The University of Science and Arts of Oklahoma

Financial Statements

June 30, 2017
(With Independent Auditors' Report Thereon)

FINLEY & COOK
CERTIFIED PUBLIC ACCOUNTANTS

UNIVERSITY OF SCIENCE AND ARTS OF OKLAHOMA

FINANCIAL STATEMENTS

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UNIVERSITY OF SCIENCE AND ARTS OF OKLAHOMA

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, 2017. Please read it in conjunction with the University's financial statements, which begin on page 4.

Using the Annual Report

The annual report consists of a series of financial statements. The statements of net position; statements of revenues, expenses, and changes in net position; and statements of cash flows (starting on page 4) provide information about the activities of the University as a whole and present a long-term view of the University's finances.

Reporting the University as a Whole

One of the most important questions asked about University finances is, "Is the University as a whole better off or worse off as a result of the year's activities?" The statements of net position and statements of revenues, expenses, and changes in net position report information about the University as a whole and about its activities in a way that helps answer this question. These statements include all assets, 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 and deferred outflow of $39,459,088 and liabilities and deferred inflows of $27,177,942 at June 30, 2017, compared to $37,488,380 and $26,523,012 respectively, at June 30, 2016. 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 $12,281,146 at June 30, 2017 as compared to $10,965,368 at June 30, 2016.

Net position for the University increased $1,315,778 during fiscal year 2017 as compared to a decrease of $800,226 in fiscal year 2016.

MANAGEMENT'S DISCUSSION AND ANALYSIS, CONTINUED

Overall, operating revenues were up $1,134,117 in tuition collections, and Federal and State Grants. Operating expenses are also down primarily in compensation and supplies. Furthermore, non-operating revenues are down $454,362. Restricted state appropriations were also up $62,485.

Summary Statement of Net Position

	2017	2016
Assets:		
Current assets	$ 8,997,855	9,231,471
Capital assets, net	25,709,695	26,140,439
Other assets	431,635	454,620
Total assets	$ 35,139,185	35,826,530
Deferred outflows of resources	$ 4,319,903	1,661,850
Liabilities:		
Current liabilities	$ 2,204,320	2,161,687
Noncurrent liabilities	24,476,795	22,306,659
Total liabilities	$ 26,681,115	24,468,346
Deferred inflows of resources	$ 496,827	2,054,666
Net Position:		
Net investment in capital assets	$ 13,272,541	12,366,123
Restricted—expendable	2,839,006	3,742,405
Restricted—nonexpendable	349,038	346,619
Unrestricted deficit	(4,179,439)	(5,489,779)
Total net position	$ 12,281,146	10,965,368

UNIVERSITY OF SCIENCE AND ARTS OF OKLAHOMA

MANAGEMENT'S DISCUSSION AND ANALYSIS, CONTINUED

Summary Statement of Revenue, Expenses, and Change in Net Position

	2017	2016
Operating revenues	$ 8,630,068	9,216,437
Operating expenses	16,603,088	17,993,880
Operating loss	(7,973,020)	(8,777,443)
Nonoperating revenues and expenses	7,513,062	6,246,938
Other revenues, expenses, gains, and losses	1,775,736	1,730,279
Increase (decrease) in net position	1,315,778	(800,226)
Net position, beginning of year	10,965,368	11,765,594
Net position, end of year	$ 12,281,146	10,965,368

Capital Assets

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

	Balance June 30, 2016	Additions	Disposals	Balance June 30, 2017
Nondepreciable capital assets				
Construction in progress	$ -	768,150	-	768,150
Land	275,619	-	-	275,619
Total nondepreciable assets	275,619	768,150	-	1,043,769
Other capital assets				
Buildings	31,746,392	35,795	-	31,782,187
Infrastructure and improvements	3,778,253	41,694	-	3,819,947
Furniture, fixtures, and equipment	9,723,172	444,907	79,493	10,088,586
Library materials	3,331,918	-	-	3,331,918
Total other capital assets	48,579,735	522,396	79,493	49,022,638
Accumulated depreciation:				
Buildings	12,247,722	1,193,351	-	13,441,073
Infrastructure and improvements	1,867,046	67,079	-	1,934,125
Furniture, fixtures, and equipment	6,081,059	326,185	79,493	6,327,751
Library materials	2,519,088	134,675	-	2,653,763
Total accumulated depreciation	22,714,915	1,721,290	79,493	24,356,712
Capital assets, net	$ 26,140,439	(430,744)	-	25,709,695

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 2015B 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 $676,963 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 position.

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.

Debt Service, Continued

Oklahoma Development Finance Authority Master Lease Program

During the year ending June 30, 2015, 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
2018	$ 315,000	$ 512,478	$ 485,321	$ 478,657	$ 1,791,456
2019	-	529,961	495,321	437,601	1,462,883
2020	-	38,179	510,321	401,591	950,091
2021	-	-	520,321	387,718	908,039
2022	-	-	535,321	373,805	909,126
2022/2027	-	1,271,883	2,916,605	1,484,878	5,673,366
2027/2032	-	1,240,519	3,397,243	568,245	5,206,007
	$ 315,000	$ 3,593,020	$ 8,860,453	$ 4,132,495	$ 16,900,968

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 change has created a student body that should persist to graduation at a greater rate and achieved a first year retention rate of 75.6% in Fall 2016. The University continues to seek permanent funding for the MEP from the State Regents.

The University and all other state colleges and universities received additional budget cuts for the fiscal year 2018 and it appears that there may be additional mid-year reductions. It is not known at this time how the University will be impacted long-term 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.

Economic Factors and Subsequent Events, Continued

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

INDEPENDENT AUDITORS' REPORT

Board of Regents
University of Science and Arts of Oklahoma
Chickasha, Oklahoma

Report on the Financial Statements

We have audited the accompanying financial statements of the University of Science and Arts of Oklahoma (the "University"), a component unit of the State of Oklahoma, as of and for the year ended June 30, 2017, and the related notes to the financial statements, which collectively comprise the University's basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

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

Auditors' 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 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 and *Government Auditing Standards* issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement. The financial statements of the Foundation 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 auditors' judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditors consider internal control relevant to the University'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 University's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

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

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INDEPENDENT AUDITORS' REPORT, CONTINUED

Opinions

In our opinion, based on our audit and the report of the other auditors, the financial statements referred to above present fairly, in all material respects, the financial position of the University and its discretely presented component unit, the Foundation, as of June 30, 2017, and the respective changes in financial position and, where applicable, cash flows for the year then ended in accordance with accounting principles generally accepted in the United States.

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States require that the management's discussion and analysis on pages i-vii and the schedule of the University's proportionate share of the net pension liability, and the schedule of the University's contributions on pages 45 and 46 respectively, 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 supplemental information in accordance with auditing standards generally accepted in the United States, 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 performed for the purpose of forming an opinion on the financial statements that collectively comprise the University's basic financial statements. The accompanying schedule of expenditures of federal awards is presented for purposes of additional analysis as required by Title 2 U.S. *Code of Federal Regulations* (CFR) Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards*, and is not a required part of the basic financial statements. The accompanying schedule of expenditures of state awards is presented for purposes of additional analysis and is also not a required part of the basic financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the basic financial statements. The 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. In our opinion, the schedules of expenditures of federal and state awards are fairly stated, in all material respects, in relation to the basic financial statements taken as a whole.

