



Audited Financial Statements and Reports
Required by Uniform Guidance
As of and for the Year Ended June 30, 2018
Rogers State University

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Independent Auditor's Report

Board of Regents of the University of Oklahoma
Rogers State University
Norman, Oklahoma

Report on the Financial Statements

We have audited the accompanying financial statements of Rogers State University (the University), an organizational unit of the Regents of the University of Oklahoma (the Regents), which is a component unit of the State of Oklahoma, which comprise the statement of net position as of June 30, 2018, and the related statements of revenues, expenses, and changes in net position, and cash flows for the year then ended, and the related notes to the financial statements.

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

Our responsibility is to express an opinion on these financial statements based on our audit. We did not audit the financial statements of Rogers State University Foundation (the Foundation). The Foundation is considered a part of the reporting unit of the University, and accordingly, the Foundation's financial statements are presented with the University's financial statements. The Foundation's financial statements were audited by another auditor, 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 auditor. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. The financial statements of the Foundation were audited by other auditors and were not audited in accordance with *Government Auditing Standards*.

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

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

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Rogers State University, as of June 30, 2018, and the changes in its financial position and its cash flows thereof for the year then ended, in accordance with accounting principles generally accepted in the United States of America.

Other Matters

Required Supplementary Information

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

Other Supplementary Information

Our audit was conducted for the purpose of forming an opinion on the financial statements as a whole. The accompanying schedule of expenditures of federal awards is presented for the purposes of additional analysis as required by Title 2, *U.S. Code of Federal Regulations* (CFR) Part 200, *Uniform Administration Requirements, Cost Principles, and Audit Requirements for Federal Awards*, and is not a required part of the 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 financial statements. The information has been subjected to the auditing procedures applied in the audit of the financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements or to the financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the schedule of expenditures of federal awards is fairly stated in all material respects in relation to the financial statements as a whole.

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated October 23, 2018, on our consideration of the University's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is solely 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 effectiveness of the University's 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.

A handwritten signature in black ink that reads "Eide Bailly LLP". The signature is written in a cursive, flowing style.

Oklahoma City, Oklahoma
October 23, 2018

This discussion and analysis of Rogers State University's (the University) financial statements provides an overview of the University's financial activities as of and for the year ended June 30, 2018, with fiscal year 2017 presented for comparative purposes. Management has prepared the financial statements and the related footnote disclosures along with the discussion and analysis.

Financial Analysis of the University as a Whole

The basic financial statements of the University are the Statement of Net Position; Statement of Revenues, Expenses and Changes in Net Position; and the Statement of Cash Flows. The Statement of Net Position presents the financial position of the University at June 30, 2018. The Statement of Revenues, Expenses and Changes in Net Position summarizes the University's financial activity for the year ended June 30, 2018. The Statement of Cash Flows, presented using the direct method, reflects the effects on cash that resulted from the University's operating activities, investing activities and capital and non-capital financing activities for the year ended June 30, 2018. The following schedules are prepared from the University's basic financial statements. With the exception of the Statement of Cash Flows, the statements are presented on an accrual basis of accounting whereby revenues are recognized when earned, expenses are recorded when incurred, and assets are capitalized and depreciated.

Statement of Net Position

This statement is presented in categories, namely assets, deferred outflows of resources, liabilities, deferred inflows of resources and net position. The current assets include cash and cash equivalents, deferred expenses, accounts receivable and other assets. The noncurrent assets include cash and cash equivalents restricted for long-term purposes, capital assets and other assets. Capital assets include land, buildings and improvements, infrastructure, equipment, library materials and construction in progress. Capital assets, with the exception of land and construction in progress, are shown net of depreciation.

Deferred outflows of resources are consumptions of net position that are applicable to a future period, including costs associated with debt restructure and pensions.

Liabilities are also classified between current and noncurrent. Current liabilities include accounts payable, accrued expenses, unearned revenue, and the portion of noncurrent liabilities expected to be paid in the upcoming fiscal year 2019. Current liabilities represent obligations due within one year. Noncurrent liabilities include the portion of accrued compensated absences, capital lease obligation, bonds and net pension liability expected to be paid in fiscal year 2020 or thereafter. Total net position increased from \$11.1 million to \$12.6 million in fiscal year 2018.

Deferred inflows of resources are acquisition of net position that are applicable to a future period. It includes costs associated with debt restructure, pensions, and OPEB.

Following is a comparison of the summarized financial position, net position and capital assets of the University at June 30, 2018:

Condensed Statements of Net Position (in millions)

| | 2018 | 2017 |
|----------------------------------|----------------|----------------|
| Assets | | |
| Current assets | \$ 13.9 | \$ 14.3 |
| Noncurrent assets | 77.9 | 79.4 |
| Total assets | <u>\$ 91.8</u> | <u>\$ 93.7</u> |
| Deferred Outflows of Resources | <u>\$ 4.2</u> | <u>\$ 8.2</u> |
| Liabilities | | |
| Current liabilities | \$ 6.0 | \$ 6.6 |
| Noncurrent liabilities | 71.6 | 81.1 |
| Total liabilities | <u>\$ 77.6</u> | <u>\$ 87.7</u> |
| Deferred Inflows of Resources | <u>\$ 5.8</u> | <u>\$ 3.0</u> |
| Net Position | | |
| Net investment in capital assets | \$ 24.5 | \$ 22.7 |
| Unrestricted | (11.9) | (11.6) |
| Total net position | <u>\$ 12.6</u> | <u>\$ 11.1</u> |

Total assets declined \$1.9 million in fiscal year 2018 compared to fiscal year 2017 due to the continued depreciation of capital assets while deferred outflows decreased \$4.0 million due to valuation of pensions.

Total liabilities decreased \$10.1 million in fiscal year 2018 compared to fiscal year 2017 due to decreases in bonds and capital lease obligations and a change in the University's proportionate share of net pension liability (a noncurrent liability) as described in footnote 6.

Deferred inflows of resources increased \$2.8 million in fiscal year 2018 compared to fiscal year 2017 primarily due to differences between expected and actual experience and investment earnings related to pensions, as described in footnote 6.

Statement of Revenues, Expenses and Changes in Net Position

The Statement of Revenues, Expenses and Changes in Net Position reports the results of the University's activities and their effect on net position. All of the current year's revenues and expenses are recognized when earned or incurred, regardless of when cash is received or paid.

The following summarizes the University's revenues, expenses and changes in net position for the years ended June 30, 2018 and 2017:

Condensed Statements of Revenues, Expenses and Changes in Net Position (in millions)

| | 2018 | 2017 |
|--|----------------|----------------|
| Operating revenues: | | |
| Tuition and fees, net | \$ 16.2 | \$ 15.5 |
| Federal and local grants and contracts | 11.4 | 10.5 |
| Auxiliary | 6.5 | 6.5 |
| Other | 0.1 | 0.2 |
| Total operating revenues | <u>34.2</u> | <u>32.7</u> |
| Operating expenses | <u>(44.8)</u> | <u>(45.3)</u> |
| Operating loss | <u>(10.6)</u> | <u>(12.6)</u> |
| Nonoperating revenues (expenses): | | |
| State appropriations, including OTRS | 11.8 | 12.8 |
| Investment income | 0.1 | 0.2 |
| Interest expense | <u>(2.0)</u> | <u>(2.2)</u> |
| Net nonoperating revenues | <u>9.9</u> | <u>10.8</u> |
| Loss before other revenues | <u>(0.7)</u> | <u>(1.8)</u> |
| Other revenues | <u>2.2</u> | <u>2.6</u> |
| Net increase in net position | <u>1.5</u> | <u>0.8</u> |
| Net position, beginning of year | 11.1 | 11.4 |
| Adjustment to net position for adoption of new accounting principles | - | (1.1) |
| Net position, end of year | <u>\$ 12.6</u> | <u>\$ 11.1</u> |

Operating revenues include tuition and fees net of scholarship discounts and allowances, grants and contracts, sales and services of auxiliary enterprises and other sources of revenue. Operating revenues increased \$1.5 million in fiscal year 2018 compared to fiscal year 2017. An increase in tuition and fee rates and an early disbursement of summer financial aid before the end of fiscal year 2018 resulted in higher operating revenues in fiscal year 2018.

The predominant source of nonoperating revenues is state appropriations. State appropriations were significantly less (\$1.0 million, or 8%) in fiscal year 2018 than in 2017.

The University's operating expenses are listed by natural classification, including employee compensation, scholarships, contractual services, supplies, etc. Operating expenses decreased \$0.5 million in fiscal year 2018 compared to 2017 due to a change in the University's proportionate share of net pension liability (a noncurrent liability) as described in footnote 6, offset by an increase in scholarships.

Statement of Cash Flows

The primary purpose of the statement of cash flows is to provide information about the cash receipts and disbursements of an entity during a period. This statement also aids in the assessment of the entity's ability to generate future net cash flows, ability to meet obligations as they come due, and needs for external funding.

Following is a comparison of cash flows for the years ended June 30, 2018 and 2017:

Condensed Statements of Cash Flows (in millions)

| | 2018 | 2017 |
|--|----------------|----------------|
| Cash Flows Provided By (Used In): | | |
| Operating activities | \$ (8.0) | \$ (7.6) |
| Noncapital financing activities | 10.9 | 11.7 |
| Capital and related financing activities | (3.5) | (4.1) |
| Investing activities | (0.2) | 0.1 |
| Net increase (decrease) in cash | (0.8) | 0.1 |
| Cash and cash equivalents, beginning of year | 14.2 | 14.1 |
| Cash and cash equivalents, end of year | <u>\$ 13.4</u> | <u>\$ 14.2</u> |

Capital Assets

| | 2018 | 2017 |
|-------------------------------|----------------|----------------|
| CAPITAL ASSETS, NET | (in millions) | (in millions) |
| Land & Improvements | \$ 13.0 | \$ 13.0 |
| Buildings | 86.0 | 85.9 |
| Equipment | 9.2 | 8.9 |
| Library Materials | 3.3 | 3.4 |
| Intangible Assets | 0.8 | 0.8 |
| Construction in progress | 1.1 | 0.1 |
| Infrastructure | 2.5 | 2.5 |
| Total Capital Assets | 115.9 | 114.6 |
| Less Accumulated Depreciation | (40.8) | (37.4) |
| Net Capital Assets | <u>\$ 75.1</u> | <u>\$ 77.2</u> |

In 2018, the University added \$1.5 in assets for costs associated with various construction projects and acquisitions of equipment and library materials. The University disposed of approximately \$0.2 million in partially depreciated equipment. See Note 4 for additional information regarding capital assets.

Debt

At June 30, 2018, the University had approximately \$51.0 million in debt outstanding compared to \$54.8 million at the end of the previous fiscal year. The table below summarizes these amounts by type:

| | June 30, (in Millions) | |
|---------------------------|---------------------------|----------------|
| | 2018 | 2017 |
| Bonds Payable | \$ 9.9 | \$ 10.4 |
| Capital Lease Obligations | 41.1 | 44.4 |
| Total | <u>\$ 51.0</u> | <u>\$ 54.8</u> |

See Note 5 for additional information regarding debt.

Economic Outlook

Declines in the State of Oklahoma economy have begun to stabilize, and while the University's state appropriations were reduced in fiscal year 2018, further significant reductions in fiscal years 2019 and beyond are not anticipated. While the University has seen minor declines in enrollment, enrollment decreases at the University are less than the regional average.

To offset the reductions in state appropriations, the University continues exploring and implementing cost savings initiatives, including reductions in faculty and staff positions where appropriate, a continuing employee furlough plan, and changes in insurance benefit programs calculated to save both the University and the employee insurance dollars spent while preserving or even improving coverage. Additionally, small increases in student tuition and fee rates were implemented.

Despite negative economic forces, the University's financial position remains strong. The net result of operating and nonoperating revenues and expenses was an increase in net position at June 30, 2018 of \$1.5 million, reflecting the University's efforts to contain costs. Conservative management of fiscal resources ensures the ability to maintain quality academic and student programs, offset cost increases, and keep tuition and fee rates low. The University will continue to expand the energy management program in order to reduce energy costs and explore additional opportunities to reduce operating cost while continuing to provide quality services.

As a regional university, we are committed to the preservation, transmission and advancement of knowledge in an environment that fosters small classes, vibrant communities and successful graduates. We are committed to our mission to ensure that our students develop the skills and knowledge required to achieve professional and personal goals in dynamic local and global communities.

Rogers State University
Statement of Net Position
June 30, 2018

| | University June 30, 2018 | Foundation June 30, 2018 |
|---|-----------------------------|-----------------------------|
| Assets | | |
| Current Assets | | |
| Cash and cash equivalents | \$ 10,823,824 | \$ 566,204 |
| Accounts receivable, net | 2,922,272 | - |
| Receivable from OSRHE | 176,841 | - |
| Other current assets | <u>-</u> | <u>32,579</u> |
| Total current assets | 13,922,937 | 598,783 |
| Noncurrent Assets | | |
| Restricted cash and cash equivalents | 2,614,257 | - |
| Investments | - | 17,587,683 |
| Pledges receivable | - | 1,050,953 |
| Net OPEB asset | 146,959 | - |
| Other noncurrent assets | - | 69,853 |
| Capital assets, net | <u>75,152,766</u> | <u>1,203,958</u> |
| Total noncurrent assets | <u>77,913,982</u> | <u>19,912,447</u> |
| Total assets | <u>91,836,919</u> | <u>20,511,230</u> |
| Deferred Outflows of Resources | | |
| Deferred outflows for pensions and OPEB | <u>4,260,114</u> | <u>-</u> |
| Total assets and deferred outflows of resources | <u><u>\$ 96,097,033</u></u> | <u><u>\$ 20,511,230</u></u> |

(continued on next page)

Rogers State University
Statement of Net Position
June 30, 2018

| | University June 30, 2018 | Foundation June 30, 2018 |
|--|-----------------------------|-----------------------------|
| Current Liabilities | | |
| Accounts payable and accrued expenses | \$ 2,213,786 | \$ 64,943 |
| Unearned revenues | 802,574 | - |
| Funds held in custody for others | 198,015 | - |
| Note payable, current portion | - | 28,849 |
| Accrued compensated absences, current portion | 425,019 | - |
| Bonds payable, current portion | 500,000 | - |
| Capital lease obligations, current portion | 1,927,328 | - |
| Total current liabilities | <u>6,066,722</u> | <u>93,792</u> |
| Noncurrent Liabilities, net of current portion | | |
| Unearned revenues | 3,240 | - |
| Other post-employment benefit obligation | 478,846 | - |
| Accrued compensated absences | 562,262 | - |
| Net pension liability | 22,254,829 | - |
| Bonds payable, net of premium and discount | 9,419,844 | - |
| Capital lease obligations, net of premium and discount | 38,876,591 | - |
| Total noncurrent liabilities | <u>71,595,612</u> | <u>-</u> |
| Total liabilities | <u>77,662,334</u> | <u>93,792</u> |
| Deferred Inflows of Resources | | |
| Deferred credit on OCIA lease restructure | 311,983 | - |
| Deferred inflows for pensions and OPEB | 5,457,421 | - |
| Total Deferred Inflows of Resources | <u>5,769,404</u> | <u>-</u> |
| Net Position | | |
| Net investment in capital assets | 24,546,784 | - |
| Restricted for | | |
| Nonexpendable: | | |
| Scholarships and fellowships | - | 15,124,399 |
| Expendable | | |
| Educational programs | - | 3,718,798 |
| Unrestricted | (11,881,489) | 1,574,241 |
| Total net position | <u>\$ 12,665,295</u> | <u>\$ 20,417,438</u> |

