

Rose State College
Financial Statements
with Independent Auditor's Reports
June 30, 2020

Rose State College
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June 30, 2020

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INDEPENDENT AUDITOR'S REPORT

Board of Regents
Rose State College
Midwest City, Oklahoma

Report on the Financial Statements

We have audited the accompanying financial statements of Rose State College (the "College"), which is a component unit of the State of Oklahoma, and its discretely presented component unit, as of and for the year ended June 30, 2020, and the related notes to the financial statements, which collectively comprise the College's basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement. The financial statements of Rose State College Foundation, Inc. were not audited in accordance with *Governmental 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, the financial statements referred to above present fairly, in all material respects, the respective financial position of the College's primary government and its discretely presented component unit as of June 30, 2020, 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 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 Information

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the College's basic financial statements. The other supplementary information section is presented for purposes of additional analysis and is not a required part of the basic financial statements.

The other supplementary information, as listed in the table of contents, is the responsibility of management and was derived from and relate directly to the underlying accounting and other records used to prepare the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic financial statements or to the basic financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the other supplementary information is fairly stated, in all material respects, in relation to the basic financial statements as a whole.

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated October 28, 2020, on our consideration of the College'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 College's internal control over financial reporting and compliance.

Arlidge & Associates, P.C.

October 28, 2020

Rose State College
A Component Unit of the State of Oklahoma
Management's Discussion and Analysis
Fiscal Year Ended June 30, 2020

Introduction

The discussion and analysis of Rose State College's financial statements provides an overview of financial activities for the fiscal year ended June 30, 2020. Since the management's discussion and analysis is designed to focus on the financial performance based on current conditions, activities resulting in change and other currently known facts, please read it in conjunction with the basic financial statements and footnotes. These financial statements are prepared in accordance with Governmental Accounting Standards Board (GASB) principles.

In May 2020, the GASB released Statement 95 in an effort to provide temporary relief to governments and other stakeholders, in light of the COVID-19 pandemic, by postponing the effective dates of Statements and Implementation Guides that became effective after June 15, or later. The College adopted GASB Statement 95 for financial reports presented for the fiscal year ended June 30, 2020. For a full description of the adoption of GASB Statement 95 please read Note #1 Summary of Significant Accounting Policies, following the financial statements particularly the section entitled "*New Accounting Pronouncements adopted in 2020.*"

Using This Annual Report

The accompanying financial statements reflect the activities of Rose State College, its blended component unit, the Rose State College Technical Area Education District (the Tech District), and its discretely presented component unit, the Rose State College Foundation, Inc. (the Foundation). A separate statement reporting the net position for funds held in a fiduciary capacity for the Oklahoma Higher Education Employee Interlocal Group (OKHEEI) is also presented (please see note #10 for a discussion of the OKHEEI insurance pool). This MD&A, however, focuses only on highlights and explanations of significant changes in financial operations and results for Rose State College and its blended component unit, the Tech District, and will be referred to, in combined form as "the College".

The annual report consists of three basic financial statements: The Statement of Net Position; the Statement of Revenues, Expenses, and Changes in Net Position; and the Statement of Cash Flows.

The Statement of Net Position and the Statement of Revenues, Expenses, and Changes in Net Position reports the results of the operation of the College. When revenues and other support exceed expenses, the result is an increase in net position. When the reverse occurs, the result is a decrease in net position. The College's net position - the difference between assets, deferred inflows, liabilities and deferred outflows - is one way to measure the College's financial condition. The reader will also need to consider other non-financial factors, such as the quantity and quality of applicants, enrollment trends, student retention, accreditation status, the condition of buildings, academic programming changes and the safety of the campus and other factors, in assessing the overall health of the institution.

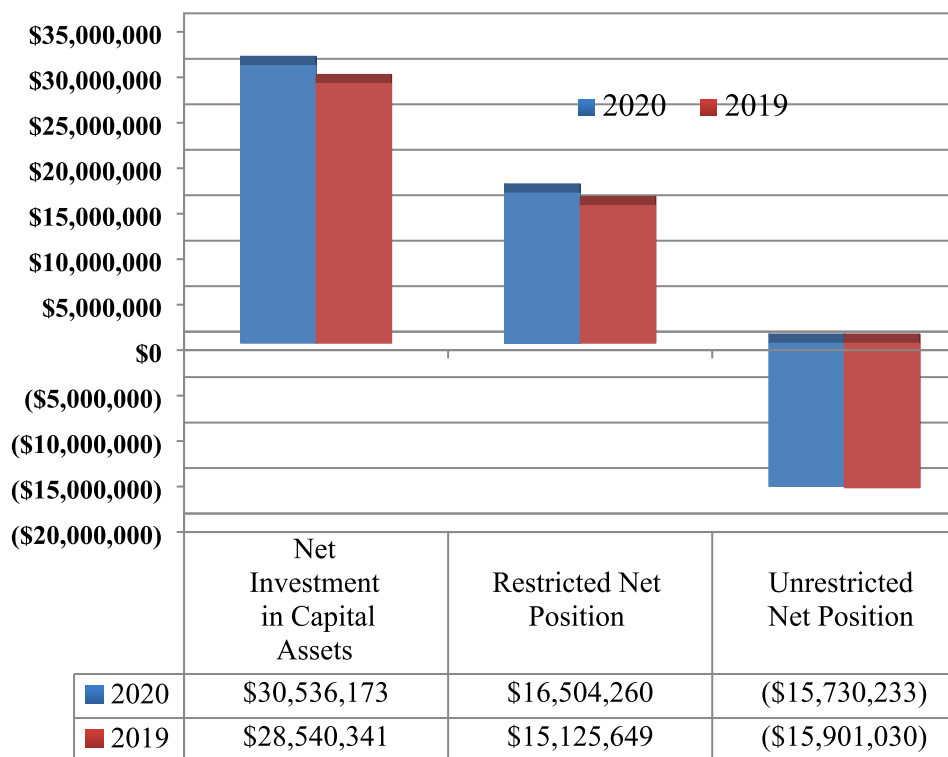
These statements report all assets and liabilities at current values except for capital assets which are reported at historical costs less accumulated depreciation. All of the current year's revenues and expenses are reported using the accrual basis of accounting.

Separate financial statements for the College's component units are also available. Financial statements for the Tech District may be obtained by contacting the College's Executive Vice President. The financial statements for the Foundation may be obtained by contacting their Executive Director.

Financial Highlights

Total Net Position

This chart provides a graphical breakdown of net position by category for the fiscal years ending June 30, 2020 and 2019.



The College's total net position at June 30, 2020 was \$31.3 million, an increase of \$3.5 million or 12.8% compared to the FY19 results. Net Investment in Capital Assets increased \$2 million as a result of construction of the new Student Union. The building will be open in October 2020. The Restricted Net Position increased \$1.4 million largely driven by increases in grant revenue of approximately \$400 thousand and an increase in funds held for capital improvement of approximately \$700 thousand in expectation of need to fund any possible overage in construction and furnishings of the new Student Union building. Unrestricted Net Position was largely static compared to fiscal year 2019. Net position is heavily impacted by the effect of pension related funding obligations and actuarial measurements of post-employment benefits. Please see Note #6 and #11 for descriptions of these obligations, the measurement of the recognized liabilities and the impact on the financial statements. Management does not believe that the recognition of these pension and post employment benefit obligations nor the volatility resulting from the actuarial evaluations of those liabilities from year to year constitutes any negative consequence to the true financial condition of the institution. Discussion of the various items that impact the fiscal condition of the College can be found in this MD&A and notes accompanying the statements.

Results from Operations – Revenue and Expenses

Total Revenues for fiscal year 2020 increased \$2 million or 3.5% in aggregate compared to fiscal year 2019 total revenues. The bulk of the increase is explained in the Non-Operating Revenue section below:

- Operating revenue is generated in exchange type transactions, that is the College provides a service or a good to a customer for a payment. For fiscal 2020 Operating Revenue was largely unchanged, decreasing only \$56 thousand or .5% compared to fiscal year 2019. Operating Revenue made up 18.3% of total revenue in fiscal year 2020 compared to fiscal year 2019 when it made up 19.1% of total revenue.
- Non-Operating Revenue involves the receipt of revenue not dependent on an exchange between the College and a customer. The College's three main sources of non-operating revenue are state appropriations, Federal and State grants and reimbursements and ad valorem taxes. Most colleges rely on non-operating revenue to ensure continuing operations. For fiscal year 2020 non-operating revenue increased by \$1.7 million or 3.8% and made up 79.2% of total revenue compared to fiscal year 2019 when it made up 79.0% of total revenue for the College. The main drivers of the increase include:
 - A \$628 thousand increase in State appropriations from increases in base allocation to fund a pay raise for faculty and concurrent high school enrollment reimbursements.
 - A \$200 thousand increase in ad valorem tax collections in the Tech District
 - A \$351 thousand increase in Federal and State grants not used to pay tuition and fees
 - A \$651 thousand increase in net charter school revenue.

The College serves as the sponsor for the operation of Epic Blended Charter School (EPIC) in Oklahoma and Tulsa counties, pursuant to the Oklahoma Charter School Act. In accordance with state statute, the College receives funding from the State Department of Education on behalf of the EPIC and then transfers those funds to EPIC less a percentage retained by the College as fiscal agent fees. The fiscal year 2020 receipts and transfers for EPIC are detailed in the following table. Also see footnote #8.

| | | |
|-------------------------------|----|-------------------------|
| State aid received | \$ | 60,421,400 |
| Textbook aid received | | 539,766 |
| Total aid received | | <u>60,961,166</u> |
| Less: Aid transferred to EPIC | | <u>(59,148,524)</u> |
| Net charter school revenue | \$ | <u><u>1,812,642</u></u> |

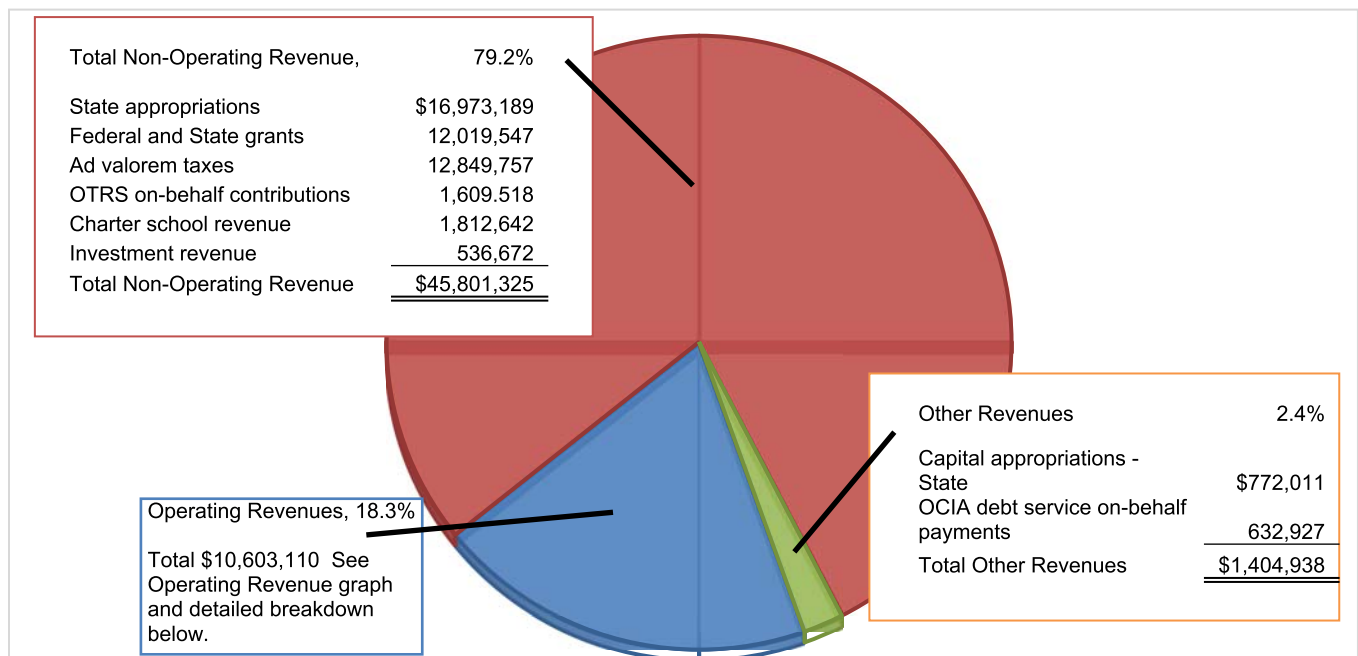
Other Revenue consists of capital appropriations and Oklahoma Capital Improvement Authority (OCIA) debt service payments made on behalf of the College on bonds that funded capital improvements and building construction. These on-behalf payments require no cash outlay by the College. In fiscal 2020 the OCIA on-behalf payments resulted in \$632 thousand recognized as non-operating revenue, approximately the same as what was recognized in fiscal year 2019. Revenue dedicated to capital funding increased by approximately \$300 thousand in fiscal year 2020 compared to fiscal year 2019.

The following table and chart present Total Revenues by category and source followed by a presentation of Operating Revenues by category and source for the fiscal years ending June 30, 2020 and 2019.

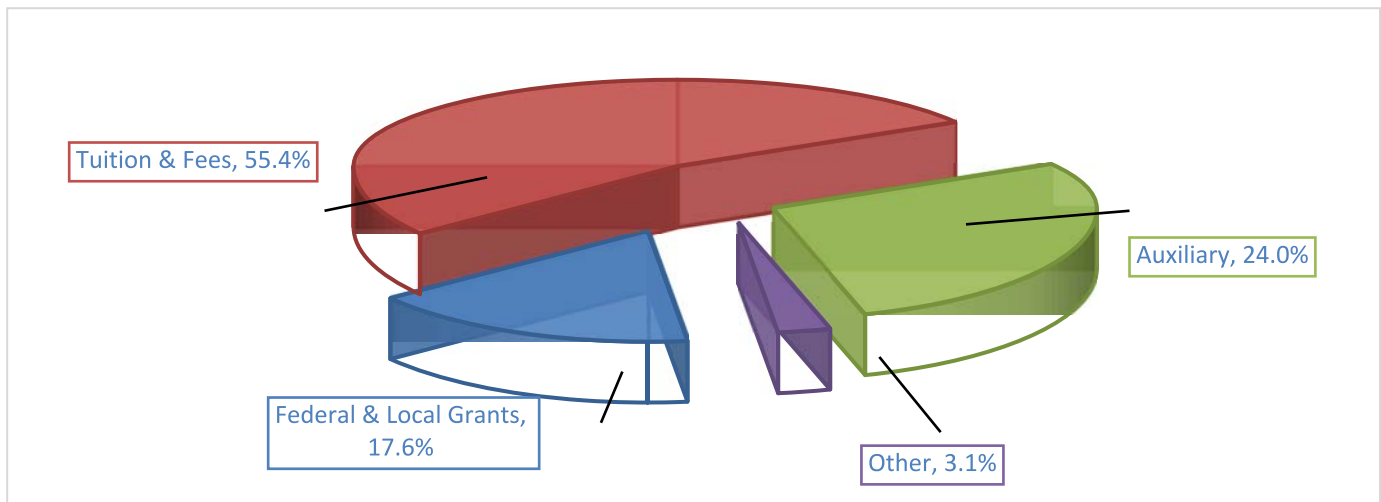
FY20 Total Revenue by Category – Table

| Revenue Category | 2020 | 2019 | Change FY19 to FY20 | Percent Change |
|------------------------|--------------|--------------|---------------------|----------------|
| Operating Revenues | \$10,603,110 | \$10,659,404 | (\$ 56,294) | (.5%) |
| Non-Operating Revenues | 45,801,325 | 44,127,448 | 1,673,877 | 3.8% |
| Other Revenues | 1,404,938 | 1,068,591 | 336,347 | 31.5% |
| Total Revenues | \$57,809,373 | \$55,855,443 | \$1,953,930 | 3.5% |

FY20 Total Revenues by Category and Percent of Total – Graph



FY20 Operating Revenue by Category and Percent of Total – Graph



FY20 Operating Revenue by Category – Table

| Operating Revenue Category | 2020 | 2019 | Change FY19 to FY20 | Percent Change |
|----------------------------|--------------|--------------|---------------------|----------------|
| Federal & Local Grants | \$1,861,161 | \$1,160,112 | \$701,049 | 60.4% |
| Tuition & Fees | 5,870,999 | 6,266,953 | (395,954) | (6.3%) |
| Auxiliary | 2,543,681 | 2,982,055 | (438,374) | (14.7%) |
| Other | 327,269 | 250,284 | 76,985 | 30.8% |
| Total Operating Revenue | \$10,603,110 | \$10,659,404 | (\$56,294) | (0.5%) |

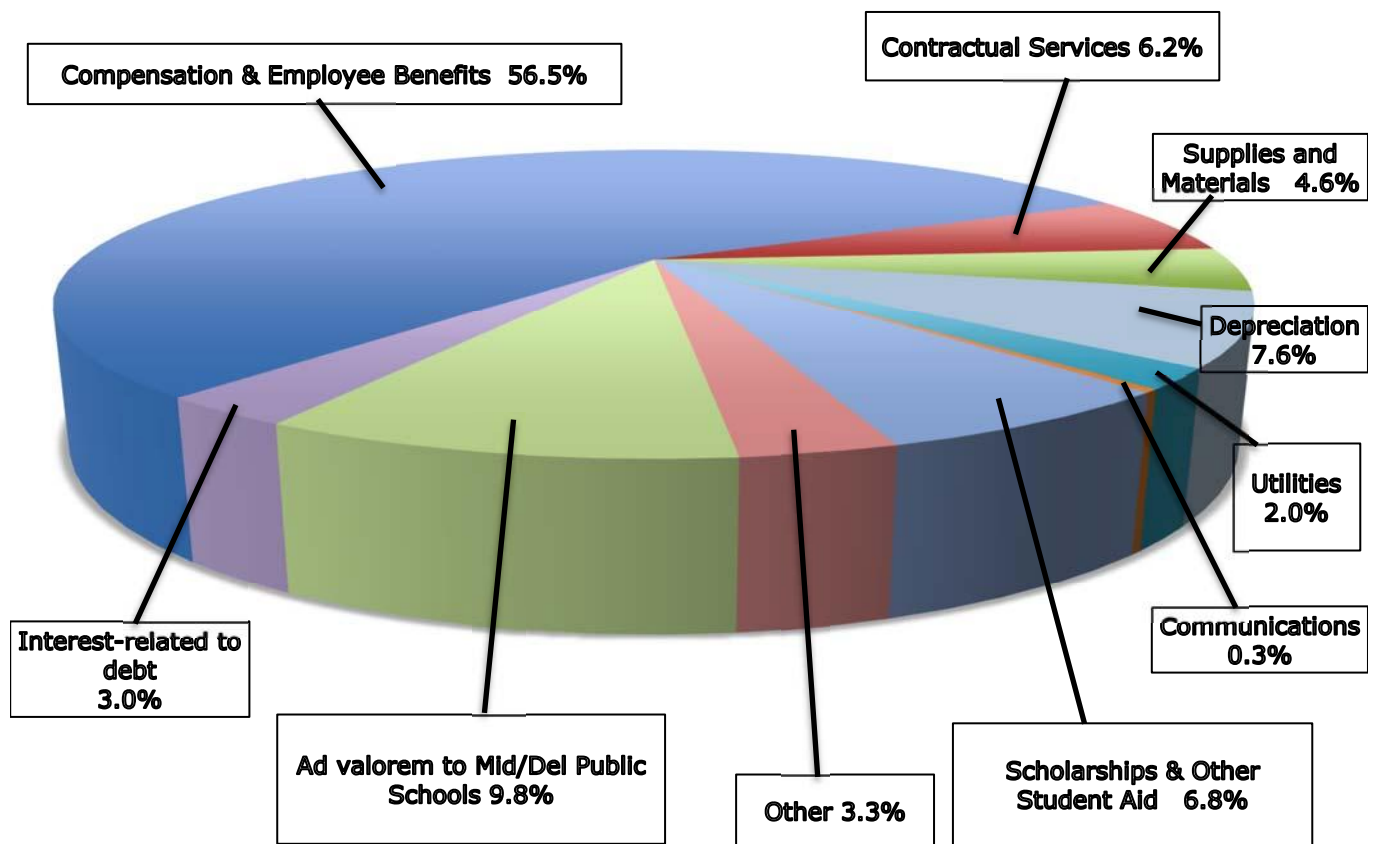
Total Expenses by Category

Total expenses for fiscal 2020 were \$54.3 million, an increase of \$1.5 million or 2.8% compared to fiscal 2019 total expenses of \$52.8 million. The largest portion of this was a \$1.8 million increase in excess financial aid refunds as a result of CARES Act emergency aid dedicated to students for increase personal financial expense related to the pandemic and the transition to virtual instruction.