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INDEPENDENT AUDITORS' REPORT, CONTINUED

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated October ___, 2017, on our consideration of the University's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the University's internal control over financial reporting and compliance.

Shawnee, Oklahoma
October ___, 2017

UNIVERSITY OF SCIENCE AND ARTS OF OKLAHOMA

STATEMENTS OF NET POSITION

June 30, 2017

		University	USAO Foundation
Assets and Deferred Outflows of Resources			
Current assets:			
Cash and cash equivalents	$	5,988,255	782,177
Restricted cash and cash equivalents		2,656,409	-
Accounts and contracts receivable, net		353,191	-
Investments		-	16,537,524
Inventories		-	4,500
Total current assets		8,997,855	17,324,201
Noncurrent assets:			
Restricted cash and cash equivalents		415,587	-
Loans receivable, net		16,048	-
Capital assets, net		25,709,695	-
Total noncurrent assets		26,141,330	-
Total assets		35,139,185	17,324,201
Deferred outflows of resources:		4,319,903	-
Total assets and deferred outflows of resources		39,459,088	17,324,201

(Continued)

See Independent Auditors' Report.
See accompanying notes to financial statements.

STATEMENTS OF NET POSITION, CONTINUED

June 30, 2017

	University	USAO Foundation
Liabilities, Deferred Inflows of Resources, and Net Position		
Current liabilities:		
Accounts payable	395,047	24,553
Accrued expenses	422,474	-
Fund invested for USAO Alumni Association	-	136,694
Current maturities of capital leases	1,312,799	-
Student deposits	74,000	-
Total current liabilities	2,204,320	161,247
Noncurrent liabilities:		
Accrued compensated absences	289,612	-
Net pension liability	12,731,509	-
OCIA capital lease obligation	3,080,542	-
ODFA capital lease	8,375,132	-
Total noncurrent liabilities	24,476,795	-
Total liabilities	26,681,115	161,247
Deferred inflows of resources:	496,827	-
Total liabilities and deferred inflows of resources	27,177,942	161,247
Net Position		
Net investment in capital assets	13,272,541	-
Restricted for:		
Nonexpendable:		
Scholarships	349,038	12,489,517
Expendable:		
Debt service	237,645	-
Capital projects	2,015,867	-
Scholarships, research, instruction, and other	469,447	2,550,749
Loans	116,047	-
Unrestricted (deficit) surplus	(4,179,439)	2,122,688
Total net position	$ 12,281,146	17,162,954

See Independent Auditors' Report.
See accompanying notes to financial statements.

UNIVERSITY OF SCIENCE AND ARTS OF OKLAHOMA

STATEMENTS OF REVENUES, EXPENSES, AND CHANGES IN NET POSITION

Year Ended June 30, 2017

	University	USAO Foundation
Operating revenues:		
Tuition and student fees (net of scholarship allowance of $1,691,636)	$ 2,991,513	-
Auxiliary services (net of scholarship allowance of $2,331,260)	3,642,428	91,544
Federal grants and contracts	692,758	-
State grants and contracts	1,034,483	-
Other operating revenues	268,886	-
Total operating revenues	8,630,068	91,544
Operating expenses:		
Compensation	9,796,084	-
Supplies and materials	4,685,592	-
Depreciation	1,641,797	-
Scholarships and fellowships	75,856	603,455
Other	403,759	1,156,770
Total operating expenses	16,603,088	1,760,225
Operating loss	(7,973,020)	(1,668,681)

(Continued)

See Independent Auditors' Report.
See accompanying notes to financial statements.

UNIVERSITY OF SCIENCE AND ARTS OF OKLAHOMA

STATEMENTS OF REVENUES, EXPENSES, AND CHANGES IN NET POSITION, CONTINUED

Year Ended June 30, 2017

	University	USAO Foundation
Non-operating revenues (expenses):		
State appropriations	5,943,058	-
Federal grant—non-operating	1,720,486	-
On-behalf contributions for OTRS	442,232	-
Gifts and contributions	-	3,169,598
Investment (loss) income	(244,991)	1,722,941
Oil and gas income	212,259	-
Interest costs	(559,982)	-
Net non-operating revenues	7,513,062	4,892,539
(Loss) earnings before other revenues, expenses, gains, and losses	(459,958)	3,223,858
State appropriations restricted for capital purposes	1,098,773	-
OCIA on-behalf appropriations	676,963	-
Change in net position	1,315,778	3,223,858
Net position at beginning of year	10,965,368	13,939,096
Net position at end of year	$ 12,281,146	17,162,954

See Independent Auditors’ Report.
See accompanying notes to financial statements.

UNIVERSITY OF SCIENCE AND ARTS OF OKLAHOMA

STATEMENT OF CASH FLOWS

Year Ended June 30, 2017

	University
Cash flows from operating activities:	
Tuition and student fees	$ 3,041,943
Federal and state grants and contracts	1,677,242
Auxiliary enterprises sales and services	3,766,784
Other operating receipts	268,886
Scholarships	(75,856)
Payments to suppliers	(4,919,252)
Payments to employees	(10,139,912)
Net cash used in operating activities	(6,380,165)
Cash flows from noncapital financing activities:	
State appropriations	5,943,058
Non-operating federal grants	1,720,486
Direct loan receipts	2,791,371
Direct loan disbursements	(2,791,371)
Net cash provided by noncapital financing activities	7,663,544
Cash flows from capital and related financing activities:	
Purchase of capital assets	(1,211,053)
Principal paid on capital leases and bonds	(880,000)
Interest paid on capital leases and bonds	(340,182)
Capital appropriations received	1,098,773
Net cash used in financing activities	(1,332,462)
Cash flows from investing activities:	
Investment loss	(244,991)
Oil and gas income	212,259
Net cash used in investing activities	(32,732)
Net decrease in cash and cash equivalents	(81,815)
Cash and cash equivalents, at beginning of year	9,142,066
Cash and cash equivalents, at end of year	$ 9,060,251

(Continued)

See Independent Auditors' Report.
See accompanying notes to financial statements.

UNIVERSITY OF SCIENCE AND ARTS OF OKLAHOMA

STATEMENTS OF CASH FLOWS, CONTINUED

Year Ended June 30, 2017

		University
Reconciliation of operating loss to net cash used in operating activities:		
Operating loss	$	(7,973,020)
Adjustments to reconcile operating loss to net cash used in operating activities:		
Depreciation and amortization expense		1,641,797
On-behalf payments		442,232
Changes in assets and liabilities:		
Receivables, net		174,787
Accounts payable		170,099
Deferred inflows		(1,557,839)
Deferred outflows		(2,683,539)
Net pension liability		3,465,815
Compensated absences employee accruals		(60,497)
Net cash used in operating activities	$	(6,380,165)
Noncash Investing Capital and Financing Activities		
State appropriations for on-behalf payments	$	676,963
Reconciliation of Cash and Cash Equivalents to the Statement of Net Assets		
Current assets:		
Cash and cash equivalents	$	5,988,255
Restricted cash and cash equivalents		2,656,409
Noncurrent assets:		
Restricted cash and cash equivalents		415,587
	$	9,060,251

See Independent Auditors' Report.
See accompanying notes to financial statements.

(1) SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Nature of Operations

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 and is included in the general-purpose financial statements of the State of Oklahoma as part of the higher education component unit. 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.