Rogers State University
Statement of Revenues, Expenses and Changes in Net Position
Year Ended June 30, 2018

| | University June 30, 2018 | Foundation June 30, 2018 |
|--|-----------------------------|-----------------------------|
| Operating revenues: | | |
| Tuition and fees, net of scholarship discounts and allowances of \$7,660,233 at June 30, 2018 (revenues of \$820,002 for 2018 are used as security for the 2007A & B Student Facility Revenue Bonds) | \$ 16,225,433 | \$ - |
| Federal grants and contracts | 7,920,973 | - |
| State and private grants and contracts | 3,453,462 | - |
| Auxiliary enterprises (revenues of \$445,707 for 2018 are used as security for the 2013 Revenue Bonds) | 6,539,969 | - |
| Gifts and contributions | - | 1,611,628 |
| Other | 103,108 | 729,137 |
| Total operating revenues | <u>34,242,945</u> | <u>2,340,765</u> |
| Operating expenses: | | |
| Employee compensation and benefits | 22,463,661 | - |
| Contractual services | 2,078,778 | - |
| Supplies and other operating expenses | 6,280,929 | - |
| Utilities | 1,340,932 | - |
| Communications | 213,464 | - |
| Other operating expenses | 1,353,241 | 2,598,086 |
| Depreciation expense | 3,514,431 | - |
| Scholarships | 7,638,248 | 737,786 |
| Total operating expenses | <u>44,883,684</u> | <u>3,335,872</u> |
| Operating income (loss) | <u>(10,640,739)</u> | <u>(995,107)</u> |
| Nonoperating revenues (expenses): | | |
| State appropriations | 10,921,628 | - |
| OTRS on-behalf contributions | 919,172 | - |
| Investment income | 130,518 | 1,095,526 |
| OSRHE Endowment Income | (15,745) | - |
| Interest expense | (2,059,860) | - |
| Net nonoperating revenues | <u>9,895,713</u> | <u>1,095,526</u> |
| Gain (loss) before other revenues, expenses, gains, and losses | (745,026) | 100,419 |
| State appropriations restricted for capital purposes | 332,793 | - |
| On-behalf payments for OCIA capital leases | 1,938,024 | - |
| Net increase in net position | 1,525,791 | 100,419 |
| Net position, beginning of year | <u>11,139,504</u> | <u>20,317,019</u> |
| Net position, end of year | <u><u>\$ 12,665,295</u></u> | <u><u>\$ 20,417,438</u></u> |

Rogers State University
Statement of Cash Flows (continued)
Year Ended June 30, 2018

| | |
|---|-----------------------------|
| Operating Activities | |
| Tuition and fees | \$ 15,375,321 |
| Grants and contracts | 10,324,006 |
| Auxiliary enterprises | 6,539,969 |
| Other operating receipts | 96,912 |
| Payments to employees for salaries and benefits | (22,063,633) |
| Payments made for scholarships | (7,638,248) |
| Payments to suppliers | <u>(10,645,856)</u> |
| Net cash used in operating activities | <u>(8,011,529)</u> |
| Noncapital Financing Activities | |
| State appropriations | 10,921,628 |
| Direct loans received | 12,807,173 |
| Direct loans disbursed | <u>(12,807,173)</u> |
| Net cash provided by noncapital financing activities | <u>10,921,628</u> |
| Capital and Related Financing Activities | |
| Capital appropriations received | 332,793 |
| Interest paid on capital debt and leases | (1,743,897) |
| Principal paid on capital-related debt | <u>(2,092,833)</u> |
| Net cash used in capital and related financing activities | <u>(3,503,937)</u> |
| Investing Activities | |
| Purchase of capital assets | (400,636) |
| Interest income received | <u>198,218</u> |
| Net cash provided by investing activities | <u>(202,418)</u> |
| Net change in cash and cash equivalents | (796,256) |
| Cash and Cash Equivalents, beginning of year | <u>14,234,338</u> |
| Cash and Cash Equivalents, end of year | <u><u>\$ 13,438,082</u></u> |

Rogers State University
Statement of Cash Flows
Year Ended June 30, 2018

Reconciliation of Operating Loss to Net Cash Used in Operating Activities

| | |
|---|-----------------|
| Operating loss | \$ (10,640,739) |
| Adjustments to reconcile operating loss to net cash used in operating activities: | |
| OTRS on-behalf contributions | 919,172 |
| Depreciation expense | 3,514,431 |
| Net loss on disposal of capital assets | 1,675 |
| Changes in assets and liabilities: | |
| Accounts receivable | (866,132) |
| Net pension asset | (146,959) |
| Deferred outflows - OTRS Contributions | 3,900,900 |
| Unearned revenues | (19,381) |
| Accounts payable and accrued expenses | (427,382) |
| Funds held in custody | 5,950 |
| Net OPEB liability | (301,689) |
| Accrued compensated absences | 25,336 |
| Net pension liability | (6,772,543) |
| Deferred Inflows - pensions | 2,795,832 |

| | |
|---------------------------------------|------------------------------|
| Net cash used in operating activities | <u><u>\$ (8,011,529)</u></u> |
|---------------------------------------|------------------------------|

Reconciliation of Cash and Cash Equivalents to the Statements of Net Position

| | |
|--------------------------------------|-----------------------------|
| Current assets: | |
| Current cash and cash equivalents | \$ 10,823,824 |
| Noncurrent assets: | |
| Restricted cash and cash equivalents | <u>2,614,257</u> |
| | <u><u>\$ 13,438,081</u></u> |

Note 1 - Nature of Organization and Summary of Significant Accounting Policies

Nature of operations: Rogers State University (the University) is a regional University operating under the jurisdiction of the Board of Regents of the University of Oklahoma (the Board of Regents) and the Oklahoma State Regents for Higher Education. Major federally funded student financial aid programs in which the University participates include the Federal Pell Grant, Federal Supplemental Educational Opportunity Grant, and Federal Work Study programs. Unsecured credit is extended to students.

Reporting entity: The University is one of four institutions of higher education in Oklahoma that comprise the Regents of the University of Oklahoma, which in turn is part of the Higher Education Component Unit of the State of Oklahoma.

The Board of Regents has constitutional authority to govern, control and manage the Regents of the University of Oklahoma, which consists of four institutions. This authority includes but is not limited to the power to designate management, the ability to significantly influence operations, acquire and take title to real and personal property in its name, and appoint or hire all necessary officers, supervisors, instructors, and employees for member institutions.

Accordingly, the University is considered an organizational unit of the Regents of the University of Oklahoma reporting entity for financial reporting purposes due to the significance of its legal, operational, and financial relationships with the Board of Regents, as defined in Section 2100 of the Governmental Accounting Standards Board (GASB) *Codification of Governmental Accounting and Financial Reporting Standards*.

Rogers State University Foundation: Rogers State University Foundation (the Foundation), is a legally separate, Oklahoma not-for-profit corporation organized for the purpose of receiving and administering gifts intended for the University. Accordingly, the Foundation is a component unit of the University. Because the restricted resources held by the Foundation can only be used by, or for the benefit of, the University, the University's management believes that discretely presenting the Foundation's financial statements in the University's financial statements in accordance with guidelines provided by GASB provides users relevant and timely information about resources available to the University. Separate financial statements of the Foundation are prepared and may be obtained by contacting the Foundation's Executive Director.

The University authorizes the Foundation to solicit contributions on its behalf. In the absence of donor restrictions, the Foundation has discretionary control over the amounts and timing of its distributions to the University. During the year ended June 30, 2018, the Foundation provided the University \$1,760,677 in scholarships, awards and other program support.

The University and the Foundation both have a fiscal year end of June 30.

Financial statement presentation: The Governmental Accounting Standards Board (GASB) is the recognized standard-setting body for accounting principles generally accepted in the United States of America (U.S. GAAP) applicable to public sector institutions of higher education. The University applies all applicable GASB pronouncements.

Basis of accounting: The financial statements are prepared using the economic resources measurement focus and the accrual basis of accounting in accordance with U.S. GAAP. 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 of America requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues, expenses, and other changes in net position during the reporting period. Actual results could differ from those estimates.

Cash equivalents: For purposes of the statement of cash flows, the University considers all highly liquid investments with an original maturity of three months or less to be cash equivalents. Funds invested through the State Treasurer's OK Invest cash management investment policy are considered cash equivalents.

Accounts receivable: Accounts receivable consist of tuition and fee charges to students and auxiliary enterprise services provided to students, faculty, and staff, the majority of each residing in the State of Oklahoma. Accounts receivable also include amounts due from the federal, state and local governments or private sources, in connection with reimbursement of allowable expenditures made pursuant to the University's grants and contracts. Accounts receivable are recorded net of estimated uncollectible amounts. The University determines its allowance by considering a number of factors, including the length of time accounts receivable are past due, the University's previous loss history, and the condition of the general economy and the industry as a whole. The University writes off specific accounts receivable when they become uncollectible, and payments subsequently received on such receivables are credited to the allowance for doubtful accounts.

Restricted cash and cash equivalents: Cash and cash equivalents 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 noncurrent assets in the statement of net position.

Capital assets: Capital assets are recorded at cost at the date of acquisition or fair market value at the date of donation in the case of gifts. The University's capitalization policy for furniture, fixtures, and equipment include all items with a unit cost of \$5,000 or more and an estimated useful life of greater than one year. Renovations to buildings, infrastructure, and land improvements that significantly increase the value or extend the useful life of the structure are capitalized. Routine repairs and maintenance are charged to operating expense in the year in which the expense was incurred.

Depreciation is computed using the straight-line method over the estimated useful lives of the assets, generally 40 years for buildings, 30 years for infrastructure, 20 years for land improvements and building renovations, 10 years for enterprise software, and five years for library materials and equipment.

Capital assets are subject to an evaluation of possible impairment when events or circumstances indicate that the related changes in carrying amounts may not be recoverable. If required, impairment losses are reported in the statement of revenues, expenses, and changes in net position. For 2018, there were no impairment losses.

Unearned revenues: Unearned revenues include amounts received for tuition and fees and certain auxiliary activities prior to the end of the fiscal year but related to the subsequent accounting period. Unearned revenues also include amounts received from grant and contract sponsors that have not yet been earned.

Compensated absences: Employee vacation pay is accrued at year-end for financial statement purposes. The liability and expense incurred are recorded at year-end as accrued expenses in the statement of net position and as a component of compensation and benefit expense in the statement of revenues, expenses, and changes in net position.

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

Net position: The University's net position is classified as follows:

Net investment in capital assets: The net investment in capital assets component of net position consists of capital assets, net of accumulated depreciation, reduced by the outstanding balances of bonds, notes, or other borrowings that are attributable to the acquisition, construction, or improvement of those assets. Deferred outflows of resources and deferred inflows of resources that are attributable to the acquisition, construction, or improvement of those assets or related debt are also included in this component of net position. To the extent that 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.

Unrestricted net position: Unrestricted net position represents 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.

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 educational departments and of auxiliary enterprises; and (3) most federal, state, and nongovernmental grants and contracts.

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, such as state appropriations, certain governmental grants, 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 statement 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 either operating or nonoperating revenues in the University's financial statements. To the extent that revenues from such programs are used to satisfy tuition and fees and other student charges, the University has recorded a scholarship discount and allowance.

Deferred outflows of resources: Deferred outflows are the consumption of net position by the University that are applicable to a future reporting period. At June 30, 2018, the University's deferred outflows of resources were comprised of deferred outflows related to pensions.

Deferred inflows of resources: Deferred inflows are the acquisition of net position by the University that are applicable to a future reporting period. At June 30, 2018, the University's deferred inflows of resources were comprised of credits realized on OCIA lease restructures and deferred inflows related to pensions.

Income taxes: The University, as a political subdivision of the State of Oklahoma, is exempt from federal income taxes under Section 115(1) of the Internal Revenue Code, as amended. However, the University may be subject to income taxes on unrelated business income under Internal Revenue Code Section 511(a)(2)(B).

New Accounting Pronouncements Adopted in Fiscal Year 2018: The University adopted the following new accounting pronouncements during the year ended June 30, 2018:

- *Statement No. 75, Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions (OPEB)* was issued in June 2015, became effective for the University beginning with its fiscal year ending June 30, 2018. The Statement replaces the requirements of GASB Statement No. 45, *Accounting and Financial Reporting by Employers for Postemployment Benefits Other Than Pensions*, and requires governments to report a liability on the face of the financial statements for the OPEB they provide and outlines the reporting requirements by governments for defined benefit OPEB plans administered through a trust, cost-sharing OPEB plans administered through a trust and OPEB not provided through a trust. The Statement also requires governments to present more extensive note disclosures and required supplementary information about their OPEB liabilities. Some governments are legally responsible to make contributions directly to an OPEB plan or make benefit payments directly as OPEB comes due for employees of other governments. In certain circumstances, called special funding situations, the Statement requires these governments to recognize in their financial statements a share of the other government's net OPEB liability. The adoption of GASB No. 75 resulted in minimal impact in net position as of July 1, 2017.
- *Statement No. 85, Omnibus 2017*
GASB No. 85 was issued in March 2017 and addresses a variety of topics including issues related to blending component units, goodwill, fair value measurement and application, and postemployment benefits. The provisions of GASB No. 85 are effective for reporting periods beginning after June 15, 2017, with earlier application encouraged. The adoption of GASB No. 85 did not have a significant impact on the University's financial statements.

- *Statement No. 86, Certain Debt Extinguishment Issues*
GASB No. 86 was issued in May 2017 and provides guidance for transactions in which cash and other monetary assets acquired with only existing resources (resources other than the proceeds of refunding debt) are placed in an irrevocable trust for the sole purpose of extinguishing debt. This statement also includes guidance related to prepaid insurance on debt that is extinguished and on notes to the financial statements for debt that is defeased in substance. The provisions of GASB No. 86 are effective for reporting periods beginning after June 15, 2017, with earlier application encouraged. The adoption of GASB No. 86 did not have a significant impact on the University's financial statements.

New Accounting Pronouncements Issued Not Yet Adopted: The GASB has also issued several new accounting pronouncements which will be effective to the University in fiscal year 2019 or after. A description of the new accounting pronouncements and the University's consideration of the impact of these pronouncements are described below:

- *Statement No. 84, Fiduciary Activities*
GASB No. 84 was issued in January 2017 and establishes criteria for identifying fiduciary activities of all state and local governments. The focus of the criteria generally is on (1) whether a government is controlling the assets of the fiduciary activity and (2) the beneficiaries with whom a fiduciary relationship exists. The provisions of GASB No. 84 are effective for reporting periods beginning after December 15, 2018, with earlier application encouraged.
- *Statement No. 87, Leases*
GASB No. 87 was issued in June 2017. This statement requires recognition of certain lease assets and liabilities for leases that were previously 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 this statement, 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. The provisions of GASB No. 87 are effective for reporting periods beginning after December 15, 2019, with earlier application encouraged.
- *Statement No. 88, Certain Disclosures Related to Debt, including Direct Borrowings and Direct Placements*
GASB No. 88 was issued in March 2018. It defines debt for purposes of disclosure in notes to the financial statements and requires that additional essential information related to debt be disclosed in notes to financial statements. It also requires that existing and additional information be provide for direct borrowings and direct placements of debt separately from other debt. The provisions of GASB No. 88 are effective for reporting periods beginning after June 15, 2018, with earlier application encouraged.
- *Statement No. 89, Accounting for Interest Cost Incurred before the End of a Construction Period*
GASB No. 89 was issued in June 2018 and establishes accounting requirements for interest cost incurred before the end of a construction period. It requires that such interest cost be recognized as an expense in the period in which the cost is incurred for financial statements prepared using the economic resource measurement focus. The provisions of GASB No. 89 are effective for reporting periods beginning after December 15, 2019, with earlier application encouraged.