Compensation and Employee Benefits increased by approximately \$401 thousand or 1.3% compared to fiscal 2019. Much of this increase is related to changes in the actuarial evaluations of the Oklahoma Teachers Retirement System (OTRS) accruals for GASB 75, GASB 82 reporting standards and the past Presidents' post employee benefits liability. Accruals and adjustments required by these actuarial evaluations effect the Compensation and Benefits expense category. In FY20 the overall was harsher than in FY19 creating what appears to be an increase in compensation expense. Ignoring the effect of the OTRS actuarial evaluation, actual Employee Compensation and Benefit expenses for fiscal 2020 totaled \$29 million which is a decrease of \$1.1 million compared to fiscal 2019 expense of \$30.1 million.

The following graph and table may be useful in understanding total expenses. These should be evaluated by reading the more detailed Statement of Revenues, Expenses and Changes in Net Position presentation and discussion along with the other financial statements and footnotes.

FY20 Total Expenses by Category and Percent of Total – graph



FY20 Total Expenses by Category and Change – detail table

| Total Expenses by Category | 2020 | 2019 | Change FY19 to FY20 | Percent Change |
|--|--------------|--------------|---------------------|----------------|
| Compensation & Employee Benefits | \$30,645,654 | \$30,245,131 | \$ 400,523 | 1.3% |
| Contractual Services | 3,339,549 | 3,495,779 | (156,230) | (4.5%) |
| Supplies and Materials | 2,498,418 | 2,990,385 | (491,967) | (16.5%) |
| Depreciation | 4,121,481 | 4,185,579 | (64,098) | (1.5%) |
| Utilities | 1,087,521 | 1,009,502 | 78,019 | 7.7% |
| Communications | 162,663 | 146,527 | 16,136 | 11.0% |
| Scholarships & Other Student Aid | 3,706,543 | 1,953,868 | 1,752,675 | 89.7% |
| Other | 1,767,228 | 1,872,364 | (105,136) | (5.6%) |
| Ad valorem to Mid/Del Public Schools | 5,322,272 | 5,148,529 | 173,743 | 3.4% |
| Interest on capital asset-related debt | 1,612,804 | 1,746,884 | (134,080) | (7.7%) |
| Total Expenses | \$54,264,133 | \$52,794,548 | \$1,469,585 | 2.8% |

The statement of net position presents the financial position of the College at the end of the fiscal year and includes totals of all assets, liabilities and deferred inflows and outflows. Net position and the change between fiscal years may be one indicator of the current financial condition of the College. The fiscal 2020 financial statements show an increase of \$3.5 million or 12.8% in total net position compared to fiscal 2019 and reflects the effects of Pension and Other Post Employment Benefits liability calculations, as required by GASB. This table summarizes the College's Statement of Net Position as of June 30, 2020 and 2019.

| Net Position: Balances as of June 30th | Fiscal Year 2020 | Fiscal Year 2019 | \$ Change FY19 to FY20 | Percent Change |
|---|-----------------------------|-----------------------------|-----------------------------------|---------------------------|
| Current Assets | \$36,724,340 | \$43,180,378 | (\$6,456,038) | (15.0%) |
| Noncurrent Assets | | | | |
| Restricted cash and cash equivalents | 3,938,182 | 3,874,170 | 64,012 | 1.7% |
| Accounts receivable, net | 36,963 | 71,084 | (34,121) | (48.0%) |
| Restricted net OPEB asset | 289,523 | 329,100 | (39,577) | (12.0%) |
| Deposits Held in Escrow | 938,100 | 625,400 | 312,700 | 50.0% |
| Capital assets, net of depreciation | 77,370,889 | 68,840,941 | 8,529,948 | 12.4% |
| Total assets | 119,297,997 | 116,921,073 | 2,376,924 | 2.0% |
| Deferred Outflows | | | | |
| Deferred Outflows related to OPEB | 214,140 | 52,346 | 161,794 | 309.1% |
| Deferred Outflows related to pensions | 6,385,330 | 6,417,358 | (32,028) | (0.5%) |
| | 6,599,470 | 6,469,704 | 129,766 | 2.0% |
| Current Liabilities | 8,381,768 | 6,875,983 | 1,505,785 | 21.9% |
| Noncurrent Liabilities | 78,035,286 | 80,154,442 | (2,119,156) | (2.6%) |
| Total liabilities | 86,417,054 | 87,030,425 | (613,371) | (0.7%) |
| Deferred Inflows | | | | |
| Bookstore service concession arrangement | 71,084 | 105,205 | (34,121) | (32.4%) |
| Gain on debt refinancing | 2,634,608 | 2,752,236 | (117,628) | (4.3%) |
| Deferred inflows related to OPEB | 170,223 | 253,333 | (83,110) | (32.8%) |
| Deferred inflows related to pensions | 5,294,298 | 5,484,618 | (190,320) | (3.5%) |
| Total Deferred Inflows | 8,170,213 | 8,595,392 | (425,179) | (5.0%) |
| Net Position | | | | |
| Net investment in capital assets | 30,536,173 | 28,540,341 | 1,995,832 | 7.0% |
| Restricted expendable | 16,504,260 | 15,125,649 | 1,378,611 | 9.1% |
| Unrestricted | (15,730,233) | (15,901,030) | 170,797 | 1.1% |
| Total net position | \$31,310,200 | \$27,764,960 | 3,545,240 | 12.8% |

- Current assets, in fiscal 2020 decreased by a total of \$6.5 million or 15.0% compared to fiscal 2019. This largely reflects the use of \$9.7 million from the Oklahoma Development Finance Authority capital bond proceeds for construction of the new Student Union building. This was offset by a \$2.7 million increase in operational cash balances resulting from the restriction of business spending activity after the change to all virtual instruction and quarantine, because of the pandemic.
- Non-current assets increased by \$8.8 million or 2.0%, in fiscal year 2020 compared to fiscal year 2019. This largely reflects the construction activity for the Student Union as current asset restricted investments were converted to non-current capital assets and is directly related to the discussion above. Construction expenditures are recorded as construction in progress and once completed the full investment in the new building will be moved to the capital assets classification. The building is expected to be completed in October 2020. See Note 4 for a full disclosure of the capital assets activity.

- Total liabilities decreased \$600 thousand or .7% between fiscal years 2020 and fiscal 2019. Current liabilities increased \$1.5 million or 21.9% compared to fiscal 2019 and reflects the contraction of business activities, beginning in March, for the pandemic's quarantine and the resulting absence of on-campus activities. All divisions budgets were restricted from normal operating expenditures and travel. In May academic divisions were given an allotment of budget funds to prepare for the coming summer term. This timing, however, resulted in an increase in Accounts Payable liabilities at the end of the fiscal year. Non-current liabilities decreased by \$2.1 million or 2.6% compared to fiscal 2019. This decrease was driven by a \$2.4 million decrease in long-term debt from the payment of bonds and lease liabilities. See footnote #5 for a discussion of long-term liabilities. The College also reported a \$260 thousand increase in actuarially calculated Other Post Employment Benefit (OPEB) liabilities for various employees. See Note #10 for a description of the calculation and impact of OPEB liabilities.
- Deferred Outflows and Deferred Inflows should be read in conjunction with the footnotes to the financial statements to understand the nature of the measurements and the impact relating to future periods. For deferred outflows and inflows related to OPEB, please see Note #1 for a short definition of OPEB responsibilities and Note #11 for an explanation of the College's OPEB plans. For deferred outflows and inflows related to pensions, please read footnote #6 to understand the associated actuarial calculation of the unfunded balance of the OTRS and changes reflected in the FY20 financial statements. For an explanation of the Bookstore concession agreement and the related deferred outflow please read footnote #12 for a description of the concession agreement and the measurement of the economic impact. The deferred inflow related to the gain on debt financing is related to the student housing lease buyout, completed in 2018, from the original developer/lessor with proceeds from the Oklahoma Development Finance Authority Master Lease Program through the Oklahoma State Regents for Higher Education. Please see footnote #5 for the discussion on the refinancing and the recognition of the gain on refinancing as shown on the financial statements.

Statement of Revenues, Expenses and Changes in Net Position

The statement of revenues, expenses and changes in net position presents the College's financial results from operations and other non-operating activities. A summarized statement of revenues, expenses and changes in net position, as of June 30, 2020 and 2019, appears below:

| Revenue, Expenses, & Net Position, as of June 30 | Fiscal Year 2020 | Fiscal Year 2019 | \$ Change FY19 to FY20 | Percent Change |
|---|---------------------|---------------------|------------------------------|-------------------|
| Operating Revenues | | | | |
| Tuition and fees, net | \$5,870,999 | \$6,266,953 | (\$395,954) | (6.3%) |
| Federal, state and local grants & contracts | 1,861,161 | 1,160,112 | (701,049) | 60.4% |
| Auxiliary (bookstore, food services & housing), net | 2,543,681 | 2,982,055 | (438,374) | (14.7%) |
| Other | 327,269 | 250,284 | 76,985 | 30.8% |
| Total operating revenues | \$10,603,110 | \$10,659,404 | (\$56,294) | (.5%) |
| Operating Expenses | | | | |
| Compensation and employee benefits | \$30,645,654 | \$30,245,131 | \$400,523 | 1.3% |
| Contractual services, supplies and materials | 5,837,967 | 6,486,164 | (648,197) | (10.0%) |
| Depreciation | 4,121,481 | 4,185,579 | (64,098) | (1.5%) |
| Utilities and communications | 1,250,184 | 1,156,029 | 94,155 | 8.1% |
| Scholarships and other student aid | 3,706,543 | 1,953,868 | 1,752,675 | 89.7% |
| Other | 1,767,228 | 1,872,364 | (105,136) | (5.6%) |
| Total operating expenses | \$47,329,057 | \$45,899,135 | \$1,429,922 | 3.1% |
| Operating Loss | (\$36,725,947) | (\$35,239,731) | (\$1,486,216) | 4.2% |
| Non-operating Revenues (Expenses) | | | | |
| State appropriations | \$16,973,189 | \$16,345,458 | \$627,731 | 3.8% |
| Federal and state grants | 12,019,547 | 11,668,714 | 350,833 | 3.0% |
| OTRS on-behalf contributions | 1,609,518 | 1,620,218 | (10,700) | (0.7%) |
| Charter School revenue | 1,812,642 | 1,161,349 | 651,293 | 56.1% |
| Ad valorem taxes | 12,849,757 | 12,653,645 | 196,112 | 1.5% |
| Ad valorem taxes remitted to Mid/Del public schools | (5,322,272) | (5,148,529) | (173,743) | 3.4% |
| Other | (1,076,132) | (1,068,820) | (7,312) | 0.7% |
| Net Non-operating Revenues | \$38,866,249 | \$37,232,035 | \$1,634,214 | 4.4% |
| Income (Loss) Before Other Revenues, Expenses Gains and Losses | \$2,140,302 | \$1,992,304 | \$147,998 | 7.4% |
| Other Revenues, Expenses, Gains and Losses | 1,404,938 | (728,602) | 2,133,540 | (292.8%) |
| Increase (Decrease in Position) | \$3,545,240 | \$1,263,702 | \$2,281,538 | 180.5% |
| Assets, Beginning of Year | \$27,764,960 | \$26,501,258 | \$1,263,702 | 4.8% |
| Assets, End of Year | \$31,310,200 | \$27,764,960 | \$3,545,240 | 12.8% |

- Total operating revenues, in fiscal 2020, decreased \$60 thousand or .5% compared to fiscal 2019. This largely results from a decrease of \$400 thousand in tuition and fee collections and a decrease of \$400 thousand in auxiliary operations contributions. This was offset by an increase in grant revenue of \$700 thousand as a result of additional federal financial aid.
- Operating expenses increased by \$1.4 million or 3.1% in fiscal 2020 versus fiscal 2019. There were some significant changes when looking at individual categories such as:
 - Compensation and Employee Benefits expenses grew by \$401 thousand or 1.3% compared to fiscal 2019 due to pay raises for faculty members funded by legislated appropriations. The reader should also see Notes #6 and #10 for discussion of changes in pension liabilities and OPEB liabilities.

2. Scholarships and other student aid expenses increased by \$1.8 million in fiscal 2020 compared to fiscal 2019. This reflects additional emergency financial aid to students provided by the CARES Act legislation. This funding was provided to the College for students that were enrolled in Spring 2020 and met specific U.S. Department of Education qualifications as a result of the pandemic and the change to all virtual instruction after March 2020 when the President declared the emergency. The funds were applied to the qualifying students' accounts and then immediately refunded to the students. The College was not allowed to reduce the emergency aid for any outstanding charges on the students' account. This was a direct flow-through of these aid dollars but the refunds are reflected as expenses on the financial statements offset by an increase in grant revenue.
- Non-operating revenues (expenses) increased \$1.6 million or 4.4% in fiscal 2020 compared to fiscal 2019 as a result of the following highlights:
 1. State appropriations were \$628 thousand or 3.8% higher in FY20 compared to FY19 from increased state support for a pay raise for faculty and an increase in reimbursement of concurrent high school enrollment and National Guard waivers.
 2. Charter School Revenue for fiscal 2020 increased \$651 thousand or 56.1% in fiscal 2020 versus fiscal 2019 and reflects the continued growth in enrollment in the EPIC Charter School Blended Learning Center charter. In May 2017, the College entered into an agreement with Community Strategies, Inc. to sponsor the operations of Epic Blended Charter School, pursuant to the Oklahoma Charter School Act. The College agreed to act as fiscal agent for the EPIC Blended Charter School operations in Oklahoma and Tulsa counties. In that capacity, the College receives funding from the State Department of Education on behalf of the Epic Blended Charter School. These funds are then forwarded to Epic Charter Schools with the College retaining a percentage of the funds as fiscal agent fees, in accordance with state statute, at a negotiated contractual rate. See Note #8 for details.
 - Other Revenues, Expenses, Gains and Losses is \$2.1 million higher in fiscal 2020 versus fiscal 2019. In fiscal 2019 the Tech District recognized a loss of \$1.8 million on the sale of property donated in 2011. This loss was reflected in the Other Revenues, Expenses, Gains and Losses section of the financial statements in fiscal 2019. In fiscal 2020, the Other Revenues, Expenses, Gains and Losses reflect only the normal revenues for capital appropriations and OCIA debt service on-behalf payments. But, the difference between the negative 2019 loss and the positive 2020 balances appear to create a large swing in results. Management considers this to be a non-repeating anomaly and does not reflect a true gain in resources to the institution.

Statement of Cash Flows

Another way to assess the financial health of an institution is to look at the Statement of Cash Flows. This statement's primary purpose is to provide relevant information about the cash receipts and cash payments of an entity during the fiscal period. The Statement of Cash Flows also assists users in assessing an entity's ability to generate future net cash flows, meet obligations as they come due, and external financing needs.

The College's total cash and cash equivalents for fiscal 2020 increased by \$2.4 million or 221.6% compared to fiscal 2019 results.

The following schedule is summarized from the College's Statement of Cash Flows for the year ended June 30, 2020 and 2019.

| Cash provided by (Used in), as of June 30 | Fiscal Year 2020 | Fiscal Year 2019 | \$ Change FY19 to FY20 | Percent Change |
|---|-----------------------------|-----------------------------|---------------------------------------|---------------------------|
| Operating activities | (\$29,289,444) | (\$30,664,588) | \$1,375,144 | 4.5% |
| Noncapital financing activities | 36,356,793 | 34,210,031 | 2,146,762 | 6.3% |
| Capital and related financing activities | (4,161,541) | (3,143,682) | (1,017,859) | (32.4%) |
| Investing activities | 542,773 | 670,461 | (127,688) | (19.0%) |
| Net increase (decrease) in cash & cash equivalents | <u>\$3,448,581</u> | <u>\$1,072,222</u> | <u>\$2,376,359</u> | <u>221.6%</u> |
| Cash and Cash Equivalents, Beginning of Year | \$31,918,989 | \$30,846,767 | \$1,072,222 | 3.5% |
| Cash and Cash Equivalents, End of Year | \$35,367,570 | \$31,918,989 | \$3,448,581 | 10.8% |

Capital Assets

At June 30, 2020 the College had approximately \$123.4 million invested in capital assets with accumulated depreciation of \$68.0 million resulting in a net capital asset valuation of approximately \$68.0 million. This represents an increase of \$8.5 million or 12.4% compared to fiscal 2019. This increase in net asset valuation reflects the progress in construction of the new Student Union building with approximately \$12.0 million of additional Construction in Progress recognized in fiscal year 2020 as an addition and approximately \$4.1 million of depreciation charged for existing assets during the period. Please see Note #4 for details of the capital asset investments. The table below summarizes the activity in capital assets, net of depreciation.