Reporting Entity

The financial reporting entity, as defined by Governmental Accounting Standards Board (GASB) Statement No. 14, *The Financial Reporting Entity,* and as amended by GASB Statement No. 39, *Determining Whether Certain Organizations Are Component Units,* and GASB Statement No. 61, *The Financial Reporting Entity: Omnibus—an amendment of GASB Statements No. 14 and 34*, consists of the primary government, organizations for which the primary government is financially accountable, and other organizations for which the nature and significance of their relationship with the primary government are such that exclusion could cause the financial statements to be misleading or incomplete.

The University of Science and Arts of Oklahoma Foundation, Inc., (the "Foundation") is reported as 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, 2017, the Foundation distributed approximately $599,000 to the University for scholarships awarded.

(1) SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES, CONTINUED

Reporting Entity, Continued

The Foundation is a private nonprofit organization that reports under the Financial Accounting Standards Board (FASB) *Accounting Standards Codification* (ASC) Topic 958, "Not-for-profit Entities." 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.

Financial Statement Presentation

The University's financial statements are presented in accordance with the requirements of GASB Statement No. 34, *Basic Financial Statements—and Management's Discussion and Analysis—for State and Local Governments* (GASB 34), and GASB Statement No. 35, *Basic Financial Statements—and Management's Discussion and Analysis—for Public Colleges and Universities* (GASB 35).

Under GASB 34 and GASB 35, the University is required to present a statement of net position classified between current and noncurrent assets and liabilities; a statement of revenues, expenses, and changes in net position with separate presentation for operating and non-operating revenues and expenses; and a statement of cash flows using the direct method.

Basis of Accounting

For financial reporting purposes, the University is considered a special-purpose government engaged only in business-type activities. Accordingly, the University's financial statements have been presented using the economic resources measurement focus and the accrual basis of accounting. Under the accrual basis, revenues are recognized when earned, and expenses are recorded when an obligation has been incurred. All significant intra-agency transactions have been eliminated.

Use of estimates

The preparation of financial statements in conformity with accounting principles generally accepted in the United States 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.

(1) SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES, CONTINUED

Deposits and Investments

The University accounts for its investments, outside of the State Treasurer's cash management program, at fair value in accordance with GASB Statement No. 31, *Accounting and Financial Reporting for Certain Investments and for External Investment Pools*. In accordance with GASB Statement No. 40, *Deposit and Investment Risk Disclosures—an Amendment of GASB Statement No. 3* (GASB 40), the University has disclosed its deposit and investment policies related to the risks identified in GASB 40. Changes in unrealized gains (losses) on the carrying values of investments are reported as a component of investment income in the statements of revenues, expenses, and changes in net position. Investments that are externally restricted to make debt service payments, maintain sinking or reserve funds, or purchase capital or other noncurrent assets are classified as restricted assets in the statements of net position.

As noted above, investments are recorded at fair value, as determined by quoted market prices. In accordance with generally accepted accounting principles (GAAP) authoritative guidance on fair value measurements and disclosures, the University's investments measured and reported at fair value are classified according to the following hierarchal input levels:

1. Level 1—Unadjusted quoted prices in active markets for identical assets.

2. Level 2—Quoted prices for similar assets, or inputs that are observable or other forms of market corroborated inputs.

3. Level 3—Pricing based on best available information, including primarily unobservable inputs and assumptions market participants would use in pricing the asset.

In addition to the above three levels, if an investment does not have a readily determined fair value, the investment can be measured using net asset value (NAV) per share (or its equivalent). Investments valued at NAV are categorized as NAV and not listed as Level 1, 2, or 3. At June 30, 2017, the University had no investments.

Cash equivalents and investment income

The University considers all liquid investments with original maturities of 3 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 statements of net position.

(1) SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES, CONTINUED

Accounts Receivable and Contracts 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, net of accumulated depreciation. 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 1 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 5 years of employment with the University are allowed to accumulate up to 480 hours of vacation time. Employees with less than 5 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 position, and as a component of compensation and benefit expense in the statements of revenues, expenses and changes in net position.

See Independent Auditors' Report.

(1) SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES, CONTINUED

Noncurrent Liabilities

Noncurrent liabilities include (1) principal amounts of revenue bonds payable and capital lease obligations with contractual maturities greater than one year, (2) estimated amounts for accrued compensated absences and other liabilities that will not be paid within the next fiscal year, and (3) net pension liability.

Income taxes

The University, as a component unit of the State of Oklahoma, is exempt from federal and state income taxes under Section 115(1) of the Internal Revenue Code, as amended, 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 accumulated depreciation and 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 net investment in capital assets.

Restricted—nonexpendable: Nonexpendable restricted net position consist of endowment and similar type funds in which donors or other outside sources have stipulated, as a condition of the gift instrument, that the principal is to be maintained inviolate and in perpetuity, and invested for the purpose of producing present and future income, which may either be expended or added to principal.

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

When an expense is incurred that can be paid using either restricted or unrestricted resources, the University's policy is to first apply the expense towards restricted resources, and then towards unrestricted resources.

See Independent Auditors' Report.

(1) SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES, CONTINUED

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) certain 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 position. 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, 2017, the University's deferred outflows were comprised of deferred charges on an OCIA lease restructure $331,320 and $3,988,583 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*.

(1) SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES, CONTINUED

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, 2017, the University's deferred inflows were comprised of deferred credits on service contracts of $200,000 and $296,827 related to pensions as required by GASB Statement No. 68.

Pensions

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

New Accounting Pronouncements

New Accounting Pronouncements Adopted

In June 2015, the GASB issued Statement No. 73, *Accounting and Financial Reporting for Pensions and Related Assets That Are Not within the Scope of GASB Statement 68, and Amendments to Certain Provisions of GASB Statements 67 and 68* (GASB 73). GASB 73 addresses accounting and financial reporting for pensions that do not meet the criteria for applying GASB Statement No. 68, *Accounting and Financial Reporting for Pensions* (GASB 68), and amends certain disclosure requirements of GASB 67 and GASB 68. GASB 73 amendments include restricting additional disclosures related to 10-year schedules required by GASB 67 to be limited to factors over which the plan or government has influence, such as a change in investment policies. Amendments also address payables to a plan that are not separately financed specific liabilities, and the timing of employer recognition of revenue for the support of nonemployer contributing entities. Certain provisions of GASB 73 are applicable for fiscal years beginning after June 15, 2015, and those provisions were adopted by the University as of July 1, 2015, and did not have a significant impact on the University's financial statements. Other provisions of GASB 73 that are applicable for years beginning after June 15, 2016, were implemented as of July 1, 2016, and did not have a significant impact on the University's financial statements. The beginning net position was restated.

(1) SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES, CONTINUED

New Accounting Pronouncements, Continued

New Accounting Pronouncements Adopted, Continued

In June 2015, GASB issued Statement No. 74, *Financial Reporting for Postemployment Benefit Plans Other Than Pension Plans* (GASB 74). GASB 74 seeks to improve the usefulness of information about postemployment benefits other than pensions (other postemployment benefits or "OPEB"). This statement provides guidance for reporting and disclosure of defined benefit and defined contribution OPEB plans. GASB 74 is effective for financial statements for fiscal years beginning after June 15, 2016. The University adopted this statement on July 1, 2016. The adoption had no significant effect on the University's financial statements.