The University is currently evaluating the impact that these new standards will have on its financial statements.

Note 2 - Deposits and Investments

Deposits: Custodial credit risk is the risk that in the event of a bank failure, the government'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 State Treasurer may determine, in the state's name.

The University requires that balances on deposit with financial institutions, including trustees related to the University's bond indenture and capital lease agreements, be insured by Federal Deposit Insurance, collateralized by securities held by the cognizant Federal Reserve Bank, or invested in U.S. Government obligations, in the University's name.

At June 30, 2018, the carrying amount of the University's deposits with the State Treasurer and other financial institutions was \$13,438,081. This amount consisted of deposits with the State Treasurer (\$13,433,981), U.S. financial institutions (\$500), and change funds (\$3,600), as of June 30, 2018.

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; (d) investments related to tri-party repurchase agreements which are collateralized at 102 percent 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 \$6,318,977 at June 30, 2018.

For financial reporting purposes, deposits with the State Treasurer that are invested in OK INVEST are classified as cash equivalents.

At June 30, 2018, the distribution of deposits in OK INVEST is as follows:

| OK INVEST Portfolio | Cost | Market Value |
|-----------------------------------|--------------|--------------|
| U.S. Agency securities | \$ 2,878,921 | \$ 2,864,920 |
| Certificates of deposit | 237,553 | 237,553 |
| Money market mutual funds | 616,769 | 616,769 |
| Mortgage backed agency securities | 2,496,141 | 2,488,698 |
| Municipal bonds | 38,186 | 39,080 |
| Foreign bonds | 22,850 | 22,820 |
| U.S. Treasury Obligations | 28,558 | 33,235 |
| | \$ 6,318,978 | \$ 6,303,075 |

Agencies and funds that are considered to be part of the State's reporting entity in the State's Comprehensive Annual Financial Report are allowed to participate in OK INVEST. Oklahoma statutes and the State Treasurer establish the primary objectives and guidelines governing the investment of funds in OK INVEST. Safety, liquidity, and return on investment are the objectives which establish the framework for the day to day OK INVEST management with an emphasis on safety of the capital and the probable income to be derived and meeting the State and its funds and agencies' daily cash flow requirements. Guidelines in the Investment Policy address credit quality requirements and diversification percentages and specify the types and maturities of allowable investments, and the specifics regarding these policies can be found on the State Treasurer's website at <http://www.treasurer.state.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 ten years. OK INVEST maintains an overall weighted average maturity of no more than four years.

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

Note 3 - Accounts Receivable

Accounts receivable are shown net of allowances for doubtful accounts in the accompanying balance sheet. Accounts receivable consisted of the following at June 30, 2018:

| | |
|---|----------------------------|
| Student tuition and fees | \$ 2,333,329 |
| Auxiliary enterprise and other operating activities | 1,843,617 |
| Federal, state, and private grants and contracts | 175,214 |
| | <u>4,352,160</u> |
| Less allowance for doubtful accounts | <u>(1,429,888)</u> |
| Net accounts receivable | <u><u>\$ 2,922,272</u></u> |

Note 4 - Capital Assets, Net

Following are the changes in capital assets for the years ended June 30:

| | Balance, June 30, 2017 | Additions | Transfers | Retirements | Balance, June 30, 2018 |
|--|-----------------------------|------------------------------|--------------------|--------------------------|-----------------------------|
| Capital assets not being depreciated: | | | | | |
| Land | \$ 776,133 | \$ - | \$ - | \$ - | \$ 776,133 |
| Construction in progress | 78,000 | 1,021,225 | - | - | 1,099,225 |
| Total capital assets not being depreciated | <u>\$ 854,133</u> | <u>\$ 1,021,225</u> | <u>\$ -</u> | <u>\$ -</u> | <u>\$ 1,875,358</u> |
| Other capital assets: | | | | | |
| Land improvements | 12,231,968 | - | - | - | 12,231,968 |
| Infrastructure | 2,538,589 | - | - | - | 2,538,589 |
| Buildings | 85,869,490 | 102,757 | - | - | 85,972,247 |
| Intangible Assets | 834,348 | - | - | - | 834,348 |
| Furniture, fixtures, and equipment | 8,893,498 | 314,593 | - | (59,225) | 9,148,866 |
| Library materials | 3,379,592 | 66,124 | - | (100,991) | 3,344,725 |
| Total other capital assets | <u>113,747,485</u> | <u>483,474</u> | <u>-</u> | <u>(160,216)</u> | <u>114,070,743</u> |
| Less accumulated depreciation for: | | | | | |
| Land improvements | (5,664,172) | (568,784) | - | - | (6,232,956) |
| Infrastructure | (1,230,276) | (84,620) | - | - | (1,314,896) |
| Buildings | (19,457,100) | (2,116,961) | - | - | (21,574,061) |
| Intangible Assets | - | (166,870) | - | - | (166,870) |
| Furniture, fixtures, and equipment | (7,844,734) | (506,444) | - | 59,225 | (8,291,953) |
| Library materials | (3,241,162) | (70,752) | - | 99,316 | (3,212,598) |
| Total accumulated depreciation | <u>(37,437,444)</u> | <u>(3,514,431)</u> | <u>-</u> | <u>158,541</u> | <u>(40,793,334)</u> |
| Other capital assets, net | <u>\$ 76,310,041</u> | <u>\$ (3,030,957)</u> | <u>\$ -</u> | <u>\$ (1,675)</u> | <u>\$ 73,277,409</u> |
| Capital assets summary: | | | | | |
| Capital assets not being depreciated | \$ 1,688,481 | \$ 1,021,225 | \$ - | \$ - | \$ 2,709,706 |
| Other capital assets, at cost | 112,913,136 | 483,474 | - | (160,216) | 113,236,394 |
| Total cost of capital assets | 114,601,617 | 1,504,699 | - | (160,216) | 115,946,100 |
| Less accumulated depreciation | <u>(37,437,444)</u> | <u>(3,514,431)</u> | <u>-</u> | <u>158,541</u> | <u>(40,793,334)</u> |
| Capital assets, net | <u><u>\$ 77,164,173</u></u> | <u><u>\$ (2,009,732)</u></u> | <u><u>\$ -</u></u> | <u><u>\$ (1,675)</u></u> | <u><u>\$ 75,152,766</u></u> |

The University has acquired certain capital assets, including buildings and equipment, under various lease-purchase contracts and other capital lease agreements. The cost of University assets held under capital leases totaled \$59,961,418 as of June 30, 2018.

Note 5 - Long-Term Liabilities

Long-term liability activity for the year ended June 30, 2018 was as follows:

| | Balance, June 30, 2017 | Additions | Reductions | Balance, June 30, 2018 | Amounts Due Within One Year |
|---------------------------------------|------------------------------|----------------|----------------|------------------------------|-----------------------------------|
| Bonds, notes and capital leases: | | | | | |
| Student Facility Series, 2007A | \$ 7,800,000 | \$ - | \$ (345,000) | \$ 7,455,000 | \$ 360,000 |
| ODFA Revenue Bonds 2013 | 2,655,000 | - | (140,000) | 2,515,000 | 140,000 |
| Bond discount | (56,381) | - | 6,225 | (50,156) | - |
| ODFA Master lease payable | 35,319,333 | - | (1,607,833) | 33,711,500 | 1,649,167 |
| OCIA Capital lease payable | 8,592,139 | - | (1,541,787) | 7,050,352 | 278,161 |
| Lease payable premium | 294,457 | - | (52,991) | 241,466 | - |
| Lease payable discount | (214,978) | - | 15,579 | (199,399) | - |
| Total bonds, notes and capital leases | 54,389,570 | - | (3,665,807) | 50,723,763 | 2,427,328 |
| Other noncurrent liabilities: | | | | | |
| Net OPEB liability | 780,535 | - | (301,689) | 478,846 | - |
| Net pension liability - OTRS | 28,620,771 | (6,800,740) | - | 21,820,031 | - |
| Net pension liability - SRP | 406,601 | 28,197 | - | 434,798 | - |
| Accrued compensated absences | 961,945 | 652,687 | (627,351) | 987,281 | 425,019 |
| Total noncurrent liabilities | \$ 85,159,422 | \$ (6,119,856) | \$ (4,594,847) | \$ 74,444,719 | \$ 2,852,347 |

Student Facility Revenue Bonds: In August 2007, the University issued \$7,800,000 Student Facility Revenue Bonds Series 2007A and \$2,200,000 Federally Taxable Series 2007B. The proceeds received from the sale of these bonds and other funds available to the University were used to construct, renovate, equip, and furnish various facilities on the Claremore campus, including the Student Services Center and other student usage facilities.

The bonds are secured by student facility fees assessed on a credit-hour basis. Total pledged revenues in fiscal year 2018 were \$820,002. Debt service payments of \$684,456 were 83.5 percent of pledged revenues in fiscal year 2018.

The 2007A Student Facility Revenue bonds were issued at a discount of \$92,178. During FY 2018, the University recognized \$4,851 of amortization, leaving a balance of the unamortized bond discount of \$39,646.

In May 2013, the University issued \$3,000,000 Federally Taxable Series 2013 revenue bonds. The net proceeds of \$2,854,000 were used to design, construct, and equip a new 17,215 square foot student dining facility on the Claremore campus. The bonds are primarily secured by bookstore revenues of \$290,709 and dining facility revenues of \$154,998. Debt service payments of \$221,065 were 49.6 percent of pledged revenues in fiscal year 2018.

The Federally Taxable Series 2013 revenue bonds were issued at a discount of \$18,754. During 2018, the University recognized \$1,325 of amortization, leaving a balance of the unamortized bond discount of \$11,884.

The scheduled maturities of the bonds are as follows:

| <u>Years Ending June 30:</u> | <u>Principal</u> | <u>Interest</u> | <u>Total</u> |
|------------------------------|---------------------|---------------------|----------------------|
| 2019 | \$ 500,000 | \$ 402,496 | \$ 902,496 |
| 2020 | 515,000 | 384,473 | 899,473 |
| 2021 | 535,000 | 365,149 | 900,149 |
| 2022 | 555,000 | 344,604 | 899,604 |
| 2023 | 575,000 | 322,931 | 897,931 |
| 2024-2028 | 3,265,000 | 1,243,503 | 4,508,503 |
| 2029-2033 | 4,025,000 | 475,463 | 4,500,463 |
| | <u>\$ 9,970,000</u> | <u>\$ 3,538,619</u> | <u>\$ 13,508,619</u> |

Oklahoma Capital Improvement Authority lease obligations: The Oklahoma Capital Improvement Authority (OCIA) periodically issues bonds, which are allocated to the State Regents for Higher Education (the State Regents), to be used for specific projects at Oklahoma higher education institutions. The University has participated in these projects as discussed below. In each of the transactions, OCIA and the University have entered into a lease agreement with terms characteristic of a capital lease. As a result, the University recognizes its share of the liability and the related assets in connection with the projects being constructed or acquired, in its financial statements. Annually, the State Legislature appropriates funds to the State Regents to make monthly lease principal and interest payments on-behalf of the University.

In November 2005, the OCIA issued its OCIA Bond Issues, 2005 Series F and G. Of the total bond indebtedness, the State Regents allocated \$13,922,702 to the University. Concurrent with the allocation, the University entered into a lease agreement with OCIA, representing the seven projects being funded by the OCIA bonds.

Through June 30, 2018, the University had drawn its entire allotment for expenditures incurred in connection with the projects. Expenditures have been capitalized as investments in capital assets and/or recorded as construction in progress in accordance with University policy. The University has recorded a lease obligation payable to OCIA for the total amount of the allotment less repayments made.

In 2011, the OCIA Series 2005F lease agreement was restructured through a partial refunding of OCIA's 2005F bond debt. OCIA issued two new bonds, Series 2010A and 2010B. The lease agreements with OCIA secure the OCIA bond debt and any future debt that might be issued to refund earlier bond issues. OCIA issued this new debt to provide budgetary relief for fiscal years 2011 and 2012 by extending and restructuring debt service. Consequently, the lease agreement with OCIA automatically restructured to secure the new bond issues. This lease restructuring has extended certain principal payments into the future, resulting in a charge or cost on restructuring. The University has recorded a charge of \$1,284,522 on restructuring as a deferred outflow of resources that has been fully amortized as of June 30, 2016. This restructuring resulted in an aggregate debt service difference for principal and interest between the original lease agreement and the restructured lease agreement of \$445,026, which also approximates the economic cost of the lease restructuring. Even though this restructuring resulted in a cost to the University, it is anticipated that the on-behalf payments provided to cover the original lease agreement will also cover the deferred lease restructuring charge.

During fiscal year 2014, the University's remaining 2005 lease agreement with OCIA was restructured through a partial refunding of the Series 2005F bonds. OCIA issued new bonds, Series 2014A, to accomplish the refunding. The restructured lease agreement with OCIA secures the OCIA bond indebtedness and any future indebtedness that might be issued to refund earlier bond issues. The University's aforementioned lease agreement with OCIA was automatically restructured to secure the new bond issues. The lease restructuring resulted in a reduction of principal, thus the University has recorded a credit of \$387,424, which is the difference between the reacquisition price and the net carrying amount of the old debt, that is being amortized over the remaining life of the old debt, or the life of the new debt, whichever is shorter. As of June 30, 2018, the remaining deferred inflow of resources totaled \$286,615. This refinancing resulted in an aggregate difference in principal and interest between the original lease agreement and the refinanced lease agreement of \$941,650, which approximates the economic savings of the transaction.

During fiscal year 2015, the University's 1999 lease agreement with OCIA was restructured through a refunding of the Series 2004A bonds. OCIA issued new bonds, Series 2014B, to accomplish the refunding. The restructured lease agreement with OCIA secures the OCIA bond indebtedness and any future indebtedness that might be issued to refund earlier bond issues. The University's aforementioned lease agreement with OCIA was automatically restructured to secure the new bond issues. The lease restructuring resulted in a reduction of principal payments. The University has recorded a deferred inflow of resources of \$126,840, which is the difference between the reacquisition price and the net carrying amount of the old debt that is being amortized over the life of the old debt or the life of the new debt, whichever is shorter. As of June 30, 2018, the deferred inflows of resources totaled \$25,368. This refinancing resulted in an aggregate difference in principal and interest between the original lease agreement and the refinanced lease agreement of \$109,644, which approximates the economic savings of the transaction.

During the year ended June 30, 2018, OCIA made lease principal and interest payments totaling \$1,938,024 on behalf of the University. These on-behalf payments have been recorded as restricted State appropriations in the University's statement of revenues, expenses, and changes in net position.