Capital Assets, Net of Accumulated Depreciation at June 30, 2020 and 2019

| Capital Assets, Net Accumulated Depreciation, as of June 30 | Fiscal Year 2020 | Fiscal Year 2019 | \$ Change FY19 to FY20 | Percent Change |
|--|-----------------------------|-----------------------------|---------------------------------------|---------------------------|
| Land | \$3,617,031 | \$3,617,031 | \$0 | (0.0%) |
| Building and improvements | 50,984,477 | 53,194,465 | (2,209,988) | (4.2%) |
| Land improvements / infrastructure | 937,450 | 957,517 | (20,067) | (2.1%) |
| Furniture, fixtures and equipment | 2,486,673 | 3,177,340 | (690,667) | (21.7%) |
| Library materials | 978,498 | 1,045,895 | (67,397) | (6.4%) |
| Construction in progress | 18,366,760 | 6,848,693 | 11,518,067 | 168.2% |
| Total Capital Assets, Net of Accumulated Depreciation | <u>\$77,370,889</u> | <u>\$68,840,941</u> | <u>\$8,529,948</u> | <u>12.4%</u> |

Debt

As of June 30, 2020, the College had approximately \$48.2 million in debt (bonds and capital lease obligations) outstanding. This is a decrease of approximately \$2.7 million, or 5.3%, compared to fiscal 2019-year end balances. The fiscal 2020 results reflect no new debt or lease obligations. As shown on the table below, the OCIA 2014B series of bonds were paid off as were the ODFA 2014C and 2015C Master Lease obligations were paid off during fiscal 2020.

Please see Note #5 for more detailed information regarding the College's outstanding debt. The table below summarizes the College's debts, by type, for the two most recent fiscal periods.

Outstanding Debt at June 30, 2020 and 2019

| Outstanding Debt, as of June 30 | Fiscal Year 2020 | Fiscal Year 2019 | \$ Change FY19 to FY20 | Percent Change |
|---|-----------------------------|-----------------------------|---------------------------------------|---------------------------|
| 2013 Building Bonds Payable | \$15,220,000 | \$16,910,000 | (\$1,690,000) | (10.0%) |
| 2014B OCIA Capital Lease Obligation | 0 | 31,613 | (31,613) | (100.0%) |
| 2014C OCIA Capital Lease Obligation | 6,666,063 | 6,973,155 | (307,092) | (4.4%) |
| ODFA 2014C Master Lease (Software) | 0 | 33,333 | (33,333) | (100.0%) |
| ODFA 2015C Master Lease (Software) | 0 | 52,250 | (52,250) | (100.0%) |
| ODFA 2017A Master Lease (Student Union) | 16,262,917 | 16,610,167 | (347,250) | (2.1%) |
| ODFA 2018A Master Lease (Housing) | 9,087,834 | 9,266,167 | (178,333) | (1.9%) |
| ODFA 2009A Premium | 0 | 19 | (19) | (100.0%) |
| ODFA 2014C Premium | 0 | 2,524 | (2,524) | (100.0%) |
| ODFA 2015C Premium | 0 | 2,262 | (2,262) | (100.0%) |
| ODFA 2017A Premium | 720,500 | 747,268 | (26,768) | (3.6%) |
| ODFA 2018A Premium | 239,939 | 248,534 | (8,595) | (3.5%) |
| Total Outstanding Debt | \$48,197,253 | \$50,877,292 | (\$2,680,039) | (5.3%) |

Economic Outlook

Rose State College operates in an environment that is strongly influenced by several external elements, each providing its own impact on the College and its operations.

The condition of the local economy heavily influences the decision and ability to set tuition and fee rates. However, raising tuition and fees charged to students has been necessary to ensure continued excellence in instruction and facilities. For FY 2020, in total, the College increased tuition and mandatory fees by \$7.05 per credit hour or 4.9% making the cost for a resident student \$151.67 per credit hour. For FY 2021, after receiving a \$644 thousand or 4.0% reduction in state appropriations, the College decided to increase tuition and fees 4.9% or \$7.50 per credit hour making the cost for a resident student \$159.17. Decisions to increase tuition and fees are made after weighing the availability of appropriated state support, students' ability to pay higher rates and the projected cost of providing academic instruction and necessary student services. Controlling the students' cost to attend college is one of the guiding principles of the College's Board of Regents and the College management.

The condition of the state and local economy also directly impacts college enrollment. Many high school seniors and adult workers must decide whether to, or how to, pursue higher education while also being in the workforce. The pandemic has curbed growth in the local economy, in the short run. However, as the economy has opened back up, after the quarantine, there are opportunities to find jobs locally. With the pandemic, the switch to all virtual instruction as some schools and continued uncertainty about the strength of the economy, the full impact of the pandemic cannot be assessed. In FY20 the College experienced a decline in credit hours produced of 2.8% extending the FY19 enrollment decline of 5.2%. Following guidance from national academic literature and consultation with other state schools, the budget for FY21 was built assuming a 10% reduction in credit hours produced. Fortunately, the fall semester has only experienced a 4% reduction in credit hour production, after the decision was made by management to adjust instructional modalities thereby creating more flexibility for students to attend lectures in-person or virtually while mitigating the possibility of contracting the virus. Opportunities for enrollment expansion continue to be explored and implemented as feasibility proves to be strong. For example, the College is testing the impact of partnerships with technology centers and other higher education institutions in the area of aerospace training and education. It is hoped that collaborations will help the community see that the College is an avenue for workforce training as well as traditional education. The College continues to

expand other external partnerships such as becoming the charter sponsor for Dove Schools in Oklahoma County. Such partnerships will benefit the institution financially and with additional perspective students.

Management continues to improve the campus aesthetics and student services with the completion of two new construction projects in early FY21. The new second phase of housing opened in August 2020 with a new building and new room configuration offering students apartment style living with multiple double occupancy bedrooms in each unit. This allows for a more affordable price point for apartment rental on campus. The building is fully occupied for the Fall semester. The building was financed using a public-private partnership where the College leases the building from the developer and makes lease payments from collected rent. The new student union building will open in late October and will provide students with a place to congregate, get food service and have enrollment related offices centrally located to simplify the process of applying for admission, receiving academic advisement, enrolling, and paying student accounts all in one area. The building was financed through the Master Lease program run by the Oklahoma State Regents for Higher Education utilizing bonds sold by the Oklahoma Development Finance Authority. Management believes that these efforts will help with student recruitment and retention.

Property values continue to be firm with areas of commercial expansion in the area providing a secure revenue stream for the Tech District's ad valorem tax base. The Ticket to Rose program, funded with ad valorem tax collections, is a strong incentive for local high school seniors to enroll at Rose State College.

The College is heavily impacted by the state's legislative and political environment due to the strong reliance on legislated appropriations to fund operations. For FY20, base support from the state was increased \$439 thousand or 2.8% to fund a dedicated pay raise for faculty members. However, for fiscal year 2021, state appropriations were cut \$644 thousand or 4%. Because of the pandemic and its effects on oil and gas production, the State's revenue collections have been slightly lower than projected. Although funding is still secure, any further downturn in the economy will increase the likelihood of mid-year revenue failures at the state level and a decrease in support provided to the College. Management continues to monitor the State's collections so it can react quickly, if necessary, to protect the operations of the College.

Given students' reliance on Federal financial aid and the school's opportunities for Federal grant programs, the national political environment also has a direct influence on the College. Discussions on funding priorities and changes to regulations for student financial aid, loans and grants could have a material economic effect on the school. The College has benefited from CARES Act emergency stimulus funding but further assistance from the federal government is not likely.

Overall, the management of Rose State College believes the institution to be in solid financial condition, even as it faces all of these challenges, and is committed to maintaining that position.

Contacting the College's Financial Management

This financial report is designed to provide our citizens, taxpayers, customers, investors and creditors with a general overview of the College's finances and to show the College's accountability for the money it receives. If you have questions about this report or need additional financial information, contact the Executive Vice President at Rose State College, 6420 S. E. 15th Street, Midwest City, Oklahoma, 73110.

Rose State College
Statement of Net Position
June 30, 2020

| | Rose State College | Rose State College Foundation Inc. |
|---|-------------------------------|---|
| ASSETS | | |
| Current assets: | | |
| Cash and cash equivalents | \$ 26,334,748 | \$ 623,130 |
| Restricted: | | |
| Cash and cash equivalents | 5,094,640 | - |
| Investments | - | 1,500,486 |
| Restricted investments | 3,261,847 | - |
| Accounts receivable, net | 1,492,054 | - |
| Federal and state grants receivable | 134,503 | - |
| Delinquent ad valorem property taxes receivable | 378,000 | - |
| Accrued interest receivable | 22,883 | - |
| Prepaid expenses | 5,665 | - |
| Total current assets | <u>36,724,340</u> | <u>2,123,616</u> |
| Noncurrent assets: | | |
| Restricted: | | |
| Cash and cash equivalents | 3,938,182 | - |
| Accounts receivable | 36,963 | - |
| Restricted net OPEB asset | 289,523 | - |
| Deposits held in escrow | 938,100 | - |
| Capital assets, net | <u>77,370,889</u> | <u>2,870,000</u> |
| Total noncurrent assets | <u>82,573,657</u> | <u>2,870,000</u> |
| Total assets | <u>119,297,997</u> | <u>4,993,616</u> |
| DEFERRED OUTFLOWS | | |
| Deferred outflows related to OPEB | 214,140 | - |
| Deferred outflows related to pensions | <u>6,385,330</u> | <u>-</u> |
| Total deferred outflows | <u>6,599,470</u> | <u>-</u> |
| LIABILITIES | | |
| Current liabilities: | | |
| Accounts payable and accrued liabilities | 3,072,262 | 27,998 |
| Accrued compensated absences | 1,031,991 | - |
| Interest payable | 202,802 | - |
| Unearned revenue | 873,446 | - |
| Room deposits payable | 43,335 | - |
| Current maturities of long-term debt | 2,592,415 | - |
| Deposits held in custody for others | <u>565,517</u> | <u>-</u> |
| Total current liabilities | <u>8,381,768</u> | <u>27,998</u> |
| Noncurrent liabilities: | | |
| Accrued compensated absences | 126,563 | - |
| Total OPEB liability | 1,312,500 | - |
| Net pension obligation | 30,991,385 | - |
| Long-term debt | <u>45,604,838</u> | <u>-</u> |
| Total noncurrent liabilities | <u>78,035,286</u> | <u>-</u> |
| Total liabilities | <u>86,417,054</u> | <u>27,998</u> |
| DEFERRED INFLOWS | | |
| Bookstore service concession arrangement | 71,084 | - |
| Gain on debt refinancing | 2,634,608 | - |
| Deferred inflows related to OPEB | 170,223 | - |
| Deferred inflows related to pensions | <u>5,294,298</u> | <u>-</u> |
| Total deferred inflows | <u>8,170,213</u> | <u>-</u> |
| NET POSITION | | |
| Net investment in capital assets | 30,536,173 | - |
| Restricted nonexpendable - endowment | - | 4,602,548 |
| Restricted expendable for: | | |
| Scholarships | 7,300,414 | - |
| Loans | 6,560 | - |
| Capital projects | 5,606,635 | - |
| Debt service | 3,419,628 | - |
| OPEB | 171,023 | - |
| Unrestricted (deficit) | <u>(15,730,233)</u> | <u>363,070</u> |
| Total net position | <u>\$ 31,310,200</u> | <u>\$ 4,965,618</u> |

See notes to financial statements.

Rose State College
Statement of Revenues, Expenses and Changes in Net Position
Year Ended June 30, 2020

| | Rose State College | Rose State College Foundation Inc. |
|---|-------------------------------|---|
| Operating Revenues | | |
| Tuition and fees, net | \$ 5,870,999 | \$ - |
| Federal grants and contracts | 1,732,900 | - |
| State and private grants and contracts | 128,261 | - |
| Sales and services of auxiliary enterprises, net | 2,543,681 | - |
| Contributions and other revenue | - | 461,434 |
| Other operating revenues | 327,269 | - |
| Total operating revenues | <u>10,603,110</u> | <u>461,434</u> |
| Operating Expenses | | |
| Compensation and benefits | 30,645,654 | - |
| Contractual services | 3,339,549 | - |
| Supplies and materials | 2,498,418 | - |
| Scholarships and fellowships | 3,706,543 | 197,531 |
| Communications | 162,663 | - |
| Depreciation | 4,121,481 | - |
| Utilities | 1,087,521 | - |
| Other | 1,767,228 | 757,190 |
| Total Operating Expenses | <u>47,329,057</u> | <u>954,721</u> |
| Operating income (loss) | <u>(36,725,947)</u> | <u>(493,287)</u> |
| Non-Operating Revenues (Expenses) | | |
| State appropriations | 16,973,189 | - |
| Federal grants | 10,635,533 | - |
| State grants | 1,384,014 | - |
| OTRS on-behalf contributions | 1,609,518 | - |
| Charter school revenue, net of transfers (Note 8) | 1,812,642 | - |
| Ad valorem taxes | 12,849,757 | - |
| Academic support for the Mid-Del Area Vocational Technical school | (5,322,272) | - |
| Investment revenue | 536,672 | 12,619 |
| Interest on capital asset-related debt | (1,612,804) | - |
| Net non-operating revenue (expenses) | <u>38,866,249</u> | <u>12,619</u> |
| Income (loss) before other revenues, expenses, gains, losses and transfers | 2,140,302 | (480,668) |
| Capital appropriations - state | 772,011 | - |
| OCIA debt service on-behalf payments | 632,927 | - |
| Increase (Decrease) in Net Position | <u>3,545,240</u> | <u>(480,668)</u> |
| Net Position, Beginning of Year | <u>27,764,960</u> | <u>5,446,286</u> |
| Net Position, End of Year | <u>\$ 31,310,200</u> | <u>\$ 4,965,618</u> |

See notes to financial statements

Rose State College
Statement of Cash Flows
Year Ended June 30, 2020

| | Rose State College |
|---|-------------------------------|
| Operating Activities | |
| Tuition and fees | \$ 6,071,645 |
| Grants and contracts | 1,899,289 |
| Payments to suppliers | (11,286,819) |
| Payments to employees | (28,867,302) |
| Auxiliary enterprises sales and services | 2,569,161 |
| Other operating receipts | 324,582 |
| Net cash provided by (used in) operating activities | <u>(29,289,444)</u> |
| Noncapital Financing Activities | |
| State appropriations | 16,973,189 |
| Non-operating grants | 12,019,547 |
| Charter school revenue | 60,961,166 |
| Charter school transfers | (59,148,524) |
| Ad valorem taxes received | 10,646,164 |
| Academic support for the Mid-Del Area Vocational Technical school | (5,094,749) |
| Federal direct student loans receipts | 7,004,525 |
| Federal direct student loans disbursements | (7,004,525) |
| Net cash provided by noncapital financing activities | <u>36,356,793</u> |
| Capital and Related Financing Activities | |
| Purchases of capital assets | (12,651,429) |
| Deposits held in escrow | (312,700) |
| Proceeds from sale of restricted investments | 9,693,775 |
| Principal paid on capital leases and bonds | (2,301,166) |
| Interest paid on capital leases and bonds | (1,525,670) |
| Capital appropriations – state | 772,011 |
| Ad valorem taxes received for debt service | 2,163,638 |
| Net cash used in capital and related financing activities | <u>(4,161,541)</u> |
| Investing Activities | |
| Investment income received | <u>542,773</u> |
| Net cash provided by (used in) investing activities | <u>542,773</u> |
| Net Decrease in Cash and Cash Equivalents | 3,448,581 |
| Cash and Cash Equivalents, Beginning of Year | <u>31,918,989</u> |
| Cash and Cash Equivalents, End of Year | <u>\$ 35,367,570</u> |

(continued)

Rose State College
Statement of Cash Flows
Year Ended June 30, 2020
(Continued)

| | Rose State College |
|---|-------------------------------|
| Reconciliation of Cash and Cash Equivalents to the Statement of Net Position | |
| Current assets | |
| Cash and cash equivalents | \$ 26,334,748 |
| Restricted cash and cash equivalents | 5,094,640 |
| Noncurrent assets | |
| Restricted cash and cash equivalents | <u>3,938,182</u> |
| | <u><u>\$ 35,367,570</u></u> |
| Reconciliation of Operating Income (Loss) to Net Cash Provided by (Used in) Operating Activities | |
| Operating income (loss) | \$ (36,725,947) |
| Depreciation expense | 4,121,481 |
| OTRS on-behalf contributions | 1,609,518 |
| Changes in operating assets, deferred outflows, liabilities, and deferred inflows: | |
| Receivables, net | 179,838 |
| Deferred outflows related to pensions and OPEB | (129,766) |
| Restricted net OPEB asset | 39,577 |
| Prepaid expenses | 848 |
| Accounts payable and accrued liabilities | 1,274,255 |
| Accrued compensated absences | 59,194 |
| Unearned revenue | 65,346 |
| Room deposits payable | 16,383 |
| Total OPEB liability | 260,059 |
| Net pension obligation | 213,200 |
| Deferred inflows related to pensions and OPEB | <u>(273,430)</u> |
| Net Cash Provided by (Used in) Operating Activities | <u><u>\$ (29,289,444)</u></u> |
| Noncash Investing, Noncapital Financing and Capital and Related Financing Activities: | |
| Interest on capital debt paid by state agency on behalf of the College | \$ 294,222 |
| Principal on capital debt paid by state agency on behalf of the College | \$ 338,705 |
| Change in accounts payable for capital assets | \$ 1,079,716 |

See notes to financial statements.