In August 2015, GASB issued Statement No. 77, *Tax Abatement Disclosures* (GASB 77). GASB 77 provides financial reporting and disclosure guidance to governments that have either entered into tax abatement agreements or that have revenues affected by tax abatements entered into by another government. Governments will generally use tax abatements to encourage specific economic development that benefit either the government or its citizens by forgoing certain taxes. The University adopted this statement on July 1, 2016. The University has no items to be reported and the adoption had no significant impact on the University's financial statements.

In December 2015, GASB issued Statement No. 78, *Pensions Provided through Certain Multiple-Employer Defined Benefit Pension Plans* (GASB 78). GASB 78 addresses an issue that arose as a result of the employer reporting for pension plans under GASB 68, *Accounting and Financial Reporting for Pensions*. Certain state and local governments participate in a cost-sharing multi-employer pension plan that (1) is not a state or local governmental plan, (2) provides defined benefits both to employees of state or local governmental employers and to employees of employers that are not state or local governmental employers, and (3) has no predominant state or local governmental employer. This Statement establishes the requirements for recognition, reporting, disclosures, and required supplementary information for governmental employers that provide pensions through pension plans with the above-mentioned characteristics. The University adopted this statement on July 1, 2016. The adoption had no significant impact on the University's financial statements.

In January 2016, GASB issued Statement No. 80, *Blending Requirements for Certain Component Units* (GASB 80). GASB 80 amends blending requirements for the financial statements of component units to include criteria requiring blending of a component unit organized as a not-for-profit corporation in which the primary government is the sole corporate member. The University adopted this statement on July 1, 2016. The adoption had no significant impact on the University's financial statements.

(1) SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES, CONTINUED

New Accounting Pronouncements, Continued

New Accounting Pronouncement Issued, Not Yet Adopted

In June 2015, GASB issued Statement No. 75, *Accounting and Financial Reporting for Postemployment Benefits Other Than* Pensions (GASB 75). GASB 75 addresses employer and governmental non-employer contributing entities accounting and financial reporting when participating in an OPEB plan. This statement requires proper recognition of OPEB liabilities by employers and requires a more comprehensive measure of OPEB expense. More robust disclosures will also improve transparency and accountability. GASB 75 is effective for financial statements for the periods beginning after June 15, 2017. The University will adopt GASB 75 effective July 1, 2017, for the June 30, 2018, reporting year. The University does not expect GASB 75 to have a significant impact on the financial statements.

In March 2016, GASB issued Statement No. 81, *Irrevocable Split-Interest Agreements* (GASB 81). GASB 81 provides recognition and measurement guidance for situations in which a government is one of the beneficiaries of an irrevocable split-interest agreement. Irrevocable split-interest agreements are a type of giving by a donor to provide resources to two or more beneficiaries, including governments. GASB 81 provides the recognition and reporting requirements applicable when a government is one of the parties to such an agreement. The University will adopt GASB 81 effective July 1, 2017, for the June 30, 2018, reporting year. The University does not expect GASB 81 to have a significant impact on the financial statements.

In November 2016, GASB issued Statement No. 83, *Certain Asset Retirement Obligations* (GASB 83). GASB 83 provides accounting and reporting requirements for certain asset retirement obligations (ARO) that arise from legally enforceable liabilities associated with the retirement of certain tangible capital assets. ARO's require an internal and external obligating event and the costs to be reasonable estimable for the incurrence of such a liability. The University will adopt GASB 83 effective July 1, 2018, for the June 30, 2019, reporting year. The University does not expect GASB 83 to have a significant impact on the financial statements.

In January 2017, GASB issued Statement No. 84, *Fiduciary Activities* (GASB 84). GASB 84 improves guidance regarding the recognition and reporting of fiduciary activities. GASB 84 identifies four types of reportable fiduciary fund types, including 1) pension (and other employee benefit) trust funds, 2) investment trust funds, 3) private-purpose trust funds, and 4) custodial funds. GASB 84 outlines the accounting and disclosure requirements for operating structures that qualify as a fiduciary activity. The University will adopt GASB 84 effective July 1, 2019, for the June 30, 2020, reporting year. The University does not expect GASB 84 to have a significant impact on the financial statements.

(1) NATURE OF OPERATIONS AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES, CONTINUED

New Accounting Pronouncement Issued, Not Yet Adopted, Continued

In March 2017, GASB issued Statement No. 85, *Omnibus 2017* (GASB 85). GASB 85 clarified several practice issues identified during the application of earlier GASB pronouncements. GASB 85 addresses topics including the blending of component units, goodwill and negative goodwill, fair value measurement and application, employer accounting and reporting for pensions and OPEB, and reporting by OPEB plans. The University will adopt GASB 85 effective July 1, 2017, for the June 30, 2018, reporting year. The University does not expect GASB 85 to have a significant impact on the financial statements.

In May 2017, GASB issued Statement No. 86, *Certain Debt Extinguishment Issues* (GASB 86). GASB 86 provides guidance regarding the in-substance defeasance of debt. Normally, a government will issue new debt at favorable rates and place the proceeds in trust to eliminate the liability of an existing debt. GASB 86 provides accounting and reporting guidance for situations where a government irrevocably sets aside cash and other assets to defease an existing debt. Guidance also addresses prepaid insurance related to extinguished debt and the financial valuation and disclosure of other assets used to defease debt. The University will adopt GASB 86 effective July 1, 2017, for the June 20, 2018, reporting year. The University does not expect GASB 86 to have a significant impact on the financial statements.

In June 2017, GASB issued Statement No. 87, *Leases* (GASB 87). GASB 87 defines a lease as a contract that conveys control of the right to use another entity's nonfinancial asset (the underlying asset) as specified in the contract for a period of time in an exchange or exchange-like transaction. GASB 87 improves accounting and financial reporting for leases by governments by requiring recognition of certain lease assets and liabilities for leases that previously were classified as operating leases and recognized as inflows of resources or outflows of resources based on the payment provisions of the contract. It establishes a single model for lease accounting based on the foundational principle that leases are financings of the right to use an underlying asset. Under GASB 87, a lessee is required to recognize a lease liability and an intangible right-to-use lease asset, and a lessor is required to recognize a lease receivable and a deferred inflow of resources, thereby enhancing the relevance and consistency of information about governments' leasing activities. The requirements of this Statement are effective for reporting periods beginning after December 15, 2019. Earlier application is encouraged. The University has not determined the impact of GASB 87 on the financial statements.

(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 $8,207,457 at June 30, 2017.

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 $5,137,044 at June 30, 2017.

(2) CASH AND CASH EQUIVALENTS, CONTINUED

Custodial Credit Risk—Deposits, Continued

For financial reporting purposes, deposits with the State Treasurer that are invested in *OK INVEST* are classified as cash equivalents. At June 30, 2017, the distribution in *OK INVEST* was as follows:

OK INVEST Portfolio		Cost	Market Value
U.S. agency securities	$	2,165,510	2,160,198
Money market mutual fund		531,386	531,386
Certificates of deposit		228,842	228,842
Mortgage-backed agency securities		2,057,946	2,059,822
Municipal bonds		80,446	82,700
Foreign bonds		49,217	49,209
U.S. Treasury obligations		23,697	28,348
Total	$	5,137,044	5,140,505

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 State Treasurer's Investment Policy address credit quality requirements, diversification percentages and specify the types and maturities of allowable investments. 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. *OK INVEST* includes a substantial investment in securities with an overnight maturity as well as in U.S. government securities with a maturity of up to 3 years. *OK INVEST* maintains an overall weighted average maturity of less than 270 days.