Future minimum lease payments under the University's obligations to OCIA are as follows:

| <u>Years Ending June 30:</u> | <u>Principal</u> | <u>Interest</u> | <u>Total</u> |
|------------------------------|---------------------|---------------------|---------------------|
| 2019 | \$ 278,161 | \$ 327,787 | \$ 605,948 |
| 2020 | 281,009 | 315,663 | 596,672 |
| 2021 | - | 309,164 | 309,164 |
| 2022 | 605,092 | 309,164 | 914,256 |
| 2023 | 635,849 | 280,009 | 915,858 |
| 2024-2028 | 3,572,979 | 932,871 | 4,505,850 |
| 2029-2030 | 1,677,262 | 125,387 | 1,802,649 |
| | <u>\$ 7,050,352</u> | <u>\$ 2,600,045</u> | <u>\$ 9,650,397</u> |

Oklahoma Development Finance Authority Master Lease Program: In March 2005, the University entered into a 15 year lease agreement with the Oklahoma Development Finance Authority (the ODFA) and the State Regents as a beneficiary of a portion of the proceeds from the ODFA State Regents for Higher Education Master Lease Revenue Bonds, Series 2005A. The University received a net amount of \$138,000 of the proceeds for the installation of a geothermal mechanical system. The University makes lease payments to the State Regents, who then forwards the payments to the trustee bank.

In May 2006, the University entered into a 20 year lease agreement with the ODFA and the State Regents as a beneficiary of a portion of the proceeds from the ODFA State Regents for Higher Education Master Lease Revenue Bonds, Series 2006A. The University received a net amount of \$4,414,000 of the proceeds for the installation of a geothermal mechanical system. The University makes lease payments to the State Regents, who then forwards the payments to the trustee bank.

During fiscal year 2016, the 2006 lease agreement with ODFA was restructured through a refunding of the Series 2006A bonds. ODFA issued new bonds, Series 2016A to accomplish the refunding. The refinancing resulted in an aggregate difference in principal and interest between the original lease agreement and the refinanced lease agreement of \$388,833, which approximates the economic savings of the transaction.

In August 2007, the University entered into a 20 year lease agreement with the ODFA and the State Regents as a beneficiary of a portion of the proceeds from the ODFA State Regents for Higher Education Master Lease Revenue Bonds, Series 2006B. The University received a net amount of \$950,000 of proceeds for the installation of a geothermal system, lighting retrofit, HVAC monitoring system, water conservation enhancements, and other energy conservation projects. The University makes lease payments to the State Regents, who then forwards the payments to the trustee bank.

During fiscal year 2016, the 2006 lease agreement with ODFA was restructured through a refunding of the Series 2006B bonds. ODFA issued new bonds, Series 2016B to accomplish the refunding. The refinancing resulted in an aggregate difference in principal and interest between the original lease agreement and the refinanced lease agreement of \$52,232, which approximates the economic savings of the transaction.

In May 2010, the University entered into a 4 year lease agreement with the ODFA and the State Regents as a beneficiary of a portion of the proceeds from the ODFA State Regents for Higher Education Master Lease Revenue Bonds, Series 2010A. The net proceeds of \$578,000 was used for the purchase of equipment. The University makes lease payments to the State Regents, who then forwards the payments to the trustee bank.

In September 2010, the University entered into a 15 year Master Lease agreement with the ODFA and the State Regents as a beneficiary of a portion of the proceeds from the ODFA State Regents for Higher Education Master Lease Revenue Bonds, Series 2010A. The University received a net amount of \$3,500,000 of the proceeds for the completion of the Baird Hall expansion project. The University makes lease payments to the State Regents, who then forwards the payments to the trustee bank.

In September 2010, the University entered into a 30 year Master Lease agreement with the ODFA and the State Regents as a beneficiary of a portion of the proceeds from the ODFA State Regents for Higher Education Master Lease Revenue Bonds, Series 2010A. The University received a net amount of \$10,500,000 of the proceeds for the construction of student apartments. The University makes lease payments to the State Regents, who then forwards the payments to the trustee bank.

Long-Term Liabilities (Continued)

In November 2010, the University entered into a 24 year lease agreement with the ODFA and the State Regents as a beneficiary of a portion of the proceeds from the ODFA State Regents for Higher Education Master Lease Revenue Bonds, Series 2010C. The University received a net amount of \$6,989,212 of the proceeds for the purchase of student apartments from the Foundation. The University makes lease payments to the State Regents, who then forwards the payments to the trustee bank.

In December 2010, the University entered into a 15 year Master lease agreement with the ODFA and the State Regents as a beneficiary of a portion of the proceeds from the ODFA State Regents for Higher Education Master Lease Revenue Bonds, Series 2010B. The University received a net amount of \$720,000 of the proceeds for the installation of a geothermal mechanical system. The University makes lease payments to the State Regents, who then forwards the payments to the trustee bank.

In July 2011, the University entered into a 25 year Master lease agreement with the ODFA and the State Regents as a beneficiary of a portion of the proceeds from the ODFA State Regents for Higher Education Master Lease Revenue Bonds, Series 2011A. The University received a net amount of \$4,000,000 for the construction of athletic facilities. The University makes lease payments to the State Regents, who then forwards the payments to the trustee bank.

In July 2014, the University entered into a 30 year Master lease agreement with the ODFA and the State Regents as a beneficiary of a portion of the proceeds from the ODFA State Regents for Higher Education Master Lease Revenue Bonds, Series 2014D. The University received a net amount of \$11,500,000 for the construction of student apartments. The University makes lease payments to the State Regents, who then forwards the payments to the trustee bank.

In April 2015, the University entered into a 5 year lease agreement with the ODFA and the State Regents as a beneficiary of a portion of the proceeds from the ODFA State Regents for Higher Education Master Lease Revenue Bonds, Series 2015A. The University received a net amount of \$750,000 for the purchase of equipment and software. The University makes lease payments to the State Regents, who then forwards the payments to the trustee bank.

The scheduled maturities of the obligations under the ODFA Master Lease Program are as follows:

| <u>Years Ending June 30:</u> | <u>Principal</u> | <u>Interest</u> | <u>Total</u> |
|------------------------------|----------------------|----------------------|----------------------|
| 2019 | \$ 1,649,167 | \$ 1,278,792 | \$ 2,927,959 |
| 2020 | 1,685,833 | 1,230,529 | 2,916,362 |
| 2021 | 1,594,083 | 1,175,308 | 2,769,391 |
| 2022 | 1,647,417 | 1,118,850 | 2,766,267 |
| 2023 | 1,717,083 | 1,061,094 | 2,778,177 |
| 2024-2028 | 7,595,166 | 4,407,468 | 12,002,634 |
| 2029-2033 | 7,118,167 | 3,085,969 | 10,204,136 |
| 2034-2038 | 6,134,250 | 1,611,015 | 7,745,265 |
| 2039-2043 | 3,997,417 | 520,508 | 4,517,925 |
| 2044 | 572,917 | 22,201 | 595,118 |
| | <u>\$ 33,711,500</u> | <u>\$ 15,511,734</u> | <u>\$ 49,223,234</u> |

Note 6 - Retirement Plans

The University's academic and nonacademic personnel are covered by various retirement plans depending on job classification. The plans available to University personnel include:

| <u>Name of Plan / System</u> | <u>Type of Plan</u> |
|---|--|
| Oklahoma Teachers' Retirement System (OTRS) | Cost Sharing Multiple Employer Defined Benefit Plan |
| Rogers State University Defined Contribution Plan | Defined Contribution Plan |
| Fidelity Investments Plan | Defined Contribution Plan |
| Supplemental Retirement Annuity | Defined Benefit Plan |

The University does not maintain the accounting records, hold the investments for, or administer these plans.

Oklahoma Teachers' Retirement System

Plan Description: The University participates in the OTRS, a cost-sharing multiple-employer public employee retirement system that is self-administered. OTRS provides retirement, disability, and death benefits to plan members and beneficiaries. Benefit provisions are established and may be amended by the legislature of the State of Oklahoma. Title 70 of the Oklahoma State Statutes assigns the authority for management and operation of OTRS to the Board of Trustees of the System. OTRS issues a publicly available annual financial report that can be obtained at www.ok.gov/TRS/.

Benefits Provided: OTRS provides defined retirement benefits based on members' final compensation, age, and term of service. In addition, the retirement program provides for benefits upon disability and to survivors upon the death of eligible members. Title 70 O. S. Sec. 17-105 defines all retirement benefits. The authority to establish and amend benefit provisions rests with the State Legislature.

Benefit provisions include:

- Members become 100% vested in retirement benefits earned to date after five years of credited Oklahoma service. Members who joined OTRS on June 30, 1992 or prior are eligible to retire at maximum benefits when age and years of creditable service total 80. Members joining OTRS 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. Members joining OTRS after October 31, 2011 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 60, and at age 65 receive unreduced benefits. The maximum retirement benefit is equal to 2% of final compensation for each year of credited service.

- Final compensation for members who joined OTRS prior to July 1, 1992 is defined as the average salary for the three highest years of compensation. Final compensation for members joining OTRS after June 30, 1992 is defined as the average of the highest five 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, OTRS 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 ten 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 OTRS, members' contributions are refundable with interest based on certain restrictions provided in the plan, or by the Internal Revenue Code (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).

Contributions: The contribution requirements of OTRS are at an established rate determined by Oklahoma Statute and are not based on actuarial calculations. Employees are required to contribute 7% of their annual compensation. The University's contribution rate is 8.55% for the year ended June 30, 2018. The University's contributions to OTRS in 2018 was approximately \$1,360,000, equal to the required contributions. In addition, the State of Oklahoma also contributes 5% of State revenues from sales, use and individual income taxes to OTRS. The amounts contributed on-behalf of the University and recognized in the University's Statement of Revenues, Expenses and Changes in Net Position as both revenues and compensation and employee benefit expense in 2018 was \$919,172. These on-behalf payments do not meet the definition of a special funding situation.

Pension liabilities, pension expense, and deferred outflows of resources and deferred inflows of resources related to pensions: At June 30, 2018, the University reported a liability of \$21,820,031 for its proportionate share of the net pension liability. The net pension liability was measured as of June 30, 2017 and the total pension liability used to calculate the net pension liability was determined by an actuarial valuation as of June 30, 2017. The University's proportion of the net pension liability was based on the University's contributions to OTRS relative to total contributions of OTRS for all participating employers for the year ended June 30, 2017. Based upon this information, the University's proportion was .3295%. For the year ended June 30, 2018, the University recognized pension expense of \$1,766,500.

At June 30, 2018, 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 |
|---|--------------------------------------|-------------------------------------|
| Differences between expected and actual experience | \$ - | \$ 1,489,711 |
| Changes of assumptions | 2,589,438 | 1,304,361 |
| Changes in proportion | - | 2,269,613 |
| Net difference between projected and actual investment earnings on pension plan investments | 310,162 | - |
| University contributions during measurement date | 621 | 6,647 |
| University contributions made subsequent to the measurement date | 1,338,634 | - |
| Total | <u>\$ 4,238,855</u> | <u>\$ 5,070,332</u> |

\$1,338,634 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, 2019. Other amounts reported as deferred outflows of resources and deferred inflows of resources related to pensions will be recognized in pension expense as follows:

| | |
|------------|-----------------------|
| 2018 | \$ (789,929) |
| 2019 | 282,747 |
| 2020 | (145,005) |
| 2021 | (1,127,477) |
| 2022 | (390,447) |
| Thereafter | - |
| | <u>\$ (2,170,111)</u> |

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

- Actuarial Cost Method - Entry Age
- Inflation - 2.50%
- Future Ad Hock Cost-of-living Increases - None
- Salary Increases - Composed of 3.25% inflation, including 2.50% price inflation, plus a service-related component ranging from 0.00% to 8% based on years of service.
- Investment Rate of Return - 7.50%
- 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 ending June 30, 2014.

- Mortality Rates – Males: RP-2000 Combined 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 Employer Mortality tables, with male rates multiplied by 60% and female rates multiplied by 50%.

| Asset Class | Target Asset Allocation | Long-Term Expected Real Rate of Return |
|----------------------|----------------------------|--|
| Domestic Equity | 38.5% | 7.5% |
| International Equity | 19.0% | 8.5% |
| Fixed Income | 23.5% | 2.5% |
| Real Estate | 9.0% | 4.5% |
| Alternative Assets | 10.0% | 6.1% |
| Total | 100.0% | |

Sensitivity of the net pension liability to changes in the discount rate: The following table presents the net pension liability of the University calculated using the discount rate of 7.5%, as well as what the University's net pension liability would be if OTRS calculated the total pension liability using a discount rate that is 1-percentage point lower (6.5%) of 1-percentage point higher (8.5%) than the current rate:

| | 1% Decrease 6.50% | Current Discount 7.50% | 1% Increase 8.50% |
|-----------------------|----------------------|---------------------------|----------------------|
| Net pension liability | \$ 31,152,061 | \$ 21,820,031 | \$ 15,006,279 |

Defined Contribution Plan

Plan Description: The plan is a Section 401(a) defined contribution plan that became effective January 1, 2015 for certain FLSA nonexempt employees. The purpose of the plan is to provide retirement benefits for the participants and to distribute the funds accumulated to the participants of the eligible beneficiaries. All nonexempt employees hired after the effective date are allowed a one-time election between participation in OTRS or the defined contribution plan.

Funding Policy: The required contribution rate is 9.0% of pensionable compensation. The University contributes the required amounts for participating members. The University's contributions for the year ended June 30, 2018 were approximately \$137,000.

Defined Contribution Plan – Fidelity Investments

Plan Description: For all eligible full-time employees, the University contributes to a defined contribution pension plan (the Plan) administered by the University's Board of Regents. Pension expense is recorded for the amount of the University's required contributions determined in accordance with the terms of the Plan. The Plan provides retirement benefits to eligible employees or their beneficiaries. Benefit provisions and contribution requirements are contained in the Plan document and were established and can be amended by action of the University's Board of Regents.

Funding Policy: Prior to December 1, 2011, the University contributed 15% of the base salary above \$9,000 for certain employees who were employed prior to January 1, 1999 and 4% of the annual base salary for all other employees in the Plan. Effective December 1, 2011, the University contributed 4% of the annual base salary for all employees in the Plan. Effective July 1, 2013, contributions made by the University were temporarily suspended.

Supplemental Retirement Annuity

Plan Description - The University's Supplemental Retirement Annuity (SRA) plan is a single-employer, defined benefit pension plan administered by the University's Board of Regents. There are no active participants and three individuals are currently receiving benefits. The SRA was established by the University's Board of Regents to provide supplemental retirement and death benefits to certain eligible University employees, or to those eligible employees' beneficiaries. The SRA plan is restricted to certain retirees of the University. The authority to amend the SRA's benefit provisions rests with the University's Board of Regents. The SRA does not issue a stand-alone financial report nor is it included in the financial report of another entity.

Benefits Provided - The SRA will provide a supplemental monthly annuity, based upon the participant's average monthly salary (three highest monthly salary amounts), and taking into consideration OTRS benefits, years of service and other factors.

Contributions - The University shall make contributions to the annuity contract in such amounts and at such times as it shall deem advisable to provide the benefits as set forth in the SRA. Participants are not permitted to make contributions to the SRA.

Pension liabilities, pension expense, and deferred outflows of resources and deferred inflows of resources related to pensions - At June 30, 2018, the University reported a liability of \$434,798 related to the SRA. The net pension liability was measured as of June 30, 2018 and the total pension liability used to calculate the net pension liability was determined by an actuarial valuation as of June 30, 2018. For the year ended June 30, 2018, the University's recognized pension expense of \$28,196. All other amounts reported as deferred outflows of resources and deferred inflows of resources related to pensions were not recognized for the SRA as such amounts are not material.

Actuarial Assumptions:

The total pension liability as determined based on an actuarial valuation prepared as of June 30, 2018 using the following actuarial assumptions:

- Actuarial Cost Method – Entry Age Normal
- Asset Method – Market Value of Assets
- Inflation – 0%
- Salary Increases – Not Applicable
- Discount Rate and Long-Term Expected Rate of Return – 3.98%
- Mortality – RP-2000 Healthy Annuitant Mortality Table, for Males and Females projected with Scale AA to the applicable valuation date
- There are no recent experience studies performed as the plan only covers inactive participants.