Rose State College
Statement of Fiduciary Net Position
June 30, 2020

ASSETS

| | |
|---------------------------|-------------------|
| Cash and cash equivalents | \$ 498,799 |
| Total assets | <u>\$ 498,799</u> |

LIABILITIES

| | |
|-------------------|-------------------|
| Due to OKHEEI | \$ 498,799 |
| Total liabilities | <u>\$ 498,799</u> |

See notes to financial statements.

Rose State College
Notes to Financial Statements
June 30, 2020

Note 1: Summary of Significant Accounting Policies

Nature of Institution

Rose State College (the "College") is a two-year college operating under the jurisdiction of a Board of Regents and the Oklahoma State Regents for Higher Education and is a component unit of the State of Oklahoma. Major federally-funded student financial aid programs in which the College participates include the Federal Pell Grant, Federal Supplemental Educational Opportunity Grant, and Federal Work Study programs. Unsecured credit is extended to students.

Reporting Entity

In accordance with Governmental Accounting Standards Board (GASB) Statement No. 61, *The Financial Reporting Entity: Omnibus – an amendment of GASB statements No. 14 and No. 34*, the Rose State College Technical Area Education District (the "District") is presented in the College's financial statements as a blended component unit because the District's governing body is the same as the governing body of the College, and the District provides services almost entirely to the College, which is the primary government. Separate financial statements of the District are prepared and may be obtained by contacting the College's Office of Administrative Services.

Rose State College Foundation, Inc. (the "Foundation") is a legally separate, tax-exempt, not-for-profit organization formed under the provisions of the Oklahoma Nonprofit Corporations Act. The Foundation's mission and principal activities are to promote the educational and cultural interest of the College and to enhance higher education in eastern Oklahoma County, Oklahoma. The Foundation is considered a component unit of the College and is discretely presented in the College's financial statements. Separate financial statements of the Foundation are prepared and may be obtained by contacting the Foundation's Executive Director.

The College authorizes the Foundation to solicit contributions on its behalf. In the absence of donor restrictions, the Foundation has discretionary control over the amounts and timing of its distributions to the College. During the year ended June 30, 2020, the Foundation provided the College \$197,531 in scholarships, awards, and other program support.

The College, District, and Foundation all have a fiscal year end of June 30.

Rose State College
Notes to Financial Statements
June 30, 2020

Note 1: Summary of Significant Accounting Policies (Continued)

Basis of Accounting and Presentation

The financial statements of the College have been prepared on the accrual basis of accounting. Revenues, expenses, gains, losses, assets, and liabilities from exchange and exchange-like transactions are recognized when the exchange transaction takes place while those from government-mandated nonexchange transactions (principally federal and state grants and state appropriations) are recognized when all applicable eligibility requirements are met, and those from imposed nonexchange transactions (ad valorem taxes) are recognized in the period for which the taxes are levied. Internal activity and balances are eliminated in preparation of the financial statements unless they related to services provided and used internally. Operating revenues and expenses include exchange transactions and program-specific, government-mandated nonexchange transactions. Government-mandated nonexchange transactions that are not program specific (such as state appropriations), imposed nonexchange transactions, investment income, and interest on capital asset related debt are included in nonoperating revenues and expenses. When an expense is incurred that can be paid using either restricted or unrestricted resources, the College's policy is to first apply the expense towards restricted resources, and then toward unrestricted resources.

Use of Estimates

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues, expenses, and other changes in net position during the reporting period. Actual results could differ from those estimates.

Cash Equivalents

The College considers all liquid investments with original maturities of three months or less to be cash equivalents. At June 30, 2020, cash equivalents consisted primarily of pooled funds held by the Oklahoma State Treasurer or Office of Management and Enterprise Services and money market mutual funds on deposit with a trustee.

Restricted Cash and Investments

Cash or cash equivalents that are externally restricted to make debt service payments, maintain sinking or reserve funds, purchase capital or other noncurrent assets, or provide scholarships or loans are classified as restricted assets in the statement of net position.

Rose State College
Notes to Financial Statements
June 30, 2020

Note 1: Summary of Significant Accounting Policies (Continued)

Investments and Investment Income

The College accounts for its investments at fair value based on quoted market prices.

Investment income consists of interest income earned from deposits in money market savings, interest-bearing checking accounts and money market funds.

Ad Valorem Property Taxes

Pursuant to Oklahoma statutes, the District may cause taxes to be levied against all taxable property in the taxing district. Certain tax levies have been approved by the voters of the taxing district and are utilized for operational purposes, capital projects, and to service certain debt of the District.

Annually, an Estimate of Needs report is submitted to the County Excise Board to determine the ad valorem tax levy. The county assessor is required to file a tax roll report on or before October 1 each year with the county treasurer indicating the net assessed valuation of all real, personal, and public service property (public service property assessed valuations are determined by the Oklahoma Tax Commission). Ad valorem tax is levied each October 1 on the assessed valuation of nonexempt real property located in the District as of the preceding January 1, the assessment date. Ad valorem taxes are due and become a legally enforceable lien on October 1 following the levy date, although they may be paid in two equal installments (if the first installment is paid prior to January 1, the second installment is not delinquent until April 1). Ad valorem taxes are collected by the county treasurer and are subsequently remitted to the District.

The College is subject to ad valorem tax abatements granted by the State of Oklahoma in accordance with the Oklahoma Constitution, Article X Section 6B for qualifying manufacturing concerns.

Under this program, a five-year ad valorem tax exemption exempts all real and personal property that is necessary for the manufacturing of a product and facilities engaged in research and development which meet the requirements set by the Oklahoma Constitution and statutes. In exchange for the five-year exemption, qualifying manufacturing concerns must incur investment costs of \$250,000 or more for construction, acquisition, or expansion of a manufacturing facility. In addition, there are general minimum payroll requirements that must be met and the qualifying manufacturing concern must offer a basic health benefit plan to all full-time employees within 180 days of employment.

The College had \$140,910 of ad valorem taxes abated under this program for the fiscal year ended June 30, 2020.

The State has an Ad Valorem Reimbursement Fund in accordance with Title 62 O.S. Section 193 that is used to reimburse the College for the loss of revenue. Contributions to this fund come from a dedicated tax stream comprised of one percent of net state personal and corporate income tax revenues. The College received \$122,979 during fiscal 2019 for payment of the 2018 reimbursement claim and has an outstanding, unpaid claim of \$173,832 of reimbursement from the State as of June 30, 2020.

Rose State College
Notes to Financial Statements
June 30, 2020

Note 1: Summary of Significant Accounting Policies (Continued)

Student Accounts Receivable

Student accounts receivable are stated at the amount billed to the students less applied scholarships and loan proceeds. The College provides an allowance for doubtful accounts, which is based upon a review of outstanding receivables and historical collection information. Tuition is generally due at the beginning of the semester. Late payment fees are assessed throughout the semester. For further information regarding student accounts receivables please see Note 3.

Capital Assets

Capital assets are recorded at cost at the date of acquisition or fair value at the date of donation, if acquired by gift. The College's capitalization policy includes all items with a unit cost of \$5,000 or more and an estimated useful life of greater than one year. Depreciation is computed using the straight-line method over the estimated useful life of each asset. Assets under capital lease obligations are depreciated over the shorter of the lease term or their respective estimated useful life. The following estimated useful lives are being used by the College and the District:

| | |
|--------------------------------------|---------------|
| Land improvements and infrastructure | 20 – 30 years |
| Buildings and improvements | 20 – 40 years |
| Furniture, fixtures, and equipment | 3-7 years |
| Library materials | 7 years |

Compensated Absences

College policies permit most employees to accumulate vacation and sick leave benefits that may be realized as paid time off or, in limited circumstances, as a cash payment. The expense and related liability are recognized as the vacation benefits are earned, whether the employee is expected to realize the benefit as paid time off or as a cash payment. Sick leave benefits expected to be realized as paid time off are recognized as expense when the time off occurs and no liability is accrued for such benefits that employees have earned but not yet realized. Compensated absence liabilities are computed using the regular pay and termination pay rates in effect at the statement of net position date plus an additional amount for compensation-related payments such as social security and Medicare taxes computed using rates in effect at that date.

Unearned Revenue

Unearned revenue represents unearned student tuition and fees and advances on grants and contract awards for which the College has not met all of the applicable eligibility requirements.

Rose State College
Notes to Financial Statements
June 30, 2020

Note 1: Summary of Significant Accounting Policies (Continued)

Net Position

Net position of the College is classified in three components. Net investment in capital assets consists of capital assets net of accumulated depreciation, and reduced by the outstanding balances of borrowings used to finance the purchase or construction of those assets. Restricted expendable net position is noncapital assets that must be used for a particular purpose as specified by creditors, grantors, or donors external to the College, including amounts deposited with the revenue bond trustee as required by the bond indenture and cash deposits as required by the District's building bond resolution. The Foundation's restricted nonexpendable net position is noncapital assets, such as permanent endowments, that are required to be maintained in perpetuity as specified by parties external to the Foundation. Unrestricted net position is the remaining assets less remaining liabilities that do not meet the definition of invested in capital assets, net of related debt, or restricted expendable or nonexpendable.

Fiduciary Funds

Fiduciary Funds are used to report assets held in a trustee or agency capacity for third parties and therefore are not available to support College programs. The reporting focus is net position and changes in net position and uses accounting principles similar to proprietary funds.

Agency Funds are used to report resources held by the College in a purely custodial capacity (assets equal liabilities). Agency fund assets and liabilities are recognized using the accrual basis of accounting. The College has one agency fund for the Oklahoma Higher Education Employee Interlocal Group (OKHEEI).

Deferred Outflows and Deferred Inflows of Resources

Deferred outflows and deferred inflows are the consumption and the acquisition, respectively, of net position by the College that is applicable to a future reporting period. The College's deferred outflows of resources were comprised of changes related to pension and OPEB obligations that are applicable to future reporting periods. The College's deferred inflows of resources were comprised of revenues from the bookstore contract service concession arrangement, gains on debt refinancing and amounts related to OPEB and pension obligations related to experience and investments that are applicable to future reporting periods.

Rose State College
Notes to Financial Statements
June 30, 2020

Note 1: Summary of Significant Accounting Policies (Continued)

Classification of Revenues

The College has classified its revenues as either operating or non-operating 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 allowances, (2) sales and services of auxiliary enterprises, and (3) operating grants.

Nonoperating Revenues – Non-operating revenues include activities that have the characteristics of nonexchange transactions, such as gifts and contributions, and other revenue sources that are defined as non-operating revenues by GASB No. 9, *Reporting Cash Flows of Proprietary and Nonexpendable Trust Funds and Government Entities That Use Proprietary Fund Accounting* and GASB No. 34, such as state appropriations, ad valorem taxes, charter school fees, and investment income.

Scholarship Discounts and Allowances

Student tuition and fee revenues, and certain other revenues from students, are reported net of scholarship discounts and allowances in the statements of revenues, expenses, and changes in net position. Scholarship discounts and allowances are the difference between the stated charge for goods and services provided by the College 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 non-operating revenues in the College's financial statements. To the extent that revenues from such programs are used to satisfy tuition and fees and other student charges, the College has recorded scholarship discounts and allowances. The scholarship discounts and allowances on tuition and fees for the year ended June 30, 2020 was \$10,233,919.

Income Taxes

The College and District, as political subdivisions of the state of Oklahoma, are exempt from federal income taxes under Section 115(1) of the Internal Revenue Code, as amended. However, the College and District may be subject to federal income tax on unrelated business income under Internal Revenue Code Section 511(a)(2)(B).

The Foundation is exempt from income taxes under Section 501 of the Internal Revenue Code and a similar provision of state law. However, the Foundation is subject to federal income tax on any unrelated business taxable income.

Pensions and OPEB

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

Rose State College
Notes to Financial Statements
June 30, 2020

Note 1: Summary of Significant Accounting Policies (Continued)

New Accounting Pronouncements adopted in 2020

GASB 95 was issued in May 2020 and the primary objective of this Statement is to provide temporary relief to governments and other stakeholders in light of the COVID-19 pandemic. That objective is accomplished by postponing the effective dates of certain provisions in Statements and Implementation Guides that first became effective or are scheduled to become effective for periods after June 15, 2018, and later. The College adopted GASB 95 for the June 30, 2020, reporting year.

Note 2: Deposits, Pooled Funds, Investments, and Investment Income

Custodial credit risk is the risk that in the event of a bank failure, a government's deposits may not be returned to it. The College's deposit policy for custodial credit risk requires compliance with the provisions of state law.

State law requires collateralization of all deposits with federal depository insurance; bonds and other obligations of the U.S. Treasury, U. S. agencies or instrumentalities, or the State of Oklahoma; bonds of any city, county, school district, or special road district of the State of Oklahoma; or a surety bond having an aggregate value at least equal to the amount of the deposits.

At June 30, 2020, none of the District's balances of \$14,420,725 were exposed to custodial credit risk as a result of being uninsured and uncollateralized.

The College maintains its cash in pooled funds held by the Oklahoma State Treasurer or Office of Management and Enterprise Services (OMES). By State statute, the State Treasurer is required to ensure that all state funds are either insured by the Federal Deposit Insurance Corporation, collateralized by securities held by the cognizant Federal Reserve Bank, or invested in U.S. government obligations. The College's cash held by the State Treasurer is pooled with the funds of other state agencies and then, in accordance with statutory limitations, placed in banks or invested as the treasurer may determine.

There is \$21,028,608 in cash and cash equivalents on deposit with the State Treasurer as of June 30, 2019, of which \$498,799 represents amounts held in agency funds. Of the \$21,028,608 in cash and cash equivalents on deposit with the State Treasurer, \$12,142,865 represents the amount held within OK INVEST, an internal investment pool, and \$6,000 represents change funds. 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 that 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's daily cash flow requirements. Guidelines in the State Treasurer's Investment Policy address credit quality requirements, diversification percentages, and the types and maturities of allowable investments. The specifics regarding these policies can be found on the State Treasurer's website at <http://www.ok.gov/treasurer/>. Based on an evaluation of the use and purpose of the College's participation in the internal investment pool, the amount on deposit with OK INVEST is treated as a demand account and reported as a cash equivalent.

Rose State College
Notes to Financial Statements
June 30, 2020

Note 2: Deposits, Pooled Funds, Investments, and Investment Income (Continued)

Summary of Carrying Values

The carrying values of deposits and invested funds shown above are included in the statement of net position and statement of fiduciary net position as follows at June 30, 2020:

| | |
|-----------------------|----------------------|
| Carrying Value | |
| Deposits | \$ 23,717,503 |
| Invested pooled funds | 12,142,865 |
| Change funds | <u>6,000</u> |
| | <u>\$ 35,866,368</u> |

Investments

The College may legally invest in direct obligations of the U.S. Treasury and the State of Oklahoma.

Interest Rate Risk – Interest rate risk is the risk that changes in interest rates will adversely affect the fair value of an investment. The pooled funds held by the state treasurer or OMES and the money market mutual funds are presented with a maturity of less than one year because they are redeemable in full immediately.

Investment Credit Risk – Credit risk is the risk that the issuer or other counterparty to an investment will not fulfill its obligation. The College is authorized to invest in obligations of the United States government, its agencies and instrumentalities; certificates of deposit or other evidences of deposit at federally insured depository institutions approved by the Board of Regents.

Fair Value Measurement: GASB establishes a fair value hierarchy for valuation inputs that gives the highest priority to quoted prices in active markets for identical assets or liabilities and the lowest priority to unobservable inputs. The fair value hierarchy is as follows:

- Level 1 inputs to the valuation methodology are quoted prices (unadjusted) for identical assets or liabilities in active markets.
- Level 2 inputs to the valuation methodology include quoted prices for similar assets and liabilities in active markets and inputs that are observable for the asset and liability, either directly or indirectly, for substantially the full term of the asset or liability.
- Level 3 inputs consist of unobservable inputs which are used when observable inputs are unavailable and reflect an entity's own assumptions about the assumptions that the market participants would use in pricing the assets or liabilities. Real Estate held as investments would be valued as level 3 inputs.

Rose State College
Notes to Financial Statements
June 30, 2020

Note 2: Deposits, Pooled Funds, Investments, and Investment Income (Continued)

At June 30, 2020, investments consisted of funds received through the OSRHE ODFA Master Lease Program that are restricted for specific capital projects.

The following is a summary of financial assets measured at fair value on a recurring basis as of June, 30, 2020:

| Types of Investment | Fair Value Hierarchy | Credit Rating | Maturity | Fair Value |
|---|-------------------------|------------------|---------------|---------------------|
| Federated Government Obligations Tax Managed Fund | Level 1 | AAAm | Less than One | \$ 3,258,921 |
| Cavalan Hill U.S. Treasury Admin #0002 | Level 1 | AAAm | Less than One | 2,926 |
| Total investments | | | | <u>\$ 3,261,847</u> |

Investment Income

Investment income of \$536,672 consisted primarily of interest income for the year ended June 30, 2020.

