\$ 16,873,582	\$ 15,125	\$ (1,278,619)	\$ 15,610,087	\$ 1,329,739
Accrued Compensated Absences	272,760	190,101	(179,546)	283,315	-
Total Long-Term Liabilities	\$ 17,146,342	\$ 205,225	\$ (1,458,165)	\$ 15,893,402	\$ 1,329,739

Additional information regarding capital lease obligations is included in Note 9.

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 2015, OCIA partially refunded their 2005F bonds and refinanced them as 2015A 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 \$587,022 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
2016	360,000	489,739	480,000	572,524	1,902,263
2017	390,000	492,328	490,000	524,817	1,897,145
2018	315,000	512,478	495,000	478,657	1,801,135
2019	-	529,961	505,000	437,601	1,472,562
2020	-	38,179	520,000	401,591	959,770
2020/2025	-	732,742	2,795,000	1,749,451	5,277,193
2025/2030	-	1,447,246	3,285,000	965,974	5,698,220
2030/2032	-	332,413	1,400,000	99,221	1,831,634
	<u>\$ 1,065,000</u>	<u>\$ 4,575,087</u>	<u>\$ 9,970,000</u>	<u>\$ 5,229,835</u>	<u>\$ 20,839,922</u>

Note 10 – Retirement Plans

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

OTRS is a defined benefit, cost-sharing, multiple employer retirement system for qualified employees of state supported educational institutions. OTRS is authorized under Title 70, O.S., Section 17-105 which defines the benefits to be provided; and is administered by a 13-member Board of Trustees appointed by the governor of Oklahoma. The legislature has authority to establish or amend benefit provisions. Retirement, disability, and survivor benefits provided are based on a member's final compensation, age, and term of service. Cost of living adjustments are not included in benefits. A copy of the OTRS annual financial report may be

obtained by writing the Oklahoma Teachers' Retirement System at P.O. Box 53524, Oklahoma City, Oklahoma 73152, or calling (405) 521-2387.

Funding policy

OTRS contribution requirements are established by the OTRS board or state statutes and are not actuarially determined. For 2015, 2014, and 2013, the required contribution rates for employees and USAO respectively was 7% and 8.55% each year. However, the University pays a share of the employees' contribution. Actual contributions for those years were \$1,157,661, \$1,117,145, and \$1,099,403, respectively, equal to the required contribution for each year. The June contribution of \$111,274 was paid in July 2015.

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 2015, 2014, and 2013, 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, 2015, 2014, and 2013 was approximately \$565,057, \$532,448, and \$532,939, respectively, and is recognized in revenues and expenses.

Pension Liabilities, Pension Expense and Deferred Outflows of Resources and Deferred Inflows of Resources Related to Pensions

At June 30, 2015, the University reported a liability of \$8,138,725 for its proportionate share of the net pension liability. The net pension liability was measured as of June 30, 2014, and the total pension liability used to calculate the net pension liability was determined by an actuarial valuation as of July 1, 2014. The University's proportion of the net pension liability was based on the University's contributions received by the pension plan relative to the total contributions received by the pension plan for all participating employers as of June 30, 2014. Based upon this information, the University's proportion was 0.1513%.

For the year ended June 30, 2015, the University recognized pension expense of \$821,266. At June 30, 2015, the University reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

	Deferred Outflows of Resources	Deferred Inflows of Resources
Difference between expected and actual experience	\$ -	\$ 134,150
Net difference between projected and actual earnings on pension plan investments	-	1,969,710
Univeristy contributions subsequent to the measurement date	1,157,661	-
	<u>\$ 1,157,661</u>	<u>\$ 2,103,860</u>

\$1,157,661 reported as deferred outflows of resources related to pensions resulting from University contributions subsequent to the measurement date will be recognized as a reduction of the net pension liability in the year ended June 30, 2016. Other amounts reported as deferred

outflows of resources and deferred inflows of resources related to pensions will be recognized in pension expense as follows:

2016	\$	(517,643)
2017		(517,643)
2018		(517,643)
2019		(517,643)
2020		(25,216)
Thereafter		<u>(8,072)</u>
Year Ended June 30	\$	<u><u>(2,103,860)</u></u>

Actuarial Assumptions – The total pension liability as of June 30, 2014, was determined based on an actuarial valuation prepared as of June 30, 2014, using the following actuarial assumptions:

- Actuarial Cost Method – Entry Age Normal
- Amortization Method – Level Percentage of Payroll
- Inflation – 3.00%
- Salary Increases – Composed of 3.00% inflation, plus 1.00% productivity increase rate, plus step-rate promotional increases for members with less than 25 years of service.
- Investment Rate of Return – 8.00%
- Retirement Age – Experience-based table of rates based on age, service and gender. Adopted by the Board in September 2010 in conjunction with the five-year experience study for the period ended June 30, 2009
- Mortality – RP-2000 Combined Mortality Table, projected to 2016 using Scale AA, multiplied by 90% for males and 80% for females

The actuarial assumptions used in the July 1, 2014, valuation were based on the results of an actuarial experience study for the period July 2007 to June 2011.

The long-term expected rate of return on pension plan investments was determined using a building-block method in which best-estimate ranges of expected future real rates of return (expected returns, net of pension plan investment expense and inflation) are developed for each major asset class. These ranges are combined to produce the long-term expected rate of return by weighting the expected future real rates of return by the target asset allocation percentage and by adding expected inflation. The target allocation and best estimates of arithmetic real rates of return for each major asset class are summarized in the following table:

Asset Class	Asset Allocation	Long-Term Expected Real Rate of Return
Domestic All Cap Equity*	7.0%	6.7%
Domestic Large Cap Equity	10.0%	6.2%
Domestic Mid Cap Equity	13.0%	6.9%
Domestic Small Cap Equity	10.0%	7.0%
International Large Cap Equity	11.5%	7.0%
International Small Cap Equity	6.0%	7.0%
Core Plus Fixed Income	17.5%	2.1%
High-Yield Fixed Income	6.0%	4.5%
Private Equity	5.0%	7.9%
Real Estate**	7.0%	5.5%
Master Limited Partnerships	7.0%	7.9%
	<u>100.0%</u>	

*The Domestic All Cap Equity total expected return is a combination of three rates - U.S. Large Cap, U.S. Mid Cap, and U.S. Small Cap.

** The Real Estate total expected return is a combination of U.S. Direct Real Estate (unlevered) and U.S. Value-Added Real Estate (unlevered).

Discount Rate – A single discount rate of 8.00% was used to measure the total pension liability as of June 30, 2014 and 2013. This single discount rate was based solely on the expected rate of return on pension plan investments of 8.00%. Based on the stated assumptions and the projection of cash flows, the pension plan’s fiduciary net position and future contributions were projected to be available to finance all projected future benefit payments of current plan members. Therefore, the long-term expected rate of return on pension plan investments was applied to all periods of projected benefit payments to determine the total pension liability. The projection of cash flows used to determine this single discount rate assumed that plan member and employer contributions will be made at the current statutory levels and remain a level percentage of payrolls. The projection of cash flows also assumed that the state’s contribution plus the matching contributions will remain a constant percent of projected member payroll based on the past five years of actual contributions.

Sensitivity of the Net Pension Liability to Changes in the Discount Rate – The following presents the University’s proportionate share of the net pension liability using the discount rate of 8%, as well as what the University’s proportionate share of the net pension liability would be if it were calculated using a discount rate that is 1-percentage-point lower (7%) or 1-percentage-point higher (9%) than the current rate:

	1% Decrease 7%	Current Discount Rate 8%	1% Increase 9%
University's proportionate share of the net pension liability	11,433,841	8,138,725	5,357,534

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, 2015, in the amount of approximately \$431,563.

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 – 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 \$300,000 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 14 – 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, 2015.

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 2013.

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, 2015 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, 2015.

Net Assets	Unrestricted	Restricted	Restricted	Total
Royalties/Lease Bonus	\$ 23,843	43,712	131,137	\$ 198,692
Interest & Dividends	27,790	50,948	152,844	231,582
Realized Gains/(Losses)	40,279	73,845	221,536	335,660
Unrealized Gains/(Losses)	(8,171)	(14,980)	(44,941)	(68,092)
	<u>\$ 83,741</u>	<u>\$ 153,525</u>	<u>\$ 460,576</u>	<u>\$ 697,842</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, programs and subsequent periods.