Discount Rate – The discount rate used to measure the total pension liability was 3.98%. The projection of cash flows used to determine the discount rate assumed that plan member contributions will be made at the current contribution rate and that contributions will be made at rates equal to the difference between actuarially determined contribution rates and the member rate. Based on those assumptions, the pension plan’s fiduciary net position was projected to be available to make 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.

Long-term expected rate of return – The long-term expected rate of return on pension plan investments was determined using a building-block method in which 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 rates of return by weighting the expected future real rates of return by the target asset allocation percentage and by adding expected inflation. Best estimate of arithmetic real rates of return for the major asset classes included in the pension plan’s target asset allocation as of June 30, 2018 are 4.0%.

Sensitivity of the net pension liability to changes in the discount rate: The following table presents the net pension liability of the University calculated using the discount rate of 3.98%, as well as what the University’s net pension liability would be using a discount rate that is 1-percentage point lower (2.98%) or 1-percentage point higher (4.98%) than the current rate:

| | 1% Decrease 2.98% | Current Discount 3.98% | 1% Increase 4.98% |
|-----------------------|----------------------|---------------------------|----------------------|
| Net pension liability | \$ 567,278 | \$ 434,798 | \$ 321,416 |

Note 7 - Other Post-Employment Health and Life Insurance Benefits

Rogers State University Other Post-Employment Health and Life Insurance Benefits:

Plan description: The University sponsors health care and life insurance coverage to qualifying retirees and their dependents. All employees hired prior to July 1, 2009 and eligible to retire under the provisions of OTRS are eligible to participate.

Benefits provided: Medical coverage for active employees and retirees under age 65 is offered the University of Oklahoma Board of Regents through a self-insured plan administered by Cigna. Retirees receive fully paid coverage to Medicare eligibility (age 65). OTRS pays a portion of the carrier premium with the balance paid by the University. The carrier premium applicable to retiree dependents is the responsibility of the participants. The University also pays for retiree life insurance coverage to age 65. Through a separate fully insured contract, the University sponsors Medicare supplement coverage for former employees eligible for Medicare. Medicare-eligible retirees must pay full carrier rates to maintain coverage.

Contributions: The University contributes the premium cost to carriers, net of the medical insurance supplement provided by OTRS. Contributions during the year were approximately \$134,000, including approximately \$42,000 in OTRS insurance subsidies.

OPEB Liabilities (Assets), OPEB Expense, and Deferred Outflows of Resources and Deferred Inflows of Resources Related to OPEB - At June 30, 2018, the University reported a liability of \$478,846. The net OPEB liability was measured as of June 30, 2018, and the total OPEB liability used to calculate the net OPEB asset was determined by an actuarial valuation as of June 30, 2018.

For the year ended June 30, 2018, the University recognized OPEB expense of \$69,106. At June 30, 2018, the University reported deferred inflows of resources related to OPEB from the following sources:

| | Deferred Inflows of Resources |
|---|-------------------------------------|
| Changes in assumptions | \$ 265,054 |
| Net difference between projected and actual investment earnings on OPEB investments | 1,982 |
| Total | \$ 267,036 |

Amounts reported as deferred inflows of resources related to OPEB will be recognized in OPEB expense as follows:

| | |
|---------------------|--------------|
| Year Ended June 30: | |
| 2019 | \$ (38,361) |
| 2020 | (38,361) |
| 2021 | (38,361) |
| 2022 | (38,361) |
| 2023 | (38,361) |
| Thereafter | (75,231) |
| | \$ (267,036) |

Actuarial Assumptions- The total OPEB liability (asset) as of June 30, 2018, was determined based on an actuarial valuation prepared as of June 30, 2018 using the following actuarial assumptions:

- Actuarial Cost Method - Entry Age
- Inflation - 2.50%
- Future Ad Hoc Cost-of-living Increases - None
- Salary Increases – 2.5%
- Investment Rate of Return – 6.20%
- Retirement Age – Based on rates used for the Teachers’ Retirement System of Oklahoma pension actuarial valuation.
- Mortality Rates after Retirement – Society of Actuaries RPH-2014 Adjusted to 2006 Total Dataset Headcount-weighted Mortality with MP-2017 Full Generational Improvement
- Mortality Rates for Active Members – RP – Society of Actuaries RPH-2014 Adjusted to 2006 Total Dataset Headcount-weighted Mortality with MP-2017 Full Generational Improvement

| Asset Class | Target Allocation | Long-Term Expected Real Rate of Return |
|----------------------|----------------------|--|
| Domestic equity | 35.0% | 6.2% |
| International equity | 35.0% | 6.2% |
| Fixed income | 40.0% | 6.2% |
| Total | 110.0% | |

Discount Rate- A single discount rate of 6.20% was used to measure the total OPEB liability (asset) as of June 30, 2018. This single discount rate was based solely on the expected rate of return on OPEB plan investments of 6.20%. Based on the stated assumptions and the projection of cash flows, the OPEB 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 OPEB plan investments was applied to all periods of projected benefit payments to determine the total OPEB liability (asset).

Sensitivity of the Net OPEB Liability (Asset) to Changes in the Discount Rate-The following presents the net OPEB liability (asset) of the employer calculated using the discount rate of 6.20%, as well as what the Plan's net OPEB liability (asset) would be if it were calculated using a discount rate that is 1-percentage point lower (5.20%) or 1-percentage-point higher (7.20%) than the current rate:

| | 1% Decrease <u>5.20%</u> | Current Discount <u>6.20%</u> | 1% Increase <u>7.20%</u> |
|--------------------|-----------------------------|----------------------------------|-----------------------------|
| Net OPEB liability | <u>\$ 542,945</u> | <u>\$ 478,846</u> | <u>\$ 419,098</u> |

The healthcare cost trend rate is 6.50% in FY2018, decreasing to 6.00% in FY2019, and decreasing 0.25% per year to an ultimate rate of 4.5% for FY2025 and later years.

Oklahoma Teachers' Retirement System Other Post-Employment Health Insurance Benefits

Plan description: The Oklahoma Teacher's Retirement System (OTRS) provides OPEB for all Oklahoma teachers and other certified employees of common schools, faculty and administrators in public colleges and universities, and administrative personnel of state educational boards and employees of agencies. OTRS is a cost-sharing multiple-employer public employee retirement system that is self-administered.

Benefits provided: OTRS pays a medical insurance supplement to eligible members who elect to continue their employer provided health insurance. The supplement payment is between \$100 and \$105 per month provided the member has ten (10) years of Oklahoma service prior to retirement.

Contributions: Employer and employee contributions are made based upon the TRS Plan provisions contained in Title 70, as amended. However, statutes do not specify or identify any particular contribution source to pay the health insurance subsidy. Based on the contribution requirements of Title 70 employers and employees contribute a single amount based on a single contribution rate as described in Note 6; from this amount OTRS allocates a portion of the contributions to the supplemental health insurance program. The cost of the supplemental health insurance program averages 0.15% of normal cost, as determined by an actuarial valuation. Contributions allocated to the OPEB plan from the University were \$21,255.

OPEB Liabilities (Assets), OPEB Expense, and Deferred Outflows of Resources and Deferred Inflows of Resources Related to OPEB - At June 30, 2018, the University reported an asset of \$146,959 for its proportionate share of the net OPEB asset. The net OPEB asset was measured as of June 30, 2017, and the total OPEB asset used to calculate the net OPEB asset was determined by an actuarial valuation as of June 30, 2017. The University's proportion of the net OPEB asset was based on the University's contributions received by the OPEB plan relative to the total contributions received by the OPEB plan for all participating employers as of June 30, 2017. Based upon this information, the University's proportion was .3295% percent.

For the year ended June 30, 2018, the University recognized OPEB expense of (\$5,441). At June 30, 2018, the University reported deferred outflows of resources and deferred inflows of resources related to OPEB from the following sources:

| | Deferred Outflows of Resources | Deferred Inflows of Resources |
|--|--------------------------------------|-------------------------------------|
| Differences between expected and actual experience | \$ - | \$ 39,445 |
| Net difference between projected and actual earnings on OPEB plan investments | - | 80,608 |
| Differences between University contributions and proportionate share of contributions | 4 | - |
| University contributions subsequent to the measurement date | 21,255 | - |
| Total | <u>\$ 21,259</u> | <u>\$ 120,053</u> |

The \$21,255 reported as deferred outflows of resources related to OPEB resulting from University contributions subsequent to the measurement date will be recognized as a reduction of the net OPEB liability (asset) in the year ended June 30, 2019. Other amounts reported as deferred outflows of resources and deferred inflows of resources related to OPEB will be recognized in OPEB expense (or reduction of expense if negative) as follows:

| | |
|---------------------|---------------------|
| Year ended June 30: | |
| 2019 | \$ (42,587) |
| 2020 | (42,587) |
| 2021 | (42,587) |
| 2022 | (11,330) |
| 2023 | (4,532) |
| | <u>\$ (143,623)</u> |

Actuarial Assumptions- The total OPEB liability (asset) as of June 30, 2017, was determined based on an actuarial valuation prepared as of June 30, 2017 using the following actuarial assumptions:

- Actuarial Cost Method - Entry Age
- Inflation - 2.50%
- Future Ad Hoc Cost-of-living Increases - None
- Salary Increases - Composed of 3.25% inflation, including 2.50% price inflation, plus a service-related component ranging from 0.00% to 8% based on years of service.
- Investment Rate of Return – 7.50%
- 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 ending June 30, 2014.

- Mortality Rates after Retirement – Males: RP-2000 Combined 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 Employer Mortality tables, with male rates multiplied by 60% and female rates multiplied by 50%.

| Asset Class | Target Allocation | Long-Term Expected Real Rate of Return |
|----------------------|----------------------|--|
| Domestic equity | 38.5% | 7.5% |
| International equity | 19.0% | 8.5% |
| Fixed Income | 23.5% | 2.5% |
| Real Estate** | 9.0% | 4.5% |
| Alternative Assets | 10.0% | 6.1% |
| Total | 100.0% | |

**The Real Estate total expected return is a combination of US Direct Real Estate (unleveraged) and US Value Added Real Estate (unleveraged)

Discount Rate- A single discount rate of 7.50% was used to measure the total OPEB liability (asset) as of June 30, 2017. This single discount rate was based solely on the expected rate of return on OPEB plan investments of 7.50%. Based on the stated assumptions and the projection of cash flows, the OPEB 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 OPEB plan investments was applied to all periods of projected benefit payments to determine the total OPEB liability (asset). 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 OPEB Liability (Asset) to Changes in the Discount Rate-The following presents the net OPEB liability (asset) of the employer calculated using the discount rate of 7.5%, as well as what the Plan's net OPEB liability (asset) 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 (6.5%) | Discount Rate (7.5%) | 1% Increase (8.5%) |
|----------------------------|-----------------------|-------------------------|-----------------------|
| Net OPEB liability (asset) | \$ (9,541) | \$ (227,940) | \$ (414,668) |

OPEB plan fiduciary net position - Detailed information about the OPEB 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.

Note 8 - Funds Held in Trust by Others

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 retained accumulated earnings, totaled approximately \$1,861,000 at June 30, 2018, and is invested by the Oklahoma State Regents for Higher Education on behalf of the University. The University is entitled to receive an annual distribution of earnings of 4.5 percent of the market value at year end on these funds. Legal title of these endowment funds is retained by the Oklahoma State Regents of Higher Education; only the funds available for distribution, or approximately \$177,000 at June 30, 2018, have been reflected as assets in the statement of net position.

Note 9 - Related Party Transactions

The University is the beneficiary of a foundation that provides support for the University by way of scholarships and other direct resources. The University contracts with the Foundation to provide limited services and office space in exchange for the support the University receives. Administrative services provided by the University for the benefit of the Foundation were approximately \$373,663 for the year ended June 30, 2018. Scholarships awarded by the Foundation are remitted to the University after the University pays the award recipient. Such amounts were approximately \$737,786 during the year ended June 30, 2018. Other support provided by the Foundation to the University during the year ended June 30, 2018 amounted to \$1,022,891 for total Foundation support of the University of \$1,760,677.

Note 10 - Commitments and Contingencies

The University conducts certain programs pursuant to various grants and contracts, which are subject to audit by federal and state agencies. Costs questioned as a result of these audits, if any, may result in refunds to these governmental agencies from various sources of the University.

During the ordinary course of business, the University may be subjected to various lawsuits and civil action claims. Management believes that resolution of any such matters pending at June 30, 2018, will not have a material adverse impact to the University.

Note 11 - Risk Management

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

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

Note 12 - Rogers State University Foundation

NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES:

Nature of Activities and Organization - The Rogers State University Foundation, Inc. (the Foundation) supports the academic, staff and alumni programs of Rogers State University (the University). The University in turn pays for a substantial portion of the operating expenses of the Foundation, including all salaries and related expenses, and provides office space for the Foundation's use. The Foundation and the University have certain management and board members in common.

The RSU Foundation Broadcasting Towers, LLC (the Towers), a wholly owned subsidiary of the Foundation, is the owner of one broadcasting tower used primarily by the University (see Note 9).

Principles of Consolidation – The consolidated financial statements include the accounts of the Foundation and its wholly owned subsidiary. All significant intercompany transactions have been eliminated.

Accounting Method - The financial statements have been prepared on the accrual basis of accounting and accordingly reflect all significant receivables and payables.

Cash and Cash Equivalents – The Foundation considers all liquid investments with an original maturity of three months or less to be cash equivalents.

Investments - Investments in marketable securities with readily determinable fair values are reported at their fair market value in the statement of financial position. Unrealized gains and losses are included in the statement of activities.

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.

Property, Plant and Equipment - The Foundation capitalizes major expenditures for property, plant and equipment at cost. Donated property and equipment are recorded as contributions at their estimated fair value.

Depreciation is computed on the straight-line basis over the following estimated useful lives:

| | |
|--------------------------|------------|
| Leased land | 50 years |
| Radio tower and building | 40 years |
| Equipment & furnishings | 5-10 years |
| Vehicles | 3 years |

The Foundation's policy is to capitalize property and equipment over \$500; with lesser amounts expensed currently.

Temporarily restricted funds are restricted primarily for specific academic and alumni programs of the University; permanently restricted funds are restricted primarily for endowment of the University to be held indefinitely, the income from which is expended, and used primarily to fund student scholarships.

Restricted Support - The Foundation reports contributions received as increases in unrestricted, temporarily restricted, or permanently restricted net assets, depending on the existence and/or nature of any donor restrictions. When a donor restriction expires, that is, when a stipulated time restriction ends or purpose restriction is accomplished, temporarily restricted net assets are reclassified to unrestricted net assets and reported in the statement of activities as net assets released from restrictions.

Contributed services – Contributed services are recognized as contributions if the services (a) create or enhance nonfinancial assets or (b) require specialized skills, are performed by people with those skills, and would otherwise be purchased by the Foundation. During the year, ended June 30, 2018 the value of contributed services meeting the requirements for recognition in the financial statements totaled \$240,067 as disclosed further in Note 11.

Use of Estimates - The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the amounts reported in the financial statements and the disclosure of contingent assets and liabilities in the accompanying notes. Accordingly, actual results could differ from those estimates.

Income Taxes - The Foundation is a nonprofit organization under Section 501(c)(3) of the Internal Revenue Code and is exempt from federal and state income taxes.