Note 3: Student Accounts Receivable

The College's accounts receivable relate primarily to tuition and enrollment fee charges to students and charges for auxiliary enterprise services provided to students, faculty, and staff. Accounts receivable consisted of the following at June 30, 2020:

| | |
|--|---------------------|
| Student tuition and fees | \$ 4,042,182 |
| Auxiliary enterprises and other operating activities | <u>364,872</u> |
| | 4,407,054 |
| Less: allowance for doubtful accounts | <u>(2,915,000)</u> |
| Net accounts receivable | <u>\$ 1,492,054</u> |

Rose State College
Notes to Financial Statements
June 30, 2020

Note 4: Capital Assets

Capital asset activity for the year ended June 30, 2020 was:

| | Beginning Balance | Additions | Disposals | Transfers | Ending Balance |
|---|----------------------|---------------------|-------------|-------------|----------------------|
| Capital assets, not being depreciated | | | | | |
| Land | \$ 3,617,031 | \$ - | \$ - | \$ - | \$ 3,617,031 |
| Construction In progress | 6,848,693 | 11,518,067 | - | - | 18,366,760 |
| Total capital assets, not being depreciated | 10,465,724 | 11,518,067 | - | - | 21,983,791 |
| Other capital assets | | | | | |
| Building and improvements | 95,130,098 | 374,014 | - | - | 95,504,112 |
| Land improvements and infrastructure | 1,272,361 | 44,323 | - | - | 1,316,684 |
| Furniture fixtures and equipment | 19,093,300 | 467,850 | 63,915 | - | 19,497,235 |
| Library materials | 6,889,156 | 247,175 | 27,437 | - | 7,108,894 |
| Total other capital assets | 122,384,915 | 1,133,362 | 91,352 | - | 123,426,925 |
| Less accumulated depreciation | | | | | |
| Buildings and improvements | 41,935,633 | 2,584,002 | - | - | 44,519,635 |
| Land improvements and infrastructure | 314,844 | 64,390 | - | - | 379,234 |
| Furniture fixtures and equipment | 15,915,960 | 1,158,517 | 63,915 | - | 17,010,562 |
| Library materials | 5,843,261 | 314,572 | 27,437 | - | 6,130,396 |
| Total accumulated depreciation | 64,009,698 | 4,121,481 | 91,352 | - | 68,039,827 |
| Other capital assets, net | 58,375,217 | (2,988,119) | - | - | 55,387,098 |
| Total cost of capital assets | 132,850,639 | 12,651,429 | 91,352 | - | 145,410,716 |
| Less accumulated depreciation | 64,009,698 | 4,121,481 | 91,352 | - | 68,039,827 |
| Capital assets, net | \$ 68,840,941 | \$ 8,529,948 | \$ - | \$ - | \$ 77,370,889 |

At June 30, 2020, the cost and related accumulated depreciation of assets held under capital lease obligations were as follows:

| | Buildings | CIP |
|--------------------------------|----------------------|----------------------|
| Cost | \$ 26,440,554 | \$ 17,244,263 |
| Less: accumulated depreciation | (5,223,343) | - |
| | <u>\$ 21,217,211</u> | <u>\$ 17,244,263</u> |

Rose State College
Notes to Financial Statements
June 30, 2020

Note 5: Long-term Liabilities

The following is a summary of long-term obligation transactions for the year ended June 30, 2020:

| | Beginning Balance | Additions | Deductions | Ending Balance | Current Portion |
|-------------------------------------|----------------------|--------------|----------------|-------------------|--------------------|
| Bonds and Capital Leases | | | | | |
| 2013 Building Bonds Payable | \$ 16,910,000 | \$ - | \$ (1,690,000) | \$ 15,220,000 | \$ 1,690,000 |
| 2014B OCIA lease obligation | 31,613 | - | (31,613) | - | - |
| 2014C OCIA lease obligation | 6,973,155 | - | (307,092) | 6,666,063 | 322,635 |
| ODFA 2014C | 33,333 | - | (33,333) | - | - |
| ODFA 2015C | 52,250 | - | (52,250) | - | - |
| ODFA 2017A | 16,610,167 | - | (347,250) | 16,262,917 | 361,667 |
| ODFA 2018A | 9,266,167 | - | (178,333) | 9,087,834 | 182,750 |
| ODFA 2009A Premium | 19 | - | (19) | - | - |
| ODFA 2014C Premium | 2,524 | - | (2,524) | - | - |
| ODFA 2015C Premium | 2,262 | - | (2,262) | - | - |
| ODFA 2017A Premium | 747,268 | - | (26,768) | 720,500 | 26,768 |
| ODFA 2018A Premium | 248,534 | - | (8,595) | 239,939 | 8,595 |
| Total Bonds and Capital Leases | 50,877,292 | - | (2,680,039) | 48,197,253 | 2,592,415 |
| Other noncurrent liabilities | | | | | |
| Accrued compensated absences | 1,127,829 | 1,031,991 | (1,001,266) | 1,158,554 | 1,031,991 |
| Total noncurrent liabilities | \$ 52,005,121 | \$ 1,031,991 | \$ (3,681,305) | \$ 49,355,807 | \$ 3,624,406 |

2013 Building Bonds Payable

The District's Building Bonds of 2013, which were issued in August 2013, are general obligation bonds the proceeds of which were used to provide funds for the purpose of making capital improvements and purchasing equipment within and for the benefit of the District. Interest is payable semi-annually on August 1 and February 1 at rates between 0.05% and 7.0%. Principal is due annually on August 1 through August 1, 2028. A continuing annual ad valorem tax levied upon all taxable property within the District area has been pledged to retire bonds and collection of such taxes and interest earned thereon is restricted for this purpose.

Debt service requirements as of June 30, 2020, on the 2013 Building Bonds are as follows:

| Year Ending June 30 | Principal | Interest | Total to be Paid |
|------------------------|----------------------|---------------------|----------------------|
| 2021 | \$ 1,690,000 | \$ 436,025 | \$ 2,126,025 |
| 2022 | 1,690,000 | 359,975 | 2,049,975 |
| 2023 | 1,690,000 | 307,163 | 1,997,163 |
| 2024 | 1,690,000 | 245,900 | 1,935,900 |
| 2025 | 1,690,000 | 182,525 | 1,872,525 |
| 2026-2029 | 6,770,000 | 180,425 | 6,950,425 |
| | <u>\$ 15,220,000</u> | <u>\$ 1,712,013</u> | <u>\$ 16,932,013</u> |

Rose State College
Notes to Financial Statements
June 30, 2020

Note 5: Long-term Liabilities (Continued)

1999/2004/2014B OCIA Lease Payable

The lease payable consists of bonds issued by the Oklahoma Capitol Improvement Authority (OCIA) to build, improve, and remodel facilities at various higher education and other institutions in Oklahoma. Funds were received from OCIA as needed to fund construction projects. The College's pro rata share of bonds has been recorded as a lease payable.

The College's lease agreement with OCIA provided for specified monthly payments to OCIA for 20 years through August 31, 2019, or until the OCIA bonds and related interest were paid. In 2004, the OCIA issued Bond Series 2004A that refunded a significant portion of the 1999A Bonds. Consequently, the amortization of the 1999A bond issue ended in 2010. The lease agreement no longer secured the 1999A Bond Issue but acted as security for the 2004A Bond Issue over the term of the lease through the year 2020. As a result, there were two amortization schedules, which have been combined, related to this one lease agreement. In 2015, the OCIA issued Bond Series 2014B that refunded the 2004A Bonds. The lease agreement no longer secures the 2004A Bond Issue but now acts as security for the 2014B Bond Issue over the term of the lease through the year 2020. The lease restructuring resulted in a reduction of principal, thus the College has recorded a credit of \$14,271 on restructuring as a deferred inflow of resources that will be amortized over a period of five years. As of June 30, 2020 the gain was fully amortized. This refinancing resulted in an aggregate difference in principal and interest between the original lease agreement and the refinanced lease agreement of \$23,406, which approximates the economic savings of the transaction. The Oklahoma State Legislature appropriates monies and makes the monthly lease payments on behalf of the College which for the year ended June 30, 2020, amounted to \$32,344. This debt was fully paid as of June 30, 2020.

2006D/2014C OCIA Lease Payable

The lease payable consists of bonds issued by the OCIA to build, improve, and remodel facilities at various higher education and other institutions in Oklahoma. Funds are received from OCIA as needed to fund construction projects. The College's pro rata share of bonds has been recorded as a lease payable.

The College's lease agreement with OCIA provides for specified monthly payments to OCIA for 30 years through August 31, 2035, or until the OCIA bonds and related interest are paid. The Oklahoma State Legislature appropriates monies and makes the monthly lease payments on behalf of the College which for the year ended June 30, 2020 amounted to \$600,583.

In 2015, the OCIA issued Bond Series 2014C that refunded the 2006D Bonds. The lease agreement no longer secures the 2006D Bond Issue but now acts as security for the 2014C Bond Issue over the term of the lease through the year 2035. The lease restructuring resulted in a reduction of principal, thus the College has recorded a credit of \$921,276 on restructuring as a deferred inflow of resources that will be amortized over a period of twenty years. As of June 30, 2020, the unamortized gain totaled \$653,056. This refinancing resulted in an aggregate difference in principal and interest between the original lease agreement and the refinanced lease agreement of \$5,587,315, which approximates the economic savings of the transaction.

Rose State College
Notes to Financial Statements
June 30, 2020

Note 5: Long-term Liabilities (Continued)

2006D/2014C OCIA Lease Payable (Continued)

The scheduled principal and interest payments related to the 2014C OCIA lease at June 30, 2020, are as follows:

| Year Ending June 30 | Principal | Interest | Total to be Paid |
|------------------------|--------------|--------------|---------------------|
| 2021 | \$ 322,635 | \$ 277,748 | \$ 600,383 |
| 2022 | 338,649 | 261,433 | 600,082 |
| 2023 | 355,134 | 246,080 | 601,214 |
| 2024 | 369,264 | 232,412 | 601,676 |
| 2025 | 382,452 | 216,285 | 598,737 |
| 2026-2030 | 2,194,389 | 802,482 | 2,996,871 |
| 2031-2035 | 2,703,540 | 280,252 | 2,983,792 |
| | \$ 6,666,063 | \$ 2,316,692 | \$ 8,982,755 |

2014C ODFA Lease Payable

In December 2014, the College entered into a 5 year lease agreement with the ODFA and OSRHE as beneficiary of a portion of the proceeds from the ODFA State Regents for Higher Education Real Property Master Lease Revenue Bonds, Series 2014C. The College financed \$374,000 (including \$29,778 in premium) to purchase new software.

Lease payments made by the College are forwarded to the trustee bank by OSRHE 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 College's future lease payments. This debt was fully paid as of June 30, 2020.

2015C ODFA Lease Payable

In December 2015, the College entered into a 5 year lease agreement with the ODFA and OSRHE as beneficiary of a portion of the proceeds from the ODFA State Regents for Higher Education Real Property Master Lease Revenue Bonds, Series 2015C. The College financed \$243,000 (including \$10,894 in premium) to purchase new software.

Lease payments made by the College are forwarded to the trustee bank by OSRHE 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 College's future lease payments. This debt was fully paid as of June 30, 2020.

Rose State College
Notes to Financial Statements
June 30, 2020

Note 5: Long-term Liabilities (Continued)

2017A ODFA Lease Payable

In June 2017, the College entered into a 30 year lease agreement with the ODFA and OSRHE as beneficiary of a portion of the proceeds from the ODFA State Regents for Higher Education Real Property Master Lease Revenue Bonds, Series 2017A. The College financed \$17,301,000 (including \$800,804 in premium) to renovate the Student Center.

Lease payments made by the College are forwarded to the trustee bank by OSRHE 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 College's future lease payments.

The scheduled principal and interest payments related to the 2017A ODFA lease at June 30, 2020, are as follows:

| Year Ending June 30 | Principal | Interest | Total to be Paid |
|------------------------|----------------------|---------------------|----------------------|
| 2021 | \$ 361,667 | \$ 601,796 | \$ 963,463 |
| 2022 | 370,333 | 590,639 | 960,972 |
| 2023 | 386,167 | 575,825 | 961,992 |
| 2024 | 400,417 | 560,379 | 960,796 |
| 2025 | 417,333 | 544,362 | 961,695 |
| 2026-2030 | 2,343,583 | 2,458,037 | 4,801,620 |
| 2031-2035 | 2,846,917 | 1,958,785 | 4,805,702 |
| 2036-2040 | 3,394,667 | 1,413,060 | 4,807,727 |
| 2041-2045 | 4,001,000 | 801,144 | 4,802,144 |
| 2046-2047 | 1,740,833 | 100,540 | 1,841,373 |
| | <u>\$ 16,262,917</u> | <u>\$ 9,604,567</u> | <u>\$ 25,867,484</u> |

2018A ODFA Lease Payable

In June 2018, the College entered into a 30 year lease agreement with the ODFA and OSRHE as beneficiary of a portion of the proceeds from the ODFA State Regents for Higher Education Real Property Master Lease Revenue Bonds, Series 2018A. The College financed \$9,446,000 (including \$257,129 in premium) to refinance the Housing capital lease for the "Village at Rose State". The lease refinancing resulted in a reduction of principal, thus the College has recorded a credit of \$2,123,514 on refinancing as a deferred inflow of resources that will be amortized over a period of thirty years. As of June 30, 2020, the unamortized gain totaled \$1,981,552. This refinancing resulted in an aggregate difference in principal and interest payments between the original lease agreement and the refinanced lease agreement of \$4,594,594 over the next 30 years and an economic gain (difference between the present values of the debt service payments of the two leases) of \$2,154,236.

Rose State College
Notes to Financial Statements
June 30, 2020

Note 5: Long-term Liabilities (Continued)

2018A ODFA Lease Payable (Continued)

Lease payments made by the College are forwarded to the trustee bank by OSRHE 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 College's future lease payments.

The scheduled principal and interest payments related to the 2018A ODFA lease at June 30, 2020, are as follows:

| Year Ending June 30 | Principal | Interest | Total to be Paid |
|------------------------|---------------------|---------------------|----------------------|
| 2021 | \$ 182,750 | \$ 357,463 | \$ 540,213 |
| 2022 | 191,667 | 350,153 | 541,820 |
| 2023 | 199,333 | 342,487 | 541,820 |
| 2024 | 204,083 | 334,513 | 538,596 |
| 2025 | 216,667 | 326,350 | 543,017 |
| 2026-2030 | 1,208,667 | 1,495,533 | 2,704,200 |
| 2031-2035 | 1,462,167 | 1,234,533 | 2,696,700 |
| 2036-2040 | 1,785,833 | 917,017 | 2,702,850 |
| 2041-2045 | 2,172,083 | 531,249 | 2,703,332 |
| 2046-2048 | 1,464,584 | 109,484 | 1,574,068 |
| | <u>\$ 9,087,834</u> | <u>\$ 5,998,782</u> | <u>\$ 15,086,616</u> |

Note 6: Retirement Plans

The College's academic and nonacademic personnel are covered by two retirement plans. The plans available to College personnel include the Oklahoma Teachers' Retirement System (OTRS) (the "System"), which is a state of Oklahoma public employees' retirement system, and an annuity plan, which is a privately administered plan. The College does not maintain the accounting records, hold the investments for, or administer these plans.

Oklahoma Teachers' Retirement System (OTRS)

Plan Description

The College, as the employer, participates in the Oklahoma Teachers Retirement Plan - a cost-sharing multiple-employer defined benefit pension plan administered by OTRS. Title 70 O. S. Sec. 17-105 defines all retirement benefits. The authority to establish and amend benefit provisions rests with the State Legislature. OTRS issues a publicly available financial report that can be obtained at www.ok.gov/TRS.

Rose State College
Notes to Financial Statements
June 30, 2020

Note 6: Retirement Plans (Continued)

Oklahoma Teachers' Retirement System (OTRS) (Continued)

Benefits Provided

OTRS provides retirement, disability, and death benefits to members of the plan.

Benefit provisions include:

- Members become 100% vested in retirement benefits earned to date after five years of credited Oklahoma service. Members who joined the System on June 30, 1992 or prior are eligible to retire at maximum benefits when age and years of creditable service total 80. Members joining the System after June 30, 1992 are eligible for maximum benefits when their age and years of creditable service total 90. Members whose age and service do not equal the eligible limit may receive reduced benefits as early as age 55, and at age 62 receive unreduced benefits based on their years of service. The maximum retirement benefit is equal to 2% of final compensation for each year of credited service.
- Final compensation for members who joined the System prior to July 1, 1992 is defined as the average salary for the three highest years of compensation. Final compensation for members joining the System after June 30, 1992 is defined as the average of the highest five consecutive years of annual compensation in which contributions have been made. The final average compensation is limited for service credit accumulated prior to July 1, 1995 to \$40,000 or \$25,000, depending on the member's election. Monthly benefits are 1/12 of this amount. Service credits accumulated after June 30, 1995 are calculated based on each member's final average compensation, except for certain employees of the two comprehensive universities. Upon the death of a member who has not yet retired, the designated beneficiary shall receive the member's total contributions plus 100% of interest earned through the end of the fiscal year, with interest rates varying based on time of service. A surviving spouse of a qualified member may elect to receive, in lieu of the aforementioned benefits, the retirement benefit the member was entitled to at the time of death as provided under the Joint Survivor Benefit Option.
- Upon the death of a retired member, the System will pay \$5,000 to the designated beneficiary, in addition to the benefits provided for the retirement option selected by the member.
- A member is eligible for disability benefits after ten years of credited Oklahoma service. The disability benefit is equal to 2% of final average compensation for the applicable years of credited service.
- Upon separation from the System, members' contributions are refundable with interest based on certain restrictions provided in the plan, or by the Internal Revenue Code (IRC).
- Members may elect to make additional contributions to a tax-sheltered annuity program up to the exclusion allowance provided under the IRC Section 403(b).

Rose State College
Notes to Financial Statements
June 30, 2020

Note 6: Retirement Plans (Continued)

Oklahoma Teachers' Retirement System (OTRS) (Continued)

Contributions

The contribution requirements of the OTRS Plan are at an established rate determined by Oklahoma Statute, as amended by the Oklahoma Legislature, and are not based on actuarial calculations. Employees are required to contribute 7% percent of their annual pay. Participating employers are required to contribute 9.50% of the employees' annual pay and an additional 7.70% for any employees' salaries covered by federal funds. A portion of the contributions received by OTRS are allocated to the Supplemental Health Insurance program, see Note 11. Contributions to the pension plan from the College were \$2,169,170. The State of Oklahoma also made on-behalf contributions to OTRS, of which \$1,609,518 was recognized by the College; these on-behalf payments did not meet the criteria of a special funding situation.

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

At June 30, 2020, the College reported a liability of \$30,991,385 for its proportionate share of the net pension liability. The net pension liability was measured as of June 30, 2019, and the total pension liability used to calculate the net pension liability was determined by an actuarial valuation as of June 30, 2019. The College's proportion of the net pension liability was based on the College's contributions received by the pension plan relative to the total contributions received by the pension plan for all participating employers as of June 30, 2019. Based upon this information, the College's proportion was 0.4683%.

