

Rogers State University

As of and for the Year Ended
JUNE 30, 2014

Financial Statements and Schedule of Expenditures of Federal Awards WITH REPORTS OF INDEPENDENT AUDITORS



ROGERS STATE UNIVERSITY

June 30, 2014

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Independent Auditors' 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"), a component unit of the State of Oklahoma, which comprise the statement of net position as of June 30, 2014, and the related statements of revenues, expenses, and changes in net position, and cash flows for the year then ended, and the related notes to the financial statements.

Management's Responsibility for the Financial Statements

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

Auditors' Responsibility

Our responsibility is to express an opinion on these financial statements based on our audit. We did not audit the financial statements of the University's discretely presented component unit, Rogers State University Foundation (the "Foundation"). Those 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.

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, based on our audit and the report of the other auditor, the financial statements referred to above present fairly, in all material respects, the respective financial position of Rogers State University and its discretely presented component unit, Rogers State University Foundation, as of June 30, 2014, and the respective changes in financial position and, where applicable, 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 Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated October 13, 2014 on our consideration of the University's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the University's internal control over financial reporting and compliance.

Cole & Reed P.C.

Oklahoma City, Oklahoma
October 13, 2014

MANAGEMENT'S DISCUSSION AND ANALYSIS

ROGERS STATE UNIVERSITY

For the Years Ended June 30, 2014 and 2013

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, 2014, with fiscal year 2013 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 Statement of Cash Flows. The Statement of Net Position presents the financial position of the University at June 30, 2014. The Statement of Revenues, Expenses, and Changes in Net Position summarizes the University's financial activity for the year ended June 30, 2014. The Statement of Cash Flows, presented using the direct method, reflects the effects on cash that result from the University's operating activities, investing activities, and capital and non-capital financing activities for the year ended June 30, 2014.

The following schedules are prepared from the University's basic financial statements. The statements are presented on an accrual basis of accounting whereby revenues are recognized when earned and 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, 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 assets that are applicable to a future period. It includes costs associated with debt restructure. Deferred inflows of resources are acquisitions of net assets that are applicable to a future period. It includes gains associated with debt restructure.

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. These liabilities represent obligations due within one year. Noncurrent liabilities include the portion of accrued compensated absences, capital lease obligation, revenue bonds payable, and net pension obligation expected to be paid in fiscal year 2016 or thereafter. Total net position decreased to \$36.0 million in fiscal year 2014 from \$36.5 million in fiscal year 2013.

MANAGEMENT'S DISCUSSION AND ANALYSIS--Continued

ROGERS STATE UNIVERSITY

For the Years Ended June 30, 2014 and 2013

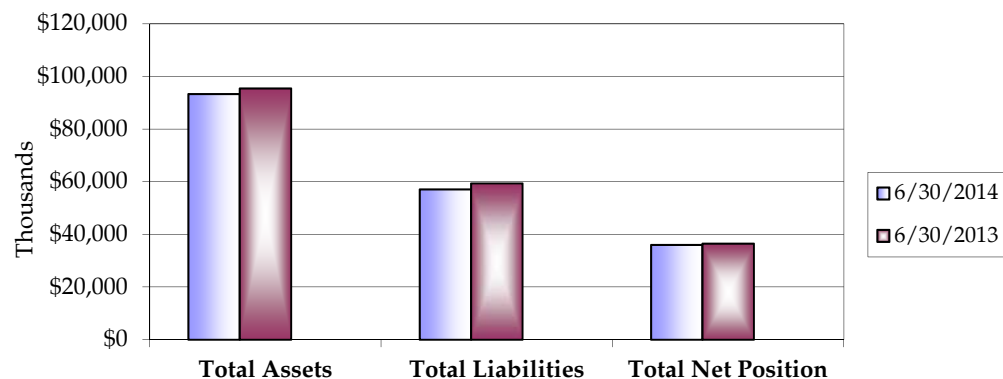
STATEMENT OF NET POSITION--Continued

Following is a summarization of assets, liabilities, and net position of the University at June 30, 2014, and 2013:

CONDENSED STATEMENTS OF NET POSITION

		June 30 (in Millions)	
		2014	2013
ASSETS			
Current assets		\$ 16.5	\$ 15.7
Noncurrent assets		76.8	79.7
TOTAL ASSETS		<u>\$ 93.3</u>	<u>\$ 95.4</u>
DEFERRED OUTFLOWS OF RESOURCES		<u>\$ 0.1</u>	<u>\$ 0.4</u>
LIABILITIES			
Current liabilities		\$ 6.5	\$ 5.4
Noncurrent liabilities		50.6	53.9
TOTAL LIABILITIES		<u>\$ 57.1</u>	<u>\$ 59.3</u>
DEFERRED INFLOWS OF RESOURCES		<u>\$ 0.4</u>	<u>\$ -</u>
NET POSITION			
Net investment in capital assets		\$ 19.7	\$ 20.9
Restricted		2.1	1.0
Unrestricted		14.2	14.6
TOTAL NET POSITION		<u>\$ 36.0</u>	<u>\$ 36.5</u>

TOTAL ASSETS AND LIABILITIES



MANAGEMENT'S DISCUSSION AND ANALYSIS--Continued

ROGERS STATE UNIVERSITY

For the Years Ended June 30, 2014 and 2013

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 ending June 30:

CONDENSED STATEMENTS OF REVENUES, EXPENSES AND CHANGES IN NET POSITION

	June 30 (in Millions)	
	2014	2013
OPERATING REVENUES		
Tuition and fees, net	\$ 12.6	\$ 12.6
Federal and local grants and contracts	2.3	2.3
Auxiliary	3.9	3.7
Other	0.1	0.1
TOTAL OPERATING REVENUES	18.9	18.7
Operating expenses	(45.5)	(45.1)
Operating loss	(26.6)	(26.4)
NONOPERATING REVENUES (EXPENSES)		
State appropriations, including OTRS	15.6	15.3
Federal and state grants	10.3	11.5
Investment income	0.2	0.2
Other nonoperating expenses	(1.8)	-
Interest expense	(2.2)	(2.6)
NET NONOPERATING REVENUES	22.1	24.4
Loss before other revenues	(4.5)	(2.0)
Other revenues	4.0	2.5
NET INCREASE (DECREASE) IN NET POSITION	(0.5)	0.5
NET POSITION, BEGINNING OF YEAR	36.5	36.0
NET POSITION, END OF YEAR	<u>\$ 36.0</u>	<u>\$ 36.5</u>

MANAGEMENT'S DISCUSSION AND ANALYSIS--Continued

ROGERS STATE UNIVERSITY

For the Years Ended June 30, 2014 and 2013

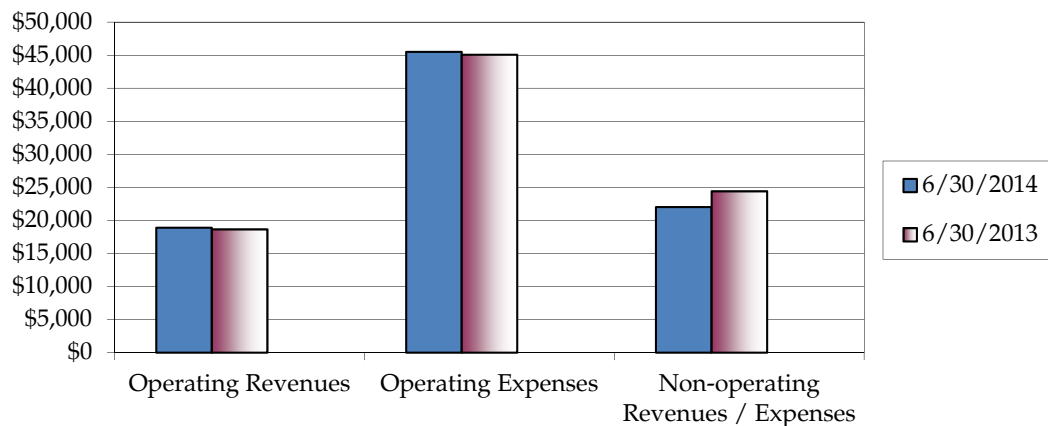
STATEMENT OF REVENUES, EXPENSES, AND CHANGES IN NET POSITION--Continued

Operating revenues include tuition and fees net of scholarship discounts and allowances, grants and contracts, sales and services, auxiliary operations, and other. Operating revenues increased by \$0.2 million in fiscal year 2014 as compared to fiscal year 2013. The combination of student tuition and fee rate increases and enrollment decline resulted in no net change in tuition and fee revenues as compared to fiscal year 2013. Auxiliary revenue increased by \$0.2 million in fiscal year 2014 due to an increase in production and underwriting revenues of KRSU-TV, and increased revenues from the Bartlesville Campus operations and student program revenues.