The accounting standard on accounting for uncertainty in income taxes addresses the determination of whether tax benefits claimed or expected to be claimed on a tax return should be recorded in the financial statements. Under that guidance, the Foundation may recognize the tax benefit from an uncertain tax position only if it is more likely than not that the tax position will be sustained on examination by taxing 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 unrecognized tax benefits identified or recorded as liabilities for the year ended June 30, 2018.

The Foundation files its forms 990 in the U.S. federal jurisdiction and the state of Oklahoma. The Foundation is generally no longer subject to examination by the Internal Revenue Service for tax years before June 30, 2015.

Comparative Totals – The consolidated financial statements include certain prior-year summarized comparative information in total but not by net asset class. Such information does not reflect sufficient detail to constitute presentation in conformity with generally accepted accounting principles. Accordingly, such information should be read in conjunction with the Foundation's consolidated financial statements for the year ended June 30, 2017, from which the summarized information was derived.

NOTE 2: INVESTMENTS:

Investment advisors manage certain funds of the Foundation. The stated Investments are at fair value, based on quoted market prices, and consist of the following at June 30, 2018:

| | |
|-----------------------------|-----------------------------|
| Cash and Money Market Funds | \$ 1,027,492 |
| US Government | 702,090 |
| Corporate Bonds | 5,407,824 |
| Common Stock | 3,252,910 |
| Equity Mutual Funds | 7,028,837 |
| Real Estate Mutual Funds | <u>168,531</u> |
| Total | <u><u>\$ 17,587,684</u></u> |

The following summarizes the investment return and its classification in the statement of activities basis for the year ended June 30, 2018:

| | <u>Unrestricted</u> | <u>Permanently Restricted</u> | <u>Total</u> |
|-------------------------------|--------------------------|-----------------------------------|----------------------------|
| Interest and dividend income | \$ 43,608 | \$ 226,395 | \$ 270,003 |
| Realized and unrealized gains | <u>134,567</u> | <u>690,956</u> | <u>825,523</u> |
| Total | <u><u>\$ 178,175</u></u> | <u><u>\$ 917,351</u></u> | <u><u>\$ 1,095,526</u></u> |

The total investment return is net of stated advisory fees for \$89,148 for the year ended June 30, 2018.

Current year investment income, if available, is annually transferred to the unrestricted and restricted funds in order to support operations of the Foundation and provide funding for program support to the University. The policy of the Foundation is to return the balance of investment income for the fiscal year to the permanently restricted endowments to develop the endowment corpus.

NOTE 3: PROMISES TO GIVE:

Unconditional promises to give at June 30, 2018, are as follows:

| | Due within One Year | Due in One to Five Yrs | Due Past Five Yrs | Total |
|---|------------------------|---------------------------|----------------------|---------------------|
| Unrestricted | \$ 11,980 | \$ 10,347 | \$ - | \$ 22,327 |
| Temporarily restricted | 127,137 | 543,400 | 885,000 | 1,555,537 |
| Permanently restricted | 11,200 | 16,300 | - | 27,500 |
| | 150,317 | 570,047 | 885,000 | 1,605,364 |
| Less discounts to fair market value | - | (56,200) | (440,200) | (496,400) |
| Less allowance for uncollectible promises | (13,762) | - | (44,250) | (58,012) |
| Total | <u>\$ 136,555</u> | <u>\$ 513,847</u> | <u>\$ 400,550</u> | <u>\$ 1,050,952</u> |

Promises to give receivable are measured at fair market value, as described in Note 6.

NOTE 4: PROPERTY, PLANT AND EQUIPMENT:

Property, plant and equipment consist of the following at June 30, 2018:

| | Unrestricted |
|--------------------------------|---------------------|
| Land | \$ 1,127,709 |
| Furniture and fixtures | 13,968 |
| Vehicles | 46,483 |
| Television tower and building | 258,820 |
| Mineral interest | 3,000 |
| Collectibles (non-depreciable) | 500 |
| | 1,450,480 |
| Less accumulated depreciation | (246,521) |
| Total | <u>\$ 1,203,959</u> |

In 2014 the Foundation purchased the Bit by Bit Therapeutic Riding Center (the "Center") from the University for \$1,103,747. The Center is a valuable program to the community and the students it serves. The Center was purchased to transition the program to a separate 501(c)(3) organization. In 2018, the assets of the Center with a carrying value of \$1,048,795 were contributed to the separate 501(c)(3) organization as described further in Note 13.

Depreciation expense for the year ended June 30, 2018 was \$31,443.

NOTE 5: RESTRICTED NET ASSETS:

Net assets were temporarily restricted for the following purposes at June 30, 2018:

| | |
|---|--------------------------------|
| University Program Support | |
| Scholarships | \$ 2,333,506 |
| Athletics Programs | 369,022 |
| Bartlesville | 86,682 |
| Centennial Center | 569,562 |
| OMA Programs | 70,089 |
| President Related Funds | 16,891 |
| RSU Public TV | 154,427 |
| School of Liberal Arts | 56,892 |
| Other Restricted Funds | <u>61,727</u> |
| Total temporarily restricted net assets | <u><u>\$ 3,718,798</u></u> |

Net assets were permanently restricted for the following purposes at June 30, 2018:

| | |
|---|---------------------------------|
| Scholarship Endowments | \$ 11,580,970 |
| President's Leadership Class Endowments | 296,470 |
| Other Named Scholarship Endowments | 378,110 |
| Faculty & Staff Award Endowments | 64,197 |
| Lectureship Endowments | 108,353 |
| Endowed Chairs | 1,727,652 |
| Other Endowments | 350,707 |
| Unrestricted Endowments | 24,119 |
| Life Insurance Endowments | 75,328 |
| Administrative Fees/Increase to Principal | |
| Balance to be Transferred | <u>518,494</u> |
| Total | <u><u>\$ 15,124,400</u></u> |

NOTE 6: FAIR VALUE MEASUREMENTS:

Fair value of investments at June 30, 2018 is as follows:

| | Fair Value | Level 1 Inputs |
|------------------------|----------------------|----------------------|
| Unrestricted | \$ 2,627,994 | \$ 2,627,994 |
| Temporarily Restricted | - | - |
| Permanently Restricted | 14,959,689 | 14,959,689 |
| | <u>14,959,689</u> | <u>14,959,689</u> |
| Total Investments | <u>\$ 17,587,683</u> | <u>\$ 17,587,683</u> |

Level 1 Inputs - Fair values for investments are determined by reference to quoted market prices in active markets for which the Foundation is invested.

The table below presents information about unconditional promises to give at June 30, 2018:

| | Promises Measured at Fair Value |
|---------------------|---------------------------------|
| Measurement basis | Level 3 |
| Promised cash flows | \$ 1,605,365 |
| Carrying amount | \$ 1,050,953 |

Level 3 Inputs - Unconditional promises to give are reported at fair market value. The fair value of promises to give is determined using present value techniques that consider historical trends of collection, the type of donor, general economic conditions, and market interest rate assumptions for individuals, corporations, and foundations. When the fair value of promises to give cannot be determined in this manner, fair value is estimated using the present value of expected cash flows, discounted using an assumed interest rate of 3.5%.

The change in the fair value of the unconditional promises expected to be collected in more than one year is reported as a reduction of contribution revenue.

The table below presents information about the changes in unconditional promises to give for the year ended June 30, 2018:

| | |
|--|---------------------|
| Beginning balance | \$ 1,397,197 |
| New promises received | 15,710 |
| Collections | (362,437) |
| Write offs | (77,605) |
| Provision for uncollectible promises to give | 6,788 |
| Amortization of discount on promises to give | 71,300 |
| Ending Balance | <u>\$ 1,050,953</u> |

NOTE 7: ENDOWMENTS:

The Foundation endowments consist of approximately 190 individual funds established for a variety of purposes. As required by generally accepted accounting principles (GAAP), net assets associated with endowment funds, including funds designated by the Board of Directors to function as endowments, are classified and reported based on the existence or absence of donor-imposed restrictions.

Interpretation of Relevant Law - In accordance with the requirements of accounting standards related to endowments, and the Oklahoma Uniform Prudent Management of Institutional Funds Act (OUPMIFA), the Foundation will report the market value of an endowment as perpetual in nature. As a result, the Foundation classifies as permanently restricted (1) the original value of gifts donated to the endowment, (2) the original value of subsequent gifts donated to the endowment, (3) all realized and unrealized gains and losses of the endowment, and (4) less any income distribution in accordance with the spending policy which will be classified as temporarily restricted. In accordance with OUPMIFA, the Foundation considers the following factors in making a determination to appropriate or accumulate donor-restricted endowment funds:

- (1) The duration and preservation of the fund;
- (2) The purposes of the foundation and the donor-restricted endowment fund;
- (3) General economic conditions;
- (4) The possible effect of inflation and deflation;
- (5) The expected total return from income and the appreciation of investments;
- (6) Other resources of the foundation;
- (7) The investment policies of the foundation.

Return Objectives and Risk Parameters – The Foundation has adopted investment and spending policies for endowment assets that attempt to provide a predictable stream of funding to programs supported by the endowment while seeking to maintain the purchasing power of the endowment assets. Under this policy, as approved by the Board of Directors, the endowment assets are invested in a manner that is intended to produce results which generate a dependable, increasing source of income and appreciation while assuming a moderate level of investment risk. The Foundation expects its endowment funds, over time, to provide an average rate of return of approximately seven percent annually. Actual returns in any given year may vary from this amount.

Strategies Employed for Achieving Objectives - To satisfy its long-term rate-of-return objectives, the Foundation relies on a total return strategy in which investment returns are achieved through both capital appreciation (realized and unrealized) and current yield (interest and dividends). The Foundation targets a diversified asset allocation that places a greater emphasis on equity-based investments to achieve its long-term return objectives while reducing risk to acceptable levels.

Spending Policy and How the Investment Objectives Relate to Spending Policy - The Foundation has a policy of appropriating for distribution each year the equivalent of four percent of its endowment fund's fair value as of the immediately preceding January 1. In establishing this policy, the Foundation considered the long-term expected return on its endowment. Accordingly, over the long term, the Foundation expects the current spending policy to allow its endowment to grow at an average of three percent annually. This is consistent with the Foundation's objective to maintain the purchasing power of the endowment assets held in perpetuity or for a specified term as well as to provide additional real growth through new gifts and investment return.

Endowment net asset composition by type of fund as of June 30, 2018:

| | <u>Unrestricted</u> | <u>Temporarily Restricted</u> | <u>Permanently Restricted</u> |
|----------------------------------|---------------------|-----------------------------------|-----------------------------------|
| Donor-restricted endowment funds | \$ - | \$ - | \$ 15,124,399 |
| Board-designated funds | <u>-</u> | <u>-</u> | <u>-</u> |
| Total endowment funds | <u>\$ -</u> | <u>\$ -</u> | <u>\$ 15,124,399</u> |

Changes in endowment net assets for the year ended June 30, 2018:

| | <u>Unrestricted</u> | <u>Temporarily Restricted</u> | <u>Permanently Restricted</u> |
|----------------------------------|---------------------|-----------------------------------|-----------------------------------|
| Endowment net assets - beginning | \$ - | \$ - | \$ 14,180,909 |
| Investment return | - | - | 917,351 |
| Other income | - | - | 6,522 |
| Contributions | - | - | 561,068 |
| Provisions on promises to give | - | - | 1,900 |
| Transfers - board designated | <u>-</u> | <u>-</u> | <u>(543,351)</u> |
| Endowment net assets - ending | <u>\$ -</u> | <u>\$ -</u> | <u>\$ 15,124,399</u> |

The historical dollar value of the permanently restricted endowments is \$12,482,045 as compared to the fair market value of \$15,124,399 at June 30, 2018. The difference between the historical dollar value and fair value is a gain of \$2,642,354. The current year increase in the unrealized gain of \$408,710 is included with the investment return allocated to permanently restricted funds.

NOTE 8: NOTES PAYABLE:

At June 30, 2018, the Foundation had indebtedness to a bank for \$28,849. The note bears interest at a rate of 4.25% and matures February 24, 2019. All accrued interest on the balance outstanding is payable on a quarterly basis; and a final payment of the entire unpaid outstanding balance of principal and interest is due on the maturity date. The note is secured by any and all real or personal property that the Foundation now owns or may acquire in the future.

NOTE 9: LEASES:

The Towers leases space on the television tower under certain operating lease agreements. The Towers also provides tower space for broadcasting equipment used by the University's television station. Tower rental income donated to the University totaled \$169,279 for the year ended June 30, 2018.

NOTE 10: OFF-BALANCE SHEET RISK AND CONCENTRATIONS:

The Foundation has a potential concentration of credit risk in that it periodically maintains deposits with financial institutions in excess of amounts insured by the FDIC. At June 30, 2018, the Foundation's deposit accounts subject to FDIC insurance were fully insured. In addition, the Foundation has certain deposit accounts collateralized by repurchase agreements totaling \$394,387 at June 30, 2018.

NOTE 11: CONTRIBUTED SERVICES:

For the year ending June 30, 2018, the University contributed the services of various personnel to the Foundation. The amounts listed below are reflected in the accompanying financial statements as contributions and grants and are offset by like amounts included in expenses.

| | |
|-------------------------|-------------------|
| College program support | \$ 102,255 |
| Management and general | 103,201 |
| Fundraising | <u>34,611</u> |
| Total | <u>\$ 240,067</u> |

NOTE 12: CONDITIONAL PROMISES TO GIVE:

During the year ended June 30, 2016, the Foundation received a \$500,000 “challenge grant,” with payment conditioned upon the Foundation’s ability to raise matching contributions. Since the pledge represents a conditional promise to give, it is not recorded as contribution revenue until matching funds are raised. Since the inception of the grant, the University raised matching funds of \$135,045. Therefore, \$135,045 of the \$500,000 challenge grant has been recognized as contribution revenue.

NOTE 13: LITIGATION:

As described in Note 4, the goal, for the year ended June 30, 2018, was for the Center to become self-sustaining and to receive the Bit by Bit assets from the Foundation, when dismissal of the litigation was completed. The litigation, Bit by Bit, Therapeutic Riding Center, Inc. Plaintiff v. Rogers State University Foundation, et al., Defendants, Case No. DJ-2017-99, Rogers County District Court, was “dismissed”, per the agreement/settlement of the parties on February 27, 2018. Bit by Bit, Therapeutic Riding Center, Inc., as disclosed in Note 4, were transferred the assets. The Foundation suffered losses from the litigation as follows:

| | |
|--|------------------|
| Bit by Bit expenses absorbed by General Fund | \$180,762 |
| Interest paid on Note | 94,087 |
| Legal fees paid | <u>55,670</u> |
| Total Losses | <u>\$330,519</u> |

A Memorandum of Understanding was entered into on May 24, 2018 between the Board of Regents of the University of Oklahoma by and through the University and the Foundation due to the litigation, in which both parties were sued by Bit by Bit Therapeutic Riding Center, Inc. Both parties agreed to resolve the Lawsuit to save future defense costs. The litigation was resolved without any admission of liability. The Foundation will pay the line of credit loan balance in full, within the next year. As the loan is paid, the University agrees to forego receiving unrestricted scholarship funding in cash. However, a non-cash contribution of \$169,899 and offsetting scholarships expense was recorded by the Foundation to recognize this transaction. As of June 30, 2018, the Foundation has paid a total of \$169,899 towards the line of credit loan.