For the year ended June 30, 2020, the College recognized pension expense of \$3,833,596 in compensation and benefits expense. At June 30, 2020, the College reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

| | Deferred Outflows of Resources | Deferred Inflows of Resources |
|--|-----------------------------------|----------------------------------|
| Differences between expected and actual experience | \$ 1,590,906 | \$ 1,328,073 |
| Changes of assumptions | 1,627,112 | 1,045,895 |
| Net difference between projected and actual earnings on pension plan investments | 210,183 | - |
| Changes in proportion and differences between College contributions and proportionate share of contributions | 754,023 | 2,856,256 |
| Contributions during measurement date | 33,936 | 64,074 |
| College contributions subsequent to the measurement date | 2,169,170 | - |
| Total | <u>\$ 6,385,330</u> | <u>\$ 5,294,298</u> |

Rose State College
Notes to Financial Statements
June 30, 2020

Note 6: Retirement Plans (Continued)

Oklahoma Teachers' Retirement System (OTRS) (Continued)

The \$2,169,170 reported as deferred outflows of resources related to pensions resulting from College contributions subsequent to the measurement date will be recognized as a reduction of the net pension liability in the year ended June 30, 2021. Other amounts reported as deferred outflows of resources and deferred inflows of resources related to pensions will be recognized in pension expense as follows:

Year ended June 30:

| | | |
|------|-----------|--------------------|
| 2021 | \$ | 648,550 |
| 2022 | | (1,337,136) |
| 2023 | | (575,986) |
| 2024 | | 222,924 |
| 2025 | | (36,490) |
| | <u>\$</u> | <u>(1,078,138)</u> |

Actuarial Assumptions

The total pension liability as of June 30, 2019, was determined based on an actuarial valuation prepared as of June 30, 2019 using the following actuarial assumptions:

- Actuarial Cost Method - Entry Age
- Inflation - 2.50%
- Future Ad Hoc Cost-of-living Increases - None
- Salary Increases - Composed of 3.25% inflation, including 2.50% price inflation, plus a service-related component ranging from 0.00% to 8% based on years of service.
- Investment Rate of Return – 7.50%
- Retirement Age - Experience-based table of rates based on age, service, and gender. Adopted by the Board in May 2015 in conjunction with the five year experience study for the period ending June 30, 2014.
- Mortality Rates after Retirement – Males: RP-2000 Combined Mortality Table for males with White Collar Adjustments. Generational mortality improvements in accordance with Scale BB from table's base year of 2000. Females: GRS Southwest Region Teacher Mortality Table, scaled at 105%. Generational mortality improvements in accordance with Scale BB from the table's base year of 2012.
- Mortality Rates for Active Members – RP – 2000 Employer Mortality tables, with male rates multiplied by 60% and female rates multiplied by 50%.

Rose State College
Notes to Financial Statements
June 30, 2020

Note 6: Retirement Plans (Continued)

Oklahoma Teachers' Retirement System (OTRS) (Continued)

| Asset Class | Target Asset Allocation | Long-Term Expected Real Rate of Return |
|----------------------|----------------------------|--|
| Domestic Equity | 38.5% | 7.5% |
| International Equity | 19.0% | 8.5% |
| Fixed Income | 23.5% | 2.5% |
| Real Estate** | 9.0% | 4.5% |
| Alternative Assets | 10.0% | 6.1% |
| Total | 100.00% | |

** The Real Estate total expected return is a combination of US Direct Real Estate (unlevered) and US Value added Real Estate (unlevered).

Discount Rate

A single discount rate of 7.5% was used to measure the total pension liability as of June 30, 2018. This single discount rate was based solely on the expected rate of return on pension plan investments of 7.5%. Based on the stated assumptions and the projection of cash flows, the pension plan's fiduciary net position and future contributions were projected to be available to finance all projected future benefit payments of current plan members. Therefore, the long-term expected rate of return on pension plan investments was applied to all periods of projected benefit payments to determine the total pension liability. The projection of cash flows used to determine this single discount rate assumed that plan member and employer contributions will be made at the current statutory levels and remain a level percentage of payrolls. The projection of cash flows also assumed that the State's contribution plus the matching contributions will remain a constant percent of projected member payroll based on the past five years of actual contributions.

Sensitivity of the Net Pension Liability to Changes in the Discount Rate

The following presents the net pension liability of the employers calculated using the discount rate of 7.5%, as well as what the Plan's net pension liability would be if it were calculated using a discount rate that is 1-percentage point lower (6.5%) or 1-percentage point higher (8.5%) than the current rate:

| | 1% Decrease 6.5% | Current Discount Rate 7.5% | 1% Increase 8.5% |
|----------------------------------|---------------------|-------------------------------|---------------------|
| Employers' net pension liability | \$ 43,670,247 | \$ 30,991,385 | \$ 20,384,888 |

Pension plan fiduciary net position

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

Rose State College
Notes to Financial Statements
June 30, 2020

Note 6: Retirement Plans (Continued)

Annuity Plan

All eligible employees of the College can elect to participate in a tax-deferred annuity plan (the "Plan"), a defined contribution pension plan administered by an independent fiduciary. Pension expense is recorded for the amount of the College's required contributions determined in accordance with the terms of the Plan. Contributions made by the College are subject to annual discretion by the Board of Regents. The Plan provides retirement benefits to participating employees and their beneficiaries. Benefit provisions and contribution requirements are contained in the plan document and were established and can be amended by action of the College's Board of Regents. The College's contribution rate for the year ended June 30, 2020, was 2.5% of an eligible employee's annual base salary (as defined in the plan document). Contributions made by the College during 2020 totaled approximately \$362,000.

Note 7: Academic Support for the Mid-Del Area Vocational-Technical School District I-52 (Mid-Del)

The Board of Trustees for the District entered into an inter-local agreement with the Midwest City –Del City School Board (Mid-Del) to provide financial support for instruction in specified vocational and technical programs provided at the Lewis Eubanks Technical Center (Tech Center) during fiscal year 2020. The financial support payments, from the proceeds of the ad valorem tax levies (Note 1), is to be made at an amount which is equal to 50% of total collections of the Operational, Incentive and Building millage levied for the respective fiscal year. For the year ended June 30, 2020, the District incurred \$5,322,727 of non-operating expense related to the support of the Tech Center. At June 30, 2020, the District owed Mid-Del \$626,639 which is included in accounts payable. The inter-local agreement providing the financial support is approved by the Board of Trustees for the District annually for the upcoming fiscal year and does not extend beyond the bounds of the specified fiscal year. The Board of Trustees for the District retains the right to review, modify and accept or reject any and all future inter-local agreements.

Note 8: Charter School Revenue

In 2017 the College entered into a contract with EPIC Blended Charter Schools (EPIC) in the capacity as sponsoring entity pursuant to the Oklahoma Charter School Act (Act), 70 O.S. §3-130, et seq. Pursuant to the Act the sponsor entity (the College) shall receive from the State of Oklahoma all aid for EPIC. The College shall keep 3% of only the State aid portion of the funding and will remit the remaining aid to EPIC. During fiscal year 2020, the College received and remitted the following funding:

| | |
|-------------------------------|---------------------|
| State aid | \$ 60,421,400 |
| Textbook aid | 539,766 |
| Total aid received | <u>60,961,166</u> |
| Less: Aid transferred to EPIC | <u>(59,148,524)</u> |
| Net charter school revenue | <u>\$ 1,812,642</u> |

Rose State College
Notes to Financial Statements
June 30, 2020

Note 9: Commitments and Contingencies

The College conducts certain programs pursuant to various grants and contracts that 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 College.

The College participates in the Direct Student Loan Program (the "Program"). The College is required to perform certain administrative functions under the Program. Failure to perform such functions may require the College to reimburse the loan guarantee agencies. For the year ended June 30, 2020, \$7,004,525 of Program loans were provided to the College's students.

During the ordinary course of business, the College may be subjected to various lawsuits and civil action claims. Management believes that resolution of such matters pending at June 30, 2020, will not have a material adverse impact on the College's financial position.

Note 10: Risk Management

The College is exposed to various risks of loss related to torts; theft of, damage to, and destruction of assets; errors and omissions; employee injuries and illness; and natural disasters. The College pays an annual premium to the Risk Management Division of the State of Oklahoma Department of Central Services for its tort liability, vehicle liability, property loss, and general liability insurance coverages. The College carries insurance with the State Insurance Fund for other risks of loss, including workers' compensation and employee accident and health insurance.

The College participates in the Oklahoma Higher Education Employee Interlocal Group Health Insurance Pool ("OKHEEI"). College employees are provided health insurance coverage through OKHEEI. OKHEEI is an Interlocal Cooperative Act Agency organized as a public entity risk pool health insurance program for participating Colleges and Universities in the State. The College pays monthly health insurance premiums to OKHEEI for employee health insurance coverage based on the health coverage elected by the employee and the maximum benefit provided by the College for health coverage. Amounts of premiums exceeding benefits are payable by the employee. The governing agreement for OKHEEI specifies that the pool will be self-sustaining through premiums received and with additional stop-loss coverages obtained. If health care claims exceed reserves and reinsurance coverages, additional assessments may be made to participating Colleges and Universities. As of June 30, 2020, additional assessments did not occur.

Note 11: Other Post-Employment Benefit Plans

Currently, Rose State College provides other post-employment benefits to retirees under three post-employment benefit (OPEB) plans:

1. OTRS Supplemental Health Insurance Program – a cost-sharing multiple-employer defined benefit plan administered by OTRS
2. OKHEEI OPEB Plan – a single employer defined benefit health, dental and vision care plan
3. College President's OPEB Plan – a single employer defined benefit healthcare and long-term care plan

Rose State College
Notes to Financial Statements
June 30, 2020

Note 11: Other Post-Employment Benefit Plans (Continued)

Summary of Net OPEB Obligation

| | Net OPEB Obligation (Asset) | Deferred Outflows | Deferred Inflows | OPEB Expense |
|-------------------------------|-----------------------------------|----------------------|---------------------|-------------------|
| Health Insurance Obligation | \$ 274,361 | \$ 181,188 | \$ 22,857 | \$ 20,075 |
| President's Health Obligation | 1,038,139 | - | - | 158,940 |
| OTRS OPEB Obligation (asset) | (289,523) | 32,952 | 147,366 | (39,118) |
| Total | <u>\$ 1,022,977</u> | <u>\$ 214,140</u> | <u>\$ 170,223</u> | <u>\$ 139,897</u> |

OTRS Supplement Health Insurance Program

Plan description

The College as the employer, participates in the Supplemental Health Insurance Program—a cost-sharing multiple-employer defined benefit OPEB plan administered by the Oklahoma Teachers Retirement System (OTRS). Title 74 O. S. Sec. 1316.3 defines the health insurance benefits. The authority to establish and amend benefit provisions rests with the State Legislature. OTRS issues a publicly available financial report that can be obtained at www.ok.gov/TRS

Benefits provided

OTRS pays a medical insurance supplement to eligible members who elect to continue their employer provided health insurance. The supplement payment is between \$100 and \$105 per month, remitted to the Oklahoma Higher Education Employee Interlocal Group ("OKHEEI"), provided the member has ten (10) years of Oklahoma service prior to retirement.

Contributions

Employer and employee contributions are made based upon the TRS Plan provisions contained in Title 70, as amended. However the statutes do not specify or identify any particular contribution source to pay the health insurance subsidy. Based on the contribution requirements of Title 70 employers and employees contribute a single amount based on a single contribution rate as described in Note 6; from this amount OTRS allocates a portion of the contributions to the supplemental health insurance program. The cost of the supplemental health insurance program averages 0.13% of normal cost, as determined by an actuarial valuation. Contributions allocated to the OPEB plan from the College were \$4,086.

Rose State College
Notes to Financial Statements
June 30, 2020

Note 11: Other Post-Employment Benefit Plans (Continued)

OTRS Supplement Health Insurance Program (Continued)

OPEB Liabilities (Assets), OPEB Expense, and Deferred Outflows of Resources and Deferred Inflows of Resources Related to OPEB

At June 30, 2020, the College reported an asset of \$289,523 for its proportionate share of the net OPEB asset. The net OPEB asset was measured as of June 30, 2019, and the total OPEB asset used to calculate the net OPEB asset was determined by an actuarial valuation as of June 30, 2019. The College's proportion of the net OPEB asset was based on the College's contributions received by the OPEB plan relative to the total contributions received by the OPEB plan for all participating employers as of June 30, 2019. Based upon this information, the College's proportion was .4682% percent.

For the year ended June 30, 2020, the College recognized an OPEB benefit of \$39,118. At June 30, 2020, the College reported deferred outflows of resources and deferred inflows of resources related to OPEB from the following sources:

| | Deferred Outflows of Resources | Deferred Inflows of Resources |
|--|-----------------------------------|----------------------------------|
| Differences between expected and actual experience | \$ - | \$ 105,824 |
| Net difference between projected and actual earnings on OPEB plan investments | - | 41,542 |
| Changes in College's proportionate share of contributions | 7,028 | - |
| Differences between College contributions and proportionate share of contributions | 21,838 | - |
| College contributions subsequent to the measurement date | 4,086 | - |
| Total | <u>\$ 32,952</u> | <u>\$ 147,366</u> |

The \$4,086 reported as deferred outflows of resources related to OPEB resulting from College contributions subsequent to the measurement date will be recognized as a reduction of the net OPEB liability (asset) in the year ended June 30, 2021. Other amounts reported as deferred outflows of resources and deferred inflows of resources related to OPEB will be recognized in OPEB expense as follows:

Rose State College
Notes to Financial Statements
June 30, 2020

Note 11: Other Post-Employment Benefit Plans (Continued)

OTRS Supplement Health Insurance Program (Continued)

Year ended June 30:

| | | |
|------------|----|------------------|
| 2021 | \$ | (46,216) |
| 2022 | | (46,216) |
| 2023 | | (17,583) |
| 2024 | | (1,495) |
| 2025 | | (5,671) |
| Thereafter | | (1,319) |
| Total | \$ | <u>(118,500)</u> |

Actuarial Assumptions

The total OPEB liability (asset) as of June 30, 2019, was determined based on an actuarial valuation prepared as if June 30, 2019 using the following actuarial assumptions:

- Actuarial Cost Method - Entry Age
- Inflation - 2.50%
- Future Ad Hoc Cost-of-living Increases - None
- Salary Increases - Composed of 3.25% inflation, including 2.50% price inflation, plus a service-related component ranging from 0.00% to 8% based on years of service.
- Investment Rate of Return – 7.50%
- Retirement Age - Experience-based table of rates based on age, service, and gender. Adopted by the Board in May 2015 in conjunction with the five year experience study for the period ending June 30, 2014.
- Mortality Rates after Retirement – Males: RP-2000 Combined Mortality Table for males with White Collar Adjustments. Generational mortality improvements in accordance with Scale BB from table's base year of 2000. Females: GRS Southwest Region Teacher Mortality Table, scaled at 105%. Generational mortality improvements in accordance with Scale BB from the table's base year of 2012.
- Mortality Rates for Active Members – RP – 2000 Employer Mortality tables, with male rates multiplied by 60% and female rates multiplied by 50%.

Rose State College
Notes to Financial Statements
June 30, 2020

Note 11: Other Post-Employment Benefit Plans (Continued)

OTRS Supplement Health Insurance Program (Continued)

| Asset Class | Target Asset Allocation | Long-Term Expected Real Rate of Return |
|----------------------|----------------------------|--|
| Domestic Equity | 38.5% | 7.5% |
| International Equity | 19.0% | 8.5% |
| Fixed Income | 23.5% | 2.5% |
| Real Estate** | 9.0% | 4.5% |
| Alternative Assets | 10.0% | 6.1% |
| Total | 100.00% | |

** The Real Estate total expected return is a combination of US Direct Real Estate (unlevered) and US Value added Real Estate (unlevered).

Discount Rate

A single discount rate of 7.50% was used to measure the total OPEB liability (asset) as of June 30, 2019. This single discount rate was based solely on the expected rate of return on OPEB plan investments of 7.50%. Based on the stated assumptions and the projection of cash flows, the OPEB plan's fiduciary net position and future contributions were projected to be available to finance all projected future benefit payments of current plan members. Therefore, the long-term expected rate of return on OPEB plan investments was applied to all periods of projected benefit payments to determine the total OPEB liability (asset). The projection of cash flows used to determine this single discount rate assumed that plan member and employer contributions will be made at the current statutory levels and remain a level percentage of payrolls. The projection of cash flows also assumed that the State's contribution plus the matching contributions will remain a constant percent of projected member payroll based on the past five years of actual contributions.

Sensitivity of the Net OPEB Liability (Asset) to Changes in the Discount Rate

The following presents the net OPEB liability (asset) of the employer calculated using the discount rate of 7.5%, as well as what the Plan's net OPEB liability (asset) would be if it were calculated using a discount rate that is 1-percentage point lower (6.5%) or 1-percentage-point higher (8.5%) than the current rate:

| | 1% Decrease (6.5%) | Current Discount Rate (7.5%) | 1% Increase (8.5%) |
|---------------------------------------|-----------------------|---------------------------------|-----------------------|
| Employers' net OPEB liability (asset) | \$ (97,017) | \$ (289,523) | \$ (454,006) |

OPEB plan fiduciary net position

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

Rose State College
Notes to Financial Statements
June 30, 2020

Note 11: Other Post-Employment Benefit Plans (Continued)

OKHEEI Group OPEB Plan

Plan description

The College's defined benefit OPEB plan, RSC Retiree Benefits Plan, provides OPEB to eligible retirees and their dependents. The College's Board of Trustees has the authority to establish and amend benefit provisions. No assets are accumulated in a trust that meets the criteria in paragraph 4 of Statement 75.

Benefits Provided

The College provides medical, dental, and vision benefits to eligible retirees and their dependents through the Oklahoma Higher Education Employee Interlocal Group. The retiree pays the full contribution rate for the retiree's coverages and for any other elected dependent dental and vision coverages. The medical rates for pre-age-65 retirees are the same as the rates for active employees so the benefit being provided is an implicit rate subsidy. Retirees and dependents age 65 or older are provided a Medicare supplement that is not subsidized by the College.

Employees covered by benefit terms

At June 30, 2020 the following employees were covered by the benefit terms:

| | |
|---|-------------------|
| Active Employees | 313 |
| Retired participants or beneficiaries currently receiving benefit payments | <u>19</u> |
| Total | <u><u>332</u></u> |

Total OPEB Liability

The College's total OPEB liability of \$274,361 was measured as of June 30, 2020, and was determined by an actuarial valuation as of that date.