The predominant sources of non-operating revenues are state appropriations, and federal and state grants for student financial aid. State appropriations increased \$0.3 million from fiscal year 2013 as a result of increased performance funding. Federal and state grants declined by \$1.2 million as a result of enrollment declines (relating to decreases in federal aid), and other nonoperating expenses of \$1.8 million reflects a loss on the sale of property. Increases in other revenues of \$1.5 million are a result of an increase in debt service payments made by the State of Oklahoma on behalf of the University.

The University's operating expenses are listed by natural classification, including employee compensation, scholarships, contractual services, etc. In fiscal year 2014, operating expenses increased by \$0.4 million from fiscal year 2013 primarily due to \$0.8 increase in campus renovation costs, \$0.2 increase in utility costs, and \$0.6 million decrease in scholarships (relating to decreases in federal aid).

REVENUES AND EXPENSES



MANAGEMENT'S DISCUSSION AND ANALYSIS--Continued

ROGERS STATE UNIVERSITY

For the Years Ended June 30, 2014 and 2013

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 an entity's ability to generate future net cash flows, ability to meet obligations as they come due, and needs for external financing.

Following is a comparison of cash flows for the years ended June 30, 2014, and 2013:

	For the Years Ended June 30 (in Millions)	
	2014	2013
CASH FLOWS PROVIDED BY (USED IN):		
Operating activities	\$ (21.5)	\$ (23.0)
Noncapital financing activities	24.7	25.5
Capital and related financing activities	(3.4)	(3.8)
Investing activities	<u>1.3</u>	<u>0.3</u>
NET INCREASE (DECREASE) IN CASH	1.1	(1.0)
CASH, BEGINNING OF YEAR	<u>16.8</u>	<u>17.8</u>
CASH, END OF YEAR	<u>\$ 17.9</u>	<u>\$ 16.8</u>

COMPONENT UNIT

Rogers State University Foundation (the "Foundation") meets the criteria for inclusion as a discretely presented component unit of the University. The most recent financial statements of the Foundation are included under the heading "Component Unit".

MANAGEMENT'S DISCUSSION AND ANALYSIS--Continued

ROGERS STATE UNIVERSITY

For the Years Ended June 30, 2014 and 2013

ECONOMIC OUTLOOK

The State of Oklahoma economy continued to strengthen during fiscal year 2014, meeting or exceeding budgeted levels. As a result, the University's appropriations from the state for fiscal year 2014 reflected a small increase of \$0.3 million. Economic growth, both in Oklahoma and nationally, continues to reflect a pattern of slow growth, thus, increases in state appropriations to offset rising costs of operations are not anticipated in the short term.

As economic conditions in the state have improved, enrollment declines have continued. Attributable in part to a stronger job market, enrollment for the Fall 2014 semester is down compared to recent years. However, implementation of new undergraduate programs, our first graduate program, and enhanced efforts to attract and retain students may help to stabilize enrollment.

The University continues to expand educational opportunities for citizens in northeast Oklahoma. The University will implement its first graduate degree program in fiscal year 2015, the Master of Business Administration. Given the continued growth in its undergraduate programs in combination with employer demand, the MBA is a logical step in meeting the workforce needs of northeast Oklahoma. The new Pryor Campus opened in January 2014, and will expand educational opportunities for communities in the surrounding area and for businesses located in the Mid-America Industrial Park. The institution also continues to have success with the Adult Degree Completion Program.

The University's financial position remains strong. Conservative management of fiscal resources has ensured cash reserves are sufficient to continue expansion of academic programs, offset cost increases, and relieve pressure to keep tuition and fee rates low. The University will continue to expand the energy management program in order to reduce energy costs and explore 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. We are committed to our mission to ensure our students develop the skills and knowledge required to achieve professional and personal goals in dynamic local and global communities.

STATEMENT OF NET POSITION

ROGERS STATE UNIVERSITY

	June 30, 2014	Component Unit June 30, 2014
ASSETS		
CURRENT ASSETS		
Cash and cash equivalents	\$ 14,054,458	\$ 743,879
Restricted cash and cash equivalents	610,554	317,782
Accounts receivable, net	1,578,313	507,175
Receivable from OSRHE	300,412	-
Other current assets	-	21,627
TOTAL CURRENT ASSETS	<u>16,543,737</u>	<u>1,590,463</u>
NONCURRENT ASSETS		
Restricted cash and cash equivalents	3,196,915	-
Investments	-	11,728,464
Accounts receivable, net	-	44,924
Net pension asset	425,213	-
Other non-current assets	264,938	-
Capital assets, net	<u>72,928,070</u>	<u>1,256,666</u>
TOTAL NONCURRENT ASSETS	<u>76,815,136</u>	<u>13,030,054</u>
TOTAL ASSETS	<u>\$ 93,358,873</u>	<u>\$ 14,620,517</u>
DEFERRED OUTFLOWS OF RESOURCES		
Deferred charge on OCIA lease restructure	<u>\$ 140,550</u>	<u>\$ -</u>

STATEMENT OF NET POSITION--Continued

ROGERS STATE UNIVERSITY

	June 30, 2014	Component Unit June 30, 2014
LIABILITIES		
CURRENT LIABILITIES		
Accounts payable and accrued expenses	2,141,046	\$ 14,743
Unearned revenues	619,115	-
Funds held in custody for others	177,604	-
Note payable	-	1,053,747
Accrued compensated absences - current portion	519,684	-
Bonds payable - current portion	453,750	-
Capital lease obligations - current portion	2,616,041	-
TOTAL CURRENT LIABILITIES	6,527,240	1,068,490
NONCURRENT LIABILITIES, net of current portion		
Unearned revenues	178,571	-
Other post-employment benefit obligation	700,015	-
Accrued compensated absences	378,086	-
Bonds payable	11,306,250	-
Capital lease obligations	37,799,487	-
Premium on bonds	226,150	-
TOTAL NONCURRENT LIABILITIES	50,588,559	-
TOTAL LIABILITIES	\$ 57,115,799	\$ 1,068,490
DEFERRED INFLOWS OF RESOURCES		
Deferred credit on OCIA lease restructure	\$ 381,494	\$ -
NET POSITION		
Net investment in capital assets	\$ 19,707,935	\$ -
Restricted for:		
Nonexpendable:		
Scholarships and fellowships	-	10,668,182
Expendable:		
Educational programs	-	2,267,468
Capital projects	607,991	-
Grants and contracts	1,530,291	71,879
Unrestricted	14,155,913	544,498
TOTAL NET POSITION	\$ 36,002,130	\$ 13,552,027

See notes to financial statements.

STATEMENT OF REVENUES, EXPENSES, AND CHANGES IN NET POSITION

ROGERS STATE UNIVERSITY

	Year Ended June 30, 2014	Component Unit Year Ended June 30, 2014
OPERATING REVENUES		
Tuition and fees, net of scholarship discounts and allowances of \$7,453,000 at June 30, 2014 (revenues of \$976,000 for 2014 are used as security for the 2007A & B Student Facility Revenue Bonds)	\$ 12,578,340	\$ -
Federal grants and contracts	1,331,582	-
State and private grants and contracts	925,446	-
Auxiliary enterprises	3,929,661	-
Gifts and contributions	-	2,260,514
Other	135,460	428,221
TOTAL OPERATING REVENUES	18,900,489	2,688,735
OPERATING EXPENSES		
Employee compensation and benefits	25,029,338	-
Contractual services	3,409,538	-
Supplies and other operating expenses	3,780,793	-
Utilities	1,334,694	-
Communications	421,197	-
Other operating expenses	997,375	2,522,326
Depreciation expense	3,215,823	-
Scholarships	7,324,975	405,415
TOTAL OPERATING EXPENSES	45,513,733	2,927,741
OPERATING LOSS	(26,613,244)	(239,006)
NONOPERATING REVENUES (EXPENSES)		
State appropriations	14,357,651	-
OTRS on-behalf contributions	1,209,070	-
Federal and state grants	10,303,276	-
Investment income	178,404	1,306,213
OSRHE Endowment Income	85,427	-
Other nonoperating expenses	(1,867,276)	(31,833)
Interest expense	(2,237,423)	-
NET NONOPERATING REVENUES	22,029,129	1,274,380
Gain (loss) before other revenues, expenses, gains, and losses	(4,584,115)	1,035,374
State appropriations restricted for capital purposes	436,941	-
Capital grants and gifts	1,829,848	-
On-behalf payments for OCIA capital leases	1,813,476	-
NET INCREASE (DECREASE) IN NET POSITION	(503,850)	1,035,374
NET POSITION, BEGINNING OF YEAR	36,505,980	12,516,653
NET POSITION, END OF YEAR	\$ 36,002,130	\$ 13,552,027

See notes to financial statements.