(2) CASH AND CASH EQUIVALENTS, CONTINUED

Custodial Credit Risk—Deposits, Continued

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. governmental 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.

Interest Rate Risk

The University does not have a formal policy that limits investment maturities as a means of managing its exposure to fair value losses arising from increasing interest rates.

Cash equivalents on deposit with trustees at June 30, 2017, totaled $237,645 and consisted of U.S. government securities money market mutual funds held by trustees in a reserve fund and a 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, 2017 totaled $440,935. The Oklahoma State Regents for Higher Education holds for the University endowed gifts totaling $2,547,322. 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 $171,066 at June 30, 2017, at two investment companies and $3,148 at June 30, 2017, of petty cash funds held at the University.

(2) CASH AND CASH EQUIVALENTS, CONTINUED

Custodial Credit Risk—Deposits, Continued

The above cash and cash equivalents are included in the June 30, 2017, statements of net position as follows:

	2017
Current assets:	
Cash and cash equivalents	$ 5,988,255
Restricted cash and cash equivalents	2,656,409
Noncurrent assets:	
Restricted cash and cash equivalents	415,587
	$ 9,060,251

(3) ACCOUNTS AND CONTRACTS RECEIVABLE

Accounts and contracts receivable consisted of the following at June 30, 2017:

Student tuition and fees	$ 1,020,502
Auxiliary enterprises and other operating activities	745,451
	1,765,953
Less: allowance for doubtful accounts	(1,412,762)
	$ 353,191

See Independent Auditors' Report.

(4) LOANS RECEIVABLE

Student loans made through the Federal Perkins Loans Program (the Program) comprise all of the loans receivable at June 30, 2017.

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 $100,000, at June 30, 2017.

(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 $1,098,773 during the year ended June 30, 2017, 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 position. 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 market value basis, was $19,767,248 at June 30, 2017.

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 $2,547,322 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 of $440,935 have been reflected as assets in the statements of net position as of June 30, 2017.

(6) CAPITAL ASSETS

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

	Balance June 30, 2016	Additions	Disposals	Balance June 30, 2017
Nondepreciable capital assets				
Construction in progress	$ -	768,150	-	768,150
Land	275,619	-	-	275,619
Total nondepreciable assets	275,619	768,150	-	1,043,769
Other capital assets				
Buildings	31,746,392	35,795	-	31,782,187
Infrastructure and improvements	3,778,253	41,694	-	3,819,947
Furniture, fixtures, and equipment	9,723,172	444,907	79,493	10,088,586
Library materials	3,331,918	-	-	3,331,918
Total other capital assets	48,579,735	522,396	79,493	49,022,638
Accumulated depreciation:				
Buildings	12,247,722	1,193,351	-	13,441,073
Infrastructure and improvements	1,867,046	67,079	-	1,934,125
Furniture, fixtures, and equipment	6,081,059	326,185	79,493	6,327,751
Library materials	2,519,088	134,675	-	2,653,763
Total accumulated depreciation	22,714,915	1,721,290	79,493	24,356,712
Capital assets, net	$ 26,140,439	(430,744)	-	25,709,695

See Independent Auditors' Report.

(6) CAPITAL ASSETS, CONTINUED

At June 30, 2017, the cost and related accumulated depreciation of assets held under capital lease obligations was as follows:

	Buildings	Infrastructure	Equipment	Total
Cost	$ 16,205,318	1,269,950	3,977,079	21,452,347
Less: accumulated depreciation	4,279,989	888,965	3,774,004	8,942,958
	$ 11,925,329	380,985	203,075	12,509,389

(7) LONG-TERM LIABILITIES

Long-term liability activity for the year ended June 30, 2017, is as follows:

	Balance June 30, 2016	Additions	Reductions	Balance June 30, 2017	Amounts Due Within One Year
Capital Leases	$ 14,131,123	-	(1,362,650)	12,768,473	1,312,799
Accrued Compensated Absences	282,171	155,553	(148,112)	289,612	-
Total Long-Term Liabilities	$ 14,413,294	155,553	(1,510,762)	13,058,085	1,312,799

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

(8) CAPITAL LEASES

Oklahoma Capital Improvement Authority Leases

During the year ending June 30, 1999, the Oklahoma Capital Improvement Authority (OCIA), an agency of the State of Oklahoma, entered into a lease agreement bond 1999 series, 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. In 2004, the OCIA issued bond series 2004A that refunds a significant portion of the 1999 bonds. In 2015, the University's remaining 2004A lease agreement with OCIA was restructured through a complete refunding of the series 2004A bonds. OCIA issued new bonds, series 2014B, to accomplish the refunding.

See Independent Auditors' Report.

(8) CAPITAL LEASES, CONTINUED

Oklahoma Capital Improvement Authority Leases, Continued

During 2005, the University entered into another lease agreement with OCIA, the series 2005F, which provides for monthly payments to OCIA of a variable amount based on estimated needs to fulfill the related obligations for 24 years through June 10, 2030, or until the OCIA leases and related interest are paid. During 2011, OCIA partially refunded their 2005F bonds and refinanced them as 2010 A/B bond issuances. The result of this refinance increased the debt owed on the University's leases in the amount of $484,236. This amount will be amortized over the remaining life of the loan or $25,486 per year. The purpose of the refinance was to help provide budgetary relief for OCIA. During 2014, OCIA partially refunded their 2005F bonds and refinanced them as 2014A bond issuances. The proceeds of the bonds and subsequent leases are to provide capital improvements at the University. These expenditures have been capitalized as investment in plant assets or recorded as noncapitalized expenditures, in accordance with University policy.

The State of Oklahoma made lease principal and interest payments totaling $676,963 on-behalf of the University to OCIA. These on-behalf payments have been recorded as revenue in the University's statements of revenues, expenses, and changes in net position.

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 4.200%. The University is making monthly, annually escalating payments through 2032 under the lease agreement.

See Independent Auditors' Report.

(8) CAPITAL LEASES, CONTINUED

Oklahoma Development Finance Authority Master Lease Program, Continued

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

	Equipment Lease	OCIA Lease	ODFA Lease	Interest	Total Payments
2018	$ 315,000	$ 512,478	$ 485,321	$ 478,657	$ 1,791,456
2019	-	529,961	495,321	437,601	1,462,883
2020	-	38,179	510,321	401,591	950,091
2021	-	-	520,321	387,718	908,039
2022	-	-	535,321	373,805	909,126
2022/2027	-	1,271,883	2,916,605	1,484,878	5,673,366
2027/2032	-	1,240,519	3,397,243	568,245	5,206,007
	$ 315,000	$ 3,593,020	$ 8,860,453	$ 4,132,495	$ 16,900,968

(9) 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. OTRS issues a publicly available financial report that can be obtained at www.ok.gov/OTRS.

(9) RETIREMENT PLANS, CONTINUED

Oklahoma Teachers' Retirement System (OTRS)—Plan description—Defined Benefit Plan, Continued

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

- Members become 100% vested in retirement benefits earned to date after 5 years of credited Oklahoma service. Members who joined the System on June 30, 1992, or prior are eligible to retire at maximum benefits when age and years of creditable service total 80. Members joining the System after June 30, 1992, are eligible for maximum benefits when their age and years of creditable service total 90. Members whose age and service do not equal the eligible limit may receive reduced benefits as early as age 55, and at age 62 receive unreduced benefits based on their years of service. The maximum retirement benefit is equal to 2% of final compensation for each year of credited service.