Actuarial Assumptions- The total OPEB liability was determined based on an actuarial valuation prepared as of June 30, 2020 using the following actuarial assumptions:

- Actuarial Cost Method - Entry Age Normal Level Percentage of Salary
- Discount Rate – 2.21%, based on published Bond Pay Go-20 bond index

Rose State College
Notes to Financial Statements
June 30, 2020

Note 11: Other Post-Employment Benefit Plans (Continued)

OKHEEI Group OPEB Plan (Continued)

- Pre-Retirement Termination – Table T-3 of the Actuary's Pension Handbook

| Age | Annual Termination Rate |
|-----|----------------------------|
| 25 | 5.27% |
| 30 | 4.83% |
| 35 | 4.47% |
| 40 | 3.84% |
| 45 | 3.21% |
| 50 | 1.52% |
| 55 | 0.33% |
| 60 | 0.00% |

- Retirement Age: 65
- Healthcare cost trend rates - Level 5.00%
- Mortality Rates - RPA-2000 Mortality Table projected to 2020

Changes in Total OPEB Liability

The following table reports the components of changes in total OPEB liability:

| | Total OPEB Liability |
|---|-------------------------|
| Balances Beginning of Year | \$ 173,242 |
| Changes for the Year: | |
| Interest expense | 5,942 |
| Changes of assumptions | 33,738 |
| Difference between expected and actual experience | 142,518 |
| Benefits paid | (81,079) |
| Net Changes | <u>101,119</u> |
| Balances End of Year | <u>\$ 274,361</u> |

Sensitivity of the Total OPEB Liability (Asset) to Changes in the Discount Rate

The following presents the total OPEB liability (asset) of the employer calculated using the discount rate of 2.21%, as well as what the Plan's total OPEB liability (asset) would be if it were calculated using a discount rate that is 1-percentage point lower (1.21%) or 1-percentage-point higher (3.21) than the current rate:

Rose State College
Notes to Financial Statements
June 30, 2020

Note 11: Other Post-Employment Benefit Plans (Continued)

OKHEEI Group OPEB Plan (Continued)

| | 1% Decrease (1.21%) | Current Discount Rate (2.21%) | 1% Increase (3.21%) |
|-------------------------------|------------------------|----------------------------------|------------------------|
| Employers' net opeb liability | \$ 283,670 | \$ 274,361 | \$ 265,560 |

Sensitivity of the Total OPEB Liability (Asset) to Changes in the Healthcare Cost Trend Rate

The following presents the total OPEB liability (asset) of the employer calculated using the healthcare cost trend rate of 5.00%, as well as what the Plan's total OPEB liability (asset) would be if it were calculated using a healthcare cost trend rate that is 1-percentage point lower (4.00%) or 1-percentage-point higher (6.00%) than the current rate:

| | 1% Decrease (4.00%) | Healthcare Cost Trend Rates Rate (5.00%) | 1% Increase (6.00%) |
|-------------------------------|------------------------|--|------------------------|
| Employers' net opeb liability | \$ 265,815 | \$ 274,361 | \$ 283,326 |

OPEB Expense

For the year ended June 30, 2020, the College recognized OPEB expense of \$20,075. The College also reported deferred outflows of resources and deferred inflows of resources related to OPEB from the following sources:

| | Deferred Outflows of Resources | Deferred Inflows of Resources |
|--|-----------------------------------|----------------------------------|
| Differences between expected and actual experience | \$ 148,098 | \$ 20,800 |
| Changes of assumptions | 33,090 | 2,057 |
| Total | <u>\$ 181,188</u> | <u>\$ 22,857</u> |

Rose State College
Notes to Financial Statements
June 30, 2020

Note 11: Other Post-Employment Benefit Plans (Continued)

OKHEEI Group OPEB Plan (Continued)

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

Year ended June 30:

| | | |
|------------|----|----------------|
| 2021 | \$ | 14,133 |
| 2022 | | 14,133 |
| 2023 | | 14,133 |
| 2024 | | 14,133 |
| 2025 | | 14,133 |
| Thereafter | | 87,666 |
| Total | \$ | <u>158,331</u> |

College President's OPEB Plan

Plan Description

The College's Presidents defined benefit OPEB plan, College President's Plan, provides OPEB to several eligible retired Presidents and their spouses as defined in those Presidents' employment contracts as approved by the College's Board of Regents. The College's Board of Trustees has the authority to establish and amend benefit provisions. No assets are accumulated in a trust that meets the criteria in paragraph 4 of Statement 75.

Benefits Provided

The College provides healthcare and long-term care benefits to eligible retirees and their spouses. The College pays the full contribution rate for the retirees' coverages and their spouses.

Employees Covered by Benefit Terms

At June 30, 2020 the following employees were covered by the benefit terms:

Retired participants or beneficiaries currently receiving benefit payments 6

Total OPEB Liability

The College's total OPEB liability of \$1,038,139 was measured as of June 30, 2020, and was determined by an actuarial valuation as of that date.

Rose State College
Notes to Financial Statements
June 30, 2020

Note 11: Other Post-Employment Benefit Plans (Continued)

College President's OPEB Plan (Continued)

Actuarial Assumptions- The total OPEB liability was determined based on an actuarial valuation prepared as of June 30, 2020 using the following actuarial assumptions:

- Actuarial Cost Method - Entry Age Normal Level Percentage of Salary
- Discount Rate – 2.21%, based on published Bond Pay Go-20 bond index
- Healthcare cost trend rates - Level 5.00%
- Mortality Rates - RPA-2000 Mortality Table projected to 2020

Changes in Total OPEB Liability

The following table reports the components of changes in total OPEB liability:

| | Total OPEB Liability |
|---|-------------------------|
| Balances Beginning of Year | \$ 879,199 |
| Changes for the Year: | |
| Interest expense | 30,157 |
| Changes of assumptions | 33,738 |
| Difference between expected and actual experience | 181,397 |
| Benefits paid | (86,352) |
| Net Changes | <u>158,940</u> |
| Balances End of Year | <u>\$ 1,038,139</u> |

Sensitivity of the Total OPEB Liability (Asset) to Changes in the Discount Rate

The following presents the total OPEB liability (asset) of the employer calculated using the discount rate of 2.21%, as well as what the Plan's total OPEB liability (asset) would be if it were calculated using a discount rate that is 1-percentage point lower (1.21%) or 1-percentage-point higher (3.21%) than the current rate:

| | 1% Decrease (1.21%) | Current Discount Rate (2.21%) | 1% Increase (3.21%) |
|-------------------------------|------------------------|----------------------------------|------------------------|
| Employers' net OPEB liability | \$ 1,124,506 | \$ 1,038,139 | \$ 969,736 |

Rose State College
Notes to Financial Statements
June 30, 2020

Note 11: Other Post-Employment Benefit Plans (Continued)

College President's OPEB Plan (Continued)

Sensitivity of the Total OPEB Liability (Asset) to Changes in the Healthcare Cost Trend Rate

The following presents the total OPEB liability (asset) of the employer calculated using the healthcare cost trend rate of 5.00%, as well as what the Plan's total OPEB liability (asset) would be if it were calculated using a healthcare cost trend rate that is 1-percentage point lower (4.00%) or 1-percentage-point higher (6.00%) than the current rate:

| | 1% Decrease (4.00%) | Healthcare Cost Trend Rates (5.00%) | 1% Increase (6.00%) |
|-------------------------------|------------------------|---|------------------------|
| | <hr/> | <hr/> | <hr/> |
| Employers' net opeb liability | \$ 987,297 | \$ 1,038,139 | \$ 1,095,009 |

OPEB Expense

For the year ended June 30, 2020, the College recognized OPEB expense of \$158,940.

Note 12: Service Concession Arrangement

On August 1, 2012, the College entered into a 10-year agreement with Follett Higher Education Group (Follett), under which Follett will operate the bookstore. Follett will pay the College installment payments of \$40,000 per year over the course of the arrangement; the present value of these installment payments were estimated to be \$341,000 as of August 1, 2012. Follett will also pay the College 14% of the first \$3 million of annual revenues, 14.5% of annual revenues between \$3-4 million, and 15% of annual revenues over \$4 million that it earns from the operation of the bookstore. Follett is required to operate and maintain the bookstore in accordance with the contract. The College reports a receivable and deferred inflow of resources in the amount of \$71,085 at June 30, 2020, pursuant to the service concession arrangement.

Note 13: Segment Information

As noted in the reporting entity section above, the College's financials contain a blended component unit, the Rose State College Technical Area Education District (the "District"). Summary financial information for the College and the District is presented below.

Rose State College
Notes to Financial Statements
June 30, 2020

Note 13: Segment Information (Continued)

| CONDENSED STATEMENT OF NET POSITION | College | District | Total |
|--|----------------------|----------------------|----------------------|
| ASSETS | | | |
| Current assets | \$ 21,871,366 | \$ 14,852,974 | \$ 36,724,340 |
| Capital assets, net | 46,206,815 | 31,164,074 | 77,370,889 |
| Other assets | 5,202,768 | - | 5,202,768 |
| Total assets | <u>73,280,949</u> | <u>46,017,048</u> | <u>119,297,997</u> |
| DEFERRED OUTFLOWS | <u>6,599,470</u> | <u>-</u> | <u>6,599,470</u> |
| LIABILITIES | | | |
| Current liabilities | 5,763,015 | 2,618,753 | 8,381,768 |
| Non-current liabilities | 64,505,286 | 13,530,000 | 78,035,286 |
| Total liabilities | <u>70,268,301</u> | <u>16,148,753</u> | <u>86,417,054</u> |
| DEFERRED INFLOWS | <u>8,170,213</u> | <u>-</u> | <u>8,170,213</u> |
| NET POSITION | | | |
| Net investment in capital assets | 14,794,901 | 15,741,272 | 30,536,173 |
| Restricted | 11,409,620 | 5,094,640 | 16,504,260 |
| Unrestricted | <u>(24,762,616)</u> | <u>9,032,383</u> | <u>(15,730,233)</u> |
| Total net position | <u>\$ 1,441,905</u> | <u>\$ 29,868,295</u> | <u>\$ 31,310,200</u> |
| CONDENSED STATEMENT OF REVENUES, EXPENSES AND CHANGES IN NET POSITION | | | |
| Operating revenues | \$ 10,603,110 | \$ - | \$ 10,603,110 |
| Depreciation | (1,831,811) | (2,289,670) | (4,121,481) |
| Other operating expenses | <u>(41,202,821)</u> | <u>(2,004,755)</u> | <u>(43,207,576)</u> |
| Operating loss | <u>(32,431,522)</u> | <u>(4,294,425)</u> | <u>(36,725,947)</u> |
| Non-operating Revenues (Expenses) | | | |
| State appropriations | 16,973,189 | - | 16,973,189 |
| Federal grants | 10,635,533 | - | 10,635,533 |
| State grants | 1,384,014 | - | 1,384,014 |
| OTRS on-behalf contributions | 1,609,518 | - | 1,609,518 |
| Charter school revenue, net of transfers (Note 8) | 1,812,642 | - | 1,812,642 |
| Ad valorem taxes | - | 12,849,757 | 12,849,757 |
| Academic support for the Mid-Del Area Vocational Technical School | - | (5,322,272) | (5,322,272) |
| Investment revenue | 482,968 | 53,704 | 536,672 |
| Interest on capital asset-related debt | (1,116,221) | (496,583) | (1,612,804) |
| Capital appropriations - state | 772,011 | - | 772,011 |
| OCIA debt services on-behalf payments | 632,927 | - | 632,927 |
| Transfers from (to) | <u>148,033</u> | <u>(148,033)</u> | <u>-</u> |
| Change in net position | 903,092 | 2,642,148 | 3,545,240 |
| Beginning net position | <u>538,813</u> | <u>27,226,147</u> | <u>27,764,960</u> |
| Ending net position | <u>\$ 1,441,905</u> | <u>\$ 29,868,295</u> | <u>\$ 31,310,200</u> |
| CONDENSED STATEMENT OF CASH FLOWS | | | |
| Net cash provided (used) by: | | | |
| Operating activities | \$ (27,171,631) | \$ (2,117,813) | \$ (29,289,444) |
| Noncapital financing activities | 30,953,411 | 5,403,382 | 36,356,793 |
| Capital and related financing activities | (2,920,944) | (1,240,597) | (4,161,541) |
| Investing activities | <u>489,069</u> | <u>53,704</u> | <u>542,773</u> |
| Net increase (decrease) | 1,349,905 | 2,098,676 | 3,448,581 |
| Cash and Cash Equivalents, Beginning of Year | <u>19,596,940</u> | <u>12,322,049</u> | <u>31,918,989</u> |
| Cash and Cash Equivalents, End of Year | <u>\$ 20,946,845</u> | <u>\$ 14,420,725</u> | <u>\$ 35,367,570</u> |

Rose State College
Notes to Financial Statements
June 30, 2020

Note 14: Rose State College Foundation, Inc.

Nature of Operations and Summary of Significant Accounting Policies

Nature of Operations

The Foundation is a nonprofit organization whose mission and principal activities are to promote the educational and cultural interest of the College, a public institution of higher education. The Foundation's revenues and other support are derived principally from contributions and its activities are conducted in the Midwest City, Oklahoma, area. Members of the College's Board of Regents are associate members of the Board of Trustees and are nonvoting members.

Although the College does not control the timing or amount of receipts from the Foundation, the majority of the Foundation's resources and related income are restricted by donors for the benefit of the College. Because these restricted resources held by the Foundation can only be used by, or for the benefit of, the College, the Foundation is considered a component unit of the College and is discretely presented in the College's financial statements.

Use of Estimates

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues, expenses, gains, losses, and other changes in net position during the reporting period. Actual results could differ from those estimates.

Cash and Cash Equivalents

The Foundation considers all cash and highly liquid financial instruments with original maturities of three months or less, and which are neither held for nor restricted by donors for long-term purposes, to be cash and cash equivalents.

Investments and Investment Return

Investment purchases are recorded at cost, or if donated, at fair value on the date of donation. Thereafter, investments are reported at their fair values in the statement of financial position. Investment in the common funds is valued at fair value based upon the underlying fair value of the funds' equity and debt securities. Net investment gain/(loss) is reported in the statement of revenues, expenses, and changes in net position and consists of interest and dividend income, realized and unrealized capital gains and losses, less investment management and custodial fees.

Rose State College
Notes to Financial Statements
June 30, 2020

Note 14: Rose State College Foundation, Inc. (Continued)

Nature of Operations and Summary of Significant Accounting Policies
(Continued)

Investments and Investment Return (Continued)

Investment return that is initially restricted by donor stipulation and for which the restriction will be satisfied in the same year is included in unrestricted net position. Other investment return is reflected in the statement of revenues, expenses, and changes in net position as unrestricted, temporarily restricted, or permanently restricted based upon the existence and nature of any donor or legally imposed restrictions.

Collections

All collections of works of art, historical treasures, and similar assets are capitalized. Items added to the collections are capitalized at cost if purchased or at estimated fair value on the acquisition date, if donated. Collection items sold or removed are reported as unrestricted or temporarily restricted gains or losses depending on donor stipulations, if any, placed on the items at the time of acquisition.

Income Taxes

The Foundation is organized as an Oklahoma nonprofit corporation and has been recognized by the Internal Revenue Service (IRS) as exempt from federal income taxes under Section 501(a) of the Internal Revenue Code as an organization described in Section 501(c)(3), qualifies for the charitable contribution deduction under Section 170(b)(1)(A)(vi), and has been determined not to be a private foundation under Sections 509(a)(1) and (3). The Foundation is annually required to file a Return of Organization Exempt from Income Tax (Form 990) with the IRS. In addition, the Foundation is subject to income tax on net income that is derived from business activities that are unrelated to their exempt purposes. The Foundation has determined it is not subject to unrelated business income tax and has not filed an Exempt Organization Business Income Tax Return (Form 990-T) with the IRS.

The Foundation believes that it has appropriate support for any tax positions taken affecting its annual filing requirements, and as such, does not have any uncertain tax positions that are material to the financial statements. The Foundation will recognize future accrued interest and penalties related to unrecognized tax benefits and liabilities in income tax expense if such interest and penalties are incurred. Federal and state income tax statutes dictate that tax returns filed in any of the previous three reporting periods remain open to examination.

Rose State College
Notes to Financial Statements
June 30, 2020

Note 14: Rose State College Foundation, Inc. (Continued)

Nature of Operations and Summary of Significant Accounting Policies
(Continued)

Financial Instruments and Credit Risk

The Foundation manages deposit concentration risk by placing cash and certificates of deposit with financial institutions believed by management to be creditworthy. At times, amounts on deposit may exceed insured limits or include uninsured investments in money market mutual funds. To date, the Foundation has not experienced losses in any of these accounts. Investments are made by diversified investment managers whose performance is monitored by management and the Investment Committee of the Board of Directors. Although the fair values of investments are subject to fluctuation on a year-to-year basis, management and the Investment Committee believe that the investment policies and guidelines are prudent for the long-term welfare of the Foundation.

Investment Return

Total investment return is comprised of the following for the year ended June 30, 2020:

| | |
|---|------------------|
| Interest and dividends | \$ 4,440 |
| Net realized and unrealized gain | 14,206 |
| Less investment management and custodial fees | <u>(6,027)</u> |
| | <u>\$ 12,619</u> |

Fair Value Measurements and Disclosures

The Foundation measures its investments at fair value using the net asset value (NAV) per share practical expedient.

The following table presents investments measured at fair value based on NAV per share at June 30, 2020:

| | <u>Fair Value</u> | <u>Unfunded Commitments</u> | <u>Redemption Frequency</u> | <u>Redemption Notice Period</u> |
|----------------------------|---------------------|---------------------------------|---------------------------------|-------------------------------------|
| Multi-Strategy Bond Fund | \$ 103,839 | \$ - | Limited | 5 business days* |
| Multi-Strategy Equity Fund | <u>1,396,647</u> | <u>-</u> | Limited | 5 business days* |
| | <u>\$ 1,500,486</u> | <u>\$ -</u> | | |

* With additional stipulations such as withdrawal performed at month-end

Rose State College
Notes to Financial Statements
June 30, 2020

Note 14: Rose State College Foundation, Inc. (Continued)

Capital Assets

Capital Assets consist of the following at June 30, 2020:

| | |
|--------------------------|---------------------|
| Historical Properties: | |
| Atkinson Heritage Center | \$ 1,400,000 |
| Atkinson Land | 850,000 |
| Atkinson Pony Barn | 613,000 |
| Artwork- Sculpture | <u>7,000</u> |
| Total Capital Assets | <u>\$ 2,870,000</u> |

The properties are not depreciated since they have cultural and historical value that is worth preserving perpetually, and the Foundation is protecting the service potential of the properties.

Restricted Net Position

Net Position with Donor Restrictions

Net position with donor restrictions at June 30, 2020, consists of funds restricted by donors for scholarships in the amount of \$4,602,548, including the Atkinson Heritage Center property of \$2,863,000, and artwork of \$7,000.

Related Party Transactions

The Foundation and the College are related parties that are not financially interrelated organizations. The College authorizes the Foundation to solicit contributions on its behalf. In the absence of donor restrictions, the Foundation has discretionary control over the amounts and timing of its distributions to the College. The Foundation's contributions to the College during the year ended June 30, 2020 are reported in the Foundation's financial statements as scholarships, awards, and programs of \$197,531. At June 30, 2020, the Foundation had scholarship, awards, and programs payable to the College of \$279,986.