STATEMENT OF CASH FLOWS

ROGERS STATE UNIVERSITY

	Year Ended June 30, 2014
CASH FLOWS FROM OPERATING ACTIVITIES	
Tuition and fees	\$ 12,944,174
Grants and contracts	2,129,058
Auxiliary enterprises	3,756,068
Other operating receipts	135,460
Payments to employees for salaries and benefits	(23,587,265)
Payments to suppliers	(16,926,868)
NET CASH USED IN OPERATING ACTIVITIES	(21,549,373)
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES	
State appropriations	14,357,651
Federal and state grants	10,303,276
Direct loans received	11,001,441
Direct loans disbursed	(11,001,441)
NET CASH PROVIDED BY NONCAPITAL FINANCING ACTIVITIES	24,660,927
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES	
Capital appropriations received	436,941
Purchase of capital assets	(4,880,132)
Interest paid on capital debt and leases	(1,528,929)
Proceeds from capital lease	2,248,026
Principal paid on capital-related debt	(1,499,250)
Donations, grants and contracts for capital projects	1,829,848
NET CASH USED IN CAPITAL AND RELATED FINANCING ACTIVITIES	(3,393,496)
CASH FLOWS FROM INVESTING ACTIVITIES	
Cash received from the sale of capital assets	1,100,895
Interest income received	238,571
NET CASH PROVIDED BY INVESTING ACTIVITIES	1,339,466
NET CHANGE IN CASH AND CASH EQUIVALENTS	1,057,524
CASH AND CASH EQUIVALENTS, BEGINNING OF YEAR	16,804,403
CASH AND CASH EQUIVALENTS, END OF YEAR	\$ 17,861,927

STATEMENT OF CASH FLOWS--Continued

ROGERS STATE UNIVERSITY

	Year Ended June 30, 2014
RECONCILIATION OF OPERATING LOSS TO NET CASH USED IN OPERATING ACTIVITIES	
Operating loss	\$ (26,613,244)
Adjustments to reconcile operating loss to net cash used in operating activities:	
OTRS on-behalf contributions	1,209,070
Depreciation expense	3,215,823
Changes in assets and liabilities:	
Accounts receivable	123,517
Net pension asset	57,858
Unearned revenues	(59,245)
Accounts payable and accrued expenses	404,363
Funds held in custody	2,100
Accrued expenses - OPEB	57,611
Accrued compensated absences	52,774
NET CASH USED IN OPERATING ACTIVITIES	<u>\$ (21,549,373)</u>
NONCASH CAPITAL AND RELATED FINANCING ITEMS	
Principal and interest paid by OCIA	<u>\$ 1,813,476</u>
RECONCILIATION OF CASH AND CASH EQUIVALENTS TO THE STATEMENT OF NET POSITION	
Current assets:	
Current cash and cash equivalents	\$ 14,054,458
Restricted cash and cash equivalents	610,554
Noncurrent assets:	
Restricted cash and cash equivalents	<u>3,196,915</u>
	<u>\$ 17,861,927</u>

See notes to financial statements.

NOTES TO FINANCIAL STATEMENTS

ROGERS STATE UNIVERSITY

June 30, 2014

NOTE A--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 and the Oklahoma State Regents for Higher Education.

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

The accompanying financial statements include the accounts and funds of the University. The University is governed by the Board of Regents and is part of the State of Oklahoma Higher Education System, which is under the governance of the Oklahoma State Regents for Higher Education. The University is a component unit of the State of Oklahoma and is included in the general-purpose financial statements of the state as part of the higher education component unit.

Discretely Presented Component Unit: Rogers State University Foundation (the "Foundation"), is a legally separate, tax-exempt component unit of the University. The Foundation is organized for the purpose of receiving and administering gifts intended for the University. Although the University does not control the timing or amount of receipts from the Foundation, the majority of resources, or income thereon, which the Foundation holds and invests, is restricted to the activities of the University by the donors. Because these restricted resources held by the Foundation can only be used by, or for the benefit of, the University, the Foundation is considered a component unit of the University, and its financial statements are discretely presented in the University's financial statements.

Financial Statement Presentation: The University's financial statements are presented in accordance with the requirements of GASB Statement No. 34, *Basic Financial Statements and Management Discussion and Analysis for State and Local Governments*, and GASB Statement No. 35, *Basic Financial Statements and Management's Discussion and Analysis for Public Colleges and Universities*. Under GASB Statements No. 34 and No. 35, the University is required to present a statement of net position classified between current and noncurrent assets and liabilities and deferred outflows and inflows, a statement of revenues, expenses and changes in net position, with separate presentation for operating and nonoperating revenues and expenses and a statement of cash flows using the direct method.

NOTES TO FINANCIAL STATEMENTS--Continued

ROGERS STATE UNIVERSITY

June 30, 2014

NOTE A--SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES--Continued

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

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 Agency Cash Management investment policy are considered cash equivalents.

Deposits and Investments: The University accounts for its investments at fair value in accordance with GASB Statement No. 31, *Accounting and Financial Reporting for Certain Investments and for External Investment Pools*. Changes in unrealized gain (loss) on the carrying value of investments are reported as a component of investment income in the statement of revenues, expenses, and changes in net position. In accordance with GASB Statement No. 40, *Deposit and Investment Risk Disclosures and Amendment of GASB Statement No. 3*, the University has disclosed its deposit and investment policies related to the risks identified in GASB Statement No. 40.

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 grant 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.

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

NOTES TO FINANCIAL STATEMENTS--Continued

ROGERS STATE UNIVERSITY

June 30, 2014

NOTE A--SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES--Continued

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, and 5 years for library materials and equipment.

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 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.

NOTES TO FINANCIAL STATEMENTS--Continued

ROGERS STATE UNIVERSITY

June 30, 2014

NOTE A--SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES--Continued

Net Position--Continued:

Restricted Net Position - Expendable: Restricted expendable net position includes resources in which the University is legally or contractually obligated to spend said resources in accordance with restrictions imposed by external third parties.

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

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, student aid revenues, and other revenue sources that are defined as nonoperating revenues by GASB Statement No. 9, *Reporting Cash Flows of Proprietary and Nonexpendable Trust Funds and Governmental Entities that Use Proprietary Fund Accounting*, and GASB Statement No. 34, such as state appropriations and investment income.

NOTES TO FINANCIAL STATEMENTS--Continued

ROGERS STATE UNIVERSITY

June 30, 2014

NOTE A--SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES--Continued

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, 2014, the University's deferred outflows of resources were comprised of deferred charges on an OCIA lease restructure.

Deferred Inflows of Resources: Deferred inflows are the acquisition of net position by the University that are applicable to a future reporting period. At June 30, 2014, the University's deferred inflows of resources were comprised of a deferred credit on an OCIA lease restructure.

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).

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 certain reported amounts and disclosures; accordingly, actual results could differ from those estimates.

New Accounting Pronouncements Adopted in Fiscal Year 2014: The University adopted the following new accounting pronouncement during the year ended June 30, 2014:

- *Statement No. 70, Accounting and Financial Reporting for Nonexchange Financial Guarantees*

GASB No. 70 requires a government that extends a nonexchange financial guarantee to recognize a liability when qualitative factors and historical data, if any, indicate that it is more likely than not that the government will be required to make a payment on the guarantee. The government is required to report the guaranteed obligation until it is legally released as an obligor, and when it is legally released, it should recognize revenue as a result of this release. The provisions of this Statement are effective for reporting periods beginning after June 15, 2013. Earlier application is encouraged. Except for certain disclosure requirements which may be applied prospectively, the provisions of this Statement are required to be applied retroactively. The adoption of GASB No. 70 did not have an impact on the University's financial position, or changes in financial position or cash flows, or its financial statement presentation.

NOTES TO FINANCIAL STATEMENTS--Continued

ROGERS STATE UNIVERSITY

June 30, 2014

NOTE A--SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES--Continued

New Accounting Pronouncements Issued Not Yet Adopted: The GASB has also issued several new accounting pronouncements which will be effective to the University in the fiscal year ending June 30, 2015. A description of the new accounting pronouncements and the University's consideration of the impact of these pronouncements are described below:

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

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

- *Statement No. 69, Government Combinations and Disposals of Government Operations*

GASB No. 69 was issued in January 2013 and establishes accounting and financial reporting standards related to government combinations and disposals of government operations. Government combinations can include a variety of transactions, including mergers, acquisitions and transfers of operations. A disposal of a government's operations results in the removal of specific activities of a government. The requirements of this Statement are effective for government combinations and disposals of government operations occurring in financial reporting periods beginning after December 15, 2013, and should be applied on a prospective basis. Earlier application is encouraged.