NOTE 14: NEW ACCOUNTING PRONOUNCEMENT:

In August 2016, the Financial Accounting Standards Board issued ASU 2016-14, Not-for-Profit Entities (Topic 958): Presentation of Financial Statements of Not-for-Profit Entities, which provides more relevant information about available resources (and the changes in those resources) to donors, grantors, creditors and other users. The most significant aspects of the ASU are as follows: (1) the ASU replaces the current presentation of three classes of net assets (unrestricted, temporarily restricted, and permanently restricted) with two classes of net assets – net assets with donor restrictions and net assets without donor restrictions, (2) expands the disclosures about the nature and amount of any donor restrictions, board designations of net assets without donor restrictions as well as any underwater endowment funds, (3) requires expenses to be presented by nature and function, as well as an analysis of the allocation of these expenses, and (4) requires specific quantitative and qualitative disclosures to improve the ability of financial statement users to assess the entity's available financial resources and the methods by which it manages liquidity and liquidity risk. ASU 2016-14 is to be applied retrospectively, and is effective for years beginning after December 15, 2017, with early adoption permitted. The Foundation will be evaluating the impact this standard will have on its financial statements and related disclosures.



Rogers State University
Required Supplementary Information
June 30, 2018

Rogers State University

Rogers State University
Schedule of Net OPEB Liability and Related Ratios
Last 10 Fiscal Years*

| | 2018 |
|---|-------------------------|
| Total OPEB Liability | \$ 51,437 |
| Service cost | 91,058 |
| Interest Changes of assumptions | (302,919) |
| Differences between expected and actual experience | |
| Benefit payments | <u>(134,418)</u> |
| Net change in total OPEB liability | (294,842) |
| Total OPEB liability - beginning | <u>1,484,451</u> |
| Total OPEB liability - ending | <u>\$ 1,189,609</u> |
| Plan Fiduciary Net Position (Trust Assets) - ending | <u>\$ 710,763</u> |
| Net OPEB liability - ending | <u>\$ 478,846</u> |
| Covered payroll | <u>\$ 6,114,182</u> |
| Total OPEB liability as a percentage of covered payroll | 19.46% |

* Only the current and prior year is presented because 10-year data is not yet available.

Rogers State University
Schedule of the University's Proportionate Share of the Net Pension Liability
Oklahoma Teacher's Retirement System (OTRS)
Last 10 Fiscal Years*

| | 2018 | 2017 | 2016 | 2015 |
|--|--------------|--------------|--------------|--------------|
| University's proportion of the net pension liability | 0.330% | 0.343% | 0.366% | 0.383% |
| University's proportionate share of the net pension liability | \$21,820,031 | \$28,620,770 | \$22,233,529 | \$20,593,041 |
| University's covered payroll | \$15,189,444 | \$15,945,083 | \$16,512,805 | \$16,570,041 |
| of the net pension liability as a percentage of the covered payroll | 143.7% | 179.5% | 134.6% | 124.3% |
| Plan fiduciary net position as a percentage of the total pension liability | 69.3% | 62.2% | 70.3% | 72.4% |

*Only four fiscal years are presented because 10-year data is not available

Rogers State University
Schedule of the University's Proportionate Share of Pension Contributions
Oklahoma Teacher's Retirement System (OTRS)
Last 10 Fiscal Years

| | 2018 | 2017 | 2016 | 2015 | 2014 |
|--|---------------------|---------------------|---------------------|---------------------|---------------------|
| Contractually required contribution | \$1,338,634 | \$1,373,591 | \$1,456,991 | \$1,529,383 | \$1,554,211 |
| Contributions in relation to the contractually required contribution | (1,338,634) | (1,373,591) | (1,456,991) | (1,529,383) | (1,554,211) |
| Contribution deficiency (excess) | <u>\$0</u> | <u>\$0</u> | <u>\$0</u> | <u>\$0</u> | <u>\$0</u> |
| University's covered payroll | \$15,189,444 | \$15,163,134 | \$15,945,083 | \$16,512,805 | \$16,570,041 |
| Contributions as a percentage of covered payroll | 8.81% | 9.06% | 9.14% | 9.26% | 9.38% |
| | 2013 | 2012 | 2011 | 2010 | 2009 |
| Contractually required contribution | \$1,545,594 | \$1,525,156 | \$1,514,647 | \$1,466,117 | \$1,322,938 |
| Contributions in relation to the contractually required contribution | (1,545,594) | (1,525,156) | (1,514,647) | (1,466,117) | (1,322,938) |
| Contribution deficiency (excess) | <u>\$0</u> | <u>\$0</u> | <u>\$0</u> | <u>\$0</u> | <u>\$0</u> |
| University's covered payroll | <u>\$16,344,321</u> | <u>\$16,482,523</u> | <u>\$15,402,791</u> | <u>\$14,852,375</u> | <u>\$14,710,071</u> |
| Contributions as a percentage of covered payroll | 9.46% | 9.25% | 9.83% | 9.87% | 8.99% |

Rogers State University
Schedule of Changes in SRP Net Pension Liability and Related Ratios
Supplemental Retirement Plan (SRP)
Last 10 Fiscal Years*

| | 2018 | 2017 | 2016 |
|--|-----------|-----------|-----------|
| Total Pension Liability | | | |
| Service cost | \$ - | \$ - | \$ - |
| Interest | 50,974 | 64,404 | 65,544 |
| Changes of benefit terms | - | - | - |
| Difference between expected and actual experience | 5,309 | 3,487 | 3,028 |
| Changes of assumptions | 4,595 | 222,054 | 1,428 |
| Benefit Payments | (88,997) | (88,998) | (88,997) |
| Net change in total pension liability | (28,119) | 200,947 | (18,997) |
| Total Pension Liability, Beginning | 1,318,850 | 1,117,903 | 1,136,900 |
| Total Pension Liability, Ending (a) | 1,290,731 | 1,318,850 | 1,117,903 |
| Plan Fiduciary Net Position | | | |
| Contributions, employer | - | - | - |
| Contributions, member | - | - | - |
| Net investment income | 32,682 | 36,655 | 38,135 |
| Benefit payments | (88,997) | (88,998) | (88,997) |
| Administrative expense | - | - | - |
| Net change in plan fiduciary net position | (56,315) | (52,343) | (50,862) |
| Plan Fiduciary Net Position, Beginning | 912,248 | 964,591 | 1,015,453 |
| Plan Fiduciary Net Position, Ending (b) | 855,933 | 912,248 | 964,591 |
| Net pension liability, ending (a) - (b) | 434,798 | 406,602 | 153,312 |
| Plan fiduciary net position as a percentage of the total pension liability | 66.31% | 69.17% | 86.29% |
| Covered payroll | - | - | - |
| Net pension liability as a percentage of covered payroll | 0.00% | 0.00% | 0.00% |

Notes to Schedule

*Only three fiscal years is presented because 10-year data is not yet available

Rogers State University
Schedule of SRP Employer Contributions
Supplemental Retirement Plan (SRP)
Last 10 Fiscal Years

| | 2018 | 2017 | 2016 | 2015 | 2014 |
|---|---------------------|------------------|--------------------|---------------------|---------------------|
| Contractually required contribution | \$ 50,130 | \$ 20,830 | \$ 16,501 | \$ 25,511 | \$ 21,208 |
| Contributions in relation to the contractually required contribution | - | - | - | 100,000 | - |
| Contribution deficiency (excess) | <u>\$ 50,130</u> | <u>\$ 20,830</u> | <u>\$ 16,501</u> | <u>\$ (74,489)</u> | <u>\$ 21,208</u> |
| University's covered payroll | <u>\$ -</u> | <u>\$ -</u> | <u>\$ -</u> | <u>\$ -</u> | <u>\$ -</u> |
| Contributions as a percentage of covered-employee payroll | 0.00% | 0.00% | 0.00% | 0.00% | 0.00% |
| | | | | | |
| | 2013 | 2012 | 2011 | 2010 | 2009 |
| Contractually required contribution | \$ 43,442 | \$ 38,774 | \$ 45,456 | \$ 67,020 | \$ 111,067 |
| Contributions in relation to the contractually required contribution | 200,000 | - | 100,000 | 200,000 | 400,000 |
| Contribution deficiency (excess) | <u>\$ (156,558)</u> | <u>\$ 38,774</u> | <u>\$ (54,544)</u> | <u>\$ (132,980)</u> | <u>\$ (288,933)</u> |
| University's covered payroll | <u>\$ -</u> | <u>\$ -</u> | <u>\$ -</u> | <u>\$ -</u> | <u>\$ -</u> |
| Contributions as a percentage of covered payroll | 0.00% | 0.00% | 0.00% | 0.00% | 0.00% |

Rogers State University
Schedule of the University's Proportionate Share of the OTRS Net OPEB Liability (Asset)
Supplemental Health Insurance Program
Last 10 Fiscal Years

| | |
|--|----------------|
| | 2018 |
| University's proportion of the net OPEB liability (asset) | <u>0.3295%</u> |
| University's proportionate share of the net OPEB liability (asset) | (\$146,959) |
| University's covered payroll | \$15,163,134 |
| University's proportionate share of the net OPEB liability (asset) as a percentage of its covered- employee payroll | -0.97% |
| Plan fiduciary net position as a percentage of the total OPEB liability (asset) | 110.40% |

The amounts present for each fiscal year were determined as of June 30.

Notes to schedule:

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

Rogers State University
Schedule of the University's OPEB Contributions
OTRS Supplemental Health Insurance Program
Last 10 Fiscal Years*

| | 2017 | 2018 |
|---|----------------------|----------------------|
| Contractually required contribution | \$ 21,469 | \$ 21,255 |
| Contributions in relation to the contractually required contribution | <u>21,469</u> | <u>21,255</u> |
| Contribution deficiency (excess) | <u>-</u> | <u>-</u> |
| University's covered-employee payroll | <u>\$ 15,163,134</u> | <u>\$ 15,189,444</u> |
| Contributions as a percentage of covered-employee payroll | 0.14% | 0.14% |

Notes to Schedule:

*Only the current and prior year is presented because 10-year data is not yet available.



Required Reports
June 30, 2018

Rogers State University



Independent Auditor's Report on Internal Control over Financial Reporting and on Compliance and Other Matters Based on an Audit of Financial Statements Performed in Accordance with *Government Auditing Standards*

Board of Regents of the University of Oklahoma
Rogers State University
Norman, Oklahoma

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of Rogers State University (the University), an organizational unit of the Regents of the University of Oklahoma (the Regents), which is a component unit of the State of Oklahoma, which comprise the statement of net position as of June 30, 2018, 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, which collectively comprise the University's basic financial statements, and have issued our report thereon dated October 23, 2018. Our report includes a reference to other auditors who audited the financial statements of Rogers State University Foundation (the Foundation), the University's discretely presented component unit, as described in our report on the University's financial statements. The financial statements of the Foundation were not audited in accordance with *Government Auditing Standards* and accordingly this report does not include reporting on internal control over financial reporting or instances of reportable noncompliance with the Foundation.

Internal Control Over Financial Reporting

In planning and performing our audit of the financial statements, we considered the University's internal control over financial reporting (internal control) to determine the audit procedures that are appropriate in the circumstances for the purpose of expressing our opinions 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 entity's financial statements will not be prevented, or detected and corrected on a timely basis. A *significant deficiency* is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies and therefore, material weaknesses or significant deficiencies may exist that were not identified. 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 entity's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

A handwritten signature in black ink that reads "Eide Bailly LLP". The signature is written in a cursive, flowing style.

Oklahoma City, Oklahoma
October 23, 2018



Independent Auditor's Report on Compliance for Its Major Federal Program; Report on Internal Control Over Compliance Required by the Uniform Guidance

Board of Regents of the University of Oklahoma
Rogers State University
Norman, Oklahoma

Report on Compliance for Each Major Federal Program

We have audited the compliance of Rogers State University (the University) with the types of compliance requirements described in the *OMB Compliance Supplement* that could have a direct and material effect on the University's major federal programs for the year ended June 30, 2018. The University's major federal program is identified in the summary of auditor's results section of the accompanying schedule of findings and questioned costs.

Management's Responsibility

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

Auditor's Responsibility

Our responsibility is to express an opinion on the compliance for the University's major federal program based on our audit of the types of compliance requirements referred to above. We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and the audit 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). Those standards and the Uniform Guidance require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the 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 the major federal program. However, our audit does not provide a legal determination of the University's compliance.

Opinion on Each Major Federal Program

In our opinion, the University complied, in all material respects, with the compliance requirements referred to above that could have a direct and material effect on its major federal programs for the year ended June 30, 2018.

What inspires you, inspires us. | eidebailly.com

Report on Internal Control over Compliance

Management of the University is responsible for establishing and maintaining effective internal control over compliance with the 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 the 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.

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 that might be material weaknesses or significant deficiencies and therefore, material weaknesses and significant deficiencies may exist that have not been identified. However, as discussed below, we identified certain deficiencies in internal control over compliance that we consider to be material weaknesses and significant deficiencies.

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 a combination of deficiencies, in internal control over compliance, such that there is a reasonable possibility that material noncompliance with a compliance requirement will not be prevented, or detected and corrected, on a timely basis. We consider the deficiencies in internal control over compliance described in the accompanying schedule of findings and questioned costs as items 2018-001, 2018-002, 2018-003, 2018-004, 2018-005, and 2018-006 to be material weaknesses.

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. We consider the deficiency in internal control over compliance described in the accompanying schedule of findings and questioned costs as item 2018-007 to be a significant deficiency.

The University's response to the internal control over compliance findings identified in our audit are described in the accompanying *schedule of findings and questioned costs*. The University's response was not subjected to the auditing procedures applied in the audit of compliance and, accordingly, we express no opinion on the response.

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.

A handwritten signature in black ink that reads "Eide Bailly LLP". The signature is written in a cursive, flowing style.

Oklahoma City, Oklahoma
October 23, 2018



Other Supplementary Information
June 30, 2018

Rogers State University

Rogers State University
Schedule of Expenditures of Federal Awards
Year Ended June 30, 2018

| Federal Grantor/Pass-Through Grantor/Program Title | Pass-through Entity Identifying Number | Federal CFDA Number | Expenditures |
|--|---|------------------------|----------------------|
| U.S. Department of Education Student Financial Assistance: | | | |
| Federal Pell Grant | | 84.063 | \$ 6,914,756 |
| Federal Supplemental Education Opportunity Grant | | 84.007 | 125,349 |
| Federal Direct Student Loan Program | | 84.268 | 12,807,173 |
| Federal Work Study | | 84.033 | 116,793 |
| Total Student Financial Aid Cluster | | | <u>19,964,071</u> |
| TRIO Program: | | | |
| Education Opportunity Centers | | 84.066A | 577,412 |
| Total TRIO Program | | | <u>577,412</u> |
| Other programs: | | | |
| Passed through Oklahoma Department of Vocational Technical Education: | | | |
| Carl Perkins Vocational and Applied Technology | "Not available" | 84.048 | 86,582 |
| Passed through Oklahoma State Regents for Higher Education: | | | |
| Gear Up Summer (STEM) Academy | "Not available" | 84.334S | 23,005 |
| Total other programs | | | <u>109,587</u> |
| Total U.S. Department of Education | | | <u>20,651,070</u> |
| National Institute of Health: | | | |
| Institutional Development Award (IDeA) Program: | | | |
| IDeA Network of Biomedical Research Excellence (INBRE): | | | |
| Oklahoma - INBRE | | 93.859 | \$ 23,818 |
| Total National Institute of Health | | | <u>23,818</u> |
| National Science Foundation: | | | |
| Computer and Information Science and Engineering | | | |
| Passed Through Northeastern State University | | | |
| Network Design | "Not available" | 47.070 | 34,081 |
| Integrative Activities/Research Infrastructure Improvements | | | |
| Passed through Oklahoma State University | | | |
| Ok-EPSCOR (Subaward #20147-9) | "Not available" | 47.049 | 12,500 |
| Total National Science Foundation | | | <u>46,581</u> |
| Total expenditures of federal awards | | | <u>\$ 20,721,469</u> |

Note 1 - Basis of Presentation

The accompanying schedule of expenditures of federal awards includes the federal contract and grant activity of Rogers State University (the University) and is presented on the accrual basis of accounting. The information in this schedule is presented in accordance with the requirements of the Uniform Guidance. The University has received federal awards through pass-through entities.