- Final compensation for members who joined the System prior to July 1, 1992, is defined as the average salary for the 3 highest years of compensation. Final compensation for members joining the System after June 30, 1992, is defined as the average of the highest 5 consecutive years of annual compensation in which contributions have been made. The final average compensation is limited for service credit accumulated prior to July 1, 1995, to $40,000 or $25,000, depending on the member's election. Monthly benefits are 1/12 of this amount. Service credits accumulated after June 30, 1995, are calculated based on each member's final average compensation, except for certain employees of the two comprehensive universities. Upon the death of a member who has not yet retired, the designated beneficiary shall receive the member's total contributions plus 100% of interest earned through the end of the fiscal year, with interest rates varying based on time of service. A surviving spouse of a qualified member may elect to receive, in lieu of the aforementioned benefits, the retirement benefit the member was entitled to at the time of death as provided under the Joint Survivor Benefit Option.

- Upon the death of a retired member, the System will pay $5,000 to the designated beneficiary, in addition to the benefits provided for the retirement option selected by the member.

- A member is eligible for disability benefits after 10 years of credited Oklahoma service. The disability benefit is equal to 2% of final average compensation for the applicable years of credited service.

- Upon separation from the System, members' contributions are refundable with interest based on certain restrictions provided in the plan, or by the IRC.

- Members may elect to make additional contributions to a tax-sheltered annuity program up to the exclusion allowance provided under the IRC under Code Section 403(b).

See Independent Auditors' Report.

(9) RETIREMENT PLANS, CONTINUED

Oklahoma Teachers' Retirement System (OTRS)—Plan description—Defined Benefit Plan, Continued

The System makes payments to certain retiree health insurance providers that are subsidies to help pay for certain supplemental health benefits that are available to eligible retired members who elect such coverage. The subsidy payments are made to the Employees Group Insurance Division (EGID) of the Office of Management and Enterprise Services (OMES) for retirees who opt to continue their employer-provided insurance and are also made to employers who provide health insurance options through other insurers as long as the plans provide health insurance options to both the employers' active and retired employees.

All retirees are eligible except for special retirees (as defined) and spouses and beneficiaries as long as they have at least 10 years of service. Retirees who elect such coverage receive the smaller of (i) a Medicare supplement benefit, if eligible, or (ii) an amount between $100 and $105 per month, depending on service and final average compensation. Payments are made on their behalf monthly (i) to EGID as described above, if the member continues health coverage under that Plan, or (ii) to the member's former employer, if the member retains health coverage under a plan maintained by the former employer as described above. The System performs no administrative functions related to the payment of the benefit.

OTRS does not have a separate trust to finance the health insurance benefit, and does not have separate assets and investments to fund the benefit. The liability to pay for the monthly subsidy is part of the total pension liability to the OTRS plan. These liabilities are recognized on an accrual basis.

Contributions

The contributions requirements of the plan are at an established rate determine by Oklahoma Statute, amended by the Oklahoma Legislature, and are not based on actuarial calculations. Employees are required to contribute 7.0% percent of their annual pay. Participating employers are required to contribute 9.5% of the employees' annual pay and an additional 7.7% for any employees' salaries covered by federal funds. The University pays a share of the employees' contribution. Contributions to the pension plan from the University were $818,449 for 2017. The State of Oklahoma also made on-behalf contributions to OTRS, of which $442,232 was recognized by the University; these on-behalf payments did not meet the criteria of a special funding situation.

(9) RETIREMENT PLANS, CONTINUED

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

At June 30, 2017, the University reported a liability of $12,731,509 for its proportionate share of the net pension liability. The net pension liability was measured as of June 30, 2016, and the total pension liability used to calculate the net pension liability was determined by an actuarial valuation as of July 1, 2016. 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, 2016. Based upon this information, the University's proportion was 0.1526%.

For the year ended June 30, 2017, the University recognized pension expense of $1,370,672. At June 30, 2017, 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	$ -	295,573
Changes of assumptions	1,533,053	-
Net difference between projected and actual earnings on pension plan investments	1,486,227	-
Changes in proportion	-	1,254
University contributions during measurement date	150,854	-
University contributions subsequent to the measurement date	818,449	-
	$ 3,988,583	296,827

See Independent Auditors' Report.

(9) RETIREMENT PLANS, CONTINUED

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

There was $818,449 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, 2018. Other amounts reported as deferred outflows of resources and deferred inflows of resources related to pensions will be recognized in pension expense as follows:

Year Ended June 30		
2018	$	468,851
2019		468,851
2020		965,422
2021		767,404
2022		202,779
	$	2,873,307

Actuarial Assumptions

Actuarial Assumptions – The total pension liability as of June 30, 2017, was determined based on an actuarial valuation prepared as of June 30, 2016, using the following actuarial assumptions:

- Actuarial Cost Method—Entry Age Normal
- Inflation—2.50%
- Future Ad Hoc cost-of-living increases—None
- Salary Increases—Composed of 3.25% inflation, including 2.5% price inflation, plus a service-related component ranging from 0.00% to 8.00% based on years of service.
- Investment Rate of Return—7.5%
- Retirement Age—Experience-based table of rates based on age, service and gender. Adopted by the Board in May 2015 in conjunction with the five-year experience study for the period ended June 30, 2014
- Mortality rates after retirement—Males: RP-2000 Combined Healthy Mortality Table for Males with White Collar Adjustments. Generational mortality improvements in accordance with Scale BB from table's base year of 2000. Females: GRS Southwest Region Teacher Mortality Table, scaled at 105%. Generational mortality improvements in accordance with Scale BB from the table's base year of 2012.
- Mortality Rates for Active Members—RP-2000 Employee Mortality tables, with male rates multiplied by 60% and female rates multiplied by 50%.

See Independent Auditors' Report.

(9) RETIREMENT PLANS, CONTINUED

Actuarial Assumptions, Continued

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%	6.2%
Domestic Large Cap Equity	10.0%	5.8%
Domestic Mid Cap Equity	13.0%	6.3%
Domestic Small Cap Equity	10.0%	7.0%
International Large Cap Equity	11.5%	6.6%
International Small Cap Equity	6.0%	6.6%
Core Plus Fixed Income	17.5%	1.6%
High-Yield Fixed Income	6.0%	4.9%
Private Equity	5.0%	8.3%
Real Estate**	7.0%	4.5%
Master Limited Partnerships	7.0%	7.7%
	100.0%	

*The Domestic All Cap Equity total expected return is a combination of 3 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

(9) RETIREMENT PLANS, CONTINUED

Discount Rate

A single discount rate of 7.50% was used to measure the total pension liability as of June 30, 2016. The System had used an 8.00% discount rate at June 30, 2015. This single discount rate was based solely on the expected rate of return on pension plan investments of 7.50%. 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 7.5%, 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 (6.5%) or 1 percentage-point higher (8.5%) than the current rate:

	1% Decrease 6.50%	Discount Rate 7.50%	1% Increase 8.50%
University's proportionate share of the net pension liability	$ 16,734,618	12,731,509	9,475,093

The net pension liability of OTRS has been determined based on current guidelines and reporting standards. With the implementation of GASB 75 as of July 1, 2017, the net pension liability is expected to change as well as a possible increase in an OPEB net liability for OTRS. The total impact of the implementation of GASB 75 on OTRS and the further impact on the University had not been determined as of the report date.