NOTE B--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.

NOTES TO FINANCIAL STATEMENTS--Continued

ROGERS STATE UNIVERSITY

June 30, 2014

NOTE B--DEPOSITS AND INVESTMENTS

Deposits--Continued:

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, 2014, the carrying amount of the University's deposits with the State Treasurer and other financial institutions was \$17,861,927. This amount consisted of deposits with the State Treasurer (\$17,857,727), U.S. financial institutions (\$500), and change funds (\$3,700), as of June 30, 2014.

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

Of funds on deposit with the State Treasurer, amounts invested in *OK INVEST* total \$9,779,511 at June 30, 2014.

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

At June 30, 2014, the distribution of deposits in *OK INVEST* is as follows:

<u>OK INVEST Portfolio</u>	<u>Cost</u>	<u>Market Value</u>
U.S. Agency securities	\$ 4,486,871	\$ 4,478,147
Certificates of deposit	253,861	253,861
Money market mutual funds	472,172	472,172
Mortgage backed agency securities	4,017,515	4,100,413
Municipal bonds	150,034	166,162
Foreign bonds	76,827	76,827
Commercial paper	205,800	205,800
U.S. Treasury Obligations	116,431	144,133
TOTAL	<u>\$ 9,779,511</u>	<u>\$ 9,897,515</u>

NOTES TO FINANCIAL STATEMENTS--Continued

ROGERS STATE UNIVERSITY

June 30, 2014

NOTE B--DEPOSITS AND INVESTMENTS--Continued

Deposits--Continued: 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.

NOTES TO FINANCIAL STATEMENTS--Continued

ROGERS STATE UNIVERSITY

June 30, 2014

NOTE C--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, 2014:

Student tuition and fees	\$ 1,124,354
Auxiliary enterprise and other operating activities	360,886
Federal, state, and private grants and contracts	<u>357,866</u>
	1,843,106
Less: allowance for doubtful accounts	<u>(264,793)</u>
Accounts receivable, net	<u>\$ 1,578,313</u>

NOTE D--CAPITAL ASSETS, NET

Following are the changes in capital assets for the year ended June 30, 2014:

	Balance June 30, 2013	Additions	Transfers	Retirements	Balance June 30, 2014
Capital assets not being depreciated:					
Land	\$ 1,505,033	\$ -	\$ -	\$ (728,900)	\$ 776,133
Construction in progress	<u>1,103,861</u>	<u>4,831,470</u>	<u>(319,491)</u>	<u>-</u>	<u>5,615,840</u>
Total capital assets not being depreciated	<u>\$ 2,608,894</u>	<u>\$ 4,831,470</u>	<u>\$ (319,491)</u>	<u>\$ (728,900)</u>	<u>\$ 6,391,973</u>
Other capital assets:					
Land improvements	\$ 11,656,624	\$ -	\$ 319,491	\$ -	\$ 11,976,115
Infrastructure	2,538,589	-	-	-	2,538,589
Buildings	71,678,478	-	-	(2,768,429)	68,910,049
Furniture, fixtures, and equipment	7,585,266	601,729	-	(257,285)	7,929,710
Library materials	<u>3,132,395</u>	<u>75,592</u>	<u>-</u>	<u>(19,451)</u>	<u>3,188,536</u>
Total other capital assets	96,591,352	677,321	319,491	(3,045,165)	94,542,999
Less: accumulated depreciation for:					
Land improvements	(3,389,035)	(568,784)	-	-	(3,957,819)
Infrastructure	(891,798)	(84,620)	-	-	(976,418)
Buildings	(12,206,431)	(1,757,596)	-	529,629	(13,434,398)
Furniture, fixtures, and equipment	(6,162,096)	(707,139)	-	257,285	(6,611,950)
Library materials	<u>(2,947,612)</u>	<u>(97,684)</u>	<u>-</u>	<u>18,979</u>	<u>(3,026,317)</u>
Total accumulated depreciation	<u>(25,596,972)</u>	<u>(3,215,823)</u>	<u>-</u>	<u>805,893</u>	<u>(28,006,902)</u>
Other capital assets, net	<u>\$ 70,994,380</u>	<u>\$ (2,538,502)</u>	<u>\$ 319,491</u>	<u>\$ (2,239,272)</u>	<u>\$ 66,536,097</u>
Capital asset summary:					
Capital assets not being depreciated	\$ 2,608,894	\$ 4,831,470	\$ (319,491)	\$ (728,900)	\$ 6,391,973
Other capital assets, at cost	<u>96,591,352</u>	<u>677,321</u>	<u>319,491</u>	<u>(3,045,165)</u>	<u>94,542,999</u>
Total cost of capital assets	99,200,246	5,508,791	-	(3,774,065)	100,934,972
Less: accumulated depreciation	<u>(25,596,972)</u>	<u>(3,215,823)</u>	<u>-</u>	<u>805,893</u>	<u>(28,006,902)</u>
Capital assets, net	<u>\$ 73,603,274</u>	<u>\$ 2,292,968</u>	<u>\$ -</u>	<u>\$ (2,968,172)</u>	<u>\$ 72,928,070</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 \$48,509,621 as of June 30, 2014.

NOTES TO FINANCIAL STATEMENTS--Continued

ROGERS STATE UNIVERSITY

June 30, 2014

NOTE E--LONG-TERM LIABILITIES

Long-term liability activity for the year ended June 30, 2014, was as follows:

	Balance June 30, 2013	Additions	Reductions	Balance June 30, 2014	Amounts Due Within One Year
Bonds, notes, and capital leases:					
Student Facility Series, 2007A	\$ 7,800,000	\$ -	\$ -	\$ 7,800,000	\$ -
Student Facility Series, 2007B	1,245,000	-	(285,000)	960,000	300,000
ODFA Revenue Bonds 2013	3,000,000	-	-	3,000,000	153,750
ODFA Master lease payable	28,747,584	-	(1,214,249)	27,533,335	1,114,500
OCIA Capital lease payable	14,721,523	6,981,722	(8,821,052)	12,882,193	1,501,541
Total bonds and capital lease	55,514,107	6,981,722	(10,320,301)	52,175,528	3,069,791
Other noncurrent liabilities:					
Accrued Expense - OPEB	642,404	115,313	(57,702)	700,015	-
Accrued compensated absences	844,996	897,770	(844,996)	897,770	519,684
Total noncurrent liabilities	<u>\$ 57,001,507</u>	<u>\$ 7,994,805</u>	<u>\$ (11,222,999)</u>	<u>\$ 53,773,313</u>	<u>\$ 3,589,475</u>

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 2014 were \$976,616. Debt service payments of \$700,431 were 71.7% of pledged revenues in fiscal year 2014.

The 2007A Student Facility Revenue bonds were issued at a discount of \$92,178. During 2014, the University recognized \$4,974 of amortization, leaving a balance of the unamortized bond discount of \$59,418. The 2007B Student Facility Revenue bonds were issued at a premium of \$54,323. During 2014, the University recognized \$4,602 of amortization, leaving a balance of the unamortized bond premium of \$6,171.

In May 2013, the University issued \$3,000,000 Federally Taxable Series 2013 revenue bonds. The net proceeds of \$2,854,000 are being used to design, construct, and equip, a new 17,300 square foot student dining facility on the Claremore campus. The bonds are primarily secured by bookstore and dining facility revenues. The first debt service payment is not due until November 2014.

NOTES TO FINANCIAL STATEMENTS--Continued

ROGERS STATE UNIVERSITY

June 30, 2014

NOTE E--LONG-TERM LIABILITIES--Continued

Student Facility Revenue Bonds--Continued

The Federally Taxable Series 2013 revenue bonds were issued at a discount of \$18,754. During 2014, the University recognized \$1,483 of amortization, leaving a balance of the unamortized bond discount of \$17,271.

The scheduled maturities of the bonds are as follows:

Years Ending June 30	Principal	Interest	Total
2015	\$ 453,750	\$ 484,337	\$ 938,087
2016	455,000	460,755	915,755
2017	477,917	439,725	917,642
2018	485,000	419,500	904,500
2019	500,000	401,230	901,230
2020 - 2024	2,791,667	1,707,239	4,498,906
2025 - 2029	3,414,583	1,090,641	4,505,224
2030 - 2033	3,182,083	293,243	3,475,326
	<u>\$ 11,760,000</u>	<u>\$ 5,296,670</u>	<u>\$ 17,056,670</u>

Oklahoma Capital Improvement Authority Lease Obligations

In September 1999, the Oklahoma Capital Improvement Authority (the "OCIA") issued its OCIA Bond Issues, 1999 Series A, B, and C. Of the total bond indebtedness, the State Regents for Higher Education (the "State Regents") allocated \$4,000,000 to the University. Concurrent with the allocation, the University entered into a lease agreement with OCIA, representing the two projects funded by the OCIA bonds.