Permanently Restricted Net Assets

Permanently restricted net assets are available for scholarships, 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. This donation primarily reflects USAO's "in-kind" donation of personnel, services and infrastructure in payment for the Foundation receiving and managing gifts and gift-related income on behalf of the University.

Oklahoma State Regents for High Education

The Oklahoma State Regents for Higher Education holds for the University endowed gifts totaling \$2,137,814 of which \$1,321,131 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; treasurers 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, 2015 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, 2015 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	\$ 11,800,860	\$ 11,800,860	\$ -	\$ -
Total	\$ 11,800,860	\$ 11,800,860	\$ -	\$ -

Unconditional Promises to Give

The balance of the promises to give is \$200,000 as of June 30, 2015. The promises are unconditional and are to be received the next three years as follows:

2015/2016	100,000
2016/2017	100,000
	<u>\$ 200,000</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 15 – Subsequent Events

Management performed an evaluation of the University's activities through October 29, 2015, the audit report date, and has concluded that there are no significant subsequent events requiring disclosure through that date.

Required Supplementary Information

**Schedule of University's Proportionate Share of the Net Pension Liability
And Schedule of University Contributions**

Year Ended June 30, 2015

Schedule of University's Proportionate Share of the Net Pension Liability

	<u>2015</u>
University's Proportion of the Net Pension Liability	0.1513%
University's Proportionate share of the Net Pension Liability	\$ 8,138,725
University's Covered-Employee Payroll	\$ 7,444,765
University's Proportionate share of the Net Pension Liability as a percentage of its covered-employee payroll	109.3214%
Plan Fiduciary Net Position as a percentage of the Total Pension Liability	72.4300%

Schedule of University Contributions

	<u>2015</u>
Statutorily Required Contribution	\$ 636,527
Contributions in relation to the actuarially determined contractually required contribution	\$ 821,266
Contribution deficiency (excess)	\$ -
Covered Payroll	\$ 7,444,765
Contributions as a percentage of covered employee payroll	11.0315%

Notes to Schedule

Changes of benefit terms. There were no changes in benefit terms affecting the OTRS plan for the year ended June 30, 2014

Changes in assumptions. There were no changes in assumptions or plan amendments affecting the OTRS plans for the plan year ended June 30, 2014

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

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

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

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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, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of the University of Science and Arts of Oklahoma (the University), a component unit of the State of Oklahoma, which comprise the statement of net position as of June 30, 2015, 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, and have issued our report thereon dated October 29, 2015.

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 29, 2015

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

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**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, 2015. 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, 2015.

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 29, 2015

UNIVERSITY OF SCIENCE AND ARTS OF OKLAHOMA
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
Year ended June 30, 2015

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	\$ 59,569
Federal Work Study Program	84.033	267,885
Federal Pell Grant Program	84.063	1,751,822
Federal Perkins Loan Program	84.038	134,021
Federal Direct Student Loans	84.268	<u>2,854,925</u>
Total Student Aid Financial Aid Cluster		\$ 5,068,222
Pass thru from Oklahoma State Regents for Higher Education College Access Challenge Grant Program		
	84.378A	<u>\$ 3,443</u>
Total Expenditures of Federal Awards		<u><u>\$ 5,071,665</u></u>

Notes to Schedule:

Note 1 – Basis of Presentation

This schedule of expenditures of federal awards includes the federal awards activity of the University of Science and Arts of Oklahoma and 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, 2015. 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, 2015, the University issued Perkins loans totaling \$4,000.

<u>Cluster/Program Title</u>	<u>Federal CFDA Number</u>	<u>Amount Outstanding</u>
Federal Perkins Loan Program	84.038	\$ 134,021

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, 2015

State grantor/ Program Title	Contract Number	Contract Period	State Expenditures
Oklahoma State Regents for Higher Education			
OK Tuition Aid Grant (OTAG)	N/A	7/1/14-6/30/15	\$ 141,257
OK Higher Learning Access Program (OHLAP)	N/A	7/1/14-6/30/15	<u>733,480</u>
			<u><u>\$ 874,737</u></u>

UNIVERSITY OF SCIENCE AND ARTS OF OKLAHOMA
 SCHEDULE OF FINDINGS AND QUESTIONED COSTS
 Year ended June 30, 2015

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 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, 2015

There are no prior year findings or questioned costs.