Pension Plan Fiduciary Net Position

Detailed information about the pension plan's fiduciary net position is available in the separately issued financial report of the OTRS; which can be located at www.ok.gov/OTRS .

See Independent Auditors' Report.

(10) COMMITMENTS AND CONTINGENCIES

Grants and Contracts

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 participates in the Federal Direct Student Loan Program ("Direct Loan Program"). The Direct Loan Program does not require the University to draw down cash; however, the University is required to perform certain administrative functions. Failure to perform such functions may require the University to reimburse the loan guarantee agencies. For the year ended June 30, 2017, approximately $2,791,000 of Direct Loan Program loans were provided to University students.

Others

The University has commitments for outstanding purchase orders at June 30, 2017, in the amount of approximately $469,311.

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.

(11) RISK MANAGEMENT

The University is exposed to various risks of loss from torts; theft of, damage to and destruction of assets; errors and omissions; employee injuries and illnesses; natural disasters; and employee health, life and accident benefits. Commercial insurance coverage is purchased for claims arising from such matters other than torts, property and workers' compensation. Settled claims have not exceeded this commercial coverage in any of the 3 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.

(12) RISK MANAGEMENT, CONTINUED

The University also participates in the College Association of Liability Management (CALM) Workers' Compensation Plan for its workers' compensation coverage. CALM is an interlocal cooperative act agency that was organized to provide workers' compensation insurance coverage for participating colleges and universities through CompSource. CALM is a political subdivision of the State of Oklahoma and is governed by a board of trustees elected from members of the participating colleges and universities.

(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 $200,000 are recorded as deferred inflows on the statements of net position. The food service contract is for 10 years and is being amortized over 8 years at $50,000 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.

(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 Foundation, Inc., (the "Foundation") was formed and incorporated on April 21, 1977 as a charitable tax exempt Corporation under Internal Revenue Code Section 501 (c) (3). The Foundation is also publicly supported under code sections 509 (a)(1) and 170 (b)(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.

(13) UNIVERSITY OF SCIENCE AND ARTS OF OKLAHOMA FOUNDATION, INC., CONTINUED

Use of Estimates

The preparation of financial statements in conformity with accounting principles generally accepted in the United States 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 statements 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 7 years to value gas and 4 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.

See Independent Auditors' Report.

(13) UNIVERSITY OF SCIENCE AND ARTS OF OKLAHOMA FOUNDATION, INC., CONTINUED

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 chained on a tax return should be recorded in the financial statements. Under that guidance, the Foundations may recognized the tax benefit from an uncertain tax position only if it is more likely than not that the tax position will be sustained on examination by tax authorities based on the technical merits of the position. Examples of tax positions include the tax-exempt status of the Foundation and various positions related to the potential sources of unrelated business taxable income (UBIT). The tax benefits recognized in the financial statements from such a position are measured based on the largest benefit that has a greater than 50% likelihood of being realized upon ultimate settlement. There were no recognized tax benefits identified or recorded as liabilities for the fiscal year ended June 30, 2017.

The Foundation files its Forms 990's in the U.S. federal jurisdiction and with the Oklahoma Tax Commission. The Agency is generally no longer subject to examination by the Internal Revenue Service for years before 2014.

However, income from certain activities (if any) not directly related to the Foundation's tax-exempt purpose is subject to taxation as unrelated business income. In addition, the Foundation 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).

(13) UNIVERSITY OF SCIENCE AND ARTS OF OKLAHOMA FOUNDATION, INC., CONTINUED

Investments and Investment Income

Investments are reported at fair value, as discussed in the Financial Instruments note. At June 30, 2017, 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. As of June 30, 2017, this investment had grown to $136,693.

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, 2017.

Net Assets	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Royalties/Lease Bonus	$ 19,150	35,109	105,328	159,587
Interest & Dividends	29,685	54,423	163,268	247,376
Realized Gains/(Losses)	49,805	91,309	273,928	415,042
Unrealized Gains/(Losses)	108,112	198,205	594,616	900,933
	$ 206,752	379,046	1,137,140	1,722,938

The Foundation's investments are distributed as follows:

Money Market Funds	$ 373,826
Mutual Funds	196,457
Equities	9,878,314
Government Obligations	3,150,322
Fixed Income Securities	2,466,080
	$ 16,064,999

See Independent Auditors' Report.

(13) UNIVERSITY OF SCIENCE AND ARTS OF OKLAHOMA FOUNDATION, INC., CONTINUED

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 No. 124, *Accounting for Certain Investments Held by Not-for-Profit Organizations*, 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.

See Independent Auditors' Report.

(13) UNIVERSITY OF SCIENCE AND ARTS OF OKLAHOMA FOUNDATION, INC., CONTINUED

Endowment Funds, Continued

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

(13) UNIVERSITY OF SCIENCE AND ARTS OF OKLAHOMA FOUNDATION, INC., CONTINUED

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 Statement of Financial Accounting Standards No. 116 *Accounting for Contributions Received and Contributions Made* (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 $2,547,322, of which $440,935 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.

(13) UNIVERSITY OF SCIENCE AND ARTS OF OKLAHOMA FOUNDATION, INC., CONTINUED

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

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

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, 2017, 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.

(13) UNIVERSITY OF SCIENCE AND ARTS OF OKLAHOMA FOUNDATION, INC., CONTINUED

Fair Value Measurements on a Recurring Basis

Fair values of assets measured on a recurring basis at June 30, 2017, 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	$ 16,064,999	16,064,999	-	-
Total	$ 16,064,999	16,064,999	-	-

Subsequent Events

Subsequent events for the Foundation were evaluated by management through September 20, 2017, which is the date the financial statements were available to be issued.

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.

(14) SUBSEQUENT EVENTS

Management performed an evaluation of the University's activities through October ___, 2017, the audit report date, and has concluded that there are no significant subsequent events requiring disclosure through that date.

UNIVERSITY OF SCIENCE AND ARTS OF OKLAHOMA

REQUIRED SUPPLEMENTARY INFORMATION

Exhibit I

UNIVERSITY OF SCIENCE AND ARTS OF OKLAHOMA

SCHEDULE OF THE UNIVERSITY'S PROPORTIONATE SHARE OF THE NET PENSION LIABILITY
Oklahoma Teachers' Retirement System

Last 3 Fiscal Years*

	2017	2016	2015
University's proportion of the net pension liability	0.1526%	0.1526%	0.1513%
University's proportionate share of the net pension liability	$ 12,731,509	9,265,694	8,138,725
University's covered payroll	$ 7,444,170	7,555,897	7,444,765
University's proportionate share of the net pension liability as a percentage of its covered payroll	171.0266%	122.6286%	109.3214%
Plan fiduciary net position as a percentage of the total pension liability	62.2400%	70.3100%	72.4300%

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* The amounts presented for each fiscal year were determined as of June 30th of the prior year.

Only the last 3 fiscal years are presented because 10-year data is not yet available.

See Independent Auditors' Report.

UNIVERSITY OF SCIENCE AND ARTS OF OKLAHOMA

SCHEDULE OF THE UNIVERSITY'S CONTRIBUTIONS
Oklahoma Teachers' Retirement System

Last 3 Fiscal Years*

	2017	2016	2015
Contractually required contribution	$ 818,449	680,031	636,527
Contributions in relation to the contractually required contributions	818,449	835,554	821,266
Contribution deficiency (excess)	$ -	-	-
University's covered payroll	$ 7,444,170	7,555,897	7,444,765
Contributions as a percentage of covered payroll	11%	11%	11%

Only the last 3 fiscal years are presented because 10-year data is not yet available.