Through June 30, 2014, the University had drawn its entire allotment for expenditures incurred in connection with the projects. Expenditures have been capitalized as investments in capital assets 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 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.

NOTES TO FINANCIAL STATEMENTS--Continued

ROGERS STATE UNIVERSITY

June 30, 2014

NOTE E--LONG-TERM LIABILITIES--Continued

Oklahoma Capital Improvement Authority Lease Obligations--Continued

Through June 30, 2014, 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 will be amortized over a period of six years. As of June 30, 2014, the unamortized cost totaled \$140,550. 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 on restructuring as a deferred inflow of resources that will be amortized over a period of seventeen years. As of June 30, 2014 the unamortized credit totaled \$381,494. 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.

NOTES TO FINANCIAL STATEMENTS--Continued

ROGERS STATE UNIVERSITY

June 30, 2014

NOTE E--LONG-TERM LIABILITIES--Continued

Oklahoma Capital Improvement Authority Lease Obligations--Continued

During the year ended June 30, 2014, OCIA made lease principal and interest payments totaling \$1,813,476 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:

Years Ending June 30	Principal	Interest	Total
2015	\$ 1,501,541	\$ 603,429	\$ 2,104,970
2016	1,450,218	524,166	1,974,384
2017	1,512,657	471,556	1,984,213
2018	1,568,099	400,570	1,968,669
2019	308,074	326,447	634,521
2020 - 2024	1,943,577	1,458,976	3,402,553
2025 - 2029	3,739,187	766,810	4,505,997
2030	858,840	42,427	901,267
	<u>\$ 12,882,193</u>	<u>\$ 4,594,381</u>	<u>\$ 17,476,574</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. Lease payments made by the University are forwarded to the trustee bank by the State Regents for future principal and interest payments on the Master Lease bonds. The ODFA deposits the lease payments into an interest-bearing sinking fund and may use the interest earnings to reduce the University's future lease payments.

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. Lease payments made by the University are forwarded to the trustee bank by the State Regents for future principal and interest payments on the Master Lease bonds. The ODFA deposits the lease payments into an interest-bearing sinking fund and may use the interest earnings to reduce the University's future lease payments.

NOTES TO FINANCIAL STATEMENTS--Continued

ROGERS STATE UNIVERSITY

June 30, 2014

NOTE E--LONG-TERM LIABILITIES--Continued

Oklahoma Development Finance Authority Master Lease Program--Continued

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. Lease payments made by the University are forwarded to the trustee bank by the State Regents for future principal and interest payments on the Master Lease bonds. The ODFA deposits the lease payments into an interest-bearing sinking fund and may use the interest earnings to reduce the University's future lease payments.

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. Lease payments made by the University are forwarded to the trustee bank by the State Regents for future principal and interest payments on the Master Lease bonds. The ODFA deposits the lease payments into an interest-bearing sinking fund and may use the interest earnings to reduce the University's future lease payments.

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. Lease payments made by the University are forwarded to the trustee bank by the State Regents for future principal and interest payments on the Master Lease bonds. The ODFA deposits the lease payments into an interest-bearing sinking fund and may use the interest earnings to reduce the University's future lease payments.

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. Lease payments made by the University are forwarded to the trustee bank by the State Regents for future principal and interest payments on the Master Lease bonds. The ODFA deposits the lease payments into an interest-bearing sinking fund and may use the interest earnings to reduce the University's future lease payments.

NOTES TO FINANCIAL STATEMENTS--Continued

ROGERS STATE UNIVERSITY

June 30, 2014

NOTE E--LONG-TERM LIABILITIES--Continued

Oklahoma Development Finance Authority Master Lease Program--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. Lease payments made by the University are forwarded to the trustee bank by the State Regents for future principal and interest payments on the Master Lease bonds. The ODFA deposits the lease payments into an interest-bearing sinking fund and may use the interest earnings to reduce the University's future lease payments.

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. Lease payments made by the University are forwarded to the trustee bank by the State Regents for future principal and interest payments on the Master Lease bonds. The ODFA deposits the lease payments into an interest-bearing sinking fund and may use the interest earnings to reduce the University's future lease payments.

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 net proceeds of \$4,000,000 was used for the construction of athletic facilities. Lease payments made by the University are forwarded to the trustee bank by the State Regents for future principal and interest payments on the Master Lease bonds. The ODFA deposits the lease payments into an interest-bearing sinking fund and may use the interest earnings to reduce the University's future lease payments.

NOTES TO FINANCIAL STATEMENTS--Continued

ROGERS STATE UNIVERSITY

June 30, 2014

NOTE E--LONG-TERM LIABILITIES--Continued

Oklahoma Development Finance Authority Master Lease Program--Continued

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

Years Ending June 30	Principal	Interest	Total
2015	\$ 1,114,500	\$ 1,067,584	\$ 2,182,084
2016	1,140,417	1,037,768	2,178,185
2017	1,180,833	1,000,416	2,181,249
2018	1,219,750	963,770	2,183,520
2019	1,249,000	927,079	2,176,079
2020 - 2024	6,917,167	3,934,395	10,851,562
2025 - 2029	5,502,750	2,618,550	8,121,300
2030 - 2034	5,355,000	1,560,528	6,915,528
2035 - 2039	3,276,418	523,292	3,799,710
2040 - 2041	577,500	24,544	602,044
	<u>\$ 27,533,335</u>	<u>\$ 13,657,926</u>	<u>\$ 41,191,261</u>

NOTE F--RETIREMENT PROGRAMS

Oklahoma Teachers' Retirement System (OTRS)

The University's academic and nonacademic personnel are covered by various retirement plans. The plans available to University personnel include the Oklahoma Teachers' Retirement System (the "OTRS"), which is a state of Oklahoma public employees retirement system and the Fidelity Investments Plan (the "Plan"), which is a defined contribution plan. The University does not maintain the accounting records, hold the investments for, or administer these plans.

Plan Description: The University contributes to the OTRS, a cost-sharing multiple-employer defined benefit pension plan sponsored by the state of Oklahoma. 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. OTRS does not provide for a cost-of-living adjustment. Title 70, Sections 17-101 through 17-116-9, of the Oklahoma Statutes defines all retirement benefits. The authority to establish and amend benefit provisions rests with the State Legislature. The OTRS issues a publicly available financial report that includes financial statements and supplementary information for OTRS. That report may be obtained by writing to Teachers' Retirement System of Oklahoma, P.O. Box 53524, Oklahoma City, Oklahoma 73152 or by calling (405) 521-2387.

NOTES TO FINANCIAL STATEMENTS--Continued

ROGERS STATE UNIVERSITY

June 30, 2014

NOTE F--RETIREMENT PROGRAMS--Continued

Oklahoma Teachers' Retirement System (OTRS)--Continued

Funding Policy: The University is required to contribute a fixed percentage of annual compensation on behalf of active members. The employer contribution rate of 8.55% is applied to annual compensation and is determined by state statute. The contribution rate was 8.55% for 2014, 2013 and 2012.

Employees' contributions are also determined by state statute. For all employees, the contribution rate was 7% of covered salaries and fringe benefits in 2014, 2013 and 2012. The University makes all contributions on behalf of the employees.

The University's contributions to the OTRS for the years ended June 30, 2014, 2013 and 2012, were approximately \$2,632,000, \$2,607,000 and \$2,584,000, respectively, equal to the required contributions for each year. These contributions included the University's statutory contribution and the employee's contribution paid directly by the University.

The state of Oklahoma is also required to contribute to the OTRS on behalf of participating employers. For 2014, the state of Oklahoma contributed 5% of state revenues from sales and use taxes and individual income taxes to the OTRS on behalf of participating employers.

The University has estimated the amounts contributed to the OTRS by the state of Oklahoma on its behalf by multiplying the ratio of its covered salaries to total covered salaries for the OTRS for the year by the applicable percentage of taxes collected during the year. For the year ended June 30, 2014, the total amount contributed to the OTRS by the state of Oklahoma on behalf of the University was approximately \$1,209,000. These on-behalf payments have been recorded as nonoperating revenues and operating expenses in the statement of revenues, expenses, and changes in net position.

Fidelity Investments

For all eligible full-time employees, the University contributes to a defined contribution pension 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. Eligible employees are not required to make contributions to 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.