Note 2 - 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 Subpart E – Cost Principles of the Uniform Guidance, wherein certain types of expenditures are not allowable or are limited as to reimbursement. The University's summary of significant accounting policies is presented in Note 1 of the University's basic financial statements.

The University has not elected to use the 10% de minimis cost rate.

Note 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 the 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 began participation in the Direct Loan Program on July 1, 2010. 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.

Note 4 - Subrecipients

The University provided no federal awards to subrecipients.

Section I – Summary of Auditor’s Results

Financial Statements

| | |
|---|---------------|
| Type of auditor's report issued | Unmodified |
| Internal control over financial reporting: | |
| Material weakness identified | No |
| Significant deficiencies identified not considered to be material weaknesses | None reported |
| Noncompliance material to financial statements noted | No |

Federal Awards

| | |
|---|------------|
| Internal control over major programs: | |
| Material weakness identified | Yes |
| Significant deficiencies identified not considered to be material weaknesses | Yes |
| Type of auditor's report issued on compliance for major programs | Unmodified |
| Any audit findings disclosed that are required to be reported in accordance with Uniform Guidance 2CFR 200.516 | Yes |

Identification of major programs

| <u>Program/Cluster</u> | <u>CFDA number</u> |
|--|-----------------------------------|
| Student Financial Aid Cluster | 84.063; 84.007; 84.033; 84.268 |
| Dollar threshold used to distinguish between Type A and Type B programs | \$750,000 |
| Auditee qualified as low-risk auditee | No |

Section II – Financial Statement Findings

None

Section III – Federal Award Findings and Questioned Costs

**2018-001 Direct Program from U.S. Department of Education
Student Financial Aid Cluster (CFDA #'s 84.268, 84.063, 84.033, 84.007)
Special Tests: Enrollment Reporting
Material Weakness in Internal Control over Compliance**

Criteria: A student's enrollment status determines eligibility for in-school status, deferment, and grace periods, as well as for the payment of interest subsidies to FFEL Program loan holders by ED. Enrollment Reporting in a timely and accurate manner is critical for effective management of the programs. Enrollment information must be reported within 30 days whenever attendance changes for students, unless a roster will be submitted within 60 days.

Condition: In our student testing, there were students that had a change in enrollment status (i.e. withdrawal, graduation, reduction from fulltime to parttime). We identified instances where status changes that were not reported to the Department of Education's National Student Loan Data System (NSLDS) within the 60 day time requirement and instances where the status change date per the institution's records did not agree to the NSLDS records.

Questioned
Costs: None reported.

Effect: Untimely and inaccurate reporting of student enrollment status does not allow the Department of Education to properly track and monitor students, including initiation of the loan repayment process.

Cause: Internal controls do not appear to be in place to accurately and timely identify the relevant dates for reporting to NSLDS.

Repeat finding
From Prior Year: Yes, 2017-002, 2016-002, 2015-002

Context: Out of the 109 sample of enrollment status changes, we noted 50 instances where the status change dates did not agree with NSLDS and 51 instances where status changes were not reported to NSLDS within the time required by the federal regulations. Non-statistical sampling was used.

Recommendation:

We recommend that management update their control processes to ensure that the proper status date changes are being reported to NSLDS.

Views of Responsible
Officials:

Management agrees with the finding and has started corrective actions to address these issues for Fall 2018 submission of files.

**2018-002 Direct Program from U.S. Department of Education
Student Financial Aid Cluster (CFDA #'s 84.268, 84.063, 84.033, 84.007)
Special Tests: Return of Funds
Material Weakness in Internal Control over Compliance**

Criteria: When a recipient of Title IV grant or loan assistance withdraws from an institution during a payment period or period of enrollment in which the recipient began attendance, the institution must determine the amount of Title IV aid earned by the student as of the student's withdrawal date. If the total amount of Title IV assistance earned by the student is less than the amount that was disbursed to the student or on his/her behalf as of the date of the institution's determination that the student withdrew, the difference must be returned to the Title IV programs as outlined by the regulations. If the amount the student earned is greater than the amount disbursed, the difference between the amounts must be treated as a post-withdrawal disbursement (34 CFR section 668.22(a)(1) through (a)(5)).

Condition: We identified different situations resulting in the incorrect calculation of funds to be returned or where the incorrect funds were returned. First, we noted that there were errors due to the incorrect dates being used for Spring Break consideration in 2018 which impacted several students. Second, the reports used to identify unofficial withdrawals appeared to be pulling the incorrect dates which also impacted several students. Lastly there were other instances where the incorrect date was used in the return of funds calculation and another instance where the calculation as correct but the incorrect amount of loan was returned.

Cause: Internal controls in the return of funds area do not appear to be in place to accurately calculate the return of funds.

Effect: There were several instances where the improper return of funds had been calculated.

**Question
Costs:** None reportable.

Context/Sampling: Our total sample was 60 withdrawals. Six withdrawals had an error due to the incorrect dates being used for Spring Break. Four withdrawals had an error due to the incorrect date pulled from the unofficial withdrawal report. One withdrawal had incorrect dates but did not result in a return of funds as the student had reached 60%. Lastly, one withdrawal had the correct calculation but the wrong amount was ultimately returned. Non-statistical sampling was used.

Repeat Finding from Prior Year:
No

Recommendation:
We recommend that management update their control processes to ensure that proper dates are used for return of funds calculations.

Views of Responsible Officials:
Management agrees with the finding and will implement corrective measures.

**2018-003 Direct Program from U.S. Department of Education
Student Financial Aid Cluster (CFDA #'s 84.268, 84.063, 84.033, 84.007)
Special Tests: Disbursements to Students/Transfer Monitoring
Material Weakness in Internal Control over Compliance**

Criteria: If a student received financial aid while attending one or more other institutions, schools are required to request financial aid history using the National Student Loan Data System (NSLDS) Student Transfer Monitoring Process. Under this process, a school informs NSLDS about its transfer students. NSLDS will “monitor” those students on the school’s “inform” list and alert the school of any relevant financial aid history changes. A school must wait 7 days after it “informs” NSLDS about a transfer student before disbursing Title IV aid to that student. However, a school does not have to wait if it receives an alert from NSLDS during the 7-day period or if it obtains the student’s financial aid history by accessing the NSLDS Financial Aid Professional website. When a school receives an alert from NSLDS, before making a disbursement of Title IV aid, it must determine if the change to the student’s financial aid history affects the student’s eligibility (34 CFR section 668.19).

Condition: We noted instances in our sample of transfer students where the Institution had not notified NSLDS about a transfer student to use NSLDS monitoring procedures.

Questioned
Costs: None reported.

Effect: Use of data that is not current from NSLDS could result in changes in eligible funds for the transfer student and inaccurate disbursements could be made.

Cause: Internal controls do not appear to be in place to accurately and timely identify and report transfer students prior to the disbursement to those students.

Context: Out of the 17 transfer students tested, 8 transfer students were not reported to NSLDS within the time required by the federal regulations. Non-statistical sampling was used.

Repeat Finding
from Prior Year:
No.

Recommendation:

We recommend that management update their control processes to ensure that the proper status date changes are being reported to NSLDS.

Views of Responsible

Officials:

Management agrees with the finding and has implemented procedures to assure the University reports transfer student status in a timely and accurate manner.

**2018-004 Direct Program from U.S. Department of Education
Student Financial Aid Cluster (CFDA #'s 84.268, 84.063, 84.033, 84.007)
Special Tests: Verification
Material Weakness in Internal Control over Compliance**

Criteria: An institution not participating under an ED-approved Quality Assurance Program (QAP) is required to establish written policies and procedures that incorporate the provisions of 34 CFR sections 668.51 through 668.61 for verifying applicant information. Such an institution shall require each applicant whose application is selected by ED to verify the information required for the Verification Tracking Group to which the applicant is assigned.

Condition: We noted instances in our sample of students selected for verification where the Institution either did not obtain the verification documents or the verified student information that differed for the original information was not accurately updated to the student's information which would then impact the funding available to those students.

Questioned

Costs: None reportable.

Effect: Inadequate controls over obtaining, reviewing and updating student verification information will likely result in incorrect award calculations.

Cause: Internal controls do not appear to be effective in ensuring proper verification documentation is obtained and student data is updated accordingly.

Context: In our student testing, there were 60 students that were selected for verification and found five exceptions. There were 3 instances where the proper verification was not received by the Institution. We noted two instances where the related documents were not updated to the students' information. Non-statistical sampling was used.

Repeat Finding
from Prior

Year: No

Recommendation:

We recommend that management update their control processes to ensure that proper documentation is received, and information is updated accurately.

Views of Responsible Officials:

Management agrees with the finding and has implemented procedures to assure appropriate documentation is collected from students and updated accurately in the student database system.

**2018-005 Direct Program from U.S. Department of Education
Student Financial Aid Cluster (CFDA #'s 84.268)
Eligibility – Improper Aid Awarded
Material Weakness in Internal Control over Compliance**

Criteria: In determining loan amounts for subsidized Stafford loans, the financial aid administrator subtracts from the cost of attendance (COA), the expected family contribution (EFC) and the estimated financial assistance for the period of enrollment that the student (or parent on behalf of the student) will receive from Federal, State, institutional or other sources. Unsubsidized Stafford loans, PLUS loans, loans made by a school to assist the student, and State-sponsored loans may be used to substitute for EFC (34 CFR sections 685.102 and 685.200(d)). A financial aid administrator may use discretion to offer an unsubsidized Stafford loan to a dependent student whose parents do not support the student and who refuse to complete a FAFSA (20 USC 1087tt(a)).

Specific loan limits are established based on level in school (i.e. freshman, sophomore) and overall loan limits have been established.

Condition: There were multiple students input into the Institution based on the student's previous semester status and did not consider the student's status at the time of enrollment for the aid period. Additionally, there was an instance where a student went less than half time and still received direct loan aid.

Questioned costs:

Not factored in – amount is a loan disbursement that will ultimately be paid back by student.

Effect: By not calculating the appropriate eligibility factors, there is a risk that students will not be entitled to the full direct student loan limits available to them as a student.

Cause: The Institution's system does not appear to be using the students' current status (i.e. freshman, sophomore) when calculating the eligible loan limits. Additionally, there was a failure to identify students as less than half-time and no longer eligible for direct loans.

Context: In our sample of 60 students selected for eligibility, we noted 3 instances where the students status (i.e. freshman, sophomore) was not properly reflected in the Institution's system and one instance where a student fell below half-time status but still received a direct student loan which is not in accordance with compliance requirements. Non-statistical sampling was used.

Repeat finding
From prior
Year: No.

Recommendation:

We recommend that management update their control processes to ensure that most current student data is used for eligibility purposes.

Views of Responsible Officials:

Management agrees with the finding and has implemented procedures to assure that student data is updated in a timely fashion to ensure that eligibility requirements are met.

**2018-006 Direct Program from U.S. Department of Education
Student Financial Aid Cluster (CFDA #'s 84.268, 84.063, 84.033, 84.007)
Pell Reporting and Special Tests: Borrow Transmission and Reconciliation (Direct Loans)
Material Weakness in Internal Control over Compliance**

Criteria:

Pell Grants:

All schools receiving Pell grants submit Pell payment data to the Department of Education through the COD System. Schools submit Pell origination records and disbursement records to the COD. Origination records can be sent well in advance of any disbursements, as early as the school chooses to submit them for any student the school reasonably believes will be eligible for a payment. Institutions must report student payment data within 15 calendar days after the school makes a payment, or becomes aware of the need to make an adjustment to previously reported student payment data or expected student payment data. Schools may do this by reporting once every 15 calendar days, bi-weekly or weekly, or may set up their own system to ensure that changes are reported in a timely manner.

Direct Loans:

Institutions must report all loan disbursements and submit required records to the Direct Loan Servicing System (DLSS) via the COD within 15 days of disbursement (*OMB No. 1845-0021*). Each month, the COD provides institutions with a School Account Statement (SAS) data file which consists of a Cash Summary, Cash Detail, and (optional 20at the request of the school) Loan Detail records. The school is required to reconcile these files to the institution's financial records. Since up to three Direct Loan program years may be open at any given time, schools may receive three SAS data files each month (34 CFR sections 685.102(b), 685.301, and 303).

Condition:

There were instances where the Pell Grant and Direct Student Loan data were not accurately or timely reported to the COD system.

Questioned

Costs: None as this is a reporting matter.

Effect:

Data is not timely and accurately reported to the Department of Education via the COD system.

Cause:

Due to system constraints, it does not appear that all information is accurately and timely submitted to the COD.

Context: In our sample of 46 students with direct student loans, evidence of proper support of timely and accurate submission could not be provided for 45 of those students. In our sample of 43 students with Pell grants, evidence of proper support of timely and accurate submission could not be provided for 40 of those students. Non-statistical sampling was used.

Repeat
Finding from
Prior Year: Yes, 2017-001.

Recommendation:
We recommend that management update their control processes to ensure that COD submissions are timely and accurate for both the direct student loans and Pell grants.

Views of Responsible Officials:
Management agrees with the finding and has implemented procedures to assure the University submits timely and accurate data to the COD.

**2018-007 Direct Program from U.S. Department of Education
Student Financial Aid Cluster (CFDA #'s 84.268, 84.063, 84.007)
Cash Management
Significant Deficiency in Internal Control over Compliance**

Criteria: An institution's funding request must not exceed the amount immediately needed to disburse funds to students or parents. A disbursement of funds occurs on the date an institution credits a student's account or pays a student or parent directly with either student financial aid funds or institutional funds. The institution must make the disbursements as soon as administratively feasible, but no later than 3 business days following the receipt of funds. Any amounts not disbursed by the end of the third business day are considered to be excess cash and generally are required to be promptly returned to the Department of Education (34 CFR section 668.166(a)(1)). Excess cash includes any funds received from ED that are deposited or transferred to the institution's Federal account as a result of an award adjustment, cancellation, or recovery. However, an excess cash balance tolerance is allowed if that balance (1) is less than one percent of its prior-year drawdowns; and (2) is eliminated within the next 7 calendar days (34 CFR sections 668.166(a) and (b)).

Condition: We identified an instance during the fiscal year where the cumulative draws exceeded the cumulative student disbursements for one of the financial aid programs.

Cause: The reconciliation process did not properly and timely identify this overdraw.

Effect: The Institution had excess cash balances due to excess drawdowns during the fiscal year.

Question
Costs: None reportable.

Context/Sampling:
One disbursement in our sample of 9 resulted in excess funds drawn down during the year. Non-statistical sampling was used.

Repeat Finding from Prior Year:
No

Recommendation:
We recommend that management update their control processes to ensure that the proper cash management procedures are followed to comply with federal regulations.

Views of Responsible Officials:
Management agrees with the finding and will implement corrective measures.