The Foundation receives various administrative services and office space from the College at no cost. The Foundation's office space is provided by the College. During 2020, approximately \$8,000 was recorded as in-kind rent. The Foundation's payroll cost for employees handling all the day-to-day operations are paid by the College. During 2020, approximately \$105,000 was recorded as contributed services, which represent the Foundation's portion of the staff's salaries. These amounts are recorded as in-kind contributions on the accompanying statement of revenue, expenses, and changes in net position.

Rose State College
Notes to Financial Statements
June 30, 2020

Note 14: Rose State College Foundation, Inc. (Continued)

Related Party Transactions (Continued)

The Foundation has entered into an operating lease with the College for the Atkinson Heritage Center property. The purpose of the lease is for the College to use, operate, and maintain the property. The term of the lease is for a period of 99 years. In consideration for use of the property, the College is to pay a nominal rent amount to the Foundation and is to pay all administrative costs (maintenance, insurance, etc.) related to the property.

Endowments

The Foundation endowments consist of several 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 Trustees to function as endowments, are classified and reported based upon the existence or absence of donor-imposed restrictions.

Interpretation of Relevant Law: In accordance with the requirements of 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 restricted nonexpendable 1) the original value of gifts donated to the endowment, 2) the original value of subsequent gifts donated to the endowment, 3) accumulations to the endowment made in accordance with the direction of the applicable donor gift instrument at the time the accumulation is added. The remaining portion of the donor-restricted endowment is classified as temporarily restricted net assets until those amounts are appropriated for expenditure by the Foundation in a manner consistent with the standard of prudence prescribed by OUPMIFA. 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 purpose 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 to conservative level of investment risk.

Rose State College
Notes to Financial Statements
June 30, 2020

Note 14: Rose State College Foundation, Inc. (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 4% percent of its endowment fund's fair value as of the immediately preceding July 1. Permitted annual disbursements for scholarships from permanent endowment fund earnings are reviewed by the Budget and Investment Committee annually and submitted to the Board for approval. In establishing this policy, the Foundation considered both the short-term and the long-term expected return on its endowment. 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.

Changes in Endowment Net Position for the year ending June 30, 2020 were as follows:

| | Without Donor Restrictions | With Donor Restrictions | Total |
|---|-------------------------------|----------------------------|-------------------|
| Endowment net position, beginning of year | \$ - | \$ 854,072 | \$ 854,072 |
| Investment income net | - | 1,629 | 1,629 |
| Contributions | - | 7,879 | 7,879 |
| Appropriations | - | (1,629) | (1,629) |
| Endowment net position, end of year | <u>\$ -</u> | <u>\$ 861,951</u> | <u>\$ 861,951</u> |

Required Supplementary Information

ROSE STATE COLLEGE
SCHEDULE OF THE COLLEGE'S PROPORTIONATE SHARE OF THE NET PENSION LIABILITY
OKLAHOMA TEACHERS' RETIREMENT SYSTEM
Last 10 Fiscal Years*

| | 2015 | 2016 | 2017 | 2018 | 2019 | 2020 |
|--|---------------|---------------|---------------|---------------|---------------|---------------|
| College's proportion of the net pension liability | 0.4946% | 0.5399% | 0.5075% | 0.5125% | 0.5092% | 0.4683% |
| College's proportionate share of the net pension liability | \$ 26,608,757 | \$ 32,786,493 | \$ 42,356,149 | \$ 33,937,322 | \$ 30,778,185 | \$ 30,991,385 |
| College's covered-employee payroll | \$ 22,925,808 | \$ 22,192,483 | \$ 21,302,035 | \$ 21,101,444 | \$ 21,093,470 | \$ 21,950,479 |
| College's proportionate share of the net pension liability as a percentage of its covered-employee payroll | 116% | 148% | 199% | 161% | 146% | 141% |
| Plan fiduciary net position as a percentage of the total pension liability | 72.43% | 70.31% | 62.24% | 69.32% | 72.74% | 71.56% |

*The amounts presented for each fiscal year were determined as of 6/30

Notes to Schedule:

Only these fiscal years are presented because 10-year data is not yet available.

ROSE STATE COLLEGE
SCHEDULE OF THE COLLEGE'S CONTRIBUTIONS
OKLAHOMA TEACHERS' RETIREMENT SYSTEM
Last 10 Fiscal Years

| | <u>2015</u> | <u>2016</u> | <u>2017</u> | <u>2018</u> | <u>2019</u> | <u>2020</u> |
|--|------------------|------------------|------------------|------------------|------------------|------------------|
| Contractually required contribution | \$ 2,269,655 | \$ 2,156,215 | \$ 2,015,580 | \$ 2,104,834 | \$ 2,217,467 | \$ 2,169,170 |
| Contributions in relation to the contractually required contribution | <u>2,269,655</u> | <u>2,156,215</u> | <u>2,015,580</u> | <u>2,104,834</u> | <u>2,217,467</u> | <u>2,169,170</u> |
| Contribution deficiency (excess) | <u>\$ -</u> | <u>\$ -</u> | <u>\$ -</u> | <u>\$ -</u> | <u>\$ -</u> | <u>\$ -</u> |
| College's covered-employee payroll | \$ 22,192,483 | \$ 21,302,035 | \$ 21,101,444 | \$ 21,093,470 | \$ 21,950,479 | \$ 21,515,039 |
| Contributions as a percentage of covered-employee payroll | 10% | 10% | 10% | 10% | 10% | 10% |

Notes to Schedule:

Only these years are presented because 10-year data is not yet available.

ROSE STATE COLLEGE
SCHEDULE OF THE COLLEGE'S PROPORTIONATE SHARE OF THE NET OPEB LIABILITY (ASSET)
OKLAHOMA TEACHERS' RETIREMENT SYSTEM
Last 10 Fiscal Years*

| | <u>2018</u> | <u>2019</u> | <u>2020</u> |
|---|---------------|---------------|---------------|
| College's proportion of the net OPEB liability (asset) | 0.5125% | 0.5092% | 0.4682% |
| College's proportionate share of the net OPEB liability (asset) | \$ (228,566) | \$ (329,100) | \$ (289,523) |
| College's covered-employee payroll | \$ 21,101,444 | \$ 21,093,470 | \$ 21,950,479 |
| College's proportionate share of the net OPEB liability (asset) as a percentage of its covered-employee payroll | -1.08% | -1.56% | -1.32% |
| Plan fiduciary net position as a percentage of the total OPEB liability (asset) | 110.40% | 115.41% | 115.07% |

*The amounts presented for each fiscal year were determined as of 6/30

Notes to Schedule:

Only these fiscal years are presented because 10-year data is not yet available.

ROSE STATE COLLEGE
SCHEDULE OF THE COLLEGE'S CONTRIBUTIONS
SUPPLEMENTAL HEALTH INSURANCE PROGRAM
Last 10 Fiscal Years

| | <u>2018</u> | <u>2019</u> | <u>2020</u> |
|--|---------------|---------------|---------------|
| Contractually required contribution | \$ 33,421 | \$ 14,957 | \$ 4,086 |
| Contributions in relation to the contractually required contribution | <u>33,421</u> | <u>14,957</u> | <u>4,086</u> |
| Contribution deficiency (excess) | <u>\$ -</u> | <u>\$ -</u> | <u>\$ -</u> |
| College's covered-employee payroll | \$ 21,093,470 | \$ 21,950,479 | \$ 21,515,039 |
| Contributions as a percentage of covered-employee payroll | 0.16% | 0.07% | 0.02% |

Notes to Schedule:

Only these fiscal years are presented because 10-year data is not yet available.

ROSE STATE COLLEGE
Schedule of Changes in Total OPEB Liability and Related Ratios
OKHEEI Group OPEB Plan
Last 10 Fiscal Years

| | 2018 | 2019 | 2020 |
|---|-------------------|-------------------|-------------------|
| Total OPEB liability | | | |
| Interest | \$ 8,500 | \$ 8,944 | \$ 5,942 |
| Change in assumptions | (3,218) | 2,270 | 33,738 |
| Differences between expected and actual experience | 25,549 | (24,878) | 142,518 |
| Benefit payments, including refunds of member contributions | (76,282) | (43,609) | (81,079) |
| Net change in total OPEB liability | (45,451) | (57,273) | 101,119 |
| Total OPEB liability - beginning | 275,966 | 230,515 | 173,242 |
| Total OPEB liability - ending (a) | \$ 230,515 | \$ 173,242 | \$ 274,361 |
| Covered employee payroll | \$ 21,093,470 | \$ 21,950,479 | \$ 21,515,039 |
| Net OPEB liability (asset) as a percentage of covered-employee payroll | 1.09% | 0.79% | 1.28% |
| Discount rate used | 3.88% | 3.43% | 2.21% |

Notes to Schedule:

Only these fiscal years are presented because 10-year data is not yet available.

ROSE STATE COLLEGE
Schedule of Changes in Total OPEB Liability and Related Ratios
College President's OPEB Plan
Last 10 Fiscal Years

| | 2018 | 2019 | 2020 |
|---|-------------------|-------------------|---------------------|
| Total OPEB liability | | | |
| Interest | \$ 24,962 | \$ 30,421 | \$ 30,157 |
| Change in assumptions | (30,983) | 13,333 | 33,738 |
| Differences between expected and actual experience | 239,485 | (76,770) | 181,397 |
| Benefit payments, including refunds of member contributions | (56,211) | (75,480) | (86,352) |
| Net change in total OPEB liability | <u>177,253</u> | <u>(108,496)</u> | <u>158,940</u> |
| Total OPEB liability - beginning | <u>810,442</u> | <u>987,695</u> | <u>879,199</u> |
| Total OPEB liability - ending (a) | <u>\$ 987,695</u> | <u>\$ 879,199</u> | <u>\$ 1,038,139</u> |

| | | | |
|---------------------------|-------|-------|-------|
| Discount rate used | 3.88% | 3.43% | 2.21% |
|---------------------------|-------|-------|-------|

Notes to Schedule:

Only these fiscal years are presented because 10-year data is not yet available.

Supplementary Information

Rose State College

Combining Schedule of Net Position

June 30, 2020

| | <u>College</u> | <u>District</u> | <u>Total</u> |
|---|---------------------|----------------------|----------------------|
| ASSETS | | | |
| Current assets: | | | |
| Cash and cash equivalents | \$ 17,008,663 | \$ 9,326,085 | \$ 26,334,748 |
| Restricted: | | | |
| Cash and cash equivalents | - | 5,094,640 | 5,094,640 |
| Accounts receivable, net | 1,443,470 | 48,584 | 1,492,054 |
| Federal and state grants receivable | 134,503 | - | 134,503 |
| Delinquent ad valorem property taxes receivable | - | 378,000 | 378,000 |
| Restricted investments | 3,261,847 | - | 3,261,847 |
| Accrued interest receivable | 22,883 | - | 22,883 |
| Prepaid expenses | - | 5,665 | 5,665 |
| Total current assets | <u>21,871,366</u> | <u>14,852,974</u> | <u>36,724,340</u> |
| Noncurrent assets: | | | |
| Restricted: | | | |
| Cash and cash equivalents | 3,938,182 | - | 3,938,182 |
| Accounts receivable | 36,963 | - | 36,963 |
| Restricted net OPEB asset | 289,523 | - | 289,523 |
| Deposits held in escrow | 938,100 | - | 938,100 |
| Capital assets, net | <u>46,206,815</u> | <u>31,164,074</u> | <u>77,370,889</u> |
| Total noncurrent assets | <u>51,409,583</u> | <u>31,164,074</u> | <u>82,573,657</u> |
| Total assets | <u>73,280,949</u> | <u>46,017,048</u> | <u>119,297,997</u> |
| DEFERRED OUTFLOWS | | | |
| Related to OPEB | 214,140 | - | 214,140 |
| Related to pensions | <u>6,385,330</u> | <u>-</u> | <u>6,385,330</u> |
| Total deferred outflows | <u>6,599,470</u> | <u>-</u> | <u>6,599,470</u> |
| LIABILITIES | | | |
| Current Liabilities: | | | |
| Accounts payable and accrued liabilities | 2,346,311 | 725,951 | 3,072,262 |
| Accrued compensated absences | 1,031,991 | - | 1,031,991 |
| Interest payable | - | 202,802 | 202,802 |
| Unearned revenue | 873,446 | - | 873,446 |
| Current maturities of long-term debt | 902,415 | 1,690,000 | 2,592,415 |
| Room deposits payable | 43,335 | - | 43,335 |
| Deposits held in custody for others | <u>565,517</u> | <u>-</u> | <u>565,517</u> |
| Total current liabilities | <u>5,763,015</u> | <u>2,618,753</u> | <u>8,381,768</u> |
| Noncurrent liabilities: | | | |
| Accrued compensated absences | 126,563 | - | 126,563 |
| Total OPEB liability | 1,312,500 | - | 1,312,500 |
| Net pension liability | 30,991,385 | - | 30,991,385 |
| Long-term debt | <u>32,074,838</u> | <u>13,530,000</u> | <u>45,604,838</u> |
| Total noncurrent liabilities | <u>64,505,286</u> | <u>13,530,000</u> | <u>78,035,286</u> |
| Total liabilities | <u>70,268,301</u> | <u>16,148,753</u> | <u>86,417,054</u> |
| DEFERRED INFLOWS | | | |
| Bookstore service concession arrangement | 71,084 | - | 71,084 |
| Gain on debt refinancing | 2,634,608 | - | 2,634,608 |
| Related to OPEB | 170,223 | - | 170,223 |
| Related to pensions | <u>5,294,298</u> | <u>-</u> | <u>5,294,298</u> |
| Total deferred inflows | <u>8,170,213</u> | <u>-</u> | <u>8,170,213</u> |
| NET POSITION | | | |
| Net investment in capital assets | 14,794,901 | 15,741,272 | 30,536,173 |
| Restricted expendable for: | | | |
| Scholarships | 7,300,414 | - | 7,300,414 |
| Loans | 6,560 | - | 6,560 |
| Capital projects | 2,527,479 | 3,079,156 | 5,606,635 |
| Debt service | 1,404,144 | 2,015,484 | 3,419,628 |
| OPEB | 171,023 | - | 171,023 |
| Unrestricted | <u>(24,762,616)</u> | <u>9,032,383</u> | <u>(15,730,233)</u> |
| Total net position | <u>\$ 1,441,905</u> | <u>\$ 29,868,295</u> | <u>\$ 31,310,200</u> |

Rose State College
Combining Schedule of Revenues, Expenses, and Changes in Net Position
Year Ended June 30, 2020

| | <u>College</u> | <u>District</u> | <u>Total</u> |
|--|---------------------|----------------------|----------------------|
| Operating revenues | | | |
| Tuition and fees, net | \$ 5,870,999 | \$ - | \$ 5,870,999 |
| Federal grants and contracts | 1,732,900 | - | 1,732,900 |
| State and private grants and contracts | 128,261 | - | 128,261 |
| Sales and services of auxiliary enterprises, net | 2,543,681 | - | 2,543,681 |
| Other operating revenues | 327,269 | - | 327,269 |
| Total operating revenues | <u>10,603,110</u> | <u>-</u> | <u>10,603,110</u> |
| Operating Expenses | | | |
| Compensation and benefits | 30,645,654 | - | 30,645,654 |
| Contractual services | 2,777,472 | 562,077 | 3,339,549 |
| Supplies and materials | 2,353,408 | 145,010 | 2,498,418 |
| Scholarships and fellowships | 3,706,543 | - | 3,706,543 |
| Communications | 162,663 | - | 162,663 |
| Depreciation | 1,831,811 | 2,289,670 | 4,121,481 |
| Utilities | 687,635 | 399,886 | 1,087,521 |
| Other | 869,446 | 897,782 | 1,767,228 |
| Total Operating Expenses | <u>43,034,632</u> | <u>4,294,425</u> | <u>47,329,057</u> |
| Operating Loss | <u>(32,431,522)</u> | <u>(4,294,425)</u> | <u>(36,725,947)</u> |
| Non-Operating Revenues (Expenses) | | | |
| State appropriations | 16,973,189 | - | 16,973,189 |
| Federal grants | 10,635,533 | - | 10,635,533 |
| State grants | 1,384,014 | - | 1,384,014 |
| OTRS on-behalf contributions | 1,609,518 | - | 1,609,518 |
| Charter school revenue, net of transfers (Note 8) | 1,812,642 | - | 1,812,642 |
| Ad valorem taxes | - | 12,849,757 | 12,849,757 |
| Academic support for the Mid-Del Area Vocational Technical school | - | (5,322,272) | (5,322,272) |
| Investment revenue | 482,968 | 53,704 | 536,672 |
| Interest on capital asset-related debt | (1,116,221) | (496,583) | (1,612,804) |
| Net non-operating revenue | <u>31,781,643</u> | <u>7,084,606</u> | <u>38,866,249</u> |
| Income loss before other revenues, expenses, gains, losses, and transfers | <u>(649,879)</u> | <u>2,790,181</u> | <u>2,140,302</u> |
| Capital appropriations - state | 772,011 | - | 772,011 |
| OCIA debt service on-behalf payments | 632,927 | - | 632,927 |
| Transfers from (to) | <u>148,033</u> | <u>(148,033)</u> | <u>-</u> |
| Increase (decrease) in Net Position | <u>903,092</u> | <u>2,642,148</u> | <u>3,545,240</u> |
| Net Position, Beginning of Year | <u>538,813</u> | <u>27,226,147</u> | <u>27,764,960</u> |
| Net Position, End of Year | <u>\$ 1,441,905</u> | <u>\$ 29,868,295</u> | <u>\$ 31,310,200</u> |



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

Board of Trustees
Rose State College Technical Area Education District
Midwest City, Oklahoma

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in Government Auditing Standards issued by the Comptroller General of the United States, the financial statements of Rose State College Technical Area Education District (the "District"), as of June 30, 2020, and the related notes to the financial statements, which collectively comprise the District's basic financial statements and have issued our report thereon dated October 28, 2020.

Internal Control over Financial Reporting

In planning and performing our audit of the financial statements, we considered the District'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 District's internal control. Accordingly, we do not express an opinion on the effectiveness of the District's internal control.

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

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

Compliance and Other Matters

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

Purpose of this Report

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

October 28, 2020