NOTES TO FINANCIAL STATEMENTS--Continued

ROGERS STATE UNIVERSITY

June 30, 2014

NOTE F--RETIREMENT PROGRAMS--Continued

Fidelity Investments--Continued

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. Contributions made by the University during 2013 and 2012 were approximately \$630,000 and \$667,000, respectively.

Supplemental Retirement Annuity (SRA)

Plan Description: The University's Supplemental Retirement Annuity (the "SRA") plan is a single-employer, defined-benefit pension plan administered by the University's Board of Regents. 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 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.

Funding Policy: Eligible employees are not required to make contributions to the SRA. The University may contribute to the SRA an actuarially determined amount on an annual basis.

Annual Pension Cost and Net Pension Obligation (Asset): Components of the University's annual pension cost, contributions, and net pension obligation under the Plan for the year ended June 30, 2014, are as follows:

Annual required contribution	\$ 21,208
Interest on net pension obligation	(28,984)
Adjustment to annual required contribution	<u>65,634</u>
Annual pension cost	57,858
Contributions made	<u>-</u>
Increase in net pension obligation	57,858
Net pension obligation (asset) at beginning of year	<u>(483,071)</u>
Net pension obligation (asset) at end of year	<u><u>\$ (425,213)</u></u>

NOTES TO FINANCIAL STATEMENTS--Continued

ROGERS STATE UNIVERSITY

June 30, 2014

NOTE F--RETIREMENT PROGRAMS--Continued

Supplemental Retirement Annuity (SRA)--Continued

The annual required contributions for 2014 was determined as part of an actuarial valuation as of June 30, 2014, using the projected unit credit actuarial cost method. The actuarial assumptions included (a) a discount rate of 6% per year to determine the present value of future benefit payments; (b) retirement at age 62; (c) a 6% rate of return on investments; and (d) projected salary increases of 0% per year. The unfunded actuarial accrued liability is being amortized over ten years as a level-dollar amount on a closed basis.

Funded Status and Funding Progress: The funded status of the plan as of June 30, 2014, was as follows:

Actuarial accrued liability (AAL)	\$ 1,155,220
Actuarial value of plan assets	967,456
Unfunded actuarial accrued liability (UAAL)	<u>\$ 187,764</u>
Funded ratio (actuarial value of plan assets/AAL)	83.75%
Annual covered payroll (active plan members)	\$ -
UAAL as a percentage of annual covered payroll	0.00%

Trend Information: Three-year trend information on the percentage of the annual pension cost funded through contributions and the change in the net pension obligation (asset) is as follows:

Year Ended June 30	Annual Pension Cost (APC)	Percentage of APC Contributed	Net Pension Obligation (Asset)
2014	\$ 57,858	0.0%	\$ (425,213)
2013	\$ 67,332	297.0%	\$ (483,071)
2012	\$ 67,248	0.0%	\$ (350,403)

NOTE G--OTHER POST-EMPLOYMENT HEALTH AND LIFE INSURANCE BENEFITS

The Rogers State University Postemployment Benefit ("OPEB") Plan provides post-employment benefits to retirees under single employer, defined benefit healthcare and long-term care plan.

Plan Description: For employees hired before July 1, 2009, the University pays a share of the group health and all of the life insurance premiums for eligible retired employees until reaching Medicare age. A retiring employee must have been employed full-time at the University for not less than ten years immediately preceding the date of retirement, been a member of the OTRS during that time, and elected to receive a vested benefit under the provisions of the OTRS.

NOTES TO FINANCIAL STATEMENTS--Continued

ROGERS STATE UNIVERSITY

June 30, 2014

NOTE G--OTHER POST-EMPLOYMENT HEALTH AND LIFE INSURANCE BENEFITS-- Continued

Funding Policy: Contribution requirements of participating employees and the University are established by University policy. The University funds these benefits on a pay-as-you-go basis and currently provides \$429 to \$431 per month for employees receiving health benefits and \$10 to \$78 per month for employees receiving life insurance benefits. Contributions are subject to change based on the rates assessed by the respective insurance provider.

The University's annual OPEB cost (expense) is calculated based on the annual required contribution (the "ARC") of the employer, an amount actuarially determined in accordance with the parameters of GASB Statement No. 45. The ARC represents a level of funding that, if paid on an ongoing basis, is projected to cover normal cost each year and amortized any unfunded actuarial liabilities (or funding excess) over a period not to exceed thirty years. For the year ended June 30, 2014, the ARC is \$129,746 and represents 1.4% of covered payroll.

Actuarial Methods and Assumptions: Actuarial valuations of an ongoing plan are required on a biennial basis and involve estimates of the value of reported amounts and assumptions about the probability of occurrence of events far into the future. Examples include assumptions about future employment, mortality, and the health care cost trend. Amounts determined regarding the funded status of the plan and the annual required contributions of the employer are subject to continual revision as actual results are compared with past expectations and new estimates are made about the future.

Projections of benefits for financial reporting purposes are based on the substantive benefits, as understood by the University and its employees, and include the types of benefits provided at the time of each valuation and the historical pattern of sharing of costs between the employee and the employees to that point. The actuarial methods and assumptions used include techniques that are designed to reduce the effects of short-term volatility in actuarial accrued liabilities and the actuarial value of assets, consistent with the long-term perspective of the calculations. In the actuarial valuations the projected unit actuarial cost method was used. The actuarial assumptions include a 2.3% investment rate of return and an annual health care cost trend rate of 7%.

NOTES TO FINANCIAL STATEMENTS--Continued

ROGERS STATE UNIVERSITY

June 30, 2014

NOTE G--OTHER POST-EMPLOYMENT HEALTH AND LIFE INSURANCE BENEFITS--
Continued

Annual OPEB Cost and Net OPEB Obligation (Asset):

Annual OPEB cost and net OPEB obligation (asset) for 2014 is as follows:

Annual required contribution	\$ 129,746
Interest on OPEB obligation (asset)	14,775
Adjustment to annual required contribution	<u>(29,208)</u>
Annual OPEB cost	115,313
Contributions made	<u>(57,702)</u>
Decrease in net OPEB obligation	57,611
OPEB obligation at beginning of year	<u>642,404</u>
OPEB obligation at end of year	<u>\$ 700,015</u>

Funded Status and Funding Progress: The funded status of the plan as of June 30, 2014, was as follows:

Actuarial accrued liability (AAL)	\$ 1,310,311
Actuarial value of plan assets	<u>601,545</u>
Unfunded actuarial accrued liability (UAAL)	<u>\$ 708,766</u>
Funded ratio (actuarial value of plan assets/AAL)	45.91%
Annual covered payroll (active plan members)	\$ 9,164,569
UAAL as a percentage of annual covered payroll	7.73%

Trend Information: Three-year trend information on the percentage of the annual OPEB cost funded through contributions and the change in the net OPEB obligation (asset) is as follows:

Year Ended June 30	Annual OPEB Cost	Annual OPEB Cost Contributed	Net OPEB Obligation (Asset)
2014	\$ 115,313	50.0%	\$ 700,015
2013	\$ 200,771	322.9%	\$ 642,404
2012	\$ 200,771	24.7%	\$ 1,089,906

NOTES TO FINANCIAL STATEMENTS--Continued

ROGERS STATE UNIVERSITY

June 30, 2014

NOTE H--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 \$1,690,000 at June 30, 2014, 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% 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 \$300,000 at June 30, 2014, have been reflected as assets in the statement of net position.

NOTE I--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. Scholarships awarded by the Foundation are remitted to the University after the University pays the award recipient. Such amounts were approximately \$405,000 during the year ended June 30, 2014.

Net assets available for the benefit of the University are as follows at June 30, 2014:

Unrestricted	\$ 544,498
Temporarily restricted	2,339,347
Permanently restricted	<u>10,668,182</u>
	<u>\$ 13,552,027</u>

NOTE J--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, 2014, will not have a material adverse impact to the University.

NOTES TO FINANCIAL STATEMENTS--Continued

ROGERS STATE UNIVERSITY

June 30, 2014

NOTE K--RISK MANAGEMENT

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

The University, along with other state agencies and political subdivisions, participates in the State of Oklahoma Risk Management Program and CompSource Oklahoma (formerly, the State Insurance Fund), public entity risk pools currently operating as a common risk management and insurance program for its members. The University pays annual premiums to the pools for its tort, property, and liability insurance coverage. The 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 L--SUBSEQUENT EVENT

In July 2014, the University entered into a 30 year Master Lease agreement with the ODFA and the Oklahoma State Regents for Higher Education as a beneficiary of a portion of the proceeds from the ODFA Oklahoma State Regents for Higher Education Master Lease Revenue Bonds, Series 2014D. The net proceeds of \$11,500,000 will be used for the construction of a new housing facility.