See Independent Auditors' Report.

UNIVERSITY OF SCIENCE AND ARTS OF OKLAHOMA

INFORMATION REQUIRED BY
***GOVERNMENT AUDITING STANDARDS* AND**
THE UNIFORM GUIDANCE

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

Board of Regents
University of Science and Arts of Oklahoma
Chickasha, Oklahoma

We have audited the financial statements of the University of Science and Arts of Oklahoma (the "University"), a component unit of the State of Oklahoma, which comprise the statements of net position as of June 30, 2017, 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 ___, 2017. We conducted our audit in accordance with the auditing standards generally accepted in the United States and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Our report includes a reference to 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 audited by other auditors and were not audited in accordance with *Government Auditing Standards*, and accordingly, this report does not include reporting on internal control over financial reporting or instances of reportable noncompliance associated with the Foundation. Our report includes a paragraph disclaiming an opinion on required supplementary information.

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 the University'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 University'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.

(Continued)

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

Internal Control Over Financial Reporting, Continued

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 University'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 University's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

Shawnee, Oklahoma
October ___, 2017

INDEPENDENT AUDITORS' REPORT ON COMPLIANCE FOR EACH MAJOR PROGRAM AND ON INTERNAL CONTROL OVER COMPLIANCE REQUIRED BY THE UNIFORM GUIDANCE

Board of Regents
University of Science and Arts of Oklahoma
Chickasha, Oklahoma

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 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, 2017. The University's major federal programs are identified in the summary of auditors' results section of the accompanying schedule of findings and questioned costs.

Management's Responsibility

Management is responsible for compliance with federal statutes, regulations, and the terms and conditions of its federal awards applicable to its federal programs.

Auditors' 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; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and the audit requirements of Title 2 U.S. *Code of Federal Regulations* (CFR) Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* ("Uniform Guidance"). Those standards and the Uniform Guidance 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.

(Continued)

INDEPENDENT AUDITORS' REPORT ON COMPLIANCE FOR EACH MAJOR PROGRAM AND ON INTERNAL CONTROL OVER COMPLIANCE REQUIRED BY THE UNIFORM GUIDANCE, CONTINUED

Opinion on Each Major Federal Program

In our opinion, the University 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, 2017.

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 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 the Uniform Guidance, 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 the Uniform Guidance. Accordingly, this report is not suitable for any other purpose.

Shawnee, Oklahoma
October ___, 2017

UNIVERSITY OF SCIENCE AND ARTS OF OKLAHOMA

SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS

Year Ended June 30, 2017

Federal Grantor/Pass-Through Grantor/Program or Cluster Title	Federal CFDA Number	Grant Number/ Pass-Through Entity Identifying Number	Passed Through to Subrecipients (No Subrecipients)	Total Federal Expenditures
U.S. Department of Education:				
Student Financial Assistance Cluster:				
Federal Supplemental Educational Opportunity Grant	84.007	P007A163462		
		P007A173462	$ -	59,569
Federal Work Study Program	84.033	P033A153462		
		P033A163462	-	263,657
Federal Pell Grant Program	84.063	P063P152044		
		P063P162044		
		P063P172044	-	1,660,917
Federal Direct Student Loans Program	84.268	P268K162044		
		P268K172044		
		P268K182044	-	2,791,371
Total Student Financial Assistance Cluster			-	4,775,514
United States Department of Education—Other Programs:				
Title III Grant	84.031	P031A15001	-	297,119
NASNTI Grant	84.382	P382C160008	-	131,982
Total Other Programs			-	429,101
Total U.S. Department of Education			-	5,204,615
Total expenditures of federal awards			$ -	5,204,615

See Independent Auditors' Report.

(1) BASIS OF PRESENTATION

The accompanying schedule of expenditures of federal awards (the "Schedule") includes the federal award activity of the University of Science and Arts of Oklahoma under programs of the federal government for the year ended June 30, 2017. The information in this Schedule is presented in accordance with the requirements of Title 2 U.S. Code of Federal Regulations Part 200, Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards (Uniform Guidance). Because the Schedule presents only a selected portion of the operations of the University of Science and Arts of Oklahoma, it is not intended to and does not present the financial position, changes in net position, or cash flows of the University of Science and Arts of Oklahoma.

(2) SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Expenditures reported on the Schedule are reported on the accrual basis of accounting. Such expenditures are recognized following the cost principles contained in the Uniform Guidance wherein certain types of expenditures are not allowable or are limited as to reimbursement.

The University of Science and Arts of Oklahoma has elected to use the 10 percent de minimis indirect cost rate as allowed under the Uniform Guidance.

(3) FEDERAL DIRECT STUDENT 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. The University is not responsible for the collection of these loans.

(4) LOANS OUTSTANDING

The University had the following loan balances outstanding at June 30, 2017. During the year ended June 30, 2017, the University did not issue any new Perkins loans.

Cluster/Program Title	Federal CFDA Number	Amount Outstanding
Federal Perkins Loan Program	84.038	$ 116,047

(5) SUBRECIPIENTS

The University provided no federal awards to subrecipients during the year ended June 30, 2017.

See Independent Auditors' Report.

UNIVERSITY OF SCIENCE AND ARTS OF OKLAHOMA

SCHEDULE OF STATE AWARDS

Year Ended June 30, 2017

State grantor/ Program Title	Contract Number	Contract Period	State Expenditures
Oklahoma State Regents for Higher Education			
OK Tuition Aid Grant (OTAG)	N/A	7/1/16-6/30/17	$ 101,767
OK Higher Learning Access Program (OHLAP)	N/A	7/1/16-6/30/17	932,716
			$ 1,034,483

See Independent Auditors' Report.

UNIVERSITY OF SCIENCE AND ARTS OF OKLAHOMA

SCHEDULE OF FINDINGS AND QUESTIONED COSTS

Year Ended June 30, 2017

SECTION I—SUMMARY OF AUDITORS' RESULTS

Financial Statements

Type of auditors' report issued:	**Unmodified**
Internal control over financial reporting:	
Material weakness(es) identified?	**☐ Yes ☑ No**
Significant deficiency(ies) identified?	**☐ Yes ☑ None Reported**
Noncompliance material to financial statements noted?	**☐ Yes ☑ No**

Federal Awards

Internal control over major programs:	
Material weakness(es) identified?	**☐ Yes ☑ No**
Significant deficiency(ies) identified?	**☐ Yes ☑ None Reported**
Type of auditors' report issued on compliance for the major federal programs:	**Unmodified**
Any audit findings disclosed that are required to be reported in accordance with 2 CFR 200.516(a)?	**☐ Yes ☑ No**

Identification of major federal programs:

Federal CFDA Number	Name of Federal Program or Cluster
84.007, 84.033, 84.063, and 84.268	**Student Financial Assistance Cluster**

Dollar threshold used to distinguish between type A and type B programs:	**$750,000**
Auditee qualified as low-risk auditee?	**☑ Yes ☐ No**

SECTION II—FINANCIAL STATEMENT FINDINGS

None noted.

SECTION III—FEDERAL AWARD FINDINGS AND QUESTIONED COSTS

None noted.

SUMMARY SCHEDULE OF PRIOR AUDIT FINDINGS

Year Ended June 30, 2017

There are no prior year findings or questioned costs.