NOTE M--ROGERS STATE UNIVERSITY FOUNDATION

The following are significant disclosures of Rogers State University Foundation:

SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

INVESTMENTS

Investment advisors manage certain funds of the Foundation. Investments are stated at fair value, based on quoted market prices, and consist of the following at June 30, 2014:

Cash and Money Market Funds	\$ 336,050
Corporate Bonds	4,362,966
Common Stock	2,426,480
Equity Mutual Funds	4,545,623
Total	<u>\$ 11,671,119</u>

NOTES TO FINANCIAL STATEMENTS--Continued

ROGERS STATE UNIVERSITY

June 30, 2014

NOTE M--ROGERS STATE UNIVERSITY FOUNDATION--Continued

INVESTMENTS--Continued

The following summarizes the investment return and its classification in the statement of activities basis for the year ended June 30, 2014:

	Unrestricted	Permanently Restricted
Interest and dividend income	\$ 28,123	\$ 209,356
Realized and unrealized gains/(losses)	16,114	1,052,620
Total	<u>\$ 44,237</u>	<u>\$ 1,261,976</u>

The total investment return is net of stated advisory fees in the amount of \$42,135 for the year ended June 30, 2014.

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.

RESTRICTED NET ASSETS

Net assets were temporarily restricted to support the University for the following purposes at June 30, 2014:

Scholarships	\$ 1,234,266
Athletics Programs	285,331
Dining Facility	237,319
Bit by Bit Therepeutic Riding Center	296,622
Bartlesville Campus	79,922
School of Liberal Arts	48,910
Presidents Residence	50,808
RSU Public TV	33,516
OMA Programs	21,071
Other Restricted Funds	51,582
Total	<u>\$ 2,339,347</u>

NOTES TO FINANCIAL STATEMENTS--Continued

ROGERS STATE UNIVERSITY

June 30, 2014

NOTE M--ROGERS STATE UNIVERSITY FOUNDATION--Continued

RESTRICTED NET ASSETS--Continued

Net assets were permanently restricted for the following purposes at June 30, 2014:

Scholarship Endowments	\$ 7,767,609
President's Leadership Class Endowments	473,870
Other Named Scholarship Endowments	363,474
Faculty & Staff Award Endowments	62,675
Lectureship Endowments	105,783
Endowed Chairs	1,686,682
Other Endowments	332,023
Unrestricted Endowments	23,547
Life Insurance Endowments	62,820
Sub-Total	10,878,483
Provision for Uncollectible Promises to Give	(210,301)
Total	<u>\$ 10,668,182</u>

FAIR VALUE MEASUREMENTS

Fair value of investments at June 30, 2014 is as follows:

	Fair Value	Level 1 Inputs
Unrestricted	\$ 1,298,415	\$ 1,298,415
Temporarily Restricted	-	-
Permanently Restricted	10,372,704	10,372,704
Investments	<u>\$ 11,671,119</u>	<u>\$ 11,671,119</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.

NOTES TO FINANCIAL STATEMENTS--Continued

ROGERS STATE UNIVERSITY

June 30, 2014

NOTE M--ROGERS STATE UNIVERSITY FOUNDATION--Continued

FAIR VALUE MEASUREMENTS--Continued

The table below presents information about unconditional promises to give at June 30, 2014:

<u>Promises Measured at Fair Value</u>	
<u>Measurement basis</u>	<u>Level 3</u>
Promised cash flows	\$ 753,915
Carrying amount	537,215
Contribution revenue (change in fair value)	22,700
Bad debt expense (allowance for uncollectible promises)	(176,400)
Total changes included in the statement of activities	<u>\$ (153,700)</u>

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 current market interest rate of 3.25%.

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, 2014:

Beginning balance	\$ 675,817
New promises received	1,158,654
Collections	(1,143,556)
Contributions revenue (change in fair value)	22,700
Losses (allowance for uncollectible promises)	(176,400)
Ending Balance	<u>\$ 537,215</u>

NOTES TO FINANCIAL STATEMENTS--Continued

ROGERS STATE UNIVERSITY

June 30, 2014

NOTE M--ROGERS STATE UNIVERSITY FOUNDATION--Continued

ENDOWMENTS

The Foundation endowments consist of approximately 173 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.

NOTES TO FINANCIAL STATEMENTS--Continued

ROGERS STATE UNIVERSITY

June 30, 2014

NOTE M--ROGERS STATE UNIVERSITY FOUNDATION--Continued

ENDOWMENTS--Continued

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, 2014:

	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Permanently Restricted</u>
Donor-restricted endowment funds	\$ -	\$ -	\$ 10,668,182
Board-designated funds	-	-	-
Total endowment funds	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 10,668,182</u>

Changes in Endowment Net Assets for the year ended June 30, 2014:

	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Permanently Restricted</u>
Endowment net assets - beginning	\$ -	\$ -	\$ 8,822,991
Investment return	-	-	1,261,976
Other Income	-	-	10,645
Contributions	-	-	1,151,597
Losses (on uncollectible promises)	-	-	(191,501)
Transfers - board designated	-	-	(387,526)
Total endowment funds	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 10,668,182</u>

NOTES TO FINANCIAL STATEMENTS--Continued

ROGERS STATE UNIVERSITY

June 30, 2014

NOTE M--ROGERS STATE UNIVERSITY FOUNDATION--Continued

ENDOWMENTS--Continued

The historical dollar value of the permanently restricted endowments is \$8,955,159 as compared to the fair market value of \$10,668,182 at June 30, 2014. The difference between the historical dollar value and fair value is a gain of \$1,713,023. The current year increase in the unrealized gain of \$801,942 is included with the investment return allocated to permanently restricted funds.

NOTE PAYABLE

At June 30, 2014, the Foundation had indebtedness to a bank for \$1,053,747. The note bears interest at a rate of 4.25% and matures February 24, 2015. All accrued interest in 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 or all real or personal property that the Foundation now owns or may acquire in the future.

REQUIRED SUPPLEMENTARY INFORMATION

REQUIRED SUPPLEMENTARY INFORMATION--UNAUDITED

ROGERS STATE UNIVERSITY

June 30, 2014

SCHEDULE OF FUNDING PROGRESS FOR SUPPLEMENTAL RETIREMENT PLAN

Actuarial Valuation Date	Actuarial Value of Assets (a)	Actuarial Accrued Liability (AAL) (b)	Unfunded AAL (UAAL) (b-a)	Funded Ratio (a/b)	Covered Payroll (c)	UAAL as a percentage of Covered Payroll (b-a)/(c)
6/30/2010	\$ 875,021	\$ 1,209,585	\$ 285,380	72.34%	\$ -	0.00%
6/30/2011	920,825	1,206,205	319,740	76.34%	-	0.00%
6/30/2012	870,119	1,189,859	156,100	73.13%	-	0.00%
6/30/2013	1,016,758	1,172,858	156,100	86.69%	-	0.00%
6/30/2014	967,456	1,155,220	187,764	83.75%	-	0.00%

The actuarial accrued liability is based on the projected unit credit method.

**SCHEDULE OF FUNDING PROGRESS FOR OTHER POST EMPLOYMENT
HEALTH AND LIFE INSURANCE BENEFITS**

Actuarial Valuation Date	Actuarial Accrued of Assets (a)	Actuarial Accrued Liability (AAL) (b)	Unfunded AAL (UAAL) (b-a)	Funded Ratio (a/b)	Covered Payroll (c)	UAAL as a percentage of Covered Payroll (b-a)/(c)
6/30/2008	\$ -	\$ 1,712,128	\$ 1,712,128	0.00%	\$ 13,120,359	13.05%
6/30/2010	-	2,142	2,142,292	0.00%	13,013,456	16.46%
6/30/2012	-	1,754,405	1,754,405	0.00%	10,970,013	15.99%
6/30/2013	600,000	1,754,405	1,154,405	34.20%	10,970,013	10.52%
6/30/2014	601,545	1,310,311	710,311	45.91%	9,164,569	7.75%

The actuarial liability is based on the projected unit credit cost method.

The University obtains actuarial valuations biannually in accordance with the provisions of GASB No. 45.

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

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

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

We have audited the financial statements of Rogers State University (the "University"), a component unit of the State of Oklahoma, which comprise the statement of net position as of June 30, 2014, and the related statements of revenues, expenses, and changes in net position and cash flows for the year then ended, and the related notes to the financial statements, and have issued our report thereon dated October 13, 2014. We conducted our audit in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Our report includes a reference to other auditors who audited the financial statements of 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 associated with the Foundation.

Internal Control Over Financial Reporting

In planning and performing our audit of the financial statements, we considered the University's internal control over financial reporting (internal control) to determine the audit procedures that are appropriate in the circumstances for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the University's internal control. Accordingly, we do not express an opinion on the effectiveness of 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 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 combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

Compliance and Other Matters

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

Purpose of this Report

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the University's internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the University's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

Cole & Reed P.C.

Oklahoma City, Oklahoma
October 13, 2014

**Independent Auditors' Report on
Compliance For Each Major Federal Program;
Report on Internal Control Over Compliance; and Report on the
Schedule of Expenditures of Federal Awards Required by OMB Circular A-133**

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

Report on Compliance for Each Major Federal Program

We have audited Rogers State University's (the "University") compliance with the types of compliance requirements described in the *OMB Circular A-133 Compliance Supplement* that could have a direct and material effect on each of the University's major federal programs for the year ended June 30, 2014. The University's major federal programs are identified in the summary of auditors' results section of the accompanying schedule of findings and questioned costs.

Management's Responsibility

Management is responsible for compliance with the requirements of laws, regulations, contracts, and grants applicable to its federal programs.

Auditors' Responsibility

Our responsibility is to express an opinion on compliance for each of the University's major federal programs based on our audit of the types of compliance requirements referred to above. We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and OMB Circular A-133, *Audits of States, Local Government, and Non-Profit Organizations*. Those standards and OMB Circular A-133 require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about the University's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances.

We believe that our audit provides a reasonable basis for our opinion on compliance for each major federal program. However, our audit does not provide a legal determination of the University's compliance.

Opinion on Each Major Federal Program

In our opinion, the University complied, in all material respects, with the types of compliance requirements referred to above that could have a direct and material effect on each of its major federal programs for the year ended June 30, 2014.

Report on Internal Control Over Compliance

Management of the University is responsible for establishing and maintaining effective internal control over compliance with the types of compliance requirements referred to above. In planning and performing our audit of compliance, we considered the University's internal control over compliance with the types of requirements that could have a direct and material effect on each major federal program to determine 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 the internal control over compliance in accordance with OMB Circular A-133, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of the University's internal control over compliance.

A deficiency in internal control over compliance exists when the design or operation of a control over compliance does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, noncompliance with a type of compliance requirement of a federal program on a timely basis. *A material weakness in internal control over compliance* is a deficiency, or combination of deficiencies, in internal control over compliance, such that there is a reasonable possibility that material noncompliance with a type of compliance requirement of a federal program will not be prevented, or detected and corrected, on a timely basis. *A significant deficiency in internal control over compliance* is a deficiency, or combination of deficiencies, in internal control over compliance with a type of compliance requirement of a federal program that is less severe than a material weakness in internal control over compliance, yet important enough to merit attention by those charged with governance.

Our consideration of internal control over compliance was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over compliance that might be material weaknesses or significant deficiencies. We did not identify any deficiencies in internal control over compliance that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

The purpose of this report on internal control over compliance is solely to describe the scope of our testing of internal control over compliance and the results of that testing based on the requirements of OMB Circular A-133. Accordingly, this report is not suitable for any other purpose.

Report on Schedule of Expenditures of Federal Awards Required by OMB Circular A-133

We have audited the financial statements of the University as of and for the year ended June 30, 2014, and have issued our report thereon dated October 13, 2014, which contained an unmodified opinion on the financial statements. 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 OMB Circular A-133 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.

Cole & Reed P.C.

Oklahoma City, Oklahoma
October 13, 2014

SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS

ROGERS STATE UNIVERSITY

Year Ended June 30, 2014

Federal Grantor/ Pass-through Grantor/Program Title		Federal CFDA Number	Expenditures
U.S. Department of Education			
Student Financial Assistance:			
Federal Pell Grant		84.063	\$ 8,075,417
Federal Supplemental Education Opportunity Grant		84.007	113,774
Federal Direct Student Loan Program		84.268	11,001,441
Federal Work Study		84.033	113,003
Total Student Financial Aid Cluster			19,303,635
TRIO Program Cluster:			
Talent Search Grant		84.044A	271,875
Education Opportunity Centers		84.066A	575,051
Total TRIO Program Cluster			846,926
Other Programs:			
Passed through Oklahoma Department of Vocational Technical Education:			
Carl Perkins Vocational and Applied Technology		84.048	57,607
Passed through Oklahoma State Regents for Higher Education:			
Gear Up Summer (STEM) Academy		84.334S	19,879
Total Other Programs			77,486
Total U.S. Department of Education			20,228,047
U.S. Department of Commerce:			
Economic Development - Technical Assistance:			
RSU-University Center-Award # 08-66-04630		11.306	151,004
Total U.S. Department of Commerce			151,004
U.S. Department of Agriculture:			
Rural Development:			
Biofuels Assistance Center		10.769	11,557
Total U.S. Department of Agriculture			11,557
U.S. Fish and Wildlife Service, Region #2:			
Passed through the OK Dept of Wildlife Conservation			
Mgmt & Cave Protection-ID E-22-15		15.615	18,527
Total U.S. Fish and Wildlife Service, Region #2			18,527

SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS--Continued

ROGERS STATE UNIVERSITY

Year Ended June 30, 2014

Federal Grantor/ Pass-through Grantor/Program Title	Federal CFDA Number	Expenditures
Corp for National & Community Service:		
Campus Compact - The University of Montana		
Passed through The University of Wisconsin		
MLK Collegiate Challenge	94.007	<u>1,000</u>
Total Corp of National & Community Service		<u>1,000</u>
National Institute of Health:		
Institutional Development Award (IDeA) Program		
IDeA Network of Biomedical Research Excellence		
OK - INBRE	93.859	<u>40,387</u>
Total National Institute of Health		<u>40,387</u>
National Science Foundation:		
Mathematical and Physical Sciences		
Award # PHY - 1314249	47.049	<u>14,755</u>
Total National Science Foundation		<u>14,755</u>
U.S. Small Business Administration		
Passed through Oklahoma Dept of Commerce		
Small Business Development Center		
Award # SBAHQ-13-B-0049	59.037	<u>14,728</u>
Total U.S. Small Business Administration		<u>14,728</u>
Total Expenditures of Federal Awards		<u>\$ 20,480,005</u>

See notes to schedule of expenditures of federal awards.

NOTES TO SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS

ROGERS STATE UNIVERSITY

Year Ended June 30, 2014

NOTE A--BASIS OF ACCOUNTING

The Schedule of Expenditures of Federal Awards includes the federal awards 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 OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. Therefore, some amounts presented in this schedule may differ from amounts presented in or used in the preparation of, the basic financial statements.

NOTE B--FEDERAL DIRECT STUDENT LOAN PROGRAM

Under the Federal Direct Student Loan Program ("Direct Loan Program"), the U.S. Department of Education makes loans to enable a student or parent to pay the costs of the student's attendance at a postsecondary school. The Direct Loan Program enables an eligible student or parent to obtain a loan to pay for the student's cost of attendance directly from the U.S. Department of Education rather than through private lenders. The University 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 C--SUBRECIPIENTS

The University provided no federal awards to subrecipients.

SCHEDULE OF FINDINGS AND QUESTIONED COSTS

ROGERS STATE UNIVERSITY

Year Ended June 30, 2014

Section I--Summary of Auditors' Results

Financial statements

Type of auditors' report issued:

Unmodified

Internal control over financial reporting:

- Material weakness(es) identified? ☐ yes ☒ no
- Significant deficiency(ies) identified that are not considered to be material weakness(es)? ☐ yes ☒ none reported

Noncompliance material to financial statements noted?

☐ yes ☒ no

Federal Awards

Internal control over major programs:

- Material weakness(es) identified? ☐ yes ☒ no
- Significant deficiency(ies) identified that are not considered to be material weakness(es)? ☐ yes ☒ none reported

Type of auditors' report issued on compliance for major programs:

Unmodified

Any audit findings disclosed that are required to be reported in accordance with section 510(a) of Circular A-133?

☐ yes ☒ no

Identification of major programs:

Program/Cluster

Student Financial Aid Cluster

TRIO Cluster

CFDA Number

*

*

* See the Schedule of Expenditures of Federal Awards for identification of CFDA numbers applicable to the major programs.

Dollar threshold used to distinguish between type A and type B programs: \$300,000

Auditee qualified as low-risk auditee?

☒ yes ☐ no

Section II--Findings Required to be Reported in Accordance with *Government Auditing Standards*:

None to report for the June 30, 2014 period.

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

None to report for the June 30, 2014 period.

SUMMARY SCHEDULE OF PRIOR AUDIT FINDINGS

ROGERS STATE UNIVERSITY

Year Ended June 30, 2014

Finding 2013-01: This finding was fully corrected in